

# Recent developments in the fertilizer industry and agriculture in Eastern Europe and Central Asia

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Dear Ladies and Gentlemen,

First of all, I would like to thank IFA for the opportunity to speak on the situation in the fertilizer industry and agriculture in Eastern Europe and Central Asia. This region includes 15 countries from the Former Soviet Union. Despite the common past all these countries belong today to different political structures. 3 of them – the Baltic States- are EU members, the others are CIS members which are normally divided into Western CIS and Central Asia. Countries from these groups are at different stages of economic development. Accordingly, the World Bank rates the states as low-income, lower-middle-income and upper-middle-income economies as shown on Slide 2.

## Economic Development Status (World Bank)

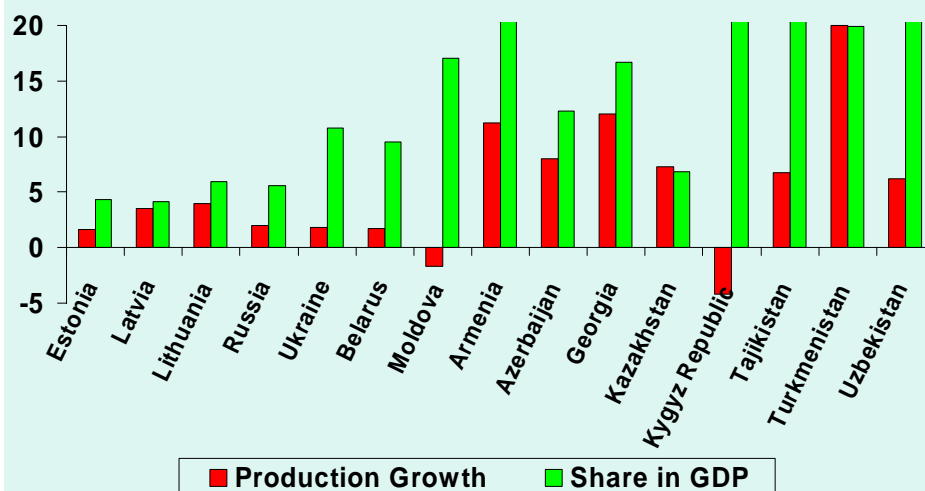
	Low-Income Economy	Lower-middle-Income Economy	Upper-middle-Income Economy
<b>Baltic States</b>			Estonia Latvia Lithuania
<b>Western CIS</b>		Belarus Moldova Ukraine	Russia
<b>Central Asia</b>	Kyrgyz Republic Tajikistan Uzbekistan	Armenia Azerbaijan Georgia Kazakhstan Turkmenistan	

Source: World Bank

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The 1<sup>st</sup> group (low-income economies) has high rates of GDP and agricultural production growth as well as a large share of agriculture in GDP (Slide 3). As of 2005 the share of agriculture in GDP varies from 22% to 34% in these countries. The 2d group (lower-middle-income economies) is characterized by high rates of GDP and agricultural growth and relatively large share of agriculture. The share of agriculture in GDP is around or above 10% The 3d group (upper-middle-income economies) shows more moderate rates of GDP and agricultural production growth, the share of agriculture in GDP is much lower, namely below 6%.

## Agriculture: Annual Production Growth & Share in GDP 2005, %

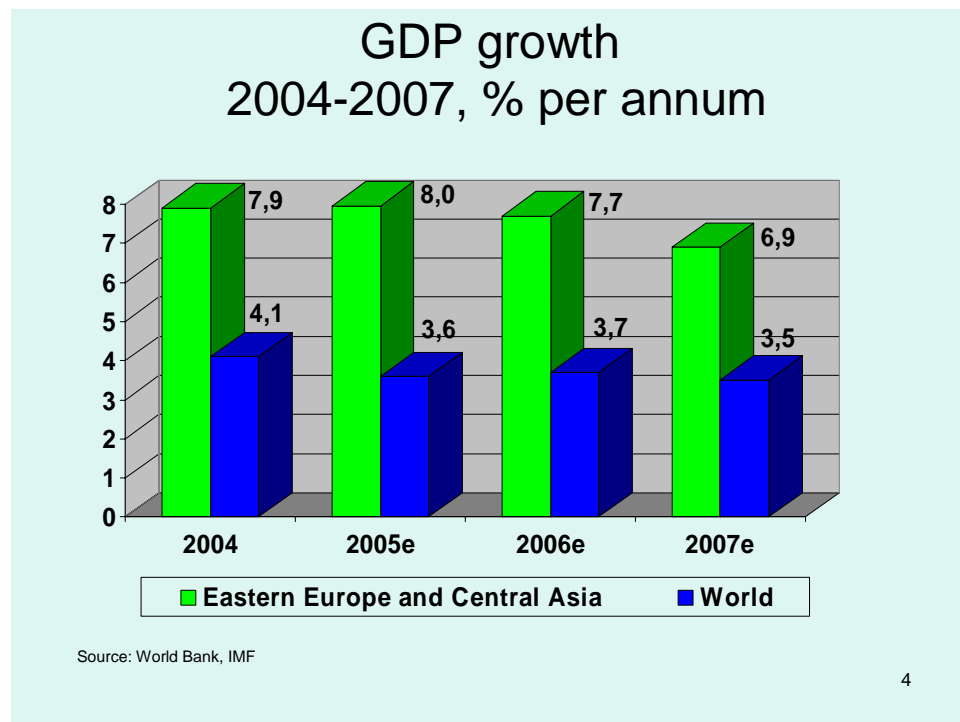


Source: World Bank, CIS Stat Committee, Ministry of Agriculture of RF

2004 data: Estonia, Latvia, Azerbaijan, Turkmenistan (share in GDP)

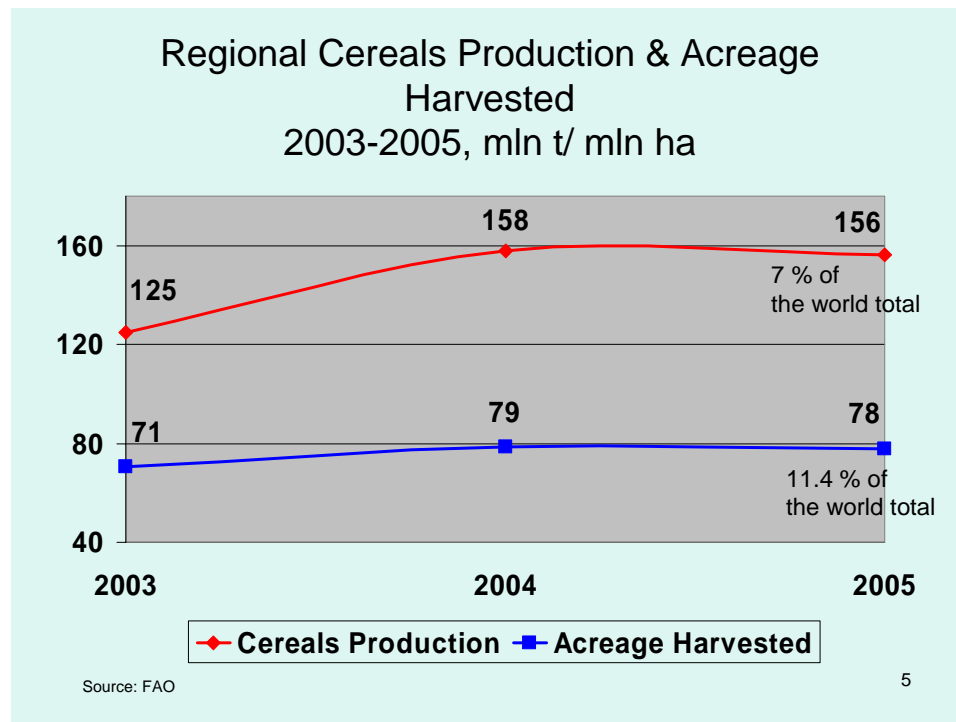
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On the whole, the region is developing at a rapid pace. Last year it showed a much stronger GDP growth than the global average, namely 8% against 3.6% as we can see on Slide 4.



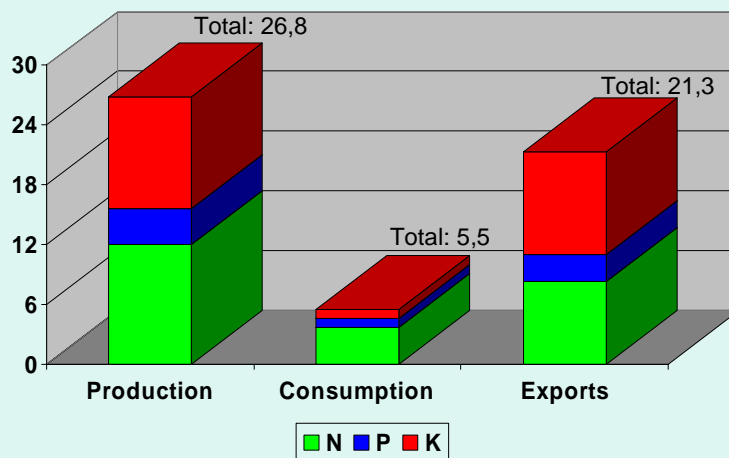
According to World Bank's estimates, this and next year GDP will also expand faster in this region than globally.

If we look at agriculture of the region, it has vast potential in terms of acreage and production. Of course, climatic conditions differ from country to country. In 2005 acreage harvested under cereals was above 11% of the world total (Slide 5), which is a large share.



Production of cereals in the region accounted for 7% of the global output, which is also a substantial amount. It is much higher than the share of regional population in the world total, which is 4%. So, the ratio of cereals production and acreage harvested against population is quite favourable. In fact, regional per capita cereals production and acreage harvested are 250% and 150% higher than the world average. But productivity remains rather low as compared to other regions. In 2005 the yield of cereals in the region was 2 t/ha against around 7 t/ha in USA, 6 t/ha in Western Europe and 5 t/ha in China. The reason is that crop production in the region remains mostly extensive rather than being intensive. In particular, lower yield is caused by lower fertilizer application rates. In 2003 the average application rate of fertilizers on arable land in the region was around 23 kg/ha, whereas in Western Europe the indicator reached 207 kg/ha, in USA – 122 kg/ha and in India – 105 kg/ha. To give you an example, in Russia just 20 kg/ha were applied in 2003 and in Ukraine – 11 kg/ha. And these 2 countries together with Kazakhstan are the biggest regional agricultural producers. The lower fertilizer application rate overall in Eastern Europe and Central Asia is a result of poor farm demand, lack of funds on the farms and not that of limited fertilizer availability. In terms of fertilizer supply the region produces all three major fertilizer types – N-, P-, and K-fertilizers as can be seen on Slide 6.

## Regional N,P,K production,consumption,exports (2005) mln t nutrient

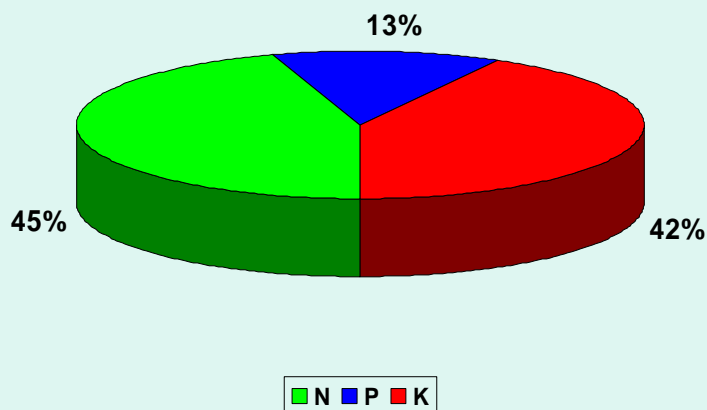


Source: Fertecon

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In 2005 regional fertilizer production was around 27 mln t nutrient. The shares of N-, P- and K-fertilizers in regional output were 45%, 13% and 42% respectively. (Slide 7)

## N,P,K share in regional fertilizer production (2005)

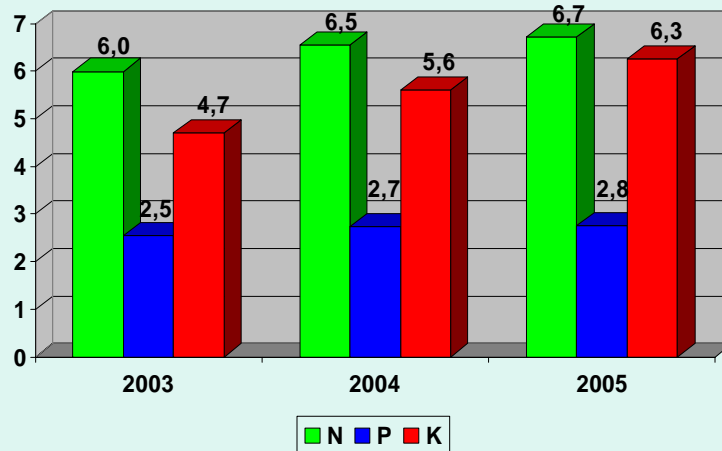


Source: Fertecon

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The majority of fertilizer plants are located in 3 countries - Russia, Belarus and Ukraine. In 2005 they accounted for above 90% of total regional fertilizer output. But only Russia is fully self-sufficient in terms of production and supply of nitrogen, phosphate and potash fertilizers (Slide 8).

### N,P,K production in Russia by nutrient 2003-2005, mln t nutrient

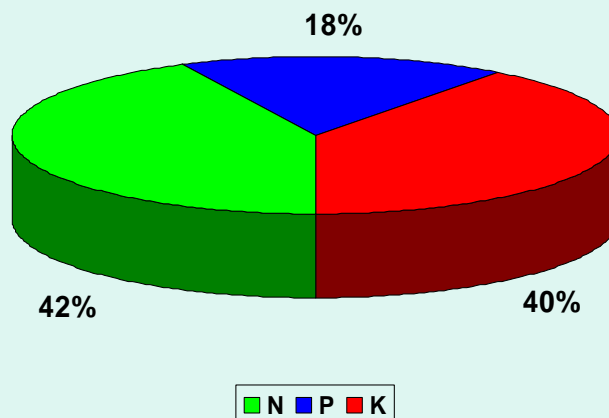


Source: Fertecon

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Russia's fertilizer industry accounts for almost 60% of total regional fertilizer production. It is number 4 in global production of nitrogen after China, India and USA. It is also number 4 in global phosphate production after China, USA and India. It ranks second in world potash output after Canada. In 2005 N-P-K production ratio was 42%, 18% and 40% respectively. (Slide 9)

### N,P,K share in Russian fertilizer production (2005)

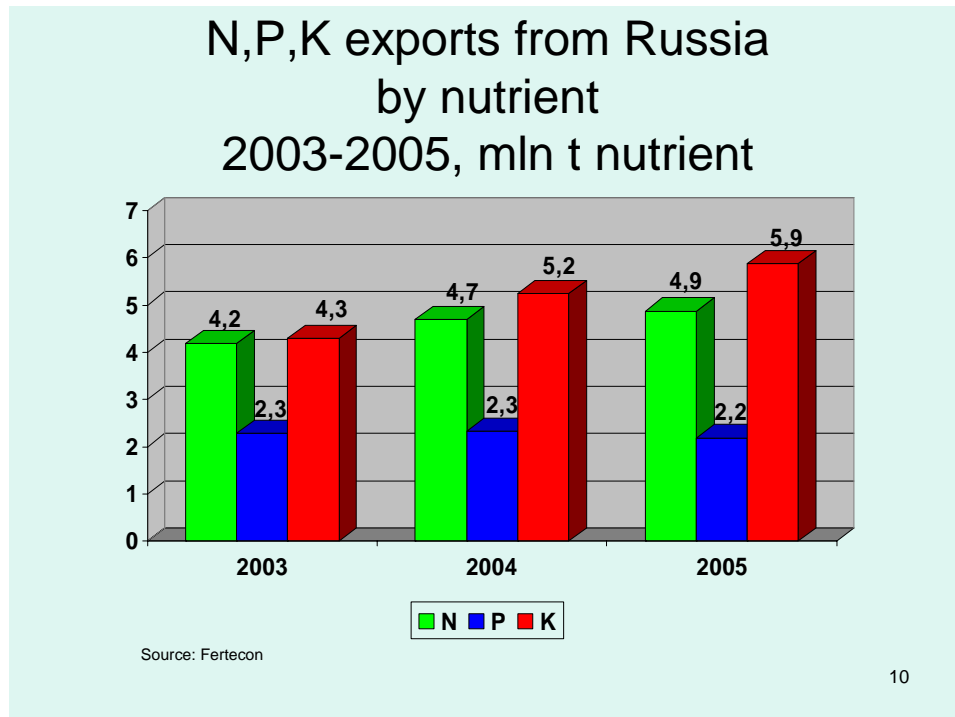


Source: Fertecon

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In 2005 fertilizer output in Russia reached around 16 mln t nutrient. That was almost 6% up on 2004. The bulk of the output growth came from producers of potash and nitrogen fertilizers. Production is increasing due to rising world fertilizer demand. It is clear that production is by far higher than consumption which in 2005 totaled about 3 mln t. The surplus, which is mainly seen

in output of nitrogen and potash fertilizers, is exported. Like in the region on the whole, exports account for around 80% of total fertilizer output. In 2005 exports totaled around 13 mln t nutrient. This was about 6% higher than in the prior year. (Slide 10)



In fact, due to favourable market conditions producers are investing heavily in various debottlenecking and expansion projects to meet increasing global fertilizer requirements. For example, the holding company Acron has announced a project to develop apatite reserves Oleny Rouchey and Partomchor in the Murmask region. PA Belaruskali plans to increase potash production by around 13% to 9 mln t in 2012 against 2005. JSC Silvinit is constructing a shaft 5 whose launch by 2009 will expand its potash production potential to 6 mln t. Eurochem is going to develop the Gremyachenskoye potash deposit in the Volgograd region and plans to start mining ore in 2010. The project annual capacity is estimated at 2 mln t potash. Unfortunately the recent water incursion and consequent closure of mine 1 will reduce potash production at JSC Uralkali by around 1.2 mln t of potash. The only reason that nearly all efforts of producers are concentrated on foreign markets is lack of finances on the farm level in nearly all countries of the region. However, this problem is actively addressed both by private business and the state. Some Russian fertilizer companies, for example Phosagro, Eurochem and Acron, are getting actively involved in fertilizer distribution in the domestic market by setting up their own distribution networks with centers in various parts of Russia. Producers recognize the benefits of domestic supplies due to a big economic potential and stability of the local market, the stronger rouble against the US dollar, high domestic prices and lower transportation costs.

On its part, the government has put in place a number of measures to revive the agricultural sector and improve its performance. This and next year it plans to allocate around USD 4.5 billion for federal agricultural projects. The government continues to subsidize interest rates on credits, to compensate for costs of yield insurance, chemical inputs, support pedigree livestock and elite seed production. 55% of agricultural producers have already switched to a Single Agricultural Tax which has helped them save USD 370 mln. The government is now implementing a national project “Development of Agro-Industrial Complex” with a budget of above USD 1 billion for the next 2 years. There is in place another government programme on “Maintenance and revival of soil fertility of agricultural land and landscapes as a national property of Russia in 2006-2010”. Under the programme, besides other measures, more than USD 110 mln will be allocated from the federal budget to subsidize costs of agro-chemical activities including the purchase of fertilizers.

With a more deliberate government policy the sector is getting more attractive to local and foreign investors. The bulk of investments goes into agro-processing. Since 1999 foreign investments in primary agriculture and agro-processing have totaled around USD 10 billion. Investments in fixed assets in agriculture are also increasing. In 2000 they were around USD 1 billion. In 2005 the figure was already about USD 5 billion.

Finishing my report I would like to say that the region has great agricultural potential. Investments in agriculture are rising. Governments and the private sector are increasing their support and involvement in agriculture. There is a possibility to increase arable land acreage. So there are good preconditions for higher fertilizer consumption. In future we expect that the local market will be expanding at the expense of lower exports. And in some agricultural products, for example cereals, the region will become a net-exporter.

Thank you for your attention.