PERDAMAN

CHEMICALS & FERTILISERS

12 August 2009

Senator the Hon Bill Heffernan
Chair of the Senate Select Committee on Agriculture and Related Industries
Parliament House
Canberra ACT 2600

Dear Senator,

Re: Inquiry into pricing and supply arrangements in the Australian and global fertiliser market

Following our meeting with you earlier today, please find below some points about Perdaman Chemicals and Fertiliser's coal-to-urea fertiliser project in Collie, Western Australia which may be of interest to you and the Committee.

1. The project will convert 2.7mtpa of coal into 2.05mtpa of urea.

2. Construction start is planned for 3rd qtr 2010 and production start for 4th qtr 2013.

3. The expected capital expenditure for the project is around US$2.6b. The expected debt to equity ratio is 70/30.

4. In other words approx. US$1.8b will have to be raised by way of debt.

5. This bank debt will be provided on a "project finance" basis, i.e. the project, without any recourse to other assets or securities, has to satisfy the financiers (Australian and international banks and Import Export Credit Agencies) that it has the capacity to repay debt and interest in a timely manner and with minimum risk to the financiers.

6. To assess the level of risk the banks will assess the risks associated with the projects key contracts, e.g. coal supply, land lease, construction and technology, transport and product off-take. Generally speaking, banks look for long term contracts with as much price certainty as possible.

7. Specifically, with regard to the urea off-take, banks want to see a long term "take or pay" type agreement which require the off-taker to pay for the product regardless of whether they want to take it or not.

8. Furthermore, they want to be satisfied that the off-taker has the financial capacity to meet its obligations. This means that the off-taker has to have a credit rating acceptable to the banks.

9. This is why Perdaman has entered into a MOU with the Government of India for the off-take of urea on a take or pay basis for a period of at least 15-20 years. The same type of arrangement would be required if some organization other than the Government of India were to become the off-taker.

10. Perdaman is conscious of the fact that Australia is currently importing most of its urea and Australian farmers have to absorb considerable transport and distribution costs which make urea in Australia considerable higher than comparable international market prices .

11. Perdaman is an Australian company and would like to support Australian farmers. However, Perdaman is not a wholesaler or retailer but only a manufacturer of urea. Furthermore, as explained above, Perdaman relies on a long term off-take agreement to make the project bankable.

12. Accordingly, Perdaman's ability to sell directly to Australian customers is very limited. However, we believe that we can set aside between 100,000 and 150,000 tpa for local farmers without affecting the bankability of the project. Naturally, we expect these farmers to be based in WA.

13. Perdaman is prepared to commit to passing on any freight cost advantage it has over imported urea to Australian farmers. Perdaman will also use its best endeavours and encourage the off-taker to do likewise and make additional urea available to Australian farmers at reduced costs.

14. We are aware of another coal to urea project in the Latrobe Valley promoted by the Australian Energy Company which also has the potential to supply local markets at reduced costs.

15. Obviously, it is impossible to predict the impact on urea prices in Australia which our project or the project proposed by AEC might have but it is reasonable to expect that directionally it will have the effect of lowering the cost to farmers.

16. Furthermore, there is no reason why, once the viability of our project has been demonstrated, more urea couldn't be produced, for example through expanding our plant, and sold locally.

Yours sincerely,

ANDREAS WALEWSKI
Director (Corporate)
Perdaman Chemicals and Fertilisers