

Hi Fert Pty Ltd
ABN 76 008 038 962
Hi Fert Melbourne
GPO Box 2236
Melbourne VIC
3001
Australia

Level 14 380 St Kilda
Road
Melbourne VIC 3000
T +61 3 8554 7800
F +61 3 9682 3078

Customer Service
T 1800 884 488
F 1800 674 740
W hifert.com.au



19 March 2008

Ms Jeanette Radcliffe
Committee Secretary
Senate Select Committee on Agriculture and Related Industries
PO Box 6100
Parliament House
Canberra ACT 2600

By email: agriculture.sen@aph.gov.au

Dear Ms Radcliffe

Submission to Senate Inquiry on Fertiliser

Hi Fert is pleased to be able to contribute the attached submission to the Inquiry.

As you are aware, there is a concurrent inquiry into fertiliser prices being conducted by the ACCC. As a result some or all of the information enclosed in this submission may also need to be provided to the ACCC. I understand that our Company Secretary, Peter MacCuspie has already discussed this issue with you by telephone.

Please direct all correspondence and communications relating to the Senate Inquiry to Peter MacCuspie by telephone on 03 8554 7800 or by email at peter.maccuspie@hifert.com.au.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Neil Taylor', is written over a light blue horizontal line.

Neil Taylor
Chief Executive Officer



Senate Enquiry Submission

19 March 2007

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INTRODUCTION

Hi Fert's submission contains information about the fertiliser supply chain with a particular focus on Hi Fert's position within the Australian market. In summary, Hi Fert is a distributor / wholesaler with no production assets, no manufacturing assets and no raw material assets.

Hi Fert buys raw materials on the international market from a number of supply sources. These sources are currently operating in a global environment of unprecedented demand. This demand is likely to continue to increase and outstrip supply for a number of years to come.

For background on trends in the global industry, we recommend that the committee refer to a recent report by Rabobank, entitled "*Fertiliser – a precious commodity*". This report provides a very good overview of the worldwide market for fertiliser.

Summary

- Hi Fert is a leading distributor of fertiliser in the Australian market.
 - We do not own production facilities.
 - We do not own manufacturing facilities.
 - We do not own raw material facilities.
 - We operate 9 major distribution centres where we store, blend, bag and despatch product to retailers and not directly to farmers.
- The market in which we operate has prices which are driven by world markets.
- Prices since the beginning of 2007 have increased rapidly because of global market demand and a shortage of supply.
- Global suppliers are highly aggregated.

FERTILISER SUPPLY CHAIN

- The fertiliser supply chain is illustrated in Slide 1 below. The supply chain essentially comprises:
 - Producers/Manufacturers
 - Distributors/Wholesalers
 - Retailers
 - End customer (Farmers)
- Producers of fertiliser manufacture the finished commercial products from the raw material inputs.
 - The major raw materials for fertiliser manufacture are hydrocarbon sources (mainly natural gas), sulphur, phosphate rock, potassium salts, micro-nutrients, water and air.
 - The majority of producers are overseas based, namely in the US, Middle East, China, Asia, North Africa and Europe.
 - There is domestic production / manufacturing in Queensland (Southern Cross International, owned by Incitec Pivot Limited), Tasmania (Impact) and Western Australia (CSBP owned by Wesfarmers). SCI/IPL and CSBP own some or all of the required raw material components for a number of products.
- Distributors/wholesalers of fertiliser buy the finished commercial products from the producers/manufacturers and on-sell this to the retailers.
 - Distributors/wholesalers in the east of Australia buy the finished products from SCI, Impact or CSBP or from overseas.
- The Australian market also has integrated producers/distributors – these are aligned with or have ownership of domestic production facilities for some finished commercial products.
 - These are: SCI/IPL, Impact Fertilisers and CSBP.

Slide 1 Fertiliser Supply Chain



PRODUCERS/ MANUFACTURERS	SCI Mosaic	Wengfu Agrium	PCS Middle East	OCP Impact	CSBP Others
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DISTRIBUTORS/ WHOLESALEERS	Hi Fert	IncitecPivot ¹	ABB	Megafert
	Summit	CSBP ¹	Impact ¹	Others

RETAILERS	Landmark	Elders	Independents	
	RuralCo	GrainCorp	ABB	Others

Note 1. Also aligned with or have ownership of domestic production facilities

Producers / Manufacturers

The list below is not meant to be an exhaustive list of global suppliers. It has been put together showing those suppliers that Hi Fert believes are key to the Australian market.

SCI (Southern Cross International)

- SCI is the only producer of Ammonium Phosphate Fertilisers in Australia, producing almost one million tonnes per annum.
- SCI is wholly owned by Incitec Pivot Limited.

OCP

- The national Moroccan phosphates company - is a state-owned company established in 1920.
- It is the world's biggest exporter of phosphates and derivatives.
- The company is responsible for the production and the selling of the whole Moroccan phosphorite resources.

Wengfu

- Chinese supplier of phosphate fertilizer and phosphate chemicals for world markets.
- Annual production capacity of AP (Ammonium Phosphate) 1.68 million tonnes.

- Part owned by Chinese Government.

Middle East Producers

- The major suppliers are: Sabic (Saudi Arabia), Qafco (Qatar) and PIC (Kuwait/Bahrain).
- All are in some form owned by the governments of the Middle East.

PCS

- An integrated producer of fertiliser, industrial and animal feed products.
- The world's largest fertiliser enterprise by capacity, producing the three primary plant nutrients – potash, nitrogen and phosphate.
- Listed company.

Mosaic

- Producer of potash and phosphate crop nutrients.
- Involved in mining, manufacturing, marketing and distributing fertiliser around the world.
- Owned by Cargill.

Agrium

- Global producer and distributor of agricultural crop nutrients: nitrogen, phosphate, and potash fertilizers, and other agricultural products and services.
- Has 14 production facilities in North America and Argentina, with capacity to produce, market and distribute close to 10m tonnes of fertilizer products annually. This includes about 6.1 million tonnes of nitrogen, 2.1 million tonnes of potash and 1.3 million tonnes of phosphate.
- Listed company.

CANPOTEX

- Potash export organisation operating since 1972.
- International marketing and distribution company wholly owned by: Agrium Inc., Mosaic and Potash Corporation of Saskatchewan Inc (PCS).
- Canpotex markets potash principally to countries in Asia, Latin America, and Oceania.

Distributors / Wholesalers

IPL (Incitec Pivot Limited)

- Manufacturer and supplier of fertiliser to retailers in Australia's eastern and southern states.
- Owner of Southern Cross International (SCI), which supplies phosphates to local distributors and is a major exporter internationally.
- Only producer of phosphates in Australia at Mt Isa.
- Has significant Urea production in Brisbane
- Manufactures Nitrogen Gas and Liquid Urea.
- Close to 60% market share of East Australian distribution – source IPL annual report.

Hi Fert

- Supplier of fertiliser to retailers in Australia's eastern and southern states.
- JV company between Elders and Landmark.
- Has no production or manufacturing assets.
- Does not compete in a significant way in the major pasture market product – SSP.

ABB Fertiliser

- Supplier of fertiliser to farmers in Australia's southern states.
- Part of ABB Grain which is an agribusiness with rural services which include fertiliser and agchem supply, financial services and insurance and wool and livestock activities.

CSBP

- Manufacturer and supplier of chemicals and fertilisers to the mining, industrial and agricultural sectors.
- SSP and Prilled Urea Manufacturer in Kwinana.
- CSBP Limited is part of the Wesfarmers Limited group.
- Operates mainly on the west coast but does supply some manufactured products such as SSP to east coast distributors.

Impact (Tasmania) and Impact Australia (J/V)

- Impact Australia is a supplier on the eastern seaboard of Australia mainly to independent dealers with a range of high analysis fertilisers as well as single superphosphate (SSP).
- Impact Australia is a joint venture between Impact Fertilisers Pty. Ltd. Tasmania and Ameropa AG, a private company with fertiliser activities spanning the globe based in Switzerland.
- Impact is a producer of SSP (based in Tasmania) and distributor of other products within Tasmania. Impact also supplies Impact Australia with SSP and other products.

Megafert

- Supplier of fertiliser to farmers in West Australia, South Australia, Victoria and New South Wales.

Summit

- Supplier of fertiliser in Western Australia, from five locations at Kwinana, Geraldton, Bunbury, Albany and Esperance.

Retailers

Landmark

- Offers merchandise, fertiliser, farm services, wool, livestock, finance, insurance and real estate to farmers
- Owned by AWB.

Elders

- Provides rural producers with inputs, services, products and support in wool, livestock, rural finance, insurance, merchandise, fertiliser and real estate.
- Owned by Futuris Corporation.

GrainCorp

- Publicly listed Australian agribusiness predominantly involved in grain bulk handling on the east coast of Australia. Operates under the Ag Plus brand for rural merchandise.

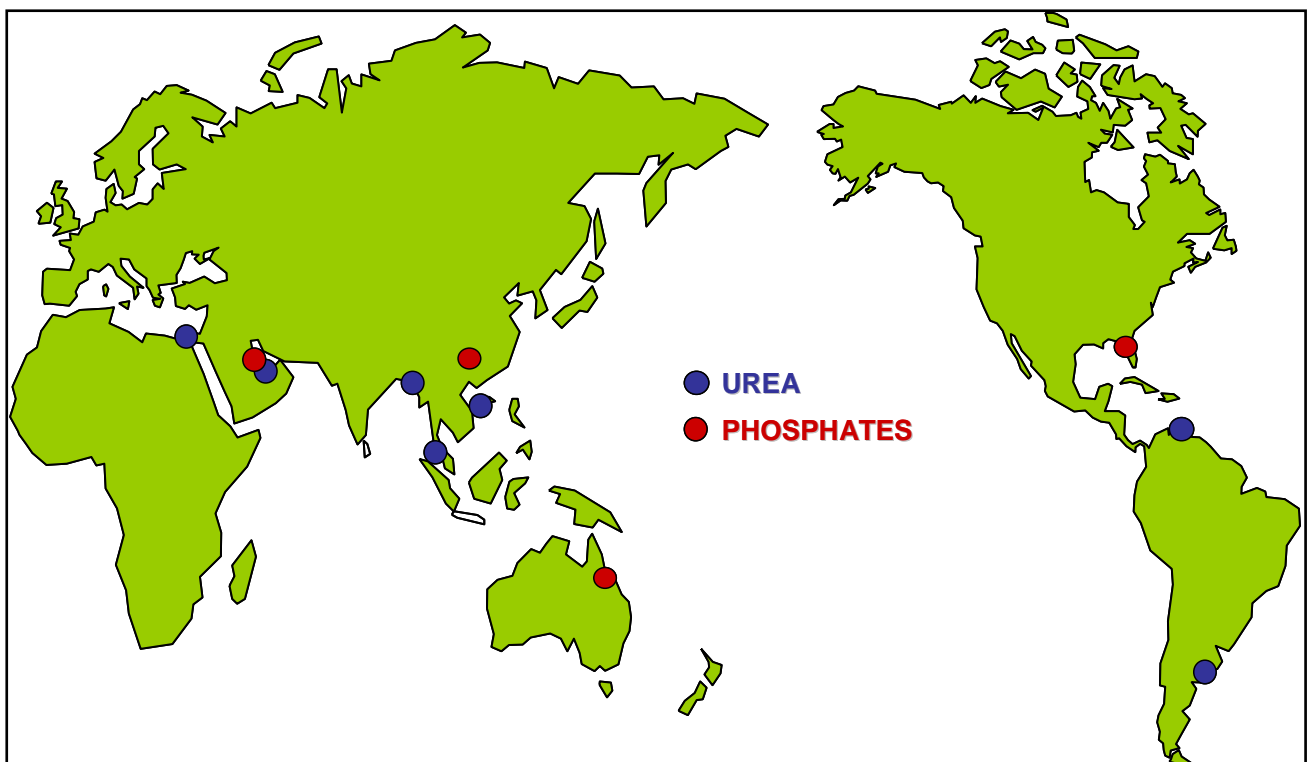
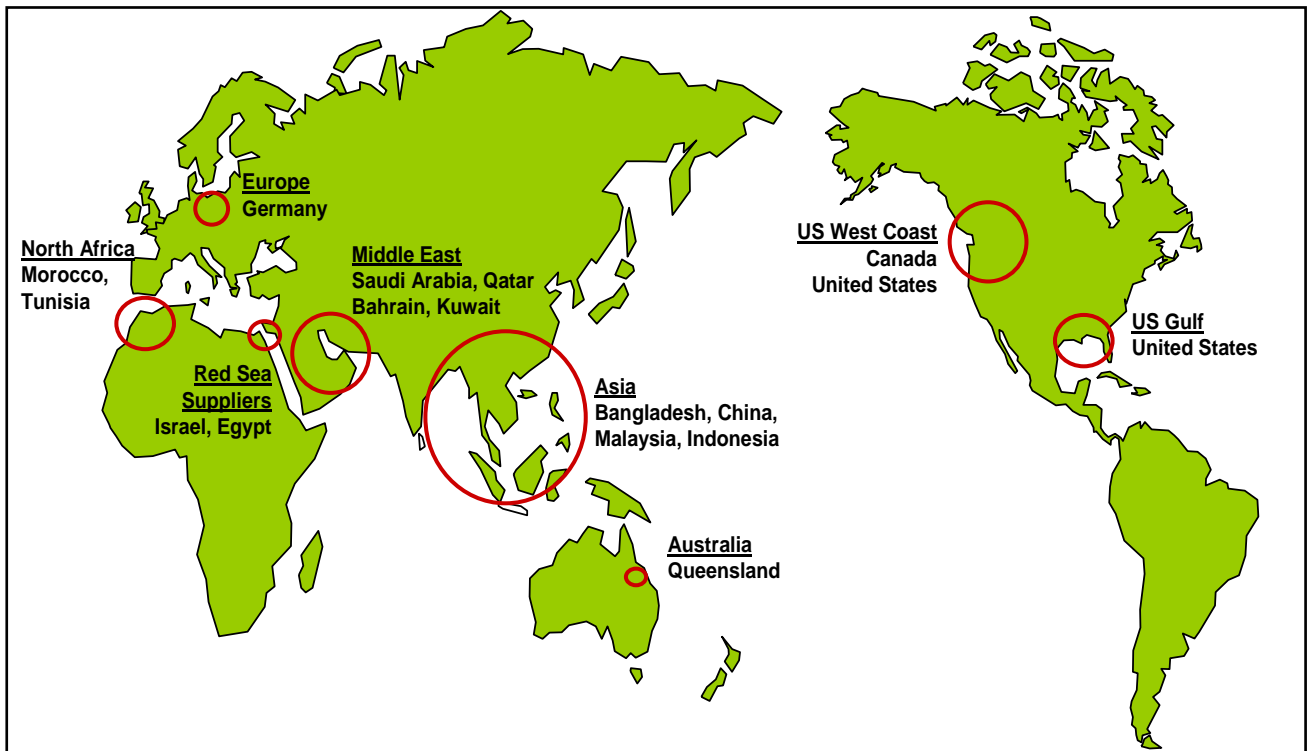
RuralCo

- Operates through a national footprint of businesses (CRT, Roberts, Ruralco, Growforce) that specialise in rural merchandise, wool broking and livestock agency, real estate agency, fertiliser, stock feed and grain storage, distribution and handling.

Independents

- Numerous privately owned businesses – generally family owned and operated. The largest part of the retail distribution market.

SLIDE 2 - MAJOR FERTILISER PRODUCERS/MANUFACTURERS



- Slide 2 highlights the major sources of bulk fertiliser production globally.

- In Australia the only truly integrated producer is Southern Cross International, which is owned by Incitec Pivot Limited.
- IPL, Impact and CSBP have SSP plants in Australia (where rock is imported, from Morocco, China and Nauru for the manufacturing process).
- CSBP also owns Ammonium Nitrate Manufacturing that can make either mining chemicals or liquid Urea. CSBP can also produce Prilled Urea.
- Hi Fert does not own any production assets.
- Hi Fert buys from local producers or imports all our fertiliser products. Circa 80% of our product is sourced globally. We despatch these in either their finished form or blend them together for bulk or bagged despatch to retailers.

KEY FEATURES OF WORLD FERTILISER EXPORTS – MAJOR PRODUCTS

DAP

In 2007, DAP production totalled approximately 30 million tonnes. The Australian market uses circa 600,000 per year representing circa 2% of world production. The major global exporters are Mosaic (USA), OCP (Morocco), GCT (Tunisia) and a variety of suppliers in China.

MAP

In 2007, MAP production totalled approximately 18 million tonnes. The Australian market uses circa 600,000 tonnes per year representing circa 3% of world production. The major global exporters are Mosaic (USA), OCP (Morocco), GCT (Tunisia) and a variety of suppliers in China.

Urea

In 2007 Urea production totalled approximately 132 million tonnes. The Australian market uses circa 1 million tonnes per year representing less than 1% of world production. The major global exporters are Middle Eastern and European producers.

Potash

In 2007 Potash production totalled approximately 70 million tonnes. The Australian market uses circa 300,000 tonnes per year representing less than 1% of world production. The major global exporters are Canpotex, Kali & Salz and ICL.

Global volume data is sourced from Hi Fert estimates of local demand and CRU, an independent business analysis and consultancy group

KEY FEATURES OF THE AUSTRALIAN FERTILISER MARKET

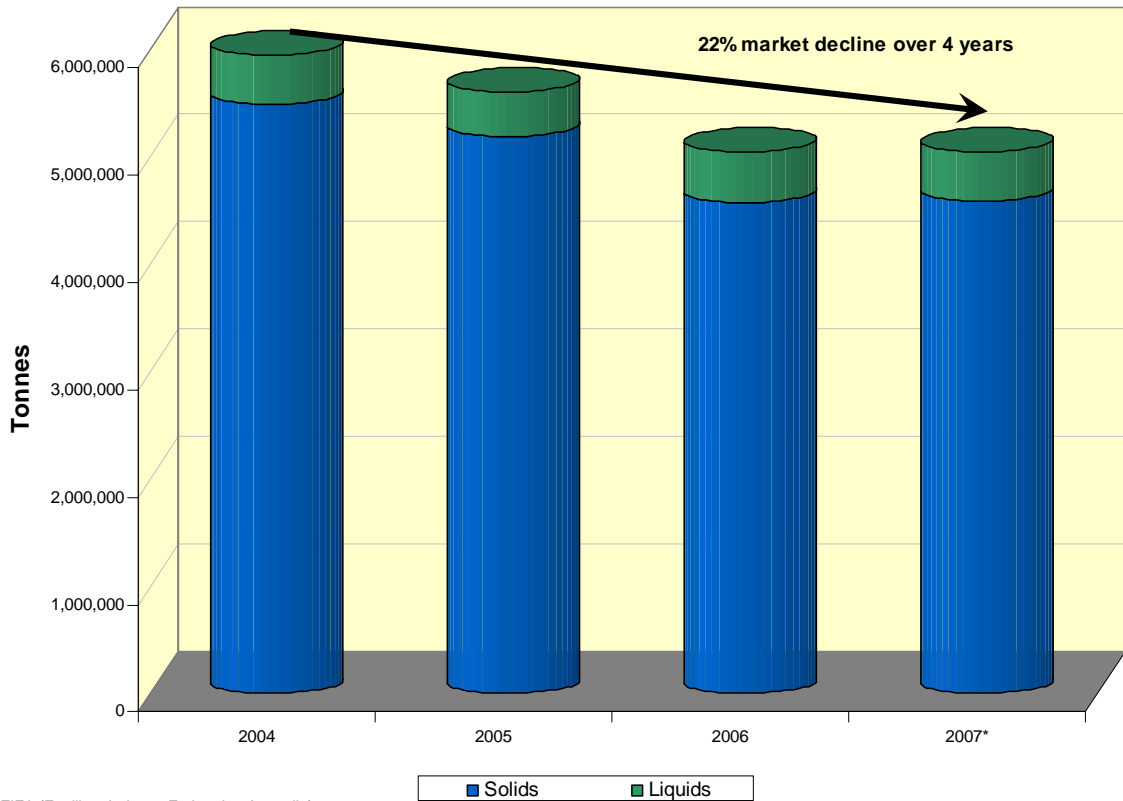
- The Australian fertiliser market relies heavily on imports of fertiliser products, as well as some local production capacity, to service the domestic market.
- Domestic manufacturers include:
 - IPL (through SCI for MAP and DAP), SSP, Nitrogen Gas and Urea
 - Impact Fertilisers for SSP
 - CSBP for SSP, Prilled Urea and AN (liquid Urea component)
- IPL is the only major exporter of fertiliser product from the Australian market.
 - SSP approximately 100 – 200 thousand tonnes in calendar year 2007. (Hi Fert estimate)
 - MAP/DAP approximately 200 – 300 thousand tonnes in calendar year 2007. (Hi Fert estimate)
- Hi Fert buys product from overseas suppliers and domestically from SCI (owned by IPL). 80% of our sourcing is done overseas.
- Other fertiliser distribution businesses also source product internationally and domestically (through SCI, CSBP and Impact).

HI FERT BACKGROUND

- Hi Fert was established in South Australia in 1984.
- Today, Hi Fert has an extensive east coast distribution network. We operate from nine major distribution centres supplying retailers in Queensland, Australian Capital Territory, The Northern Territory, New South Wales, Victoria and South Australia.
- Hi Fert sells product through a dealer network of rural retailers – outlets owned by corporates such as Elders, Landmark and RuralCo and numerous family owned dealers. Hi Fert does not sell direct to farmers.
- Hi Fert became a joint venture operation in 2004 when its former owner WMC Resources sold two-thirds of the company to ELF Australia Pty Limited, formed by Landmark (an AWB Limited Company) and Elders (a subsidiary of Futuris Corporation).
- With the acquisition of WMC Resources by BHP Billiton in 2005, the one third of Hi Fert owned by WMC Resources moved to BHP Billiton.
- In April 2005 Hi Fert announced a substantial expansion in its fertiliser distribution capacity with the acquisition of the assets of east coast fertiliser supply company Summit Rural Australia Pty Ltd (Summit) from Sumitomo.
- The acquisition of Summit extended the reach of Hi Fert's distribution network into Queensland and northern New South Wales giving Hi Fert comprehensive coverage of the east coast of Australia.
- In December 2005, BHPB sold its one third share of Hi Fert to ELF Australia Pty Ltd, thereby making Hi Fert 100% owned by ELF.

TOTAL AUSTRALIAN MARKET VOLUME

Slide 7 – Australian fertiliser sales. Distributors / Wholesalers to Retailers.



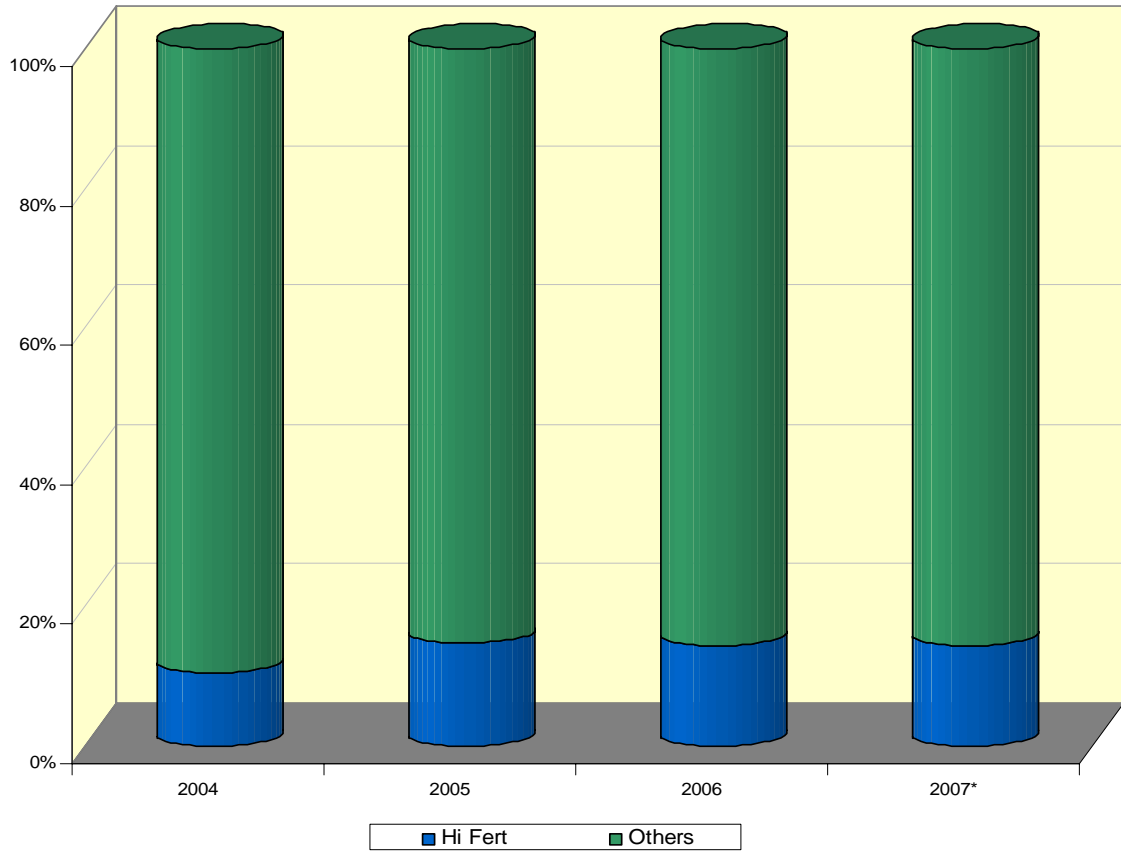
Source: FIFA (Fertiliser Industry Federation Australia)

Note: 2007 based on Hi Fert estimates of market size

- Over the last five years the size of the Australian fertiliser market has declined by approximately 22%.
- This is directly attributed to the continued drought conditions across all regions over the same time frame.

HI FERT AUSTRALIAN MARKET SHARE

Slide 8 Australian market share % of Distributor / Wholesalers sales

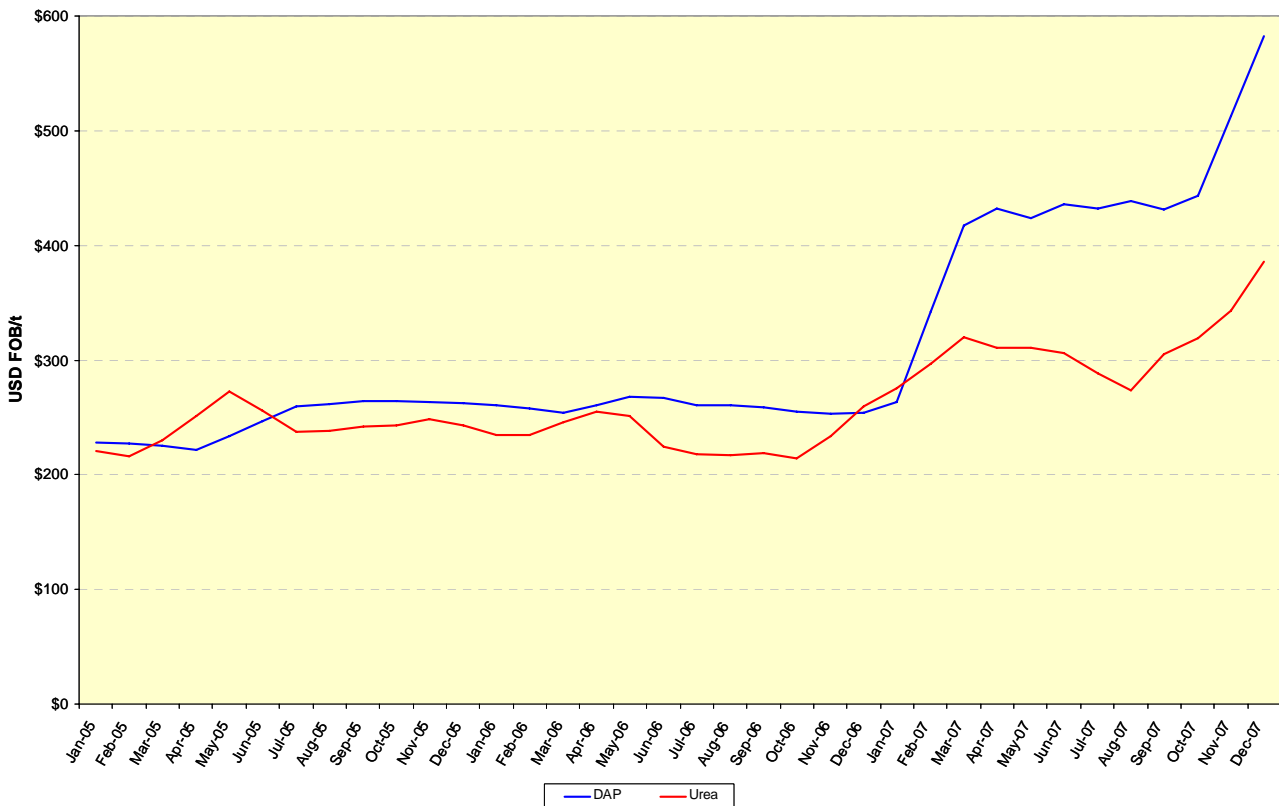


Source: FIFA (Fertiliser Industry Federation Australia)
Note: 2007 based on Hi Fert estimates of market size

- Hi Fert has approximately 15% market share nationally.

WORLD FERTILISER PRICES

Slide 9 – World fertiliser prices \$US per tonne

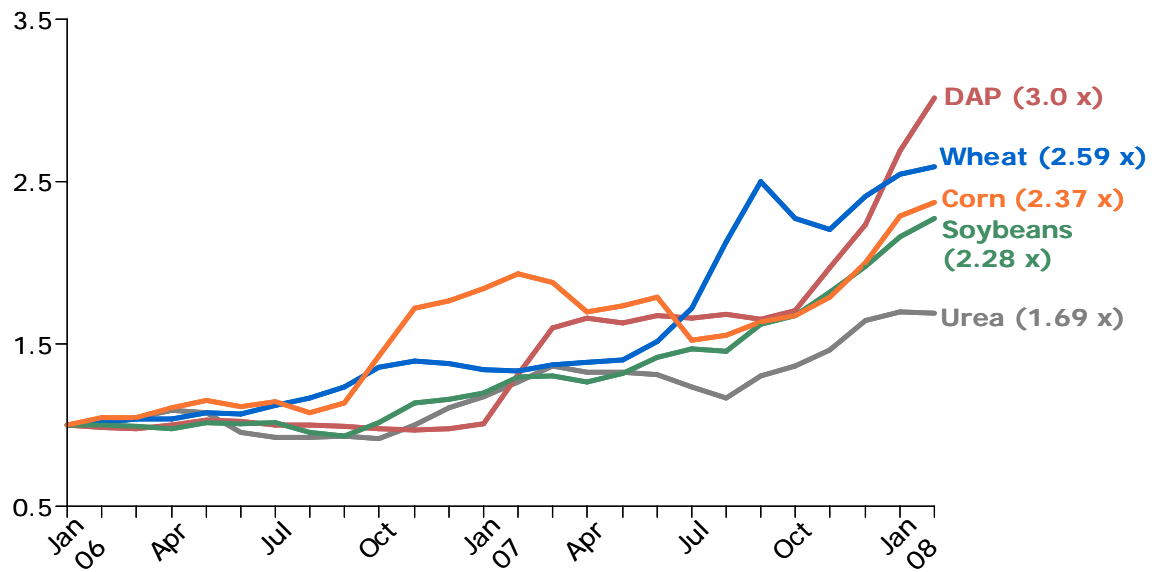


Source: Ferticon, The Market and FMB

- Prices for phosphates and Urea remained relatively stable for the period January 2005 to December 2006.
- The major causes of the rapid price increases for phosphates and urea beyond this point were:
 - Rising global demand for food, fibre, feed and fuel
 - Limited number of suppliers globally
 - Demand shock, caused by:
 - Record planting of crops in North America for biofuels.
 - Response to increasing agricultural commodity prices (see next chart).
 - Agricultural commodities have firmed with very strong demand for food, fibre, feed and fuel.
 - International fertiliser prices have escalated as agricultural commodity prices have strengthened.

Slide 10 - World Commodity vs Fertiliser Prices 2006-2007

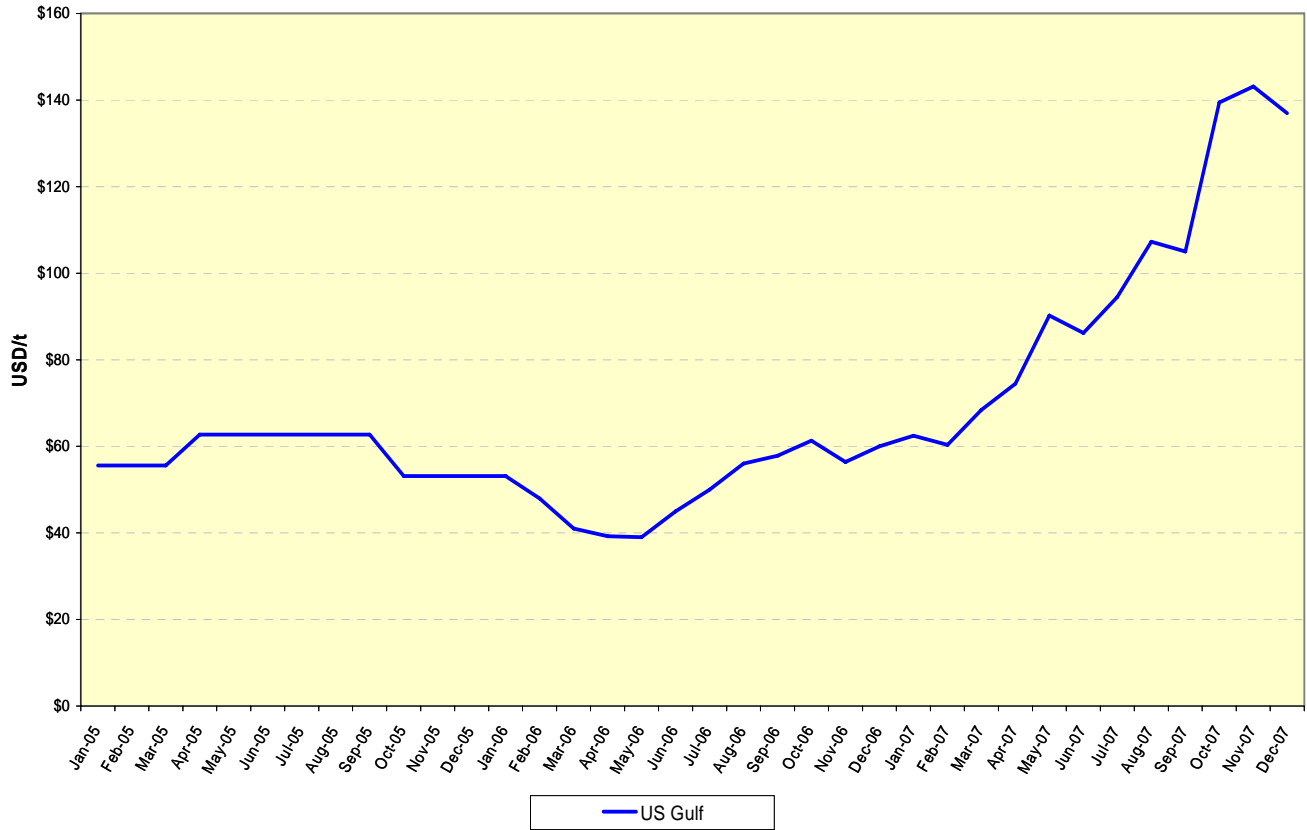
Prices Indexed
to Jan 06



Source: CBOT, Fertecon, FMB, The Market

WORLD FREIGHT COSTS 2005-2007

Slide 11 – World freight costs \$US per tonne



Source: Braemar Seascope

- The continued rise of the cost of dry bulk sea freight since June 2006 is directly attributable to the increased demand for shipping to supply Asian markets with commodities.
- The US Gulf freight cost is indicative of freight costs from other regions.

HI FERT AVAILABLE STOCK POSITION

- Hi Fert's available stock position at the end of 2007 was at a record low level. Hi Fert's closing stock position at the end of 2007 was approximately 50% of that at the end of 2005.
- This is due to the following factors:
 - A lack of demand for 2 years due to drought.
 - Uncertainty of future demand due to increasing global costs.
 - Uncertainty of seasonal conditions for 2008 due to the ongoing drought in most agricultural areas.

CONCLUDING COMMENTARY

- Hi Fert is a leading distributor of fertiliser in the Australian market.
 - We do not own production facilities.
 - We do not own manufacturing facilities.
 - We do not own raw material facilities.
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