Peter & Yvonne Abel

Committee Secretary
Senate Select Committee on Agricultural and Related Industries
Department of the Senate
POB 6100
Parliament House
Canberra ACT 2600

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Dear Committee Secretary

Re Inquiry into fertiliser pricing and supply arrangements

We wish to congratulate the Senate for inquiring into these matters, and to respond to the invitation to comment on the pricing and supply of agricultural fertilisers and related matters.

The twin issues of fertiliser pricing and supply within south-eastern Australia are thoroughly enmeshed, and a full and thorough investigation to increase transparency and meaningful competition within the industry is well deserved.

We are third generation farmers in West Gippsland, Victoria and until September 2007 owned and operated an independent fertiliser distribution business. We have observed and experienced the current fertiliser situation from a unique perspective and below are our comments. It is our understanding that the situation in fertiliser is not dissimilar to that of the chemical supply industry.

<u>Fertiliser Pricing</u>

In six months following June 2007 retail fertiliser prices doubled and wholesale pricing to local distributors also increased dramatically.
The excuses purported to have caused this are

1. World parity pricing – this is the same excuse as is given for fuel prices, but because only 3% of the Australian population are directly affected by fertiliser prices there has been little mainstream media attention given to this crisis. World parity pricing is a 'cop out' especially where Australia produces significant amounts of some fertilisers, phosphorus in particular, and government should intervene.
2. The value of the $AUD – working in the industry for twenty years we were told by the 'gurus' that when the value of the $AUD went down, they had to increase fertiliser prices, and we can understand that. But when the value of the $AUD went up they also increased prices, using the change in the $AUD as the reason for the price increases. We have experienced that truth in this industry is optional.
3. World shortages of fertiliser, reportedly – again, working in the industry we have been fed the story that large plantings of bio-fuel crops in the US have created world-wide fertiliser shortages. On other occasions we have been told that prices were rising because China or

India had sucked the total world supply of certain products. Transparency, like truth, also seems to be optional within this industry.

Is government prepared to permit Australian farmers to be continually squeezed between 'world parity pricing' and supposed fertiliser shortages for their inputs and the powerful duopoly of the supermarkets for their outputs?

When will the value of agriculture to the Australian economy be recognised? Not only do Australian farmers farm as efficiently as any in the world, feed the nation cheaply with high quality foods but they also earn about 30% of the nation's export income. When the world reaches 'peak phosphorus' in 30-50 years how will the nation feed itself and how will the nation earn 30% of its export dollar then?

Fertiliser Supply

In the south-eastern states of Australia there are strong business interlinks between the major suppliers of fertiliser which facilitates cartel-like behaviours.

Specifically, the main producer/wholesaler is IPL (Incitec-Pivot Limited) a merger of the previous two main suppliers into South-east Australia. IPL through its ownership of Southern Cross Fertilisers in Queensland is currently a monopoly manufacturer of phosphorus products in Australia.

IPL's next biggest competitor is Hi-Fert, which was once owned by WMC and then BHP but is now wholly owned by Elders and Landmark. Yet two of IPL's largest wholesale/retail customers are Elders and Landmark.

Given the incestuous business relationships where various entities are both customer and competitor there is reduced price competition and increased opportunity for cartel-like behaviours.

IPL made a smart business decision, vertical integration, in purchasing Southern Cross Fertilisers – manufacturer and exporter of phosphorus products – and this seems to have contributed to their rapidly rising share price. However how much of the fabulous IPL share price has been generated by gratuitous profit made by wholesale and retail price gouging of the Australian farmer using the excuse of world parity pricing?

There are some minor players in the fertiliser industry – importing, wholesaling and retailing – they are courageous, and hopefully they stay under the big operator's radar long enough to survive.

Questions for 2008 and the Future

1. If it is important for the ACCC to investigate fuel prices which have risen about 50% in three-four years, will the ACCC vigorously investigate fertiliser prices that have risen 100% in only six months?
2. How can the government ensure that farmers are protected from cartel-like pricing when the fertiliser companies are vertically integrated and enmeshed in business arrangements with competitors who are also their customers?
3. If it is government policy to support 'world parity pricing' for fuel and fertiliser, which are both large component costs in agricultural production, will the government also ensure that there is 'world parity pricing' (or equivalent to OECD countries) at the farm gate? If not, why not?

4. Will the government take action now, to restrict fertiliser exports, in particular phosphorus, in order to preserve natural resources beyond 'peak phosphorus' in 30-50 years time?
5. Similarly, should there be similar action taken now to preserve gas supplies beyond 'peak gas'?
6. When will government and the Australian people acknowledge the value to the Australian economy of rural and agricultural production to the whole of the economy – efficiently and effectively feeding the nation high quality food, and producing about 30% of the country's exports?
7. How can the farmer receive a decent income which reflects value for their efficiencies, efforts and their value to the economy, or will farmers only ever see some value when they sell the family farm?
8. How can farmers who produce efficiently but who are not receiving reasonable incomes because of 'world parity pricing' for inputs and the supermarket duopoly price squeeze for outputs ever manage to finance expansion to gain further efficiencies of scale when Australian family farms are priced out of the market by cashed up superannuation funds?
9. We ourselves, produce potatoes for which often the merchants scarcely pay enough to cover the cost of production and delivery ($ 250-300/tonne), yet we have seen those same potatoes just weeks later, in a supermarket in the same potato bin as they were delivered in, priced at $3,000-4,000/tonne. Since when did a merchant and the supermarket deserve to make 1,200-1,300% for holding produce for a couple of weeks in a warehouse and then delivering it about 100km?
10. When will food price inquiries address the gross imbalance in returns for producers vs. the supermarkets and processors? When will the government implement policy to prevent the supermarket duopoly from continually price squeezing food producers whilst price gouging the Australian consumer? Is government not prepared to prevent gouging by the supermarket duopoly? Is government prepared to empower the ACCC to do this? Past inquiries about the pricing of fresh produce to supermarkets and processors have produced 'interesting' reports, but have failed to protect either the Australian consumer or the Australian producers.

<u>In conclusion</u>

This inquiry into fertiliser pricing and supply is welcomed as it relates to the current chaos and hardship in agriculture caused by a 100% increase in fertiliser prices in just six months, and with no likelihood of relief in the future. These price rises are yet another factor delivering hardship to rural Australia following a long and hard drought.

Currently, for many Australian farmers their low paid employees are taking home more than the farmer lives on from week to week. It is not just drought that has contributed to the levels of rural poverty and debt; it is the absence of financial rewards for the efficiencies that have been achieved, it is the ongoing financial squeeze between the rising costs of inputs and the decline in real terms in the price received for outputs. The value of agricultural efficiencies over the past decade has not been returned to the producers who implemented them, but have been cornered by food processors, wholesale merchants and the supermarkets.

Compounding that is the absence of recognition by government and the public of the value to the economy of agricultural production and exports. Australia may no longer 'ride on the sheep's back' but the impact of the loss of just one banana crop following a cyclone in Innisfail, Queensland in January 2007 is a simple example of how just one food product can impact the public and the economy.

If agriculture is to be constrained by 'world parity pricing' for inputs such as fuel and fertilisers why cannot Australian agricultural producers then benefit by 'world parity pricing' (or equivalent to OECD prices) for outputs, as in farm gate pricing?

This inquiry is also an opportunity to examine the long term impacts of government policies which indicate that in one or two generations Australia will be unable to feed itself as a result of 'peak phosphorus' and consequently will lose its capacity to rely on agriculture for export earnings.

Right now there is capacity for cartel-like behaviour in the fertiliser industry contributing to the increases in fertiliser prices in the last six months above and beyond the 'world parity pricing' factor. Having been directly involved in the fertiliser industry until recently, and being ongoing customers of the industry, being beef and potato producers, we welcome an outcome which improves the level of truth and transparency in the fertiliser industry, particularly in the matters of supply and pricing.

Thankyou for the opportunity to provide this submission to the committee,
Yours faithfully

Peter & Yvonne Abel

PS. We can only email on a wireless ISP today, cannot fax or phone because all the lines are down because of severe weather events in our area.