

**33d IFA Enlarged Council Meeting  
27-29 November 2007, Doha, Qatar**

**Agriculture and Fertilizer Industry  
in Eastern Europe and Central Asia.  
Recent and future developments.**

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Director General, IPC**

Dear Ladies and Gentlemen,

First of all, I would like to thank IFA and QAFCO for all the arrangements they made to organize the 33d IFA Enlarged Council Meeting here in Doha. I am going to look at the situation in agriculture and fertilizer industry of CIS.

# Eastern Europe and Central Asia (Commonwealth of Independent States (CIS))

*Territory: above 22 million km<sup>2</sup>*

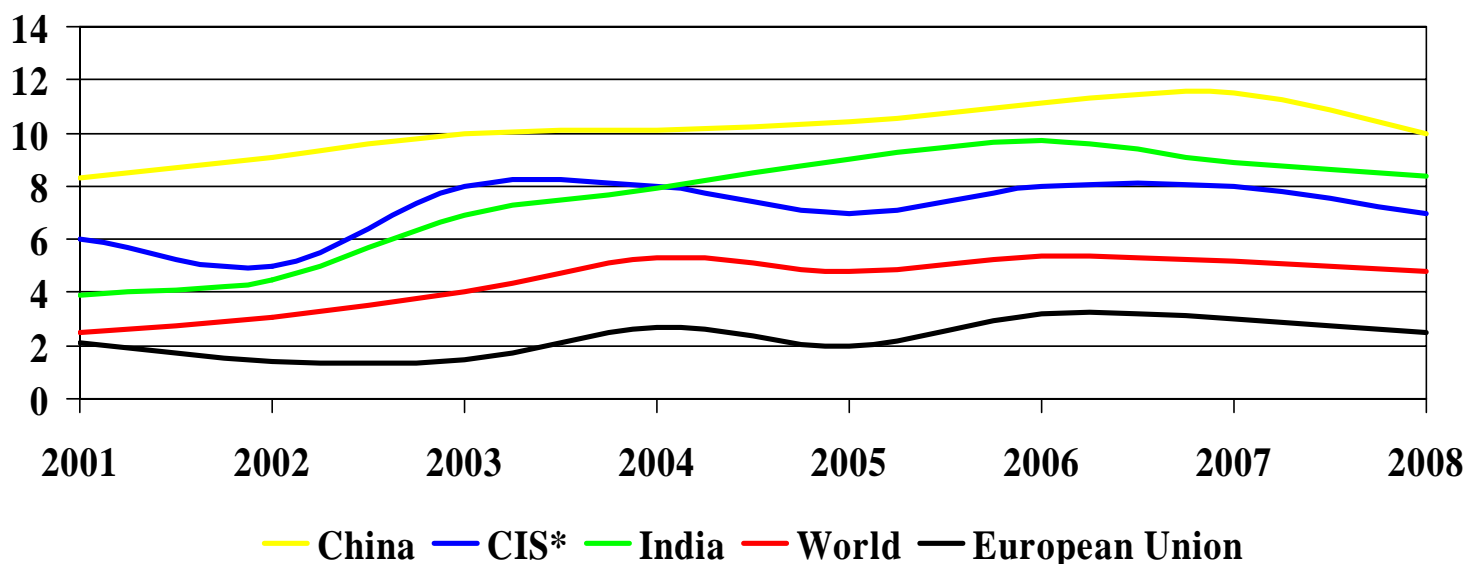


<b>Armenia</b>
<b>Azerbaijan</b>
<b>Belarus</b>
<b>Georgia</b>
<b>Kazakhstan</b>
<b>Kyrgyzstan</b>
<b>Moldova</b>
<b>Russia</b>
<b>Tadjikistan</b>
<b>Turkmenistan</b>
<b>Ukraine</b>
<b>Uzbekistan</b>

The region includes former Soviet republics as shown on the map (Slide 2). CIS covers a large territory of more than 20 million square km in different climatic zones varying from tundra to deserts. In terms of development, these economies have been rapidly growing after a period of downturn and stagnation that followed their independence.

## Higher rate of GDP growth in CIS than in the world on average

*Annual GDP growth (constant prices, % to previous year)*



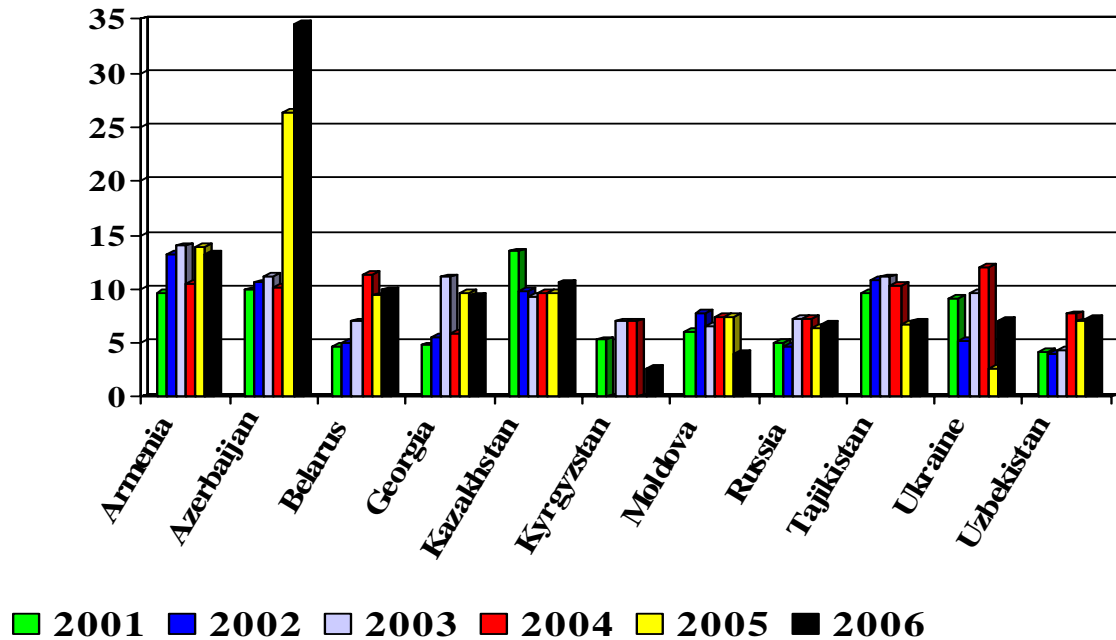
Source: CIS StatCommittee, IMF  
\* Turkmenistan not included

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The GDP growth rates in CIS are higher than those seen in the world on average. (Slide 3) In 2006 regional GDP expanded by 8% against 3% in the EU and 5% in the world on the whole. Though this rate is below that seen in China and India – about 11 % and 10% respectively. In fact, Russia is the leader in terms of its share of regional GDP which is around 80%. It is followed by Ukraine, Kazakhstan and Belarus with much smaller shares of 8%, 6% and 3% respectively. In 2007 and 2008 the positive trend will continue and GDP in CIS is projected to grow by 8% and 7% respectively. The same growth rates are expected in Russia.

# GDP growth rates vary substantially among CIS members

*GDP growth in CIS (constant prices, % to prev. year)*



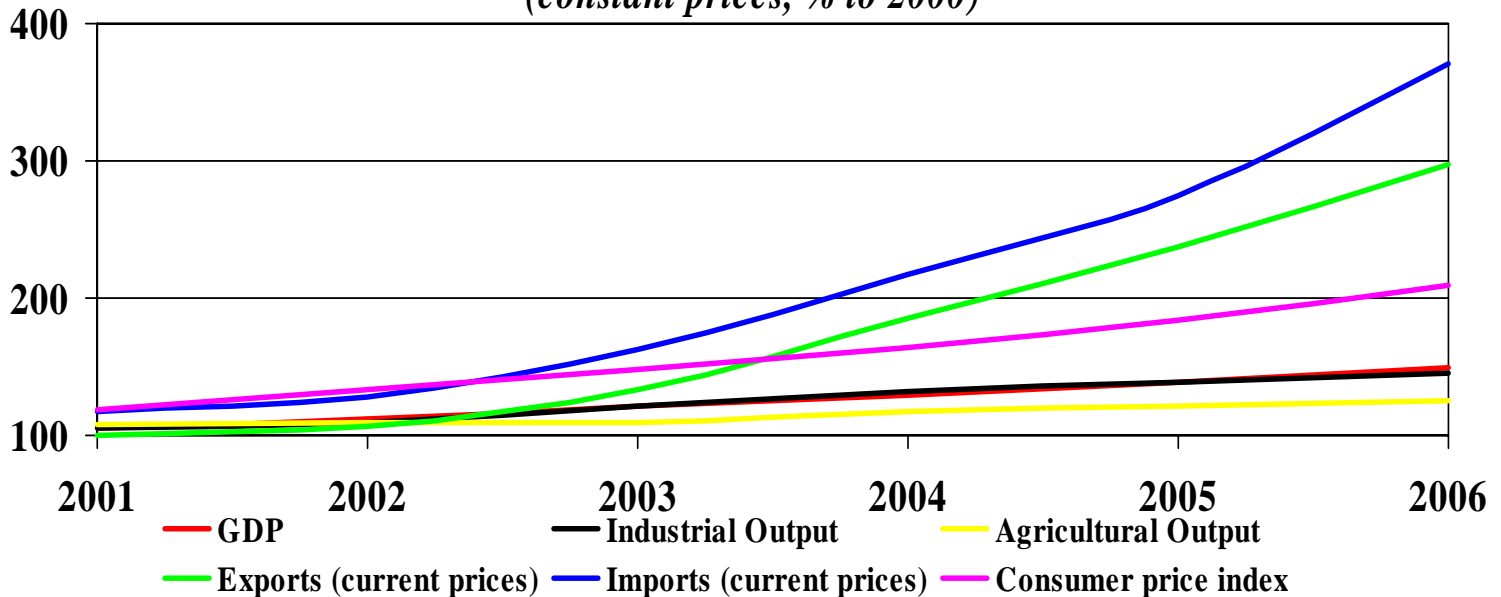
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Source: CIS StatCommittee

As you can see on Slide 4 GDP growth rates among CIS members vary significantly what speaks of different development paces. Recently Azerbaijan has been growing faster than the other countries in the region. As an oil-exporter it has benefited considerably from record-breaking oil-prices over the last 2 years.

# Inflation in CIS grows faster than GDP, industrial and agricultural outputs

*Major macroeconomic indicators in CIS  
(constant prices, % to 2000)*



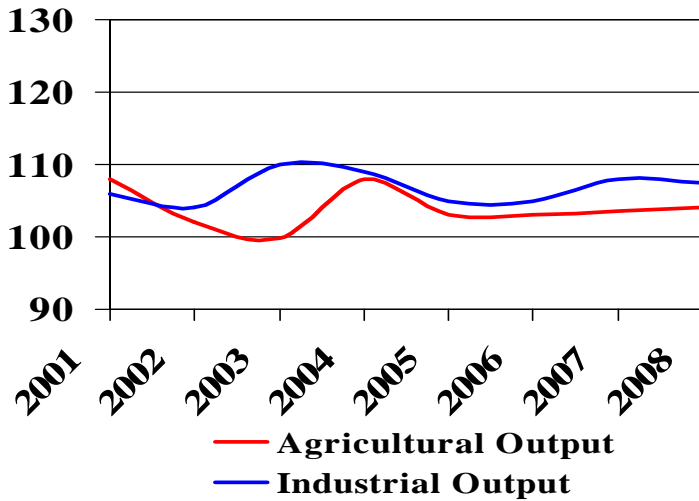
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Source: CIS StatCommittee

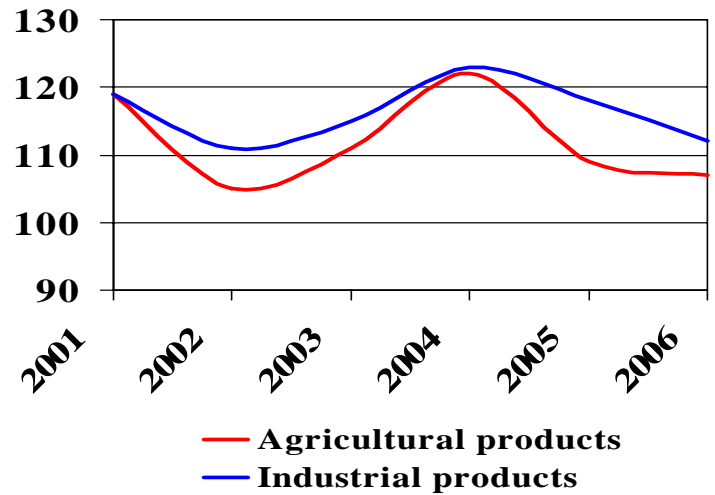
Unfortunately inflation remains an issue, as it grows faster than GDP, industrial and agricultural outputs. (Slide 5)

- **Industrial production grows faster than agricultural production**
- **Prices of industrial products increase at a higher rate than prices of agricultural products at producer`s level**

*CIS indices of industrial and agricultural output  
(constant prices, % to prev.year)*



*CIS price indices of industrial and agricultural products  
(producer`s level, % to prev.year)*



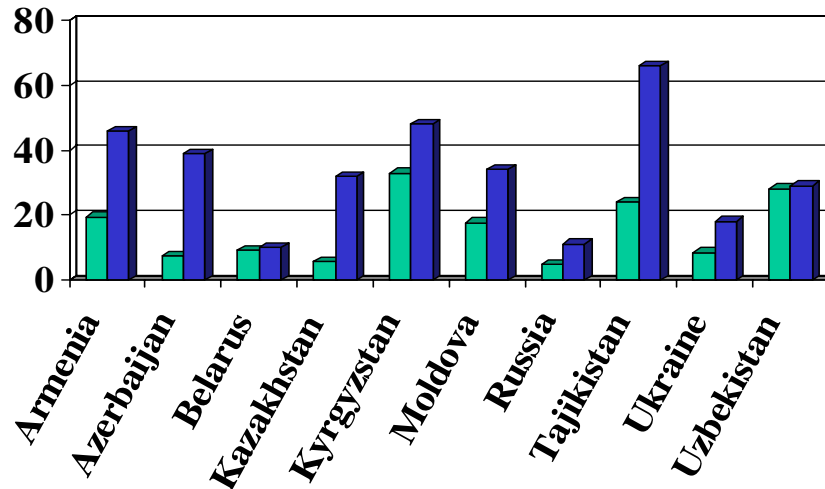
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Source: CIS StatCommittee

As for the performance of industry and agriculture, agricultural production increases less rapidly than industrial production. Major reasons are: drastic reduction of state allocations and subsidies after break-up of the USSR, old equipment and technologies, massive migration of population into cities, disparity of prices of industrial and agricultural products (Slide 6). In 2006 prices of agricultural produce rose by 7% against 12% for industrial products.

## Agriculture - an important sector for CIS economies:

- above **15%** of gross added value in  $\frac{1}{2}$  of member states
- above **30%** of working population in more than  $\frac{1}{2}$  of member states



- Gross value added by agriculture, % of GDP, 2006
- Employment in agriculture, % of total employment, 2006

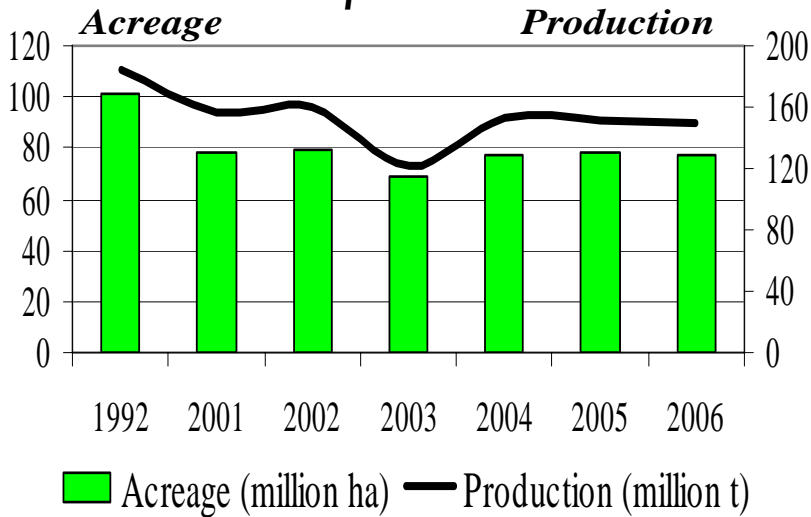
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Source: CIS StatCommittee

Yet agriculture is an important contributor to GDP in the region. In half of member states it accounts for above 15% of gross added value. (Slide 7) Besides, agriculture employs more than 30% of working population in most countries of the region. Productionwise there is specialization among member states which is largely due to diversity of geographical and climatic conditions. So, Russia, Ukraine and Belarus produce mainly grains, potatoes, meat, dairy products. Moldova, Armenia, Azerbaijan, Georgia specialize in production of vegetables, fruits, grains, whereas Central Asia produces wheat, animal products, cotton, vegetables, fruits.

- Crop production is close to or above pre-transition levels (exception: cereals production)
- Cereals output has stabilized over the last 3 years
- The yield is below that in the EU, USA, Canada, China, India

### Cereals in CIS: Acreage harvested and production



### Cereals yield in CIS and individual countries (2006, t/ha)

CIS	1.9
Russia	1.9
India	2.5
Canada	3
EU-27	4.7
China	5.3
USA	6.4

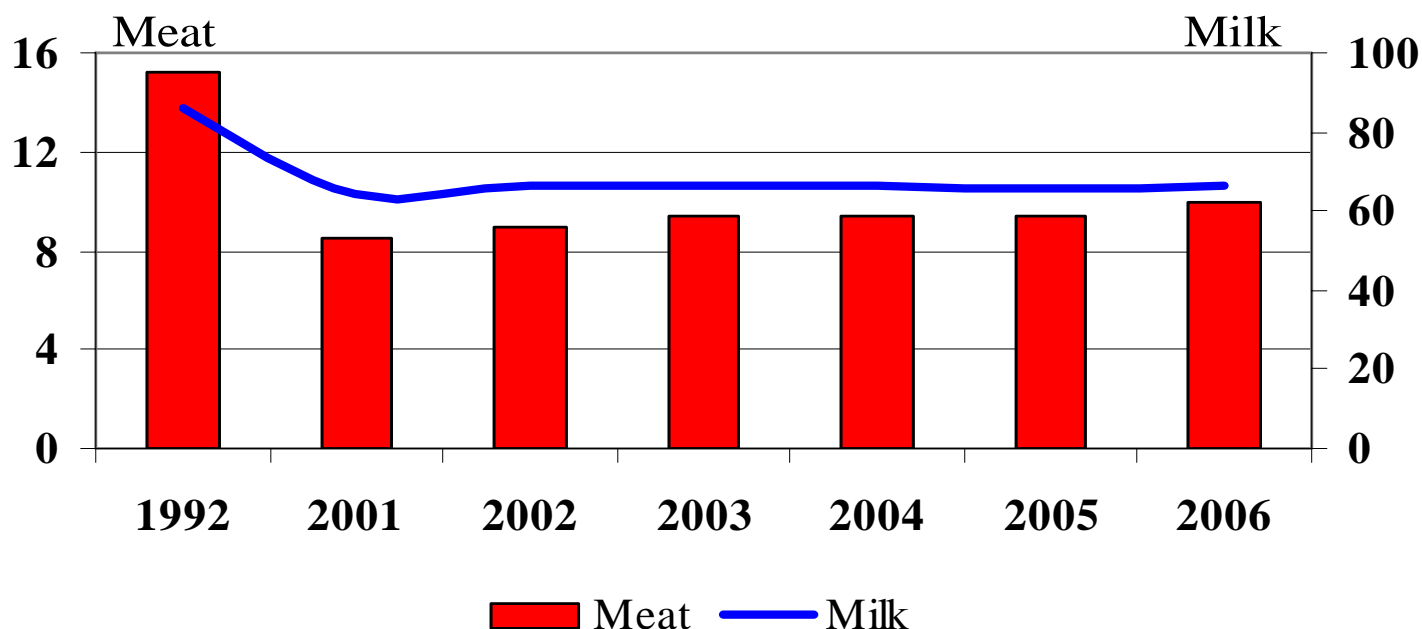
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Source: FAO

Agricultural production in the region dropped after independence. But over the recent years production of some crops reached pre-transition levels or is close to them. This does not include the major crop - cereals, however. (Slide 8) Output is still below the 1992 level but has stabilized in the last 3 years. It should be noted that the yield is still by far lower than that seen in EU and some large producing countries, like the US, Canada, China, India.

- Production of meat is still below the pre-transition level
- Meat and milk production has been stable of the last 6 years

### *CIS meat and milk production (million t)*



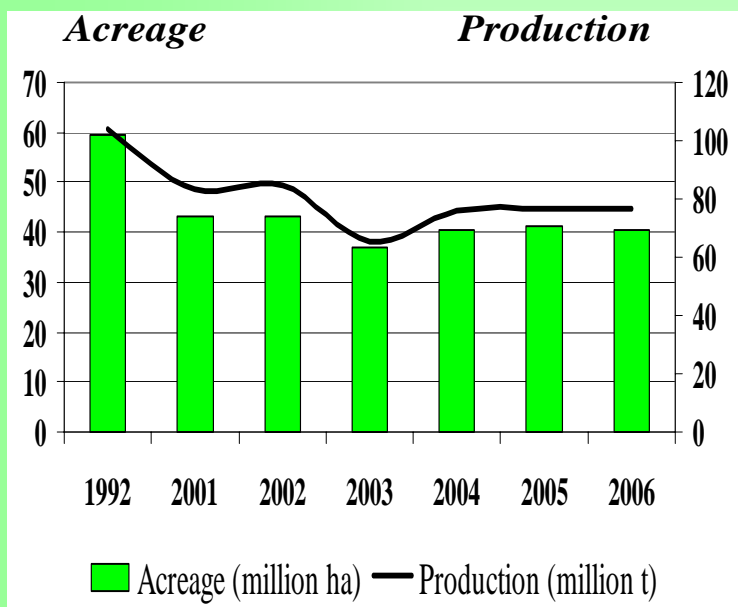
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Source: FAO

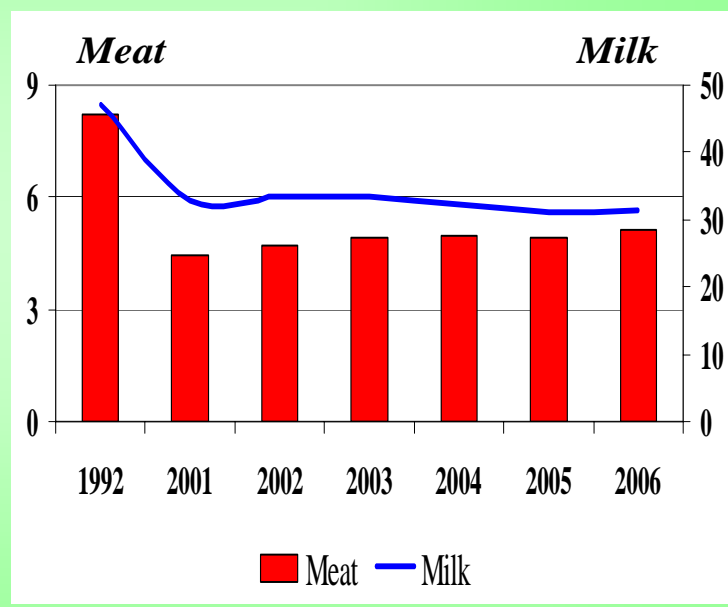
In the livestock sector production is also behind the 1992 level but has been rather stable over the last 6 years. (Slide 9) In 2006 meat production rose by 5% against 2005.

# Russia: stable production of cereals, milk and meat products

*Cereals acreage harvested & production*



*Meat and milk production (million t)*

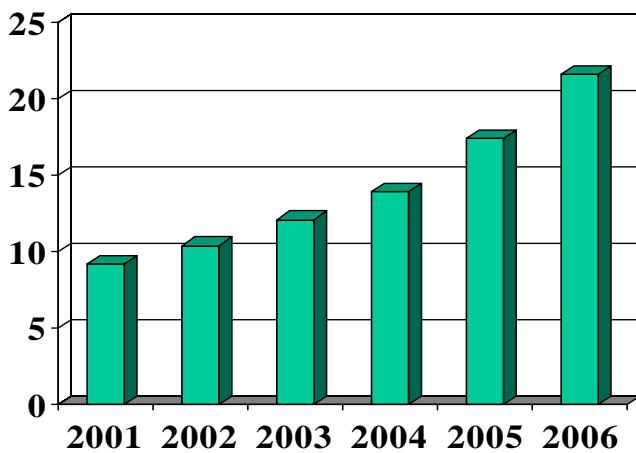


As Russia accounts for almost 80% of the regional GDP and above 55% of agricultural production in CIS, I think it is worthwhile to focus on the situation in agriculture in this country. Recently agricultural production has been demonstrating steady growth. In fact, over the last 7 years it increased by about 35%. The sector has become profitable from being mostly loss-making some time ago. Production of cereals, milk and meat products has stabilized with meat output forecast to rise by 14% in 2006-2007 against 2005. (Slide 10) This is above the figure projected earlier by the Ministry of Agriculture.

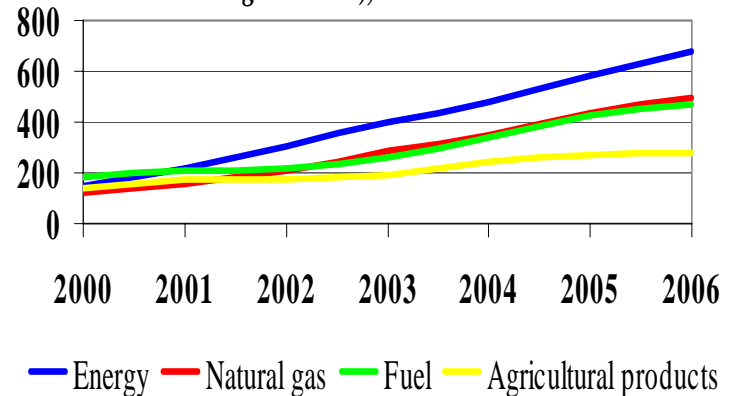
## Russia:

- Since 2001 imports of agricultural products have gone up more than 2 times.
- Against 1999 prices of agricultural products have increased almost 3fold, prices of energy – 7fold.

*Agricultural imports (billion USD)*



*Price indices for industrial and agricultural products (products bought and sold by agriculture), % to 1999*



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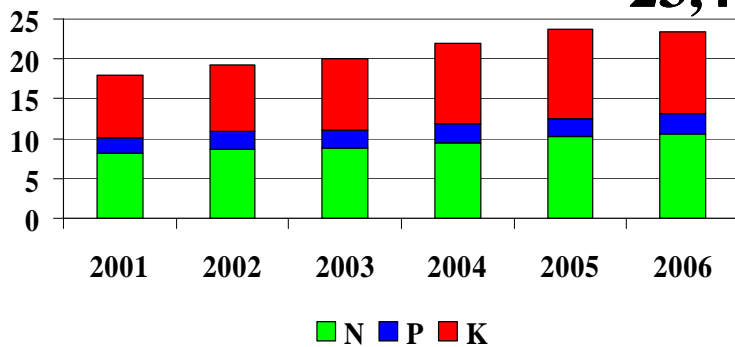
Source: Ministry of Agriculture of RF

However, recovery of agriculture is a long process. At the same time demand for foodstuffs is growing fast. As a result, growing consumption is met by increasing imports. Since 2001 imports of agricultural produce have gone up more than twice. (Slide 11) In 2007 imports of meat and dairy products are expected to account for around 40% and 20% of consumption respectively. Higher agricultural imports are seen in the whole region. Unlike Russia, which is a big country covering various climatic zones, other CIS members have specific climatic conditions and relatively limited acreage suitable for agricultural production. This, coupled with relatively high density of population, results in high agricultural imports. In fact, agricultural imports in CIS are twice as high as agricultural exports. If we go back to Russia, I would like to stress that there are still a number of problems which hamper growth of agricultural production and which need to be tackled. One of them is higher rate of price increase for industrial products and agricultural inputs than that for agricultural outputs. So, prices of agricultural products in the last 7 years have

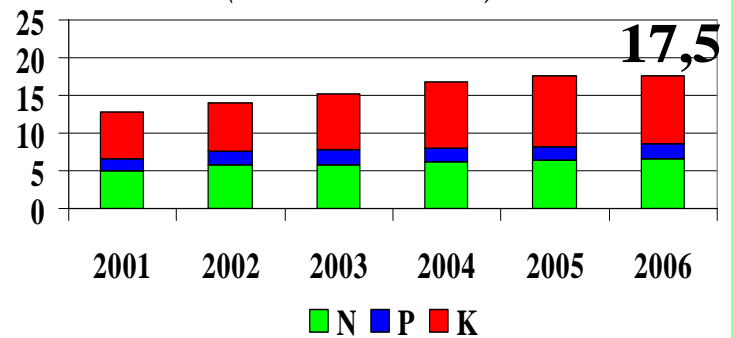
increased about 3 times, whereas those of energy have grown almost 7fold. Efficient infrastructure for supply of agricultural inputs and marketing of agricultural produce is still not in place. Among other major challenges there are wear and tear of equipment, out-of-date technologies, insufficient availability of credits and migration of qualified working population into cities. As far as future developments are concerned, I must say that the government is taking certain measures to promote agricultural production and to provide support to farmers. This is done through state interventions and implementation of federal development programmes. Since 2001 the government has been making state grain interventions to regulate grain prices. Recently it has adopted a new state programme for the next 5 years called “Development of agriculture and regulation of markets of agricultural products, raw materials and foodstuffs in 2008-2012”. Measures under the programme include allocation funds for research in agriculture, support of selection work in crop and livestock production, subsidized credits for livestock producers, development of leasing schemes for machinery, subsidies for purchase of agricultural inputs. The programme has a total budget of about 22 billion USD. Of these above 2 billion USD will be allocated for improvement of soil fertility. In 2007 around 160 million USD have been directed from the state budget for this purpose. In 2012 the figure is supposed to increase 3fold. Russian private sector is also showing growing interest in agriculture, by getting actively involved not only in agro-processing but also in primary agriculture. Another form of private investors` involvement is creation of agricultural holding companies. Fertilizer producers are among such investors – Eurochem, Phosagro, Acron. These companies are developing a system for supply of agricultural inputs and rendering agricultural services to farmers. In this respect Russia sets the tone but the process is also getting duplicated in other CIS countries. So, positive changes in Russian and CIS agriculture are evident. But it will take some time before we see radical progress.

## CIS is self-sufficient in terms of fertilizer production

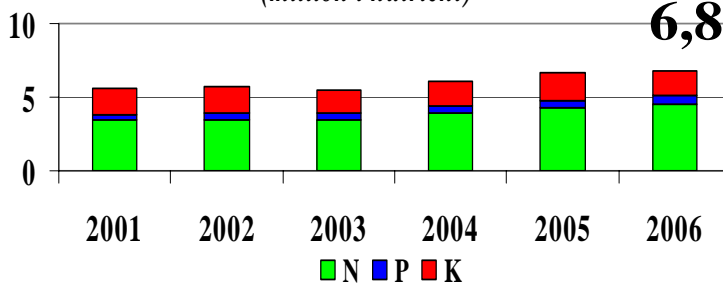
*Production*  
(million t nutrient)



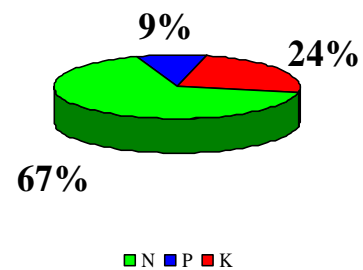
*Exports*  
(million t nutrient)



*Consumption*  
(million t nutrient)



*Consumption by product (2006, %)*



Source: IFA

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The fertilizer industry is watching closely developments in agriculture in the region being one of the important investors and suppliers for the sector. Traditionally the local market absorbed the largest part of fertilizer output in the region. After the break-up of the USSR, when local markets shrank, the fertilizer producers had to switch to exports to keep the plants up and running. In fact, the region is self-sufficient in terms of fertilizer production. It produces all 3 major fertilizer types – N,P,K fertilizers. Today production remains stable and considerable. The relatively small domestic market is steadily expanding. There is still an obvious disproportion of nutrients consumed with nitrogen fertilizers having an almost 70% share of total fertilizer consumption in the region. So there is potential for higher input of phosphate and potash fertilizers. Tonnage that is not consumed in the local markets is shipped for export to other countries, including CIS members. This is typical of all countries in the region.

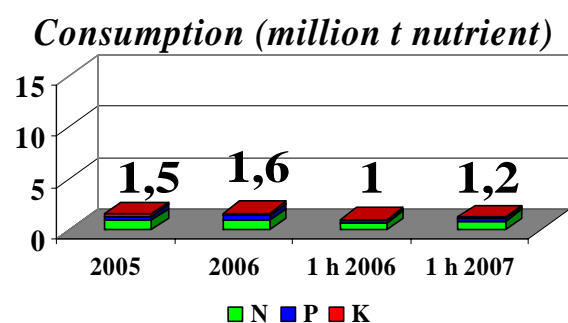
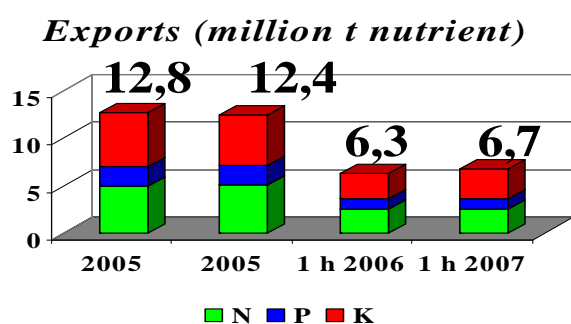
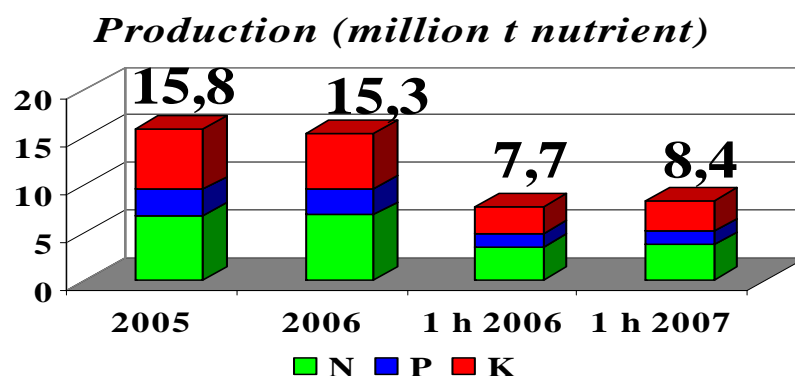
# Industry highlights in CIS

- **Privatization of fertilizer plants (Ukraine, Uzbekistan)**
- **Consolidation of fertilizer assets in Russia**
- **Projects:**
  - ✓ **Ammonia:** expansion of capacity in 2010/2011 - Acron (Novgorod+ Dorogobuzh)
  - ✓ **Urea:**
    - expansion of capacity by ~1.4 million t by 2011 - Acron, Eurochem
    - new capacity in 2008/2009 - Turkmenistan
  - ✓ **Potash:**
    - expansion of capacity to 7.3 million KCl by 2011 - Uralkali
    - expansion of capacity to 6 million t KCl by 2009 - Silvinit
    - new capacity of 2 million t KCl in/after 2012 - Eurochem
    - new capacity of 0.2 million t potash in 2009 -Uzbekistan
  - ✓ **MAP+ DAP+NPK:** expansion of capacity by 0.2 million P<sub>2</sub>O<sub>5</sub> between 2007 and 2010 - Eurochem, Phosagro
  - ✓ **Sulphur:** expansion of production by 1.5 million t in 2011 - Russia, Kazakhstan

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Among highlights of the industry development (Slide 13) I would like to single out ongoing privatization in Ukraine and Uzbekistan. Consolidation of assets continues in Russia. There have been announced various expansion and debottlenecking projects. New or expanded capacities will be serving both expanding local and export markets. Most of the projects are being implemented in Russia.

## Russia accounts for about 60% of fertilizer production in CIS



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Source: Azotecon

Russia accounts for about 60% of total CIS fertilizer output (Slide 15). Lately the industry does not demonstrate any significant changes. Just like in CIS, production remains high and stable. Fertilizer assets are being consolidated and redistributed among players. Close to 80% of nitrogen and phosphate fertilizers are produced by holding structures. As in CIS, the domestic market is relatively small but is gradually growing helped by government and private sector involvement.

To sum up all I have said, I would like to stress that CIS is a region with a big agricultural potential which is now being used to a certain extent. It is still recovering from an economic downturn of 1990ies. But the trend is definitely positive. We should not expect any drastic changes within a short-term period. But in the long term, I think, its assets will be used both to improve food security in

each individual country of the region and also to market agricultural products internationally on a wider scale to those countries that have exhausted their own potential and have growing needs for foodstuffs.

Thank you for your attention!