2nd April 2008

Submission to the Select Committee on Agricultural and Related Industries

Inquiry into the pricing and supply arrangements in the Australian and global chemical and fertiliser markets, the implications for Australian farmers of world chemical and fertiliser supply and pricing arrangements, monopolistic and cartel behaviour and related matters

PGA Western Graingrowers

Western Graingrowers is a commodity committee of the PGA, a not-for-profit industry association that has represented the rural industries of Western Australia for over 100 years. Western Graingrowers represents professional grain growers operating at all levels of the industry – farmers whose principle goal is to advance their business opportunities. The PGA is predominantly funded by our members' contributions, which are voluntary. PGA Western Graingrowers is committed to the establishment and maintenance of a rigorous competitive environment in all aspects of grain production and trading.

PGA members produce in excess of 3 million tonnes of grain annually. Their main crop is wheat, but our members also grow barley, canola, lupin, oats, and other grains, representing around a third of the total WA crop. As such our members are fundamentally affected by the cost of inputs, including fertiliser prices.

Input costs have a dramatic impact on the profitability of broad-acre farming in WA. The increase in the cost of fertiliser in the past few years have been driven by a combination of factors including; international demand, trade restrictions, increased production costs; competition for pre-cursor materials, shipping costs, and local supply shortages.

The fertiliser market in WA, as in most places, is dominated by a small number of large suppliers.

Growers do what they can in such circumstances;

- lock in prices when they believe them to be commercially attractive,
- 'shop-around' for the most attractive price,
- adopt technologies and techniques that maximise returns for a given amount of inputs.

It is difficult, if not impossible, for growers to assess whether cartel behaviour is having an effect on the price of fertiliser – just as it is difficult for the ACCC to prove cases of cartel behaviour amongst petrol retailers. In fact, public inquiries into the price of petrol by the ACCC have concluded that price fixing, misuse of market power, and cartel behaviour is relatively rare. I would expect that our ability to monitor the international trade in fertilisers would be, at best, highly problematic.

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From the available evidence there would seem to be a range of explanations for the increased cost of fertiliser that are not based on conspiracy theories about the market. A short period of research reveals the following recent reports:

Reuters – 18 March 2008
“Nitrogen fertiliser exports will be subject to a tariff of 8.5 percent of the customs value and potassium fertilisers will have a 5 percent tariff, the government said in a statement on its Web site, www.government.ru.

Neither type of fertiliser is currently subject to duty.”

Forbes – 19 February 2008

“The [Chinese] fianance ministry said it will levy higher export tariffs on ammonium dibasic phosphate and ammonium biphosphate until the end of September.

It said the tariff will be raised to 35 pct from 20 pct.”

Rabobank Media Release - 29 November 2007

“2007 has seen world fertiliser prices soar, driven by a dramatic upturn in demand for agricultural fertiliser in both developing and developed nations.

Price pressures have been compounded by a limited world supply of key fertiliser ingredients –nitrogen, phosphorus and potassium – with structural constraints on the speed at which the fertiliser industry can increase production.”

The worlds fertiliser comes from limited sources – phosphate from China, Morroco and the USA; potassium from Canada, Russia, Germany, Belarus, and Brazil; and nitrogen from natural gas.

With the imposition of tariffs by China and Russia on certain exports, free trade in these commodities is further constrained.

A recently announced phosphate project in the WA interior, other projects in the Northern Territory, and the expected continuation of development associated with the North-West Shelf gas reserves, give some hope that the increase in fertiliser prices have sparked a new wave of investment in the local production.

The only practical way of addressing the issue from a governmental perspective would seem to be:

- encourage development of domestic sources, particularly through the reduction of red-tape.
- continue to support bilateral and multilateral free trade, particularly in the context of major suppliers such as China with whom an FTA dialogue has commenced.
- and to facilitate the entrants of new suppliers into the Australian market, by ensuring the infrastructure and other business conditions are suitable for such entrants.

Further details please contact Slade Brockman, PGA Policy Director (08 9479 4599).