



Australian
Competition &
Consumer
Commission

ACCC examination of fertiliser prices

31 July 2008

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1. Introduction

Ministerial request

On 8 February 2008 the Assistant Treasurer and Minister for Competition Policy and Consumer Affairs, the Hon. Chris Bowen MP, wrote to the Australian Competition and Consumer Commission requesting it to undertake an examination of fertiliser prices, particularly the reasons for recent dramatic increases in prices. A copy of the minister's letter is attached. The ACCC considered that its object in undertaking this fertiliser price examination was to:

- provide an overview of the fertiliser industry in Australia
- analyse price movements, including a comparison of domestic and international price movements
- examine the key factors underlying the increase in the price of fertilisers supplied in Australia.

Nature of price examination

The minister's request to the ACCC did not constitute a formal price inquiry under Part VIIA of the *Trade Practices Act 1974*, nor was it an allegation that there had been a contravention of the Trade Practices Act.

Accordingly, the ACCC had no formal information-gathering powers and instead relied on the cooperation and assistance of interested parties, including suppliers of fertilisers, industry associations and representative bodies of end user groups. The ACCC received numerous voluntary submissions from these parties, many of which provided detailed information about the issues being examined by this inquiry.

The ACCC has generally relied on the truth and accuracy of submissions and statements from interested parties. Where possible, the ACCC has tested the assertions and positions put forward in these submissions and statements with other industry participants before forming its views about particular matters. The ACCC has not, however, tested information claimed as confidential against the views of other industry participants. In these cases the ACCC has sought to obtain similar information from multiple sources and has used this mechanism to test information provided in confidence.

Outline of report

Chapter two of this report provides a brief overview of the three key categories of fertiliser supplied in Australia—that is, phosphate-, nitrogen- and potassium-based fertilisers—and provides a description of their application and sources of supply.

Chapter three provides a description of the industry structure and supply chain, including a cross section of players at each functional level of the supply chain, and a general description of supply arrangements.

Chapter four examines recent and longer term movements in fertiliser prices, with particular focus on nitrogen and phosphate fertilisers, the only fertilisers manufactured in Australia. It discusses some of the key factors influencing the price of fertiliser in Australia, including international fertiliser prices, global demand and supply trends and shipping costs. A comparative analysis of domestic and international prices is included in this section.

Chapter five outlines some of the domestic events during 2007–08 that affected the pricing and supply of fertilisers in Australia.

Chapter six provides a brief consideration of demand and supply forecasts, focusing predominantly on a study undertaken by the Food and Agriculture Organisation of the United Nations published in 2008.

Chapter seven sets out the ACCC's conclusions.

2. Fertiliser demand and supply in Australia

Fertiliser products used in Australia

Three basic categories of fertilisers are used in Australia: phosphate, nitrogen and potassium. Phosphate fertilisers, nitrogen fertilisers and potassium fertilisers are applied to Australian soils to provide for the maximum enhancement of agricultural productive capacity. Due to the different purposes for which they are used, these fertilisers are not substitutes.

Each of the three basic fertilisers may be coated, processed and blended with products such as copper, calcium, zinc and manganese to create a range of specialty products. Demand for specialty products has increased over recent years and many suppliers now offer such products to suit the specific purposes of individual end users. These fertilisers are available in solid, soluble and liquid form.

Phosphate fertilisers

Phosphate fertilisers aid crop growth and development, and are commonly used in the pasture (wool, beef and dairy) and cereals industries. Phosphate fertilisers include single superphosphate (SSP) di-ammonium phosphate (DAP), mono-ammonium phosphate (MAP) and triple superphosphate.

Historically, SSP has been the primary phosphate fertiliser used by Australian farmers. In recent years, there has been a move away from low-analysis products such as SSP in favour of high-analysis fertilisers such as DAP and MAP, which deliver both nitrogen and phosphorous.¹ High-analysis fertilisers are a more concentrated product with a higher percentage of nutrients.

Phosphate rock is the key input for all phosphate fertilisers. There are few deposits of phosphate rock around the world and Australian demand is largely met from mines at Phosphate Hill (Queensland), Christmas Island and Morocco.² Phosphate rock from Phosphate Hill is suitable only for the manufacture of MAP and DAP, and not SSP. Consequently, all phosphate rock used for SSP in Australia is imported.

Nitrogen fertilisers

Nitrogen fertilisers are applied primarily to aid crop growth and quality; they are commonly used in the production of cereal crops, cotton and sugar, and in horticulture. Common forms of nitrogen-based fertilisers include urea, anhydrous ammonia, ammonium sulphate and ammonium nitrate.

¹ IBISWorld Pty Ltd, IBISWorld industry report: Fertiliser manufacturing in Australia, C2531, 19 November 2007, p. 6.

² Geoscience Australia, Department of Resources, Energy and Tourism and the Minerals Council of Australia, Australian Mines Atlas (www.australianminesatlas.gov.au); and ABARE, Rural Commodities, 2007, table 101.

Urea is the most common nitrogen fertiliser used in Australia. It is the most concentrated form of solid nitrogen fertiliser and is manufactured by combining ammonia and carbon dioxide under pressure.

Ammonia is the key input for all major nitrogen fertilisers. Natural gas is a key feedstock for the production of ammonia.

Potassium fertilisers

Potassium fertilisers (sometimes referred to as potash fertilisers) are commonly used for the production of sugar cane and horticultural crops, and to improve pasture for livestock. Common forms include muriate of potash (MOP), sulphate of potash and potassium nitrate.

Potassium fertilisers are generally derived from geological saline deposits.³ MOP, also known as potassium chloride, is the most readily available and widely used potassium fertiliser in Australia.

Currently, there are no commercial deposits of potassium in Australia and all potassium fertilisers supplied in Australia are sourced through imports including from Canada, the United States and Europe.

Seasonal nature of demand

Submissions reveal that demand for fertilisers is seasonal. Periods of fertiliser application vary depending on the type of fertiliser and intended usage. The bulk of fertilisers are applied during the April to September period, with the peak period of demand being the lead-up to the winter cropping season from March to June.

The winter cropping season comprises cereal crops. Phosphates and nitrogen are essential for cereal crops, which account for 53 per cent of total Australian fertiliser nutrient consumption by crop/pasture.⁴ Phosphate fertilisers are generally applied from around April to June and nitrogen fertilisers are generally applied from July to September.

Pastures account for 20 per cent of fertiliser nutrient consumption by crop/pasture.⁵ In general, fertilisers for pastures are applied during autumn and spring.

Fertiliser consumption in Australia

In 2006–07 Australian fertiliser industry revenues totalled approximately \$1.95 billion.^{6,7} In 2007, it is estimated that phosphate fertilisers comprised

³ IBISWorld Pty Ltd, IBISWorld industry report: Fertiliser manufacturing in Australia, C2531, 19 November 2007, p. 7.

⁴ *ibid.*, p. 9.

⁵ *ibid.*, p. 9.

⁶ *ibid.*, p. 4.

58.7 per cent of consumption; nitrogen fertilisers, approximately 33.7 per cent; and potassium fertilisers, approximately 7.6 per cent.⁸ Figure 1 sets out estimates of Australian consumption by fertiliser category calculated on the basis of sales data compiled by the Fertiliser Industry Association of Australia.

Figure 1 Fertiliser consumption in Australia by product category⁹

Year (calendar)	Nitrogen fertilisers (tonnes)	Phosphate fertilisers (tonnes)	Potassium fertilisers (tonnes)
2002	1 628 423	2 780 386	340 788
2003	1 522 166	2 724 359	353 037
2004	1 698 190	2 847 606	406 431
2005	1 595 652	2 77 0828	367 362
2006	1 390 719	2 428 370	299 993
2007	1 378 901	2 403 400	309 604

Importantly, Australian fertiliser usage represents only a small share of global fertiliser usage. In 2005–06, Australia’s fertiliser consumption accounted for approximately 1.4 per cent of global fertiliser consumption.¹⁰

Domestic manufacture and imports

Domestic manufacture

Phosphate and nitrogen fertilisers are manufactured in Australia. Potassium fertilisers are not produced domestically, so all potassium fertilisers used in Australia are imported. Incitec Pivot Limited (IPL) manufactures a range of fertilisers, including urea, DAP, MAP, SSP and anhydrous ammonia at manufacturing sites in Queensland, New South Wales and Victoria. Impact Fertilisers Pty Ltd (Impact) produces SSP at its manufacturing facility in Tasmania. CSBP Limited (CSBP) produces a range of phosphate and nitrogen fertilisers at a number of sites in Western Australia.

While domestic demand for fertilisers is seasonal, production takes place year round. During periods where demand is low, domestic manufacturers may export their surplus production. Submissions indicate that storage of fertilisers during periods of low demand is difficult because of issues such as availability of storage capacity and the

⁷ All figures in this report are in nominal Australian dollars, unless otherwise indicated.

⁸ Calculated on basis of sales statistics of major fertiliser products compiled by the Fertiliser Industry Federation of Australia.

⁹ Calculated on basis of sales statistics of major fertiliser products compiled by the Fertiliser Industry Federation of Australia.

¹⁰ International Fertilizer Industry Association statistics (www.fertilizer.org/ifa/statistics.asp).

decline in quality of fertilisers over time due to moisture. IPL submitted that it exports approximately 26 per cent of its DAP and MAP production in the second half of each year when domestic demand is low.

Imports

Submissions indicated that domestic manufacturers, even when running at capacity, cannot satisfy demand for fertilisers at peak periods. As demand for fertilisers is highly seasonal, imported fertilisers are necessary to meet demand during peak periods.

In addition to the importation of potassium fertilisers, a significant proportion of phosphate and nitrogen fertilisers consumed in Australia are imported. Figure 2 sets out the share of total consumption of fertilisers sourced from imports in the 2007 calendar year for each category of fertiliser. Submissions indicate that import sources include the United States for phosphate fertiliser, the Middle East and Malaysia for nitrogen fertilisers and Canada, the United States and Europe for potassium fertilisers.

Figure 2 Fertiliser consumption sourced from imports in 2007¹¹

Fertiliser	Imports
Phosphate fertilisers	36 per cent
Nitrogen fertilisers	63 per cent
Potassium fertilisers	100 per cent

Importantly, submissions did not reveal any significant difficulties or barriers associated with the importation of fertiliser products into Australia, other than those that occur in the ordinary course of business for bulk commodity imports (e.g. bad weather delays). Submissions show the importing of fertiliser typically involves the following:

- establishing contact and making arrangements with an overseas supplier; determining quantities required; placing of orders allowing for lead times
- verification of quality
- clearance of landed cargo by the Australian Quarantine and Inspection Service
- securing warehouse space for storage before dispatch.

In general, submissions indicate that fertiliser is a relatively straightforward commodity to import and that minimum quantities of approximately 20 000 tonnes per shipment are considered necessary to make importation financially viable. Apart from this

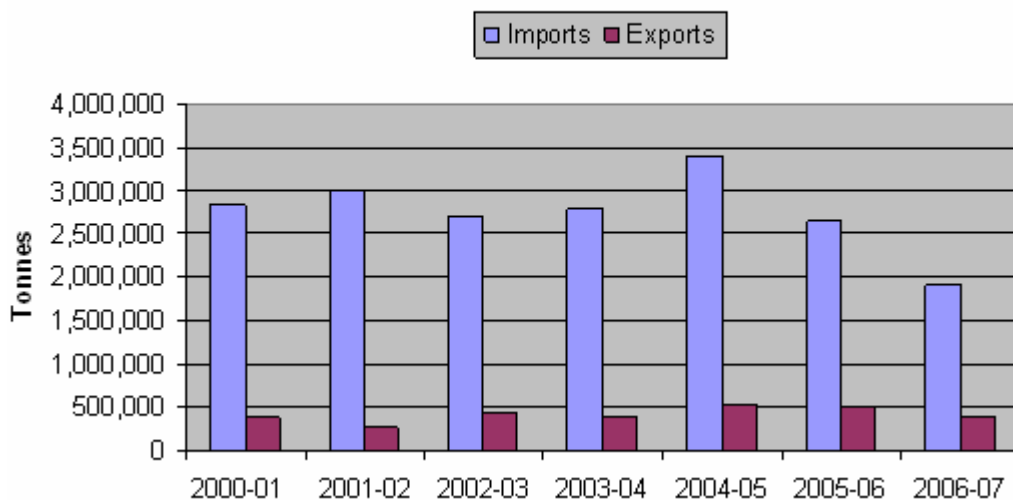
¹¹ Calculated on basis of sales statistics of major fertiliser products compiled by the Fertiliser Industry Federation of Australia

minimum import requirement, submissions did not indicate any significant barriers to the importation of fertilisers.

Some submissions identified a number of recent factors that have emerged as hindering prospective importing, such as increased shipping costs and vessel shortages. However, in most cases these factors have affected the price of landed imports rather than the ability to import.

Figure 3 shows comparative levels of fertiliser imports and exports by volume for the period from 2000–01 to 2006–07.

Figure 3 Fertiliser imports and exports 2000–01 to 2006–07¹²



Short-term and long-term supply responses

Fertiliser is a bulk commodity, so the industry cannot respond quickly to rapid changes in demand. In the short term—that is, less than two months—the quantity of each type of fertiliser available for supply in Australia is essentially fixed and set at the likely aggregate demand from end users for the coming period. There is no scope to increase supply, either from increased domestic production or from increased imports in that period.

Imports of fertiliser routinely take 2 to 5 months from the date the order is placed to the date the product is available for distribution from an Australian port, with the time taken depending primarily on where the product has been sourced. Increased Australian demand can be met through increased imports from a fixed global supply over this

¹² Source: ABARE data.

period. The global supply of fertiliser is fixed for a longer period. Submissions indicated that new production plants typically take 3 to 5 years to come on-stream.

Recent consolidation in the industry

There are only three manufacturers of fertilisers in Australia: IPL and Impact operate in the eastern states of Australia while CSBP operates in Western Australia.

A greater number of industry participants operate at the distribution and retail levels. A number of participants are also vertically integrated across various functional levels (further discussion on vertical integration is set out in chapter 3). Submissions indicate that importation of fertilisers is undertaken by manufacturers, distributors and in some cases retailers.

The ACCC has previously considered a number of mergers and acquisitions in the fertiliser industry, including IPL's acquisition of Dyno Nobel Limited (2008); IPL's acquisition of Southern Cross Fertilisers Pty Limited (2006); the acquisition of two thirds of Hi Fert Pty Ltd by the joint venture ELF Australia Pty Ltd between Futuris Ltd and AWB Ltd and their subsidiaries Elders and Landmark (2004-2005); and the merger of Incitec Limited and Pivot Limited (2003).

In deciding not to oppose these mergers and acquisitions, excluding IPL's acquisition of Dyno Nobel (as it was not relevant),¹³ the ACCC considered a number of factors, including the significant level of fertiliser imports into Australia, the relatively low barriers for the importation of fertilisers and the competitive constraint that would be posed by fertiliser imports.

Submissions to this inquiry are supportive of the ACCC's findings in previous merger reviews, confirming a significant level of fertilisers are imported into Australia and there exists relatively low barriers to importation. This suggests the ACCC's previous view, concerning the availability of imports acting as a competitive constraint, remains valid.¹⁴ Moreover, Australian production is less than one per cent of global production and as previously stated, Australian consumption is around 1.4 per cent of global consumption.

Given the findings in this report concerning the manner in which fertiliser prices in Australia have tracked movements in international prices (see chapter 4), the increase in market concentration in recent years among manufacturers of fertilisers does not appear to have been a factor in recent increases in domestic fertiliser prices.

¹³ With respect to IPL's acquisition of Dyno Nobel, the ACCC formed the view that the proposed acquisition was not likely to result in a substantial lessening of competition in the manufacture and supply of ammonia, ammonium nitrate or fertiliser products. The ACCC found that the proposed acquisition was unlikely to remove an actual or potential competitor in the manufacture and supply of ammonia and ammonium nitrate, and was unlikely to provide the merged firm with the ability and incentive to foreclose competition in the downstream supply of fertiliser products.

¹⁴ See further the ACCC's decisions at: <http://www.accc.gov.au/mergersregister>.

3. Industry structure

Supply chain

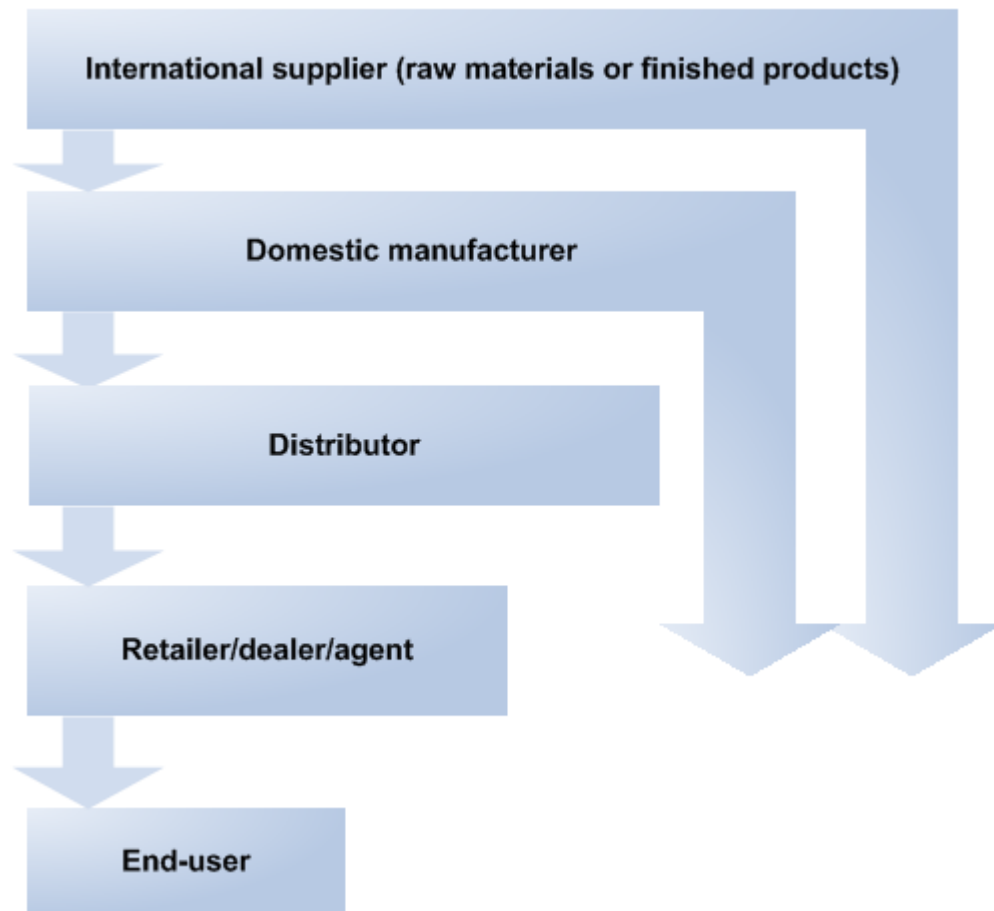
As illustrated in figure 4, the fertiliser supply chain in Australia comprises manufacturers, distributors, retailers and end users.

Submissions show that although there is a basic flow of products in the Australian fertiliser industry from manufacturer to distributor to retailer and on to end user, there are many exceptions to this basic chain of supply where functional levels are by-passed.

With respect to the activities undertaken at each level of the supply chain, submissions indicate that:

- Manufacturers source raw materials through imports or from domestic sources as well as importing finished fertiliser products from international suppliers. In general, fertiliser products are supplied by manufacturers to distributors or to dealers and agents at the retail level. In some instances (e.g. in Tasmania), sales may be made by manufacturers directly to the end user.
- Distributors source fertiliser products from either domestic manufacturers or directly from international suppliers. Distributors also commonly engage in the blending, mixing and coating of finished fertiliser products to suit the specific requirements of individual customers and local soil conditions.
- Retailers, who are often described in submissions as agents and dealers, are involved in the day-to-day sales of fertiliser to end users. Some participants at the retail level import fertilisers from overseas suppliers and may also engage in the blending, mixing and coating of fertilisers to suit customer specifications.

Figure 4 Structure of Australian fertiliser industry



Industry participants

While figure 4 sets out a basic overview of the supply chain, submissions indicate that a number of market participants are vertically integrated and have a presence across more than one level of the supply chain. However, vertical integration does not necessarily translate into exclusive supply arrangements. For example:

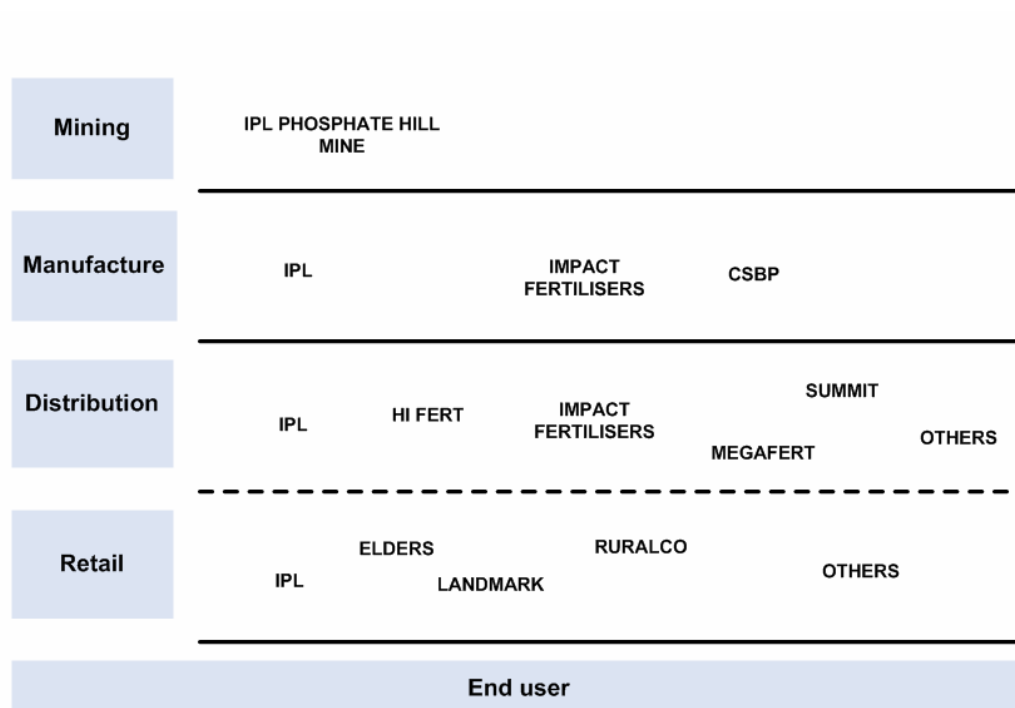
- IPL operates a mine at Phosphate Hill in Queensland from which it sources phosphate rock for the manufacture of phosphate fertilisers. In addition, IPL, through Southern Cross International (SCI), supplies companies at the distributor level (including the IPL distribution business) and distributes to its agents and dealers at the retail level as well as engaging in some sales direct to end users in Tasmania. The agents and dealers who are supplied by IPL also source supply from distributors who are themselves supplied by SCI.
- Manufacturers CSBP and Impact also have distribution facilities/networks in Western Australia and the eastern states of Australia respectively.

- As previously noted, distributor Hi Fert Pty Ltd is owned by retailers Elders and Landmark through their joint venture, ELF Australia Pty Ltd. Hi Fert supplies fertilisers to Elders and Landmark as well as their competitors.

The division between distributor and retailer is not always distinct with some participants engaging in supply at both the wholesale and retail levels.

Figure 5 sets out some industry participants at each level of the supply chain and shows examples of vertical integration within the industry.

Figure 5 Cross section of industry participants



Geographical distribution

Submissions indicate there are two distinct areas of fertiliser distribution within Australia— being, Western Australia and the eastern states (including South Australia)—due to the high costs associated with transporting fertilisers long distances domestically. For example, fertilisers manufactured and imported by CSBP are distributed in Western Australia, while fertilisers manufactured and imported by IPL and Impact are distributed in the eastern states.

Supply at the retail level occurs on a regional or local basis.

Supply arrangements

The discussion on supply arrangements in this section is necessarily limited because of the confidential nature of information received in submissions.

Submissions indicate that a variety of arrangements exist for the supply of fertilisers, with variations existing across functional levels and individual suppliers. Fertilisers may be supplied on the basis of formal contractual arrangements or less formal oral or written arrangements. Broad details of some supply arrangements at the wholesale and retail levels are described below.

Supply arrangements at the wholesale level (i.e. arrangements for supply between manufacturers, distributors and retailers) are typically made under long-term contractual arrangements. Due to the seasonal nature of demand and timeframes required for importation, suppliers often estimate their requirements on the basis of historical and seasonal forecasts and customers' preliminary indications of tonnage and product type before committed orders are taken.

To accommodate ongoing variations in demand, contractual arrangements may be generally framed without specific obligations for supply or purchase

Supply at the retail level (i.e. supply to the end user) may be pursuant to written or oral arrangements. Submissions indicate that end users typically indicate their requirements immediately before or during a season. Submissions also indicate that arrangements for supply to end users are generally flexible and informal to accommodate unexpected seasonal variations affecting demand.

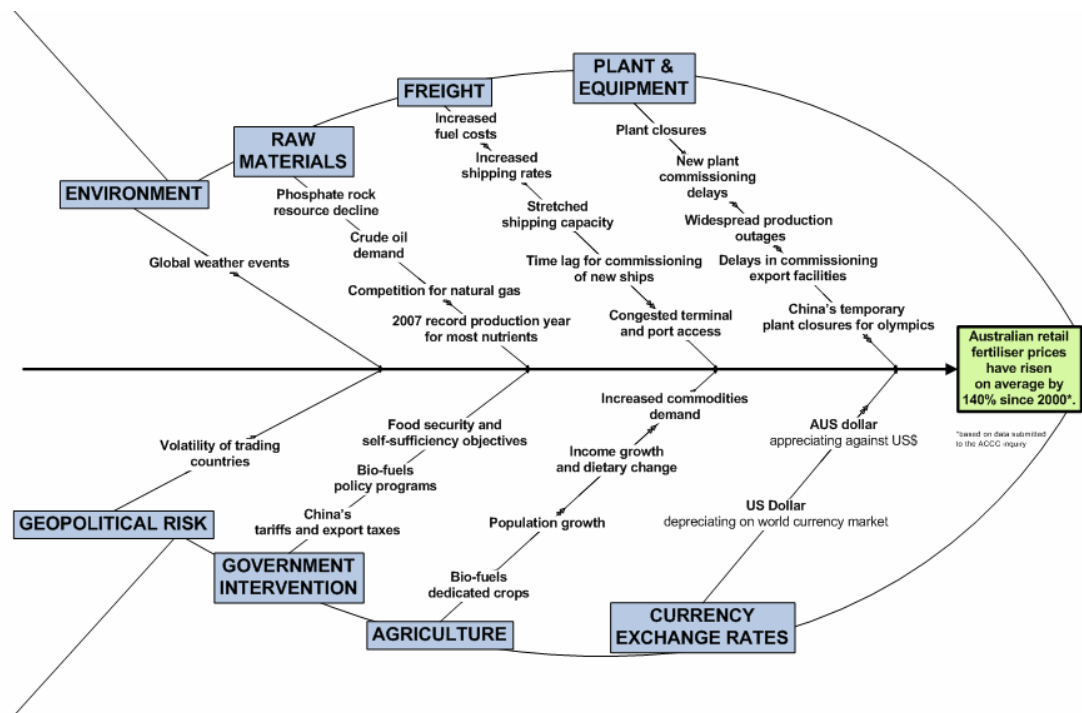
Various arrangements exist with respect to pricing among wholesalers. Submissions indicate that wholesale prices are generally set either in reference to international fertiliser prices (being formula-based) or after consideration is given to the prevailing cost of importing fertilisers. Some suppliers release recommended retail price lists. In addition, volume discounts or other benefits may be provided to customers. Fertiliser prices are discussed in further detail in chapter 4 below.

4. International and domestic fertiliser prices

World fertiliser demand has historically been influenced by a number of related factors, including population growth, economic growth and agricultural production. This remains true. However, a multitude of recent developments have led to a dramatic increase in world fertiliser prices over the last 18 months, which has been mirrored in domestic fertiliser prices in Australia.

Figure 6 illustrates the many global factors that have recently affected, either directly or indirectly, the prices of fertilisers in Australia. Chapter 4 does not attempt to examine the contribution of these factors in detail, but rather concentrate on the most significant factors as they appear to this inquiry.

Figure 6 Global factors influencing fertiliser prices in Australia



Information used in compiling figure 6 has been drawn from various sources, including the Food and Agriculture Organization of the United Nations (FAO) publication; *Current world fertilizer trends and outlook to 2011/12*¹⁵; various 2007 reports prepared by the International Fertilizer Industry Association¹⁶; and submissions to this inquiry.

International fertiliser prices

Fertilisers are internationally traded commodities. The prices at which different fertilisers are traded are compiled and used by a variety of firms in formulating international pricing benchmarks (or indices), which are provided in a number of industry publications. These various indices reflect the current prices at which particular fertilisers are being traded on an international basis from nominated ports.

As illustrated below, international benchmark prices for DAP and urea remained relatively stable throughout the period from around 2001 to the end of 2006 (particularly for DAP; for further analysis, see below). This stability reflected both the relatively constant level of world demand for fertilisers over this time and the absence of significant cost pressures affecting world production.

The past stability in world fertiliser demand altered significantly during 2007, which marked the beginning of a period of rapidly rising demand for fertilisers in both the developed and developing world. Importantly, this period also witnessed the manifestation of a number of factors (some of which were closely related to the changing demand conditions) that substantially affected the costs of production of fertiliser manufacturers.

¹⁵ See further *Current world fertilizer trends and outlook to 2011/12*, Food and Agriculture Organization of the United Nations, Rome 2008.

¹⁶ See further 75th IFA Annual Conference Istanbul, Turkey May 2007, *Global Fertilizers and Raw Materials Supply and Supply/Demand Balances 2007-2011*, Michel Prud'homme, IFA France; *ibid.*, *Medium-Term Outlook for World Agriculture and Fertilizer Demand 2006/07-2011/12*, Patrick Heffer, IFA France; 33rd IFA Enlarged Council Meeting November 2007, Doha, Qatar, *Short-Term Prospects for World Agriculture and Fertilizer Demand 2006/07-2008/09*, Patrick Heffer, IFA France; *ibid.*, *Summary Report*, Patrick Heffer and Michel Prud'home, IFA France; and *World Fertilizer Prices Soar as Food and Fuel Economies Merge*, IFDC—An International Center for Soil Fertility and Agricultural Development, IFDC Report, Volume 33, No. 1 March 2008.

The key factors, including those influencing global demand and supply, which have caused world fertiliser prices to escalate sharply in 2007 and 2008, are as follows:

- High commodity prices: high agricultural commodity prices in recent years, particularly for grains, have caused a significant increase in world demand for fertilisers as agricultural producers have sought to take advantage of favourable commodity prices by increasing production. The rapid rise in demand for crops such as corn, palm oil and sugar cane throughout the world for use in the manufacture of bio-fuels has had a similar effect.
- Production capacity constraints: although demand for fertilisers is strongly influenced by agricultural commodity prices, the fertiliser supply industry has closer parallels to the mining sector than to agriculture. As discussed in chapter 2, suppliers of fertilisers cannot respond quickly to changes in the agriculture sector as significant investment in industrial plant is required for expansion of capacity. Fertiliser producers also need longer timeframes to source necessary feedstock, such as natural gas.¹⁷
- Natural gas prices: natural gas is a key ingredient in the manufacture of ammonia, which in turn is used to produce nitrogen and ammonium phosphate fertilisers. Significant increases in world energy prices over the last 18 months have increased the cost of this feedstock.
- Phosphate rock prices: phosphate rock represents a significant proportion of the overall cost of production of phosphate fertilisers. Submissions indicate that over the past 12 months phosphate rock from overseas sources has increased substantially, with price increases of up to 400 per cent.
- International freight rates: increased fuel costs and a shortage of shipping capacity caused by significantly greater international demand for freight services (due to increasing world trade) has seen rises in freight rates.
- Developments in China: in February and April 2008 the Chinese Government substantially increased export taxes on DAP/MAP and urea fertilisers in an attempt to reduce the levels of Chinese fertiliser exports to meet rapidly expanding domestic requirements. This reduction in exports from China is expected to stimulate further increases in the world prices for these fertilisers.

More generally, the rapid rise of China's economy in recent years has also put upward pressure on world fertiliser prices as it has provided significant additional competition for global fertilisers. China's growth has also affected international shipping costs as increasing world trade with China has caused shortages in the availability of ships.

¹⁷ Rabobank Global Focus, Fertiliser—a precious commodity, Summer 2007.

Determinants of Australian fertiliser prices

International prices

International fertiliser prices are the most important factor in determining Australian fertiliser prices. With approximately half of the fertiliser used in Australia being imported, and Australia representing such a small share of the global fertiliser market, this is to be expected. Submissions from importers indicate the following international benchmark indices are used to determine the prices at which two key fertilisers are imported into Australia:

- DAP/MAP: US Gulf Tampa f.o.b.¹⁸
- Urea: Middle East Granular f.o.b.

Accordingly, Australian firms looking to import DAP/MAP or urea will contract with foreign suppliers to purchase these fertilisers at prices determined by the current relevant index. In this way, international pricing indices determine the cost basis on which firms import fertilisers into Australia and, therefore, the prices at which importers on-supply their product to Australian customers.

Submissions from Australian manufacturers indicate that international pricing indices are used by them to determine the prices at which they supply their domestically produced product to local customers.

IPL indicated that, through its wholesale trading arm SCI, it uses the US Gulf Tampa index to determine the prices at which it sells DAP and MAP it manufactures to its distributor customers—that is, IPL employs import parity pricing as the basis on which it sets its prices for the sale of these fertilisers to distributors. IPL sets its DAP and MAP prices according to a formula, which links the prices to the prevailing US Gulf Tampa index plus a freight component.

Submissions indicate that not all Australian fertiliser manufacturers employ import parity pricing. For those that do not, the cost of importing fertilisers is nevertheless a significant consideration in setting the prices at which they sell their locally produced product.

Manufacturers indicated that if they were to price their domestically produced fertilisers above the cost of competing imports, their customers would be motivated to seek supply from cheaper foreign sources. Pricing below the cost of competing imports is not in their commercial interest.

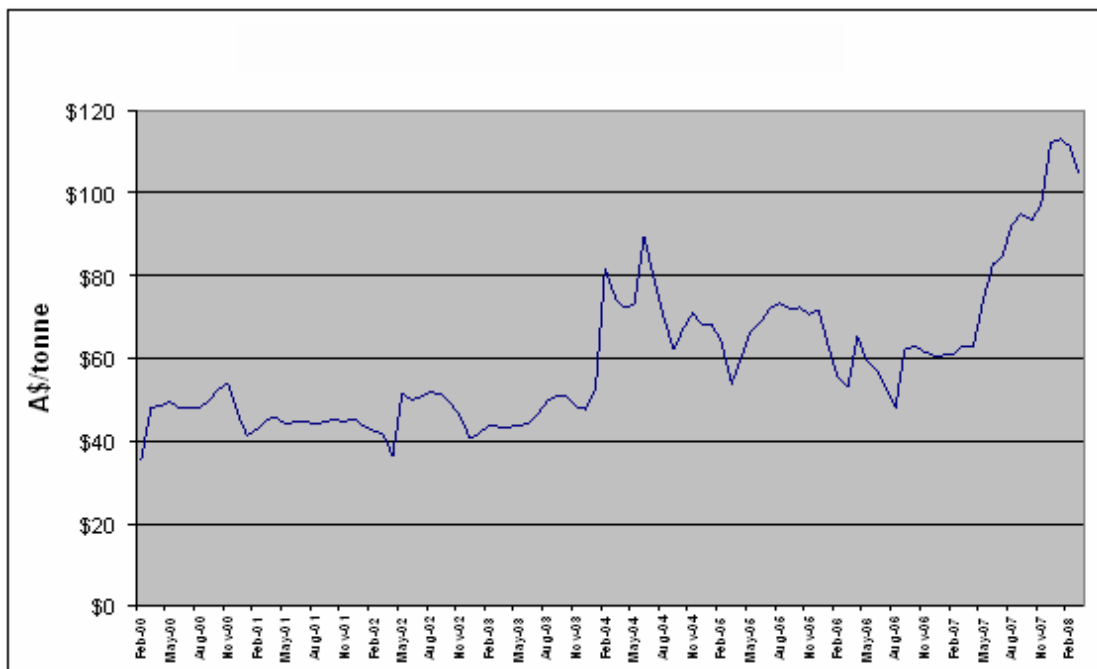
¹⁸ For a definition of f.o.b. see the Appendix.

Shipping costs

As a large proportion of fertiliser is imported, shipping costs represent an important cost factor. Recent increases in freight costs have had an important impact upon the cost of fertilisers imported into Australia.

Based on information provided in submissions from importers, figure 7 illustrates the average freight costs incurred since February 2000 for shipping fertilisers from the US Gulf. Figure 7 indicates that average freight costs have increased from approximately \$35 per tonne in February 2000 to around \$105 per tonne in March 2008. Most recent data shows this has increased to \$125 per tonne in April 2008. In particular, average freight costs escalated significantly after February 2007, when they were approximately \$60 per tonne.

Figure 7 Estimated average shipping costs from US Gulf to Australia



Impact of exchange rate

Like many commodities, world prices for fertilisers are expressed in US dollars. Therefore, the Australia–US dollar exchange rate affects the prices in Australia for imported fertilisers. During the last two years, the Australian dollar has appreciated in value against the US dollar by approximately 25 per cent. This appreciation has constrained the rising cost in Australia of imported fertiliser. For example, had the Australian dollar stayed constant against the US dollar since July 2006, the price rise in imported fertiliser would have been even greater—an estimated additional \$300 per tonne for DAP and \$200 per tonne for urea.

Movement comparison of Australian and international fertiliser prices

Figures 8 and 9 compare world prices for DAP and urea respectively against ACCC estimates of domestic prices at the import, wholesale and retail levels, based on price data provided in submissions.

A discussion of the way in which the data presented in this section was constructed is provided in the Appendix. The estimated prices and margins discussed below are sensitive to the choice of time lags—that is, should the retail price in the current month be compared with the import price in the current month, previous month or an earlier month? In a period of relative price stability the results are not sensitive to these lags, but in a period of rapidly changing prices, they will be.

The market events of the last twelve months, including the significant increase in prices, may have a bearing on the appropriate time lags to be applied. Accordingly, the analysis below should be considered as illustrative rather than definitive. Caution should be exercised when attempting to draw strong conclusions regarding conduct within the domestic market during this period based on these estimates.

General observations

Overall, world and domestic prices track each other reasonably closely, as shown in figures 8 and 9 for DAP and urea, respectively. The progressive increases in value from world price to retail price reflect the additional costs incurred by suppliers between the different pricing points and their margins.

However, there are periods during which gaps open and close between world and domestic prices. Closer examination of figures 8 and 9 reveals that in many cases this results from a reduction in world prices, which is not followed by a reduction in domestic prices. When the world price subsequently rises, domestic prices do not similarly increase. In part, the divergence develops because of the uneven nature of import levels over time. Submissions indicated that some importers only receive three or four large shipments each year, timed to allow peak demand to be met. Accordingly, when the world price changes during a period of low imports average domestic prices will not necessarily reflect this change.

The gap between the world and retail prices for DAP (figure 8) is currently around the level it has been on average over the last eight years. However, the gap between retail and world urea prices (figure 9) appears to have widened from around \$200 per tonne in 2000 to around \$300 per tonne in May 2008. It is important not to put too much weight on this final data point. Part of the reason for this is that the current divergence between retail and world prices associated with the drop in world urea price in August 2007 is yet to close, as may be anticipated. This is discussed in more detail below.

Figure 8 DAP world price, import value, wholesale price and retail price

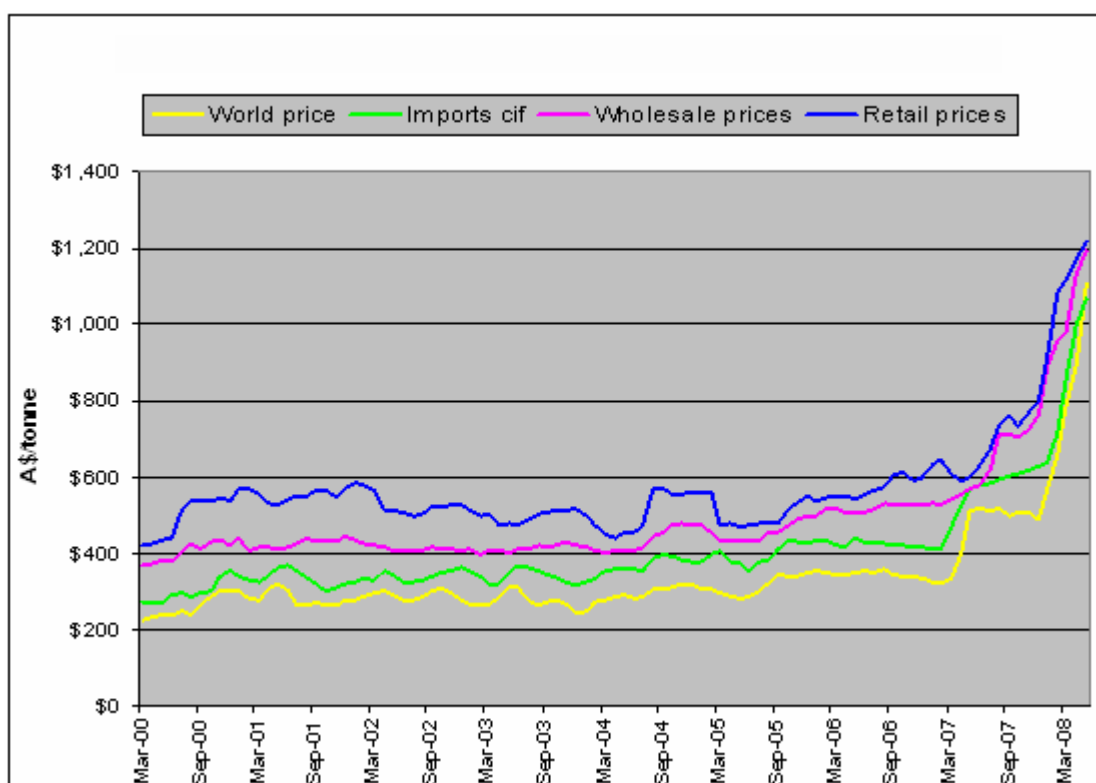
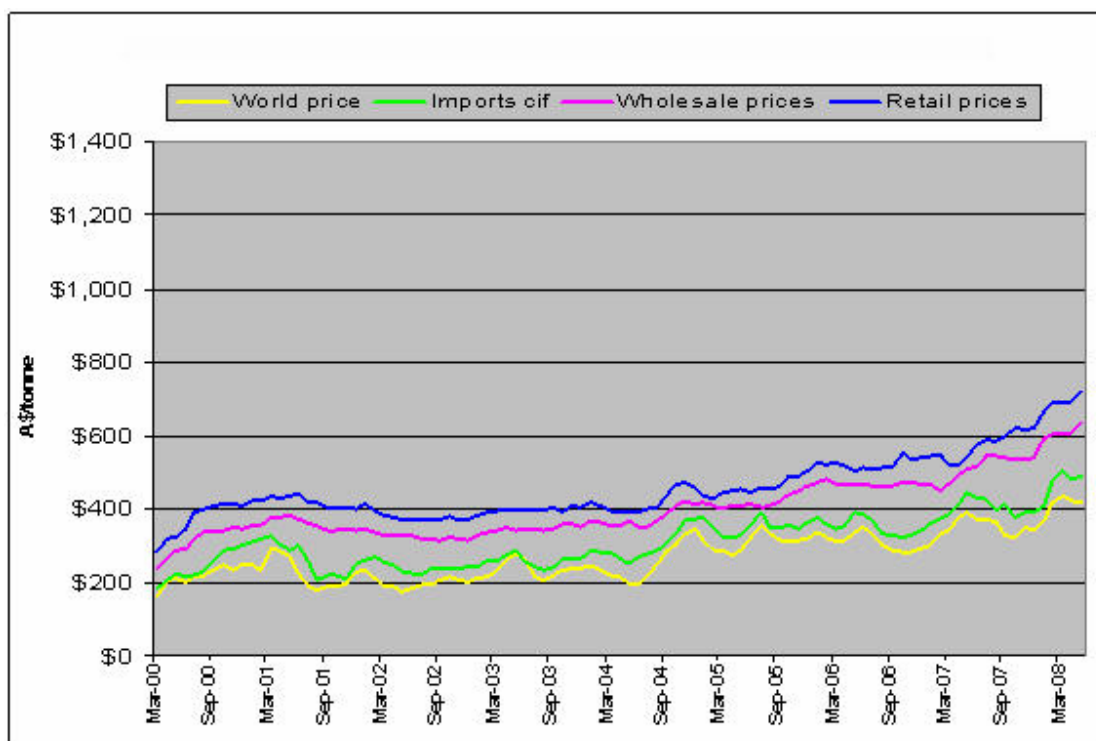


Figure 9 Urea world price, import value, wholesale price and retail price



DAP prices

Over the last eight years changes in the price of DAP fit into two clear categories: price stability, with a very gradual increase for seven years until March 2007; followed by rapid price increases from April 2007 to May 2008.

The initial seven-year period was marked by stable price conditions. Gradual increases in world price were accompanied by similar but slightly smaller increases in domestic prices. The 14-month period to May 2008 was marked by significant increases in world price. The world price in figure 8 for March 2007 (which reflects the world price in January 2007) was \$335 per tonne; in 14 months this price increased to \$1110 per tonne. Over the same period the retail price increased from \$610 per tonne to \$1220 per tonne.

A more detailed breakdown of the price series is presented in figures 10a to 10d. Figure 10a shows the world price for DAP, with the price gradually increasing until the end of 2006 and thereafter increasing dramatically. Figure 10b shows the difference between the world price and the import price of DAP. The gap between these two prices shows a gradual increase, which appears primarily related to increased freight costs.

Figure 10c shows the difference between the import price and the ACCC estimate of the price at which DAP was sold at the wholesale level. The overall trend shows this estimated margin has been increasing slightly over the past eight years in nominal terms. Part of the recent increase in this margin is driven by wholesaler costs that are calculated as a percentage of the imported cost, rather than as a fixed dollar amount. For example, the working capital required by a wholesaler to supply a particular volume of fertiliser is greater the higher are world prices.

Apart from this overall trend increase, figure 10c shows there has been a noticeable trough in May–June 2007 and a noticeable peak in January–February 2008.

The trough occurred in a period when wholesale and retail prices were increasing less sharply than import prices. From information received during this inquiry, it appears the slower wholesale and retail price responses were in part because wholesalers had already received the bulk of the stock that they planned to sell in that period (the peak application period for DAP is April–June).

Following a period of relative price stability, it also appears that wholesalers waited to see if the import price increase was temporary or permanent. Subsequently, when wholesalers saw the price rise as permanent, it seems they responded with an increase in the wholesale price, restoring the margin to around \$100 per tonne by September 2007, when initial forecasts for 2008 were being made.

The peak in January–February 2008 saw the estimated wholesale margin increase temporarily to around \$250 per tonne. This seems in part a response to the significant excess demand that occurred during this period associated with the bringing forward of demand (discussed in chapter 5).

It also partly appears to represent a decision by some wholesalers to ensure they did not fail to respond quickly to increasing world prices, as had happened the previous year.

As demand subsided in February–March 2008, and wholesalers perhaps realised they had overestimated the likely world price increases, the estimated wholesale margin returned to just above \$100 per tonne.

Both the peak and trough are sensitive to the choice of time lag applied to the data. This issue is discussed in more detail in the Appendix.

Figure 10d shows the estimated retail margin—that is, the estimated gap between the retail price and the wholesale price. This estimated margin shows a downward trend over the course of the eight years. The spike upwards at the start of 2008 may relate to the response of retailers to the period of excess demand arising at that time. This situation arose after retailers had previously seen their margin drop during the previous three years when demand for fertiliser was lower due to drought conditions.

Urea prices

Figures 11a to 11d present the urea world price and the estimated margins between the different urea price points from 2000 to 2008. While the price series for urea and DAP for the seven years from 2000 are roughly similar (refer figures 8 and 9), the recent increases in the world price of DAP have been significantly greater than the increases in the world price of urea

Figure 11a shows the world price for urea from January 2000 to May 2008. The world price for urea was relatively stable at around \$200 per tonne until mid-2004. Over the last six months of 2004 the world price for urea increased to around \$325 per tonne. It then fluctuated in the range between \$325 per tonne to \$400 per tonne until January 2008, after which it increased to above \$600 per tonne by May 2008.

Figure 11b shows that the gap between the world price and the import price in Australia has increased over the eight-year period, again reflecting the increase in shipping costs. This increase has not been as great as that for DAP, due in part to the fact that 85 per cent of DAP imports are sourced from the US Gulf, whereas 60 per cent of urea imports come from the Middle East and 20 per cent from Malaysia, both of which are nearer to Australia.

Figure 11c shows the estimated wholesale margin for urea—that is, the difference between the import price and the estimated wholesale price. Like DAP, this estimated margin has been trending upwards in nominal terms over the past eight years, with part of the recent increase again attributable to those increased wholesaler costs calculated as a percentage of import cost associated with the higher world prices. There was relatively little increase in the estimated margin for the first six years. However, in the final two years there were two noteworthy aspects.

Shortly after September 2006 the estimated wholesale margin increased from around \$130 per tonne to around \$150 per tonne. This coincided with a drop in the world price that was not reflected in the wholesale price. When the world price returned to its September 2006 level four months later, the estimated wholesale margin closed back to around \$130 per tonne. During this period the level of imports are typically low – around 70 per cent of urea is imported between February and July. It seems that many

wholesalers were setting their prices at this time in relation to fertiliser imported earlier at higher prices, rather than in relation to the current import price. By February 2007 (when major importing recommenced), the estimated wholesale margin fell to around \$100 per tonne.

In August 2007, the world price again dropped slightly and this was not mirrored by wholesale prices, increasing estimated wholesale margins. However, the subsequent recovery in world price during the remainder of 2007 was followed by the unprecedented increase in world price in 2008 and the bringing forward of end user demand discussed in chapter 5. By the time of completion of this report, the estimated wholesale margin has yet to return to historical levels, as has happened in relation to DAP.

Information provided to this inquiry has indicated that at least one end user group recently considered importing fertiliser directly from an overseas supplier—bypassing importers/wholesalers. The possibility of importing by end users is expected to put competitive pressure on wholesalers to reduce their margins if they wish to retain their current volumes.

The estimated retail margin for urea is presented in Figure 11d. This margin has been relatively constant at around \$50 per tonne for the eight years under consideration, with small recent increases due to the conditions discussed in chapter 5.

Figure 10: DAP world price and estimated margins between price levels

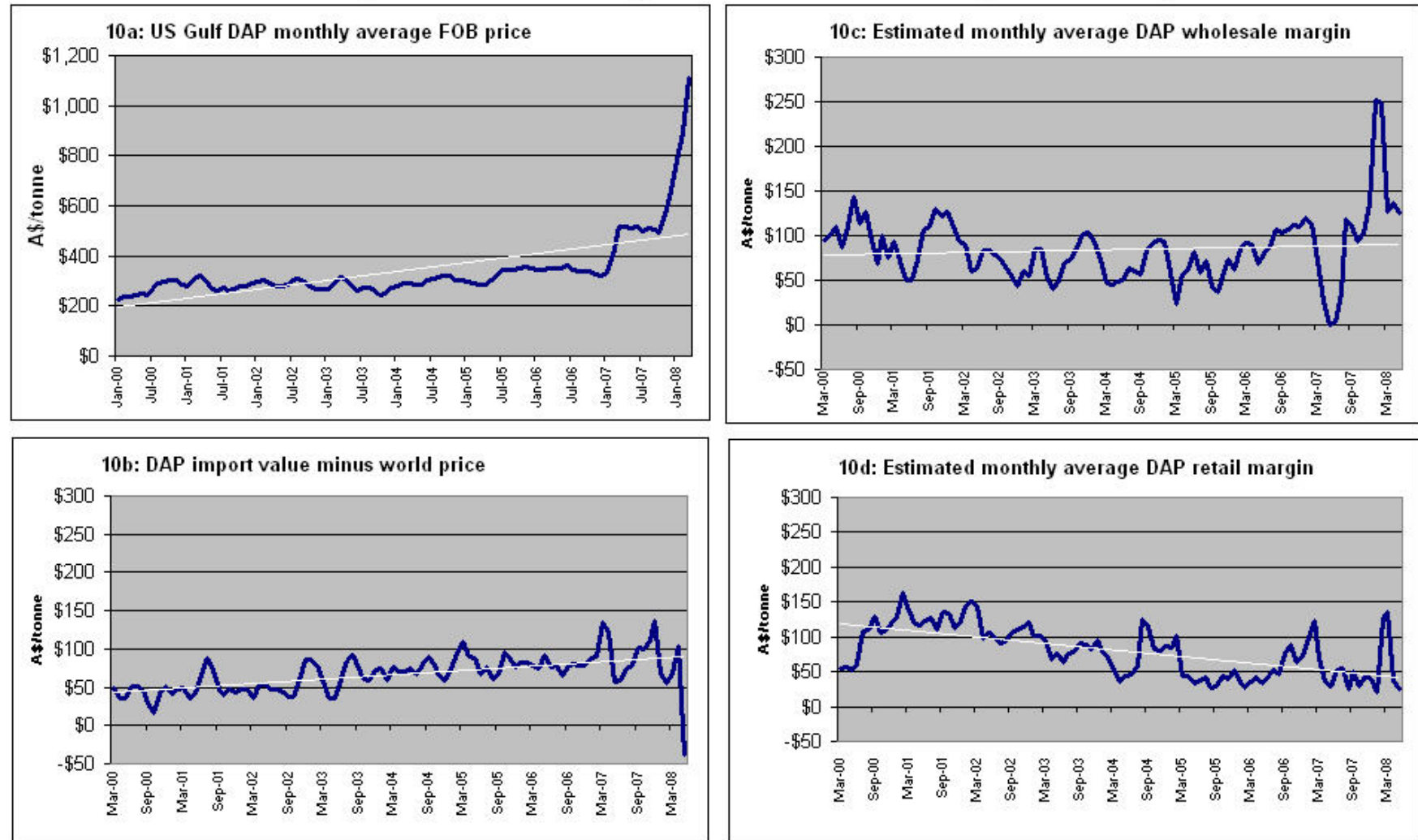
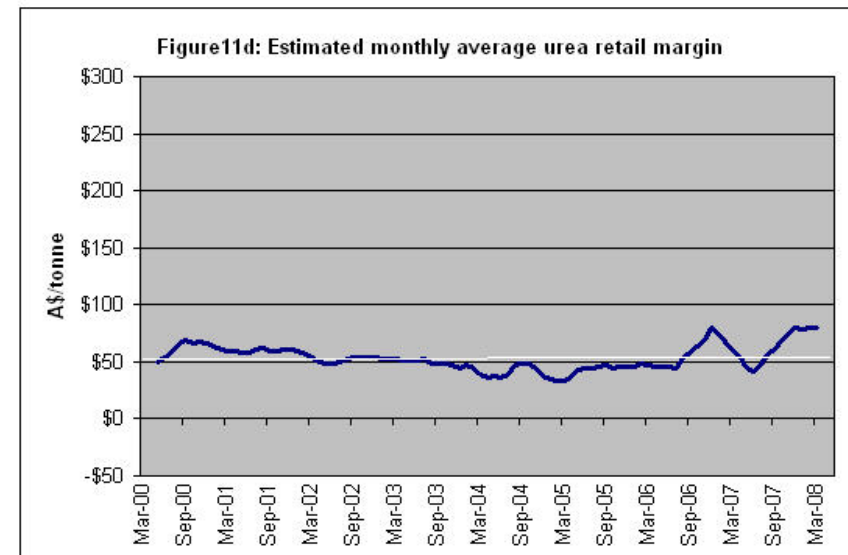
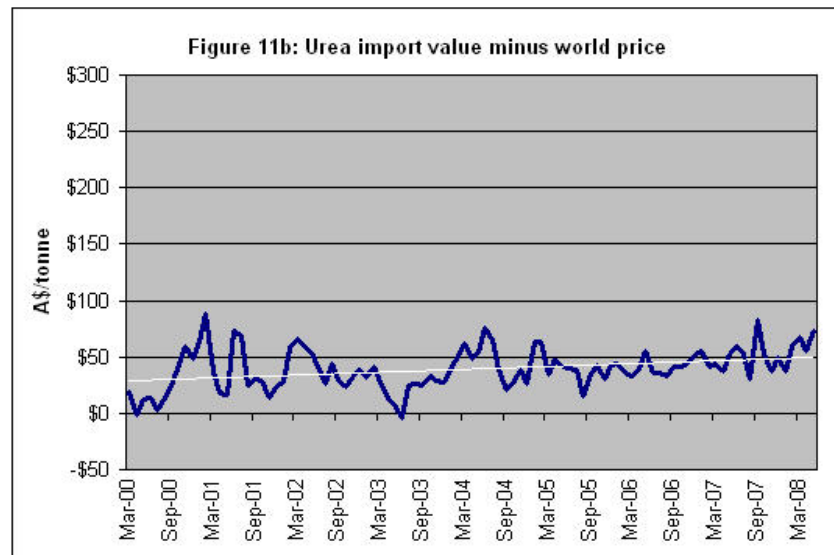
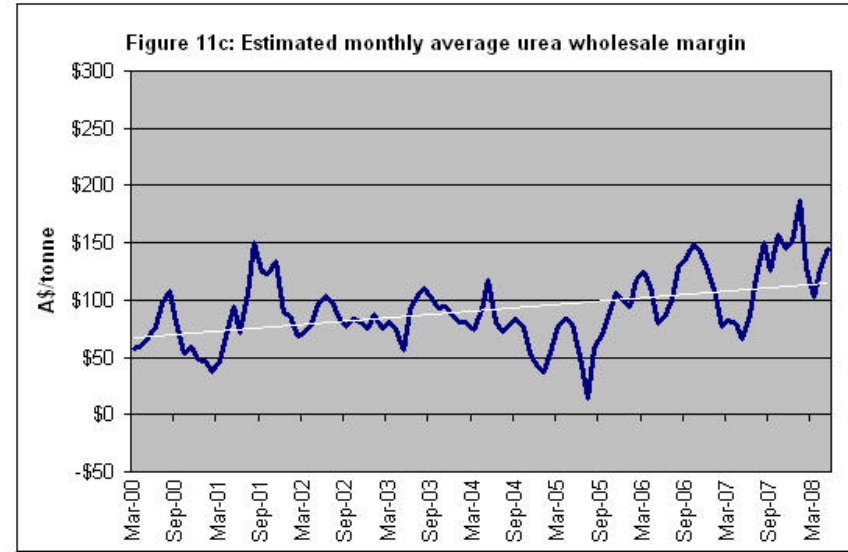
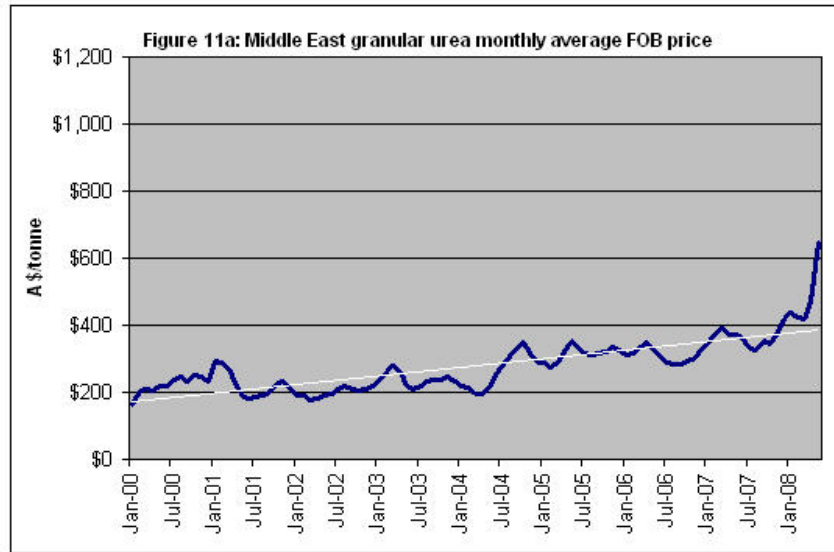


Figure 11: Urea world price and estimated margins between price levels



5. Domestic factors affecting supply and demand in 2007–08

Concerns were expressed in submissions and elsewhere regarding the availability of supply during the period from late 2007 to early 2008. Various allegations about the withholding of supply by various industry participants have been made publicly and some of these were repeated to the ACCC during this inquiry. General allegations were also made about suppliers failing to honour price commitments for the supply of fertilisers. The purpose of this section is to provide a brief summary of the market events that took place over this period and to address some of the complaints made to the ACCC.

Two events in late 2007 altered the traditional pattern of demand in the Australian fertiliser market and caused end users to bring forward their orders. Firstly, improved weather forecasts increased expectations among end users of improved growing conditions. Secondly, rapidly rising prices induced end users to attempt to buy up early in order to avoid anticipated continuing price increases. In a market where there is virtually no capacity to increase supply in the short term, this unexpected bringing forward of demand led to significant shortages.

During the five-year period to 2007 the east coast of Australia experienced prolonged drought conditions, which generally depressed domestic demand for fertilisers. However, 2007 brought improved rainfall across eastern Australia, prompting farmers to anticipate more favourable crop and pasture conditions than had been experienced for some time. This improved outlook induced many agricultural producers to unexpectedly bring forward their orders for fertilisers in the second half of 2007.

In addition, recently accelerating fertiliser prices, without any reason to believe such increases would not continue into the foreseeable future, led Australian farmers generally to conclude during 2007 that the only way to avoid continuing increases in the cost of fertilisers was to pre-empt these rises by bringing forward their orders for fertiliser products.

Submissions received from fertiliser suppliers indicated that this substantial increase in end user demand for their products was unexpected and was greatly in excess of normal demand conditions for the time of year. Accordingly, during the period spanning the last quarter of 2007 to the first quarter of 2008 demand for fertilisers vastly outstripped the ability of domestic suppliers to meet this demand. Industry suppliers indicated that this did not result in increased overall fertiliser demand for 2007–08, but represented a bringing forward of that demand.

A number of suppliers in submissions advised that they introduced systems in late 2007 for the rationing of available fertiliser supplies among existing and prospective customers. Priority was given to existing customers, with available stock being allocated broadly in proportion to their past purchases from the supplier. This non-price rationing of fertilisers provides important context for the four types of complaints made

against suppliers that the ACCC is aware were made publicly earlier this year by end user groups and repeated during this inquiry—that is, price gouging, refusal to supply, failure to honour supply agreements and the refusal to commit to prices at the time of accepting fertiliser orders. These complaints are addressed below.

Allegations of price gouging

A number of complaints were made about ‘price gouging’ by suppliers—that is, suppliers were said to be taking advantage of rising international prices for fertilisers by increasing their own prices beyond levels that could be justified in the circumstances. However, the tracking of international prices by local prices over time that has been found by this inquiry (refer chapter 4), and the existence of non-price rationing, make this complaint hard to sustain.

In times of shortage and price pressure, the stock of fertiliser (or any other product that is in short supply) must be allocated between purchasers in some way. One way in which this is achieved is through the raising of prices by suppliers until a sufficient number of purchasers drop out of the market so that eventually the limited supply is equal to the total amount of product the remaining purchasers want to buy. In other jurisdictions this practice is sometimes called ‘price gouging’ (e.g. in some states of the United States). However, in Australia, unless it is carried out in conjunction with anti-competitive arrangements, it is neither illegal under the Trade Practices Act nor economically inefficient or undesirable.

As discussed above, suppliers of fertilisers also used non-price rationing to allocate scarce supplies. While this may lead to economically inefficient outcomes, it is also not illegal under the Trade Practices Act. However, such non-price rationing is the antithesis of price gouging and strongly suggests that such ‘gouging’, if it occurred at all, was limited.

Charging higher prices in a time of shortage is not uncommon and is not of itself a breach of the Trade Practices Act. For example, the prices consumers pay for fruit and vegetables regularly varies according to availability and seasonal factors.

Allegations of refusal to supply

The second category of complaints brought to the attention of this inquiry involved allegations that suppliers were withholding stock from the market in order to sell later at higher prices. Specifically, complaints were made to the inquiry on behalf of farmers that suppliers had on occasions indicated to them that fertiliser was unavailable for supply when the farmers were aware that stocks existed at suppliers’ distribution facilities. These general complaints are consistent with the situation outlined above, where in a time of shortage suppliers chose to ration their existing stocks based on customers’ past purchase history, rather than fulfilling the entire order of the first purchaser in line.

Refusal to supply to end users in these circumstances will not generally breach the Trade Practices Act unless it involves some misleading or deceptive conduct on the part of suppliers. For example, a supplier might misrepresent the reason for its inability to

supply or not truthfully explain why it chose not to supply. The complaints made to the ACCC were general in nature, reflecting the position that many end users could not purchase as much fertiliser as they would have liked. Importantly, the complaints did not include any specific allegations of misrepresentations or deceptive conduct by suppliers regarding the reasons for which they did not supply. In these circumstances, it is difficult for the ACCC to assess whether there has likely been a breach of the Trade Practices Act.

Allegations of failure to honour supply agreements

There were also allegations that during the period of peak demand from late 2007 to early 2008 some suppliers had on occasions refused to honour prior agreements with farmers for the supply of fertilisers.

Discussions with industry participants in the course of this inquiry revealed there is a degree of fluidity in the way in which the future fertiliser requirements of end users are forecast and aggregated by them to determine future levels of supply. Arrangements between the parties can be quite loose, with end users generally providing only an indication of future fertiliser requirements without intending to take on any legal obligations. In the environment that existed before the latter part of 2007, when demand and prices were both relatively stable, these loose arrangements appear to have worked satisfactorily for both suppliers and end users.

The ACCC was not provided with specific allegations of suppliers failing to honour contracts on a systematic, or even individual, basis—rather the allegations were general in nature. Commercial disputes such as these are of a contractual nature and generally do not fall within the ambit of the Trade Practices Act.

Allegations concerning refusal to commit to prices

Finally, there were complaints from end user groups on behalf of farmers about the lack of willingness of suppliers to commit to prices for the supply of fertilisers at the time of accepting orders.

According to several suppliers, the international market volatility that peaked from late 2007 to early 2008 made committing to a price for the future supply of fertilisers difficult. As their future pricing was substantially determined by the cost of importing product, which in turn depended upon prevailing price indices at the time of product being loaded onboard ship at the port of export, there was inevitably a delay in giving customers a firm price for their orders—that is, prices could not be determined until fertilisers were actually loaded onboard ship and, in times of escalating prices, this was difficult to anticipate.

6. Demand and supply forecasts

The Food and Agriculture Organization of the United Nations (FAO) has commented on global fertiliser demand and supply forecasts in its report, *Current world fertilizer trends and outlook to 2011/12*. The FAO notes that the beginning of the outlook period (2007–08) saw greater fertiliser consumption as indicated in the tight markets and higher fertiliser prices. However, the FAO forecasts that throughout the outlook period, increased fertiliser demand is likely to be adequately met by growing worldwide supply for each of the fertiliser categories.

Reports indicate that the construction of new manufacturing plants is expected to ease capacity conditions. In particular, new plants for the manufacture of nitrogen fertilisers are expected to begin operation in Egypt and Saudi Arabia in 2010.¹⁹

7. Conclusions

The ACCC was asked to examine the fertiliser industry and, in particular, consider the reasons behind the significant recent increases in fertiliser prices in Australia.

The significant rises in fertiliser prices in Australia are mainly attributable to rapidly increasing global fertiliser prices. These increases have been caused by a substantial increase in world demand for fertilisers associated with an expansion in agricultural production (particularly grains for food, feed for livestock and bio-fuels) and by rises in costs of production associated with the increasing cost of energy. This is occurring in a market where the global supply capacity is limited in the short-to-medium term.

A number of interested parties who made submissions to the ACCC as part of this inquiry raised concerns about the way in which fertiliser markets in Australia operated during the period from late 2007 to early 2008. Much of the conduct that raised concerns was caused by a situation of deficiency in short-term supply associated with an unexpected bringing forward of demand by end users in the context of rapidly increasing world prices.

The ACCC is satisfied that it received sufficient information from interested parties in the form of comprehensive submissions dealing with the subject matter of this inquiry to meet the minister's request. The ACCC has not been provided with any evidence suggesting a likely breach of the Trade Practices Act by any participant in the Australian fertiliser industry.

¹⁹ Rabobank Report, Fertiliser—a precious commodity, Summer 2007, p. 5.

Appendix

Construction of the data used to analyse fertiliser prices

Products

DAP and urea were chosen as the fertilisers by which to make the price comparisons as they are both major products in their fertiliser categories, phosphate and nitrogen. Together, phosphate and nitrogen fertilisers represent over 90 per cent of Australian consumption. Submissions also revealed that concerns among end users about recent price increases were generally centred on phosphate and nitrogen fertilisers. With regard to phosphate fertilisers, MAP prices generally align with DAP prices.

Pricing points

Four pricing points were used to track fertiliser prices from port of origin overseas to domestic retail sale; namely world price, import price, wholesale price and retail price. The data for each of these pricing points were constructed in the following way.

World price

Analysis of DAP and urea import data from January 2000 to May 2008, obtained from the Australian Bureau of Statistics (ABS), revealed that 84 per cent of DAP imports originated in the US Gulf and 62 per cent of urea imports were sourced from the Middle East. On this basis, the US Gulf Tampa f.o.b.²⁰ price for DAP and the Middle East f.o.b. price for Granular Urea were selected as the most appropriate international benchmark prices for the Australian market. This data was sourced from Fertecon Limited, a company specialising in the collation of international fertiliser prices.²¹

The weekly average pricing data provided by Fertecon were translated into monthly averages and then converted from US dollars into Australian dollars using the average monthly exchange rate.

²⁰ f.o.b. refers to the free on board price. 'The value of goods measured on a free on board (f.o.b.) basis includes all production and other costs incurred up until the goods are placed on board the international carrier for export. Free on board values exclude international insurance and transport costs. They include the value of the outside packaging in which the product is wrapped, but do not include the value of the international freight containers used for transporting the goods.' See Australian Bureau of Statistics 5489.0 - International Merchandise Trade, Australia, Concepts, Sources and Methods, 2001 (glossary) at: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/66f306f503e529a5ca25697e0017661f/6b7d040a646f264eca256a5b001bd777!OpenDocument>

²¹ Fertecon Limited is an internationally recognised provider of market information and analysis on fertilisers and fertiliser raw materials. The company has provided information on current market and price reports to the industry for over 25 years.

Import price

Import prices are based on the aforementioned import data obtained from the ABS, which included volumes and import values (c.i.f.²²) in Australian dollars, the month each import shipment arrived in Australia and its country of origin. As the majority of imported DAP and urea were found to come from the US Gulf and Middle East respectively, monthly average import prices were estimated using only data relating to imports originating from these locations.

Imports were not recorded for all months across the observation period. In these months, the linear midpoint (or combination of equally spaced points where there was more than one successive month of no import data) between adjacent monthly average prices was used as an estimate of the monthly average import price.

The resulting complete time series was scrutinised for anomalies in the data. Statistical outliers (individual data points that were significantly outside the overarching trend followed by the vast majority of the data) were removed. These outliers were replaced using the method described above for missing data points.

Wholesale and retail prices

There are no indices or benchmarks for domestic fertiliser prices in Australia. As a result, monthly average wholesale and retail prices were constructed based on price data voluntarily submitted to the ACCC by a range of market participants. Not all industry participants provided price data. The domestic price data relate only to the eastern states of Australia as the available price data for Western Australia was inadequate for the purpose of making any useful price comparisons.

The price data were categorised into wholesale and retail sets based on the position along the supply chain occupied by the various submitters. The data from individual firms were converted into monthly average wholesale and retail prices by weighting each firm's price data according to their approximate market share at the wholesale or retail level.

This data was not as complete as the world and import price data. This is because data was not collected from very small firms; some firms did not report their price data; and there were problems both with missing data and with the timing of reported transactions. Accordingly, conclusions drawn from this data need to be treated with caution and the reader should be mindful of the data shortcomings.

²² c.i.f. refers to cost, insurance and freight. 'The cost, insurance and freight (c.i.f.) point of valuation for imports, is the point when the goods arrive at the border of the importing country. The value of the imports includes the cost of goods at the point of export as well as the associated international insurance and transport costs associated with the delivery of the goods from the border of the exporting country to the border of the importing country.' See Australian Bureau of Statistics 5489.0 - International Merchandise Trade, Australia, Concepts, Sources and Methods, 2001 (glossary) at: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/66f306f503e529a5ca25697e0017661f/6b7d040a646f264eca256a5b001bd777!OpenDocument>

In some months some industry participants did not buy or sell any fertiliser, so no data was reported by them. These gaps in the data sets and any statistical outliers were filled using the method described above for missing import data points. In addition, the wholesale and retail price data were presented according to when transactions took place, so data for a particular month may relate to a transaction at the start of the month or at the end of the month. During periods of relative price stability this has little impact on the analysis. However, during periods of rapidly changing prices the timing of the transaction within the month may not accurately reflect the overall average price in that month.

Time lags

Lag times occur between the purchase of imported fertiliser at the international benchmark price, arrival of the fertiliser in Australia, distribution of the product and final sale to end users.

According to submissions, these time lags can vary considerably depending on a wide variety of factors. To usefully compare international and domestic price movements, it is necessary to account for best-estimate time lags between the different points in the supply chain over the entire observation period.

Based on information provided by market participants and analysis of the price data by the ACCC, the analysis in this report uses a one-month lag between world and import prices and a further one-month lag between import prices and both wholesale and retail prices (note the price data series begins in March 2000). Accounting for the above time lags, the price data for March 2000 represents the March 2000 wholesale and retail prices, the February 2000 import price and the January 2000 world price.

As the price data concludes in May 2008, accounting for the above time lags means the most recent world price used in figures 8 and 9 is for March 2008. While world prices have continued to increase beyond this time, the world price at March 2008 is most relevant for comparison with the most recent domestic price data submitted, which was for May 2008. Reference is made to world prices for April and May 2008 as appropriate.

However, the most appropriate choice of lag will differ between periods of high demand and periods of lower demand. During a period of excess demand as occurred from the end of 2007 to the beginning of 2008, the time lag between the arrival of imports and their wholesale distribution could be expected to decrease to the minimum time required for handling and transport.

This deviation from typical average time lags may have skewed the estimated wholesale and retail margins presented in chapter 4. Accordingly, this analysis should be considered as illustrative. Caution should be exercised when attempting to draw conclusions regarding conduct within the domestic market during this period based on these estimates.



**The Hon Chris Bowen MP
Assistant Treasurer
Minister for Competition Policy and Consumer Affairs**

**Mr G Samuel AO
Chairman
Australian Competition and Consumer Commission
GPO Box 520J
MELBOURNE VIC 3001**

Dear Mr Samuel

I am writing to ask that the Australian Competition and Consumer Commission (ACCC) undertake some work in the area of fertiliser prices.

As you are aware, there has been a dramatic increase in fertiliser prices in recent months. In that context, I would like the ACCC to undertake an examination of fertiliser prices. This will provide me with a better perspective on the fertiliser industry and the factors driving the price rises. The analysis should include a snapshot of the different fertiliser suppliers in Australia, along with their source of supply, and compare domestic and international price movements.

I would ask that you provide me with a brief report outlining your findings on 31 July 2008, at the same time you provide me the report of the inquiry into grocery prices.

I look forward to receiving both reports.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Chris Bowen', with a stylized flourish at the end.

CHRIS BOWEN

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