



**SUBMISSION TO
THE SENATE SELECT COMMITTEE ON
AGRICULTURAL AND RELATED INDUSTRIES**

INQUIRY INTO THE IMPLICATIONS FOR AUSTRALIAN FARMERS
OF THE PRICING AND SUPPLY ARRANGEMENTS IN THE
AUSTRALIAN AND GLOBAL CHEMICAL AND FERTILISER
MARKETS AND RELATED MATTERS

3 APRIL 2008

CropLife Australia Limited
ABN 29 008 579 048
Level 2 AMP Building
1 Hobart Place Canberra ACT 2600
Locked Bag 916 Canberra ACT 2601

Tel 02 6230 6399
Fax 02 6230 6355
www.croplifeaustralia.org.au

1. INTRODUCTION

CropLife Australia (CropLife) is the peak body representing the plant science industry in Australia. CropLife welcomes the opportunity to make this submission to the Senate Select Committee on Agricultural and Related Industries.

As the peak industry body representing the manufacturers of agricultural chemicals in Australia, CropLife offers in this submission important contextual information to assist the Committee in considering the implications for Australian farmers of pricing and supply arrangements in the Australian and global chemical and fertiliser markets and related matters.

2. CROPLIFE AUSTRALIA

CropLife Australia is the voice and advocate of the plant science industry in Australia. As the industry's peak body, CropLife progresses the interests of member companies by engaging with decision makers and other stakeholders and influencing the development and implementation of government policies.

A key goal of CropLife is to raise awareness of the contribution that the plant science industry makes to sustainable agriculture and to the ongoing competitiveness of Australian agricultural exports.

CropLife's members invent, develop, manufacture and market 85% of the crop protection and 100% of the crop biotechnology products used by Australia's primary producers. These products protect plant yields and improve productivity by controlling weeds, pests and diseases, leading to the production of high quality, affordable and abundant food, fibre and other crops.

Sales of the industry's products contribute in excess of \$1.2 billion annually to the Australian economy. They are a vital input to Australia's agricultural industry, which is worth \$39 billion each year and they will help these commodities to remain internationally competitive.

CropLife and its member companies are committed to safety, stewardship and quality. We lead industry efforts to demonstrate this commitment with the following practices:

- Safety – protecting human health and the environment through a rigorous and science based regulatory process, the adoption and promotion of Good Agricultural Practice and the correct use of products according to label directions.
- Stewardship – responsibly and ethically managing industry products throughout their lifecycle.
- Quality – consistently producing products of the highest standards that meet registration specifications.

CropLife Australia advocates science and risk based legislative frameworks that are consistent in approach and application across the industry and promote competitiveness through innovation, the protection of intellectual property and the introduction of new technologies and practices.

3. CONTEXT SETTING

Global market dynamics are the predominant contributor to increased farm input costs in Australia.

This fact has been publicly acknowledged by farm leaders:

- Charlie McElhone from the National Farmers' Federation said (*Weekend Australian*, 8-9 March 2008) the high fertiliser and chemical prices were being driven by the international grain boom.
- Simon Ramsey, President of the Victorian Farmers Federation, said (*Age*, 8 March 2008) that growing markets in China and India were a factor in raising food commodity price increases.

3. CONTEXT SETTING (cont.)

Like Australia's agricultural sector, Australia's crop protection products sector is a small subset of a global market and subject to global market trends. The dynamics impacting Australia's crop protection sector are exactly the same as those affecting global agriculture markets. The significant increase in global demand for agricultural commodities is having a major impact on global agriculture. With most soft commodity prices at record highs there has been a large increase in the amount of land being used for planting around the globe. The rapid increase in cultivated land has in turn resulted in unprecedented global demand for crop protection products as farmers seek to improve yields and take advantage of higher soft commodity prices.

With Australian farmers also looking to capitalise on improved market conditions and record soft commodity prices, there has been unprecedented demand for crop protection products in Australia over the last six months.

The global crop protection market is at a point in the cycle where demand is outstripping supply and as a result prices are rising. The markets for essential raw materials used in the manufacture of crop protection products are experiencing similar supply challenges and costs are also rising. The shift to demand driven global markets represents a major shift for Australian agriculture. Due to a combination of drought and other factors the Australian crop protection market has, for many years, been typified as a low priced market in which supply has exceeded demand.

4. DEMAND ISSUES

Some of the factors impacting global and Australian demand for crop protections products include:

- Farm management practices are dynamic and constantly changing in response to new technologies, eg. GM crops, new pesticides, no till farming systems, new equipment, etc.
- Increased adoption of low/no till agricultural practices has also increased the use of herbicides.
- The move to biofuels in North America, Latin America and Europe for environmental and fuel security reasons has been driven by farmer subsidies and has resulted in increasing land capacity being devoted to crops for fuel, as well as food and feed.
- The vast populations of China and India are changing their dietary preferences as they become more prosperous and are now looking to add meat to their diets. The animals grown to supply that meat are usually fed grain. (See "The Implications for Australian Agriculture of Changing Demand for Animal Protein in Asia", Australian Farm Institute, www.farminstitute.org.au/publications/project_reports)
- Increased rain events in Australia over Christmas resulted in farmers having to apply more herbicides. This unexpected increase caused a shortage in supply.
- Farmers concerned about key product availability and potential cost increases associated with growing global demand appear to have brought forward purchasing to ensure they have sufficient crop protection products to capitalise on favourable market conditions for agricultural produce. This has resulted in a demand spike over recent months.

5. SUPPLY ISSUES

China is a major producer of crop protection products. This significant position in the crop protection market results in China having a considerable impact on price and supply. China is currently experiencing several factors that affect their manufacturers' supply availability and prices in the global market. These factors include:

- New environmental regulations introduced by the Chinese Government are increasing compliance costs for Chinese manufacturers and reducing their capacity. (*China clean-up boosts chemical costs, Weekend Australian, 8-9 March 2008*).
- There is considerable volatility in the price and supply of important raw materials such as phosphorus, partly contributed by power shortages and transport disruptions.
- The Chinese VAT subsidy to manufacturers for several export products, including glyphosate, has recently been reduced from 11% to 5% and may well be phased out altogether.
- Chinese manufacturers are increasingly gaining regulatory access in European and North American markets. These markets have traditionally been higher priced markets than the Australian market. As a result, Australian buyers are forced to pay higher prices to secure the supply of product.

6. CONCLUSION

CropLife thanks the Committee for the opportunity to provide input into the Committee's inquiry. CropLife submits that present price and supply challenges are driven by the unprecedented global demand for crop protection products associated with the global boom in agriculture. The implication for Australian farmers is that they will need to pay prevailing global market prices for key crop protection products in order to secure the supply of these products.