

Global trade on infertile ground

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The inquiry by the Australian Competition & Consumer Commission (ACCC) into the price of fertilisers has found no evidence of price gouging. The take-home message was, in essence, get used to it.

This is not what agrarian-socialist politicians want to hear. They and their constituents question the morality of anyone making a profit from supplying farmers. When anything involves foreigners, large companies and world prices, suspicions run deep.

This can be seen in the terms of reference of a Senate inquiry chaired by Senator Bill Heffernan, due to report in mid October 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.”

Along the same lines, the ACCC said a number of complaints had been made about so-called “price gouging” by fertiliser suppliers. It defined gouging as suppliers taking advantage of rising international prices to increase their own prices beyond levels that “could be justified in the circumstances.”

Both the ACCC and Senate inquiries were prompted by a doubling in fertiliser prices since early 2007, accompanied by temporary shortages.

The ACCC found the cause was mostly due to rapid growth in world demand which had not been accompanied by a corresponding growth in world supply. It referred to an expansion in agricultural production (particularly grains for food, feed for livestock and bio-fuels), including developments in China, as the main issue.

Rises in costs of production also contributed, it found, to the increasing cost of energy. That not only affected the price of raw materials but also international freight rates.

The lack of supply was simply a consequence of the fact that it takes several years to build each new fertiliser manufacturing plant, even in China.

Overall, the ACCC said, world and Australian domestic prices track each other reasonably closely, with variations mainly owing to the timing of shipments. The gap between the world and retail prices for diammonium phosphate, it said, is currently around the level it has been on average over the last eight years.

It found nothing underhand or illegal about the price rises and concluded there was insufficient evidence to confirm farmers' claims that fertiliser companies breached the Trade Practices Act by overcharging or refusing to supply.

It will be difficult for the Senate inquiry to come to a different conclusion unless it provides hard evidence of “monopolistic and cartel behaviour”. The relevant legislation, the Trade Practices Act, is administered by the ACCC and requires a lot more than xenophobic suspicion and voodoo economics.

That seems an unlikely outcome. Although the ACCC inquiry was initiated by the Minister for Fuelwatch and Grocerychoice, Chris Bowen, it was at least undertaken professionally. At the Senate inquiry, an exchange between Australian Energy Co manager Paul Duckett, whose firm is planning to build a \$2 billion urea fertiliser plant in Victoria, and Senator Heffernan shows that being part of a world market is still in doubt.

Duckett: We will be charging world parity price ... this is a \$2 billion project so it has to be attractive to them.

Heffernan: So you will be looking at something like \$400 on top?

Duckett: If we were able to produce at \$400 and the world parity price was \$700 then that would be the price.

Heffernan: But you are admitting that you are going to be part of a world cartel.

Duckett: No, we will be part of a ...

Heffernan: That is in polite language.

Duckett: In terms of parity pricing, yes.

Heffernan: It will give you a 50 per cent return on your profit if everything stays even.

Duckett: If everything stays even. At this stage it is about a 40 per cent return.

Heffernan: You do not think the average Australian cocky thinks that is greedy?

Duckett: They may well do ...

Heffernan: But you don't give a rat's arse?

Duckett: As a business we have to raise the money in the first place. We are dealing with a very competitive environment for capital, so you have to have very good returns. Look at the other fertiliser producers in Australia. They are the same.

Heffernan: You have just confirmed that it is a world cartel. Thanks. You say you are going to export to New Zealand.

Duckett: That is one of the potential markets, yes.

Heffernan: What about India?

Duckett: India is also a potential market.

Heffernan: What do you think the subsidy is in India?

Duckett: To be honest, we know that the Indian government are subsidising it, but we are unaware of the degree to which they are subsidising it.

Heffernan: In some areas it is 75 per cent.

Duckett: I am not surprised.

Heffernan: And you expect us to compete against that? Thank you very much for your trouble. I hope you go broke!

Duckett: You have to understand that ...

Heffernan: I understand perfectly. There is a sovereign issue here, and the government ought to bring the sovereign issue to bear.

Duckett: We would be quite happy if the government ...

Heffernan: Wait until Incitec Pivot steps up to the plate. We have got all sorts of silly buggery going on in the fertiliser industry, some of which we have heard about *in camera*. I declare an interest; I am a farmer. It is no wonder farmers are angry at the absolute arrogance of the treatment they have received in the last 12 months, and you are displaying that arrogance here.

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