

Perdaman deal to change fertiliser market

■ Mark Pownall

BRACING for a difficult financial year after poor winter rains, Western Australian fertiliser players will also have to have an eye on the medium term, with Incitec Pivot hoping to become a major local player in the wholesale market.

Last week, Incitec signed a 20-year off-take agreement with Collie urea hopeful Perdaman Chemicals and Fertilisers.

The agreement covers the purchase of 2 million tonnes of granular urea fertiliser a year once production starts in 2014. That is four times the current size of the WA urea market, which is dominated by Wesfarmers-owned CSBP, an importer of the fertiliser.

Some market observers believe the arrival of Incitec heralds a potential shake-up of the WA market dominated by CSBP. The Wesfarmers subsidiary doesn't sell fertiliser outside the local market and Incitec has largely kept away from WA.

Apart from fertiliser interests, the two companies are both significant players in the explosives sector.

By becoming the only local manufacturer, Incitec would change the mix of an already dynamic market, although the Melbourne-based manufacturer said its aim was to act as a wholesaler in WA.

"I suppose we have to see how it washes out," an Incitec spokesman said.

"We are not in the retail market." Incitec estimates the whole

Australian urea market is between 600,000tpa and 800,000tpa. It already manufactures 280,000tpa in Brisbane and would expect the Collie product to displace the imported material, which currently represents the majority of national sales.

"We would expect that part or most of that (urea) that is imported would come from the plant in Collie, that includes WA as well," the Incitec spokesman said.

The \$3.5 billion Collie plant is scheduled to be Australia's first coal gasification plant, turning Collie coal into urea.

Founding shareholder and former managing director of Burrup Fertilisers, Vikas Rambal, is Perdaman's chairman.

Mr Rambal was pivotal in the successful development of the \$700 million ammonia plant on the Burrup Peninsula before falling out with its major shareholder, the Oswal family. Mr Rambal reportedly sold out of the Burrup venture in 2007 for about \$300 million. New Zealand farmer cooperative Ravensdown, which bought WA-based United Farmers business in 2008, is also looking to coal gasification in its homeland.

CSBP dominates the local fertiliser market and is thought to have about 60 per cent of the market. Last financial year it sold 913,000t worth \$454 million. In 2008-09, CSBP sold 734,000t of fertiliser and recorded revenue of \$547m.

Local company Summit Fertilizers is the second biggest player in WA with about 20 per cent of the market, while Ravensdown is the third with about 13 per cent.

The market has become intensely competitive, with the global financial crisis blamed in part for catching suppliers with expensive stock on hand, prompting inventory write-downs and margin impact.

"The industry here lost \$100 million or more than that, maybe \$110 million last (financial) year," Ravensdown general manager Australia Alan Thomson said.

"It would certainly seem to be significantly and aggressively competitive in this market."

The drought across the eastern Wheatbelt this season is expected to more than halve the grain crop for 2010 from around 12mt the previous year. Fertiliser sales are expected to be in the order of 1.2mt, down from about 1.6mt most recently.

NEW PLAY

Incitec signs a 20-year agreement with Perdaman Chemicals and Fertilisers.

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