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# **Fertilizer industry in Belarus, Russia and Ukraine. Recent developments and prospects.**

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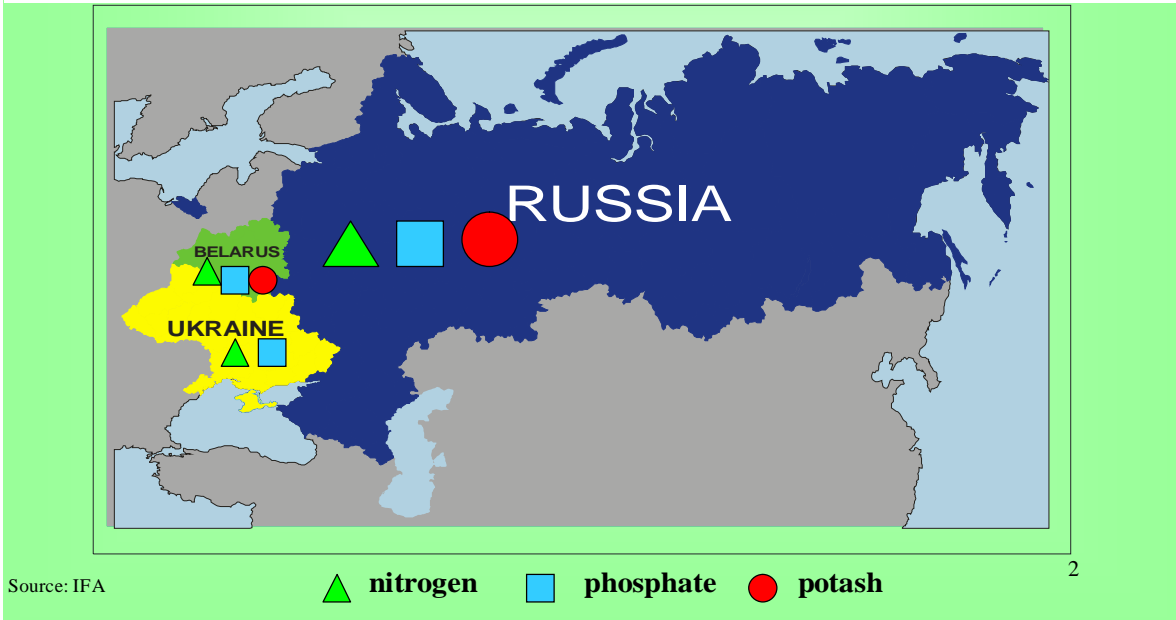
Dear Ladies and Gentlemen,

North America is a world leader both in fertilizer production and consumption. You are certainly well aware of recent developments and prospects as regards fertilizer output and consumption in this region. In my presentation I would like to look at developments and prospects of the fertilizer industry and market in Belarus, Russia and Ukraine. I will compare some of their aspects with those seen in North America for better understanding of the region`s fertilizer production and consumption development.

## Belarus/Russia/Ukraine

### Example:

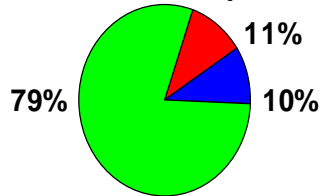
*The region accounts for: ~ 7 % of world UREA capacities  
~8 % of world MAP+DAP capacities  
~30 % of world MOP capacities*



Historically this region is self-sufficient in terms of raw material supply for production of all types of fertilizers. It has natural gas and phosphate rock in Russia, potassium ore in Russia and Belarus. (Slide 2.) The region accounts for over 80% of nitrogen and phosphate fertilizer production and 100% of potash output in the former USSR. It is a major fertilizer producer on a global scale. For example, if we take a look at major fertilizer types, it has a 7% share of the world urea capacities, around 8% of the global MAP and DAP capacities and 30% of the world potash capacities. All 3 main fertilizer types (nitrogen, phosphate and potash) are produced in Russia and Belarus with exception of Ukraine where potash is not manufactured.

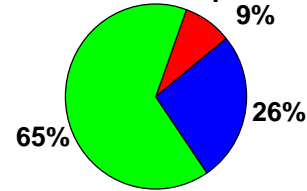
## The region is a key world fertilizer producer with a 15% share of world N+P+K output

**Belarus/Russia/Ukraine:  
share in world N\* production**



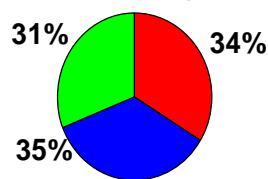
■ Belarus/Russia/Ukraine ■ North America ■ Rest of the World

**Belarus/Russia/Ukraine:  
share in world P\* production**



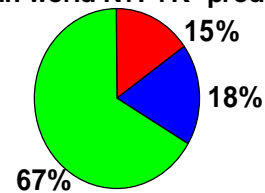
■ Belarus/Russia/Ukraine ■ North America ■ Rest of the World

**Belarus/Russia/Ukraine:  
share in world K\* production**



■ Belarus/Russia/Ukraine ■ North America ■ Rest of the World

**Belarus/Russia/Ukraine:  
share in world N+P+K\* production**



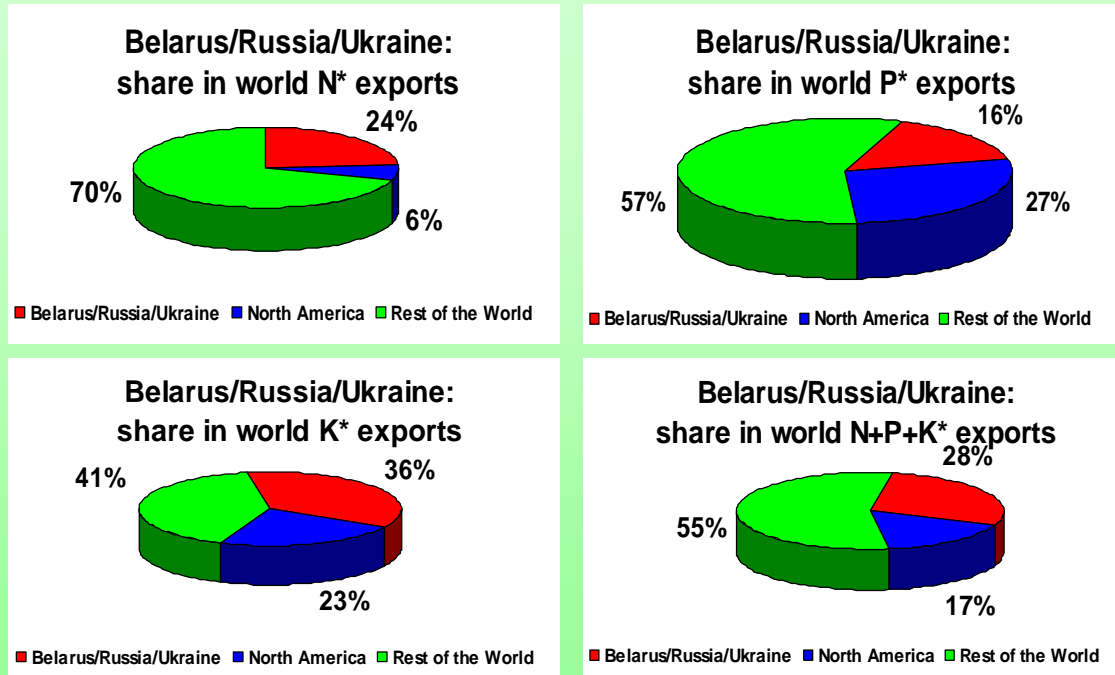
■ Belarus/Russia/Ukraine ■ North America ■ Rest of the World

\* N: AN, Urea, CAN, AS; P: MAP,DAP, TSP; K: MOP  
Source: IFA

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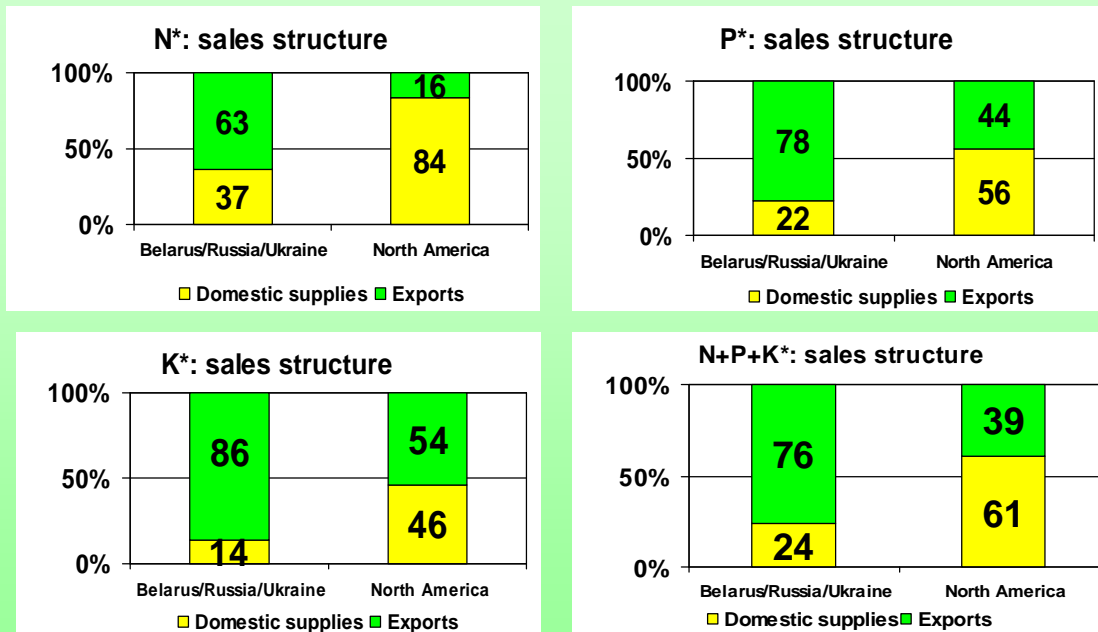
This vast production potential puts the region on a par with North America, especially in the nitrogen and potash segments. (Slide 3.) Belarus, Russia and Ukraine account for about 11% of nitrogen, 9% of phosphate and above 30% of potash output in the world. I would like to point out to the fact that compound NPKs have not been incorporated in the figures. On the whole, N+P+K fertilizers of the region account for 15% of those produced in the world. It is just 3% less than in North America.

## The region is a key world fertilizer exporter - above 25% of global N+P+K exports



The significance of the region is also profound in terms of export numbers. (Slide 4.) I would like to draw your attention to the fact that these numbers include exports from Belarus, Russia and Ukraine to third countries. The same is true of North America. Thus, over a quarter of N+P+K fertilizer exports in the world come from Belarus, Russia and Ukraine. Like on the previous slide, compound NPKs have not been included in the graphs. For your guidance, annual exports of compound NPKs in Russia are above 2 million t product.

## The region is primarily export-oriented but the share of domestic supplies is steadily rising

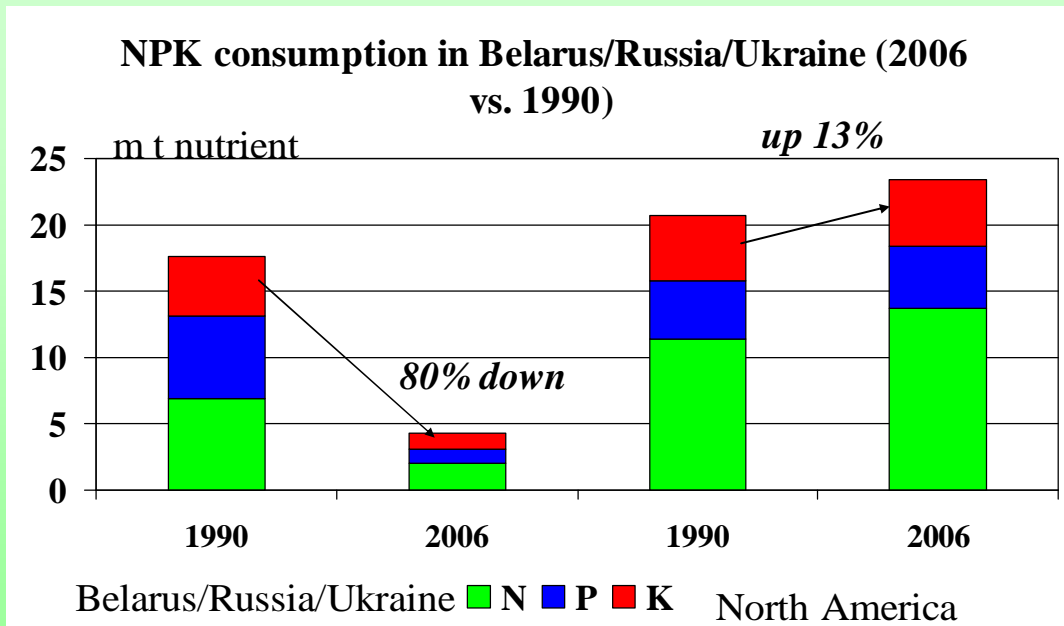


\* N: AN, Urea, CAN, AS; P: MAP, DAP, TSP; K: MOP  
Source: IFA

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Unlike North America, the region is obviously export-oriented in all 3 fertilizer segments<sup>3</sup>/<sub>4</sub> of its production is exported whereas a quarter is delivered to the domestic market. (Slide 5.) As you may know, after the collapse of the USSR demand for fertilizers in the domestic market fell by around 15 million t nutrient to almost zero. So, the industry had to switch to exports to survive. In the last few years domestic supplies have been steadily rising.

## Domestic market in the region shrank after the collapse of the USSR by around 15 m t nutrient



Source: IFA

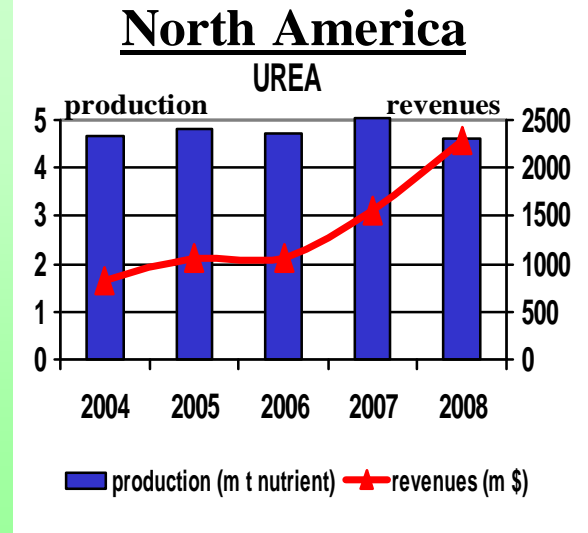
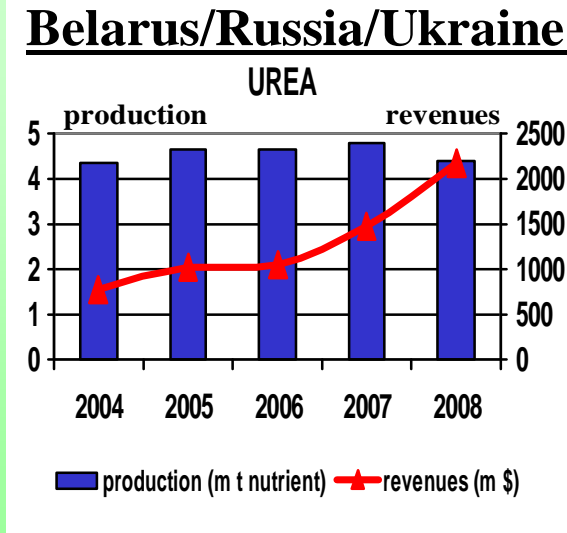
6

However, as you can see on Slide 6, they are still below the record number of 1990 when fertilizer consumption was above 17 million t. This is contrary to the upward consumption trend that has been seen in North America in this period - fertilizer demand has grown by 13%. Though domestic supplies are rising in Belarus, Russia and Ukraine, actual consumption shows a modest increase. Besides, it is largely seen in Ukraine. In Russia, the bulk of fertilizers supplied in the domestic market feeds complex fertilizer plants whose products are to a great extent exported. The governments take certain measures to regulate fertilizer domestic supplies in terms of volumes and prices to raise fertilizer application. For example, in Ukraine the government introduces a minimum export price below which nitrogen producers cannot export their products. In Belarus the government sets volumes and prices for supplies to farms. In Russia the government has recently started to regulate fertilizer consumption volumes and watch closely fertilizer pricing. According to the government plan, by 2012 fertilizer consumption is set to increase 1.5 times to 4 million t nutrient. Government regulation in the region comes partly as a result of insufficient funds and inadequate access to credit resources by the farming community.

On the financial side, the fertilizer industry remains one of the most stable and profitable industries in the region. It is a heavy contributor to GDP in its respective country. Favorable market conditions, ambitious programs to optimize expenses implemented by fertilizer companies have been a solid basis for increasing revenues and profit received by producers in all

the 3 fertilizer segments of the region over recent years. This clearly demonstrates the trend shown also by the North American fertilizer industry.

## Revenues in the urea segment have been up 3fold 2008 vs. 2004



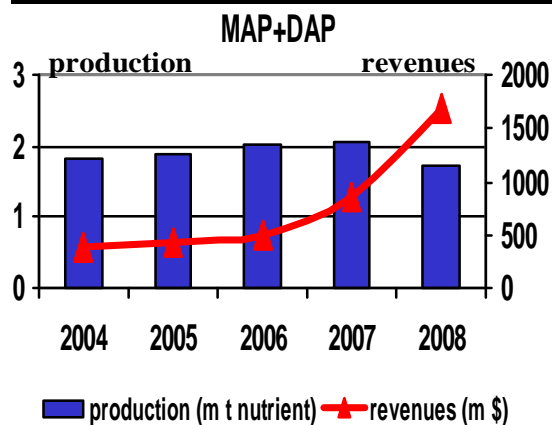
Source: IFA, Fertecon, FMB, Decyfer/ICIS

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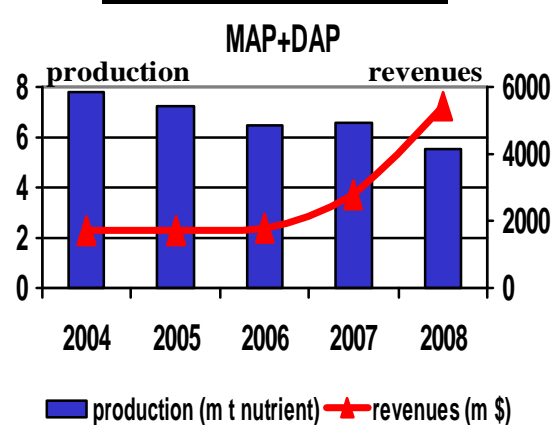
If we look at Slide 7, which shows developments in the urea market over the last 5 years we can see that in 2008 production-based revenues of urea manufacturers rose threefold in both regions against 2004. Higher revenues have been driven largely by positive market fundamentals whereas production has remained practically the same.

## Revenues in the phosphate sector - up 3-4fold 2008 vs. 2004

### Belarus/Russia/Ukraine



### North America

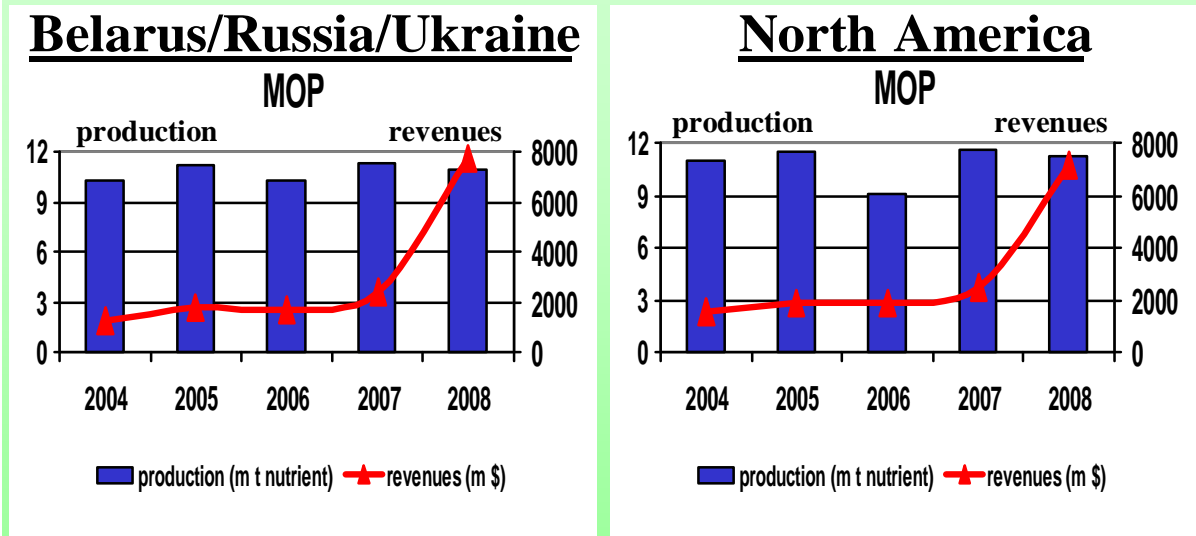


Source: IFA, Fertecon, FMB, Decyfer/ICIS

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The same is true of the phosphate sector. (Slide 8.) Production-based revenues have risen fourfold in Belarus, Russia and Ukraine and threefold in North America in the given period. Besides, output has been even down against 2004.

# Revenues in the potash sector - up 5-6fold 2008 vs. 2004



Source: IFA, Fertecon, FMB, Decyfer/ICIS

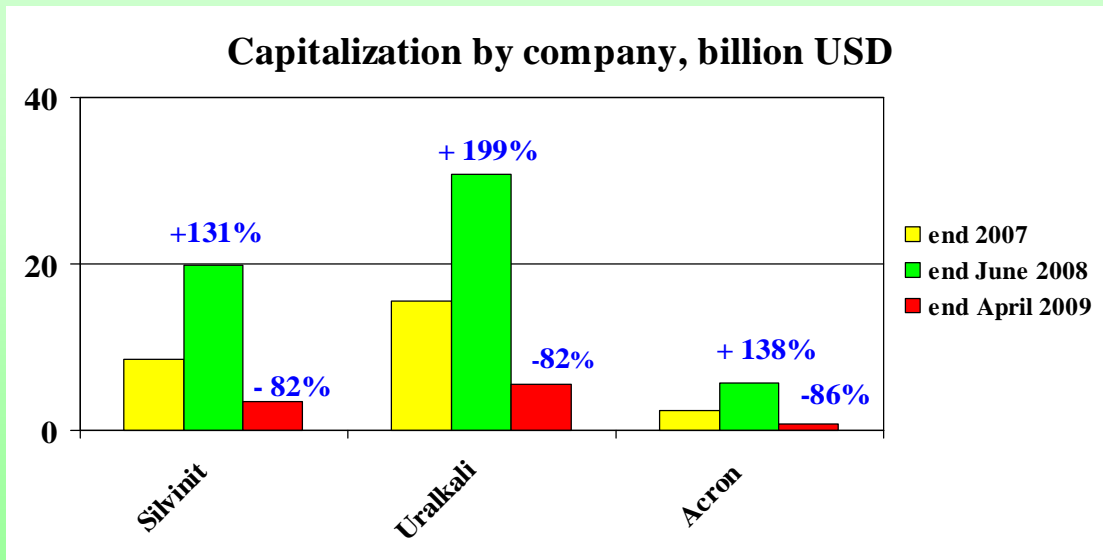
9

The potash segment on Slide 9. has also showed the revenue increase. In Belarus and Russia production-based revenues for potash producers have approximately risen sixfold, in North America –fivefold. Production has increased insignificantly.

A relative increase of revenues as compared to production is explained by higher global demand and consumption of all fertilizer nutrients. This has been one of the fundamental preconditions for fertilizer market development in recent years. It is driven by rising world population and intensive farming as well as modernization of the fertilizer industry in the world.

Gross profit margin has also been increasing over recent years. Last year it ranged between 55-85% among companies of the region. This has made it possible for the plants to invest considerable funds both in upgrading of existing capacities and in development of new ones.

## Current crisis has put a cap on rising market capitalization of fertilizer companies in this region



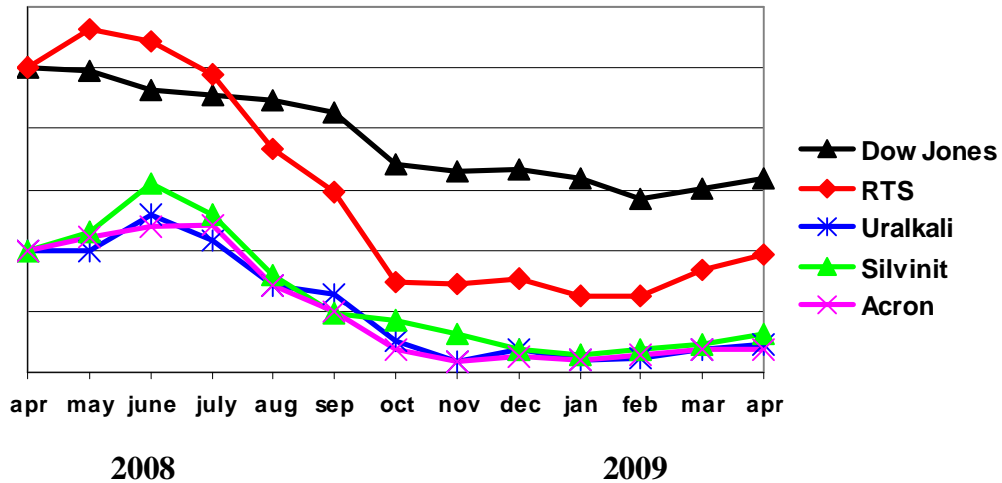
Source: RTS

10

The market value developments of companies based in the region has also followed the world trend. The end of the first half of 2008 has seen capitalization of major fertilizer producers go up. However the crisis has corrected the numbers downward as seen on Slide 10.

## The Russian stock market follows the world trend

**Changes in stock exchange indices and share prices of individual Russian fertilizer producers (2008-2009)**



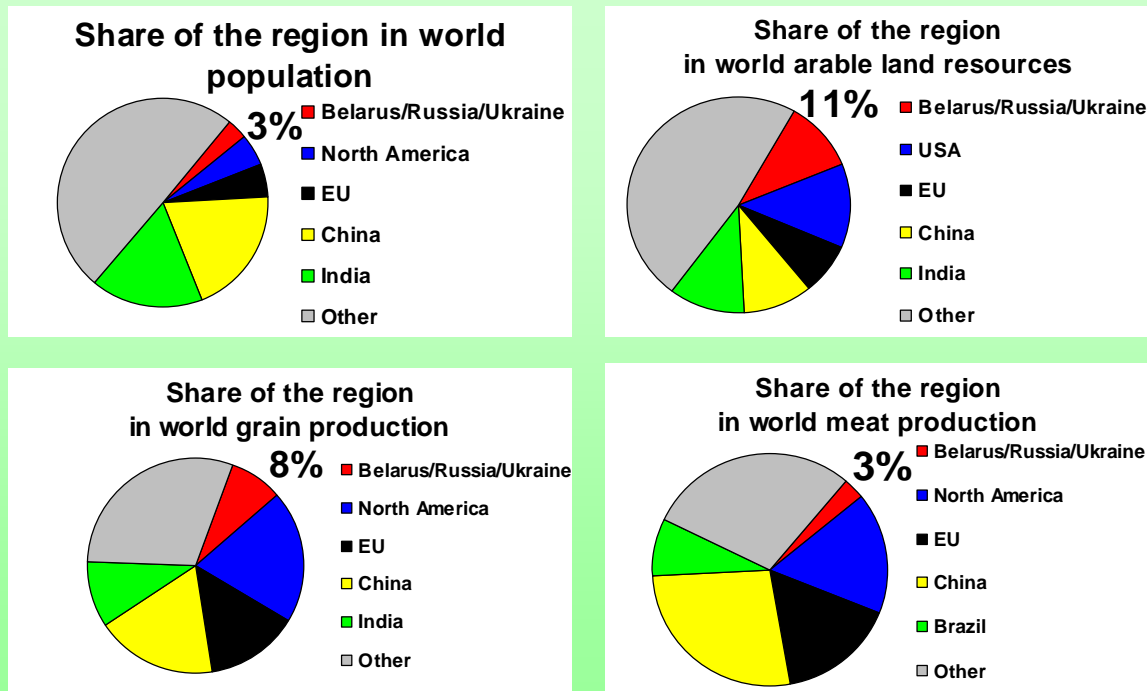
Source: Renaissance Online, Troika Dialog

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If you look at the Slide 11., you will see a trend of price changes for shares traded at RTS. RTS is Russian Stock Exchange. Shares are traded there in USD. However, shares of many large Russian fertilizer producers such as Eurochem, Phosagro, Uralchem are not traded yet. And only one company – Uralkali – has made an IPO.

Before I go over to the prospects of the fertilizer industry in the region I would like to look at developments in the agricultural sector of the region which has made progress after downturn and stagnation of production in 1990s and is becoming a gradually increasing outlet for fertilizers manufactured in Belarus/Russia/Ukraine.

## Belarus, Russia, Ukraine have a vast agricultural potential

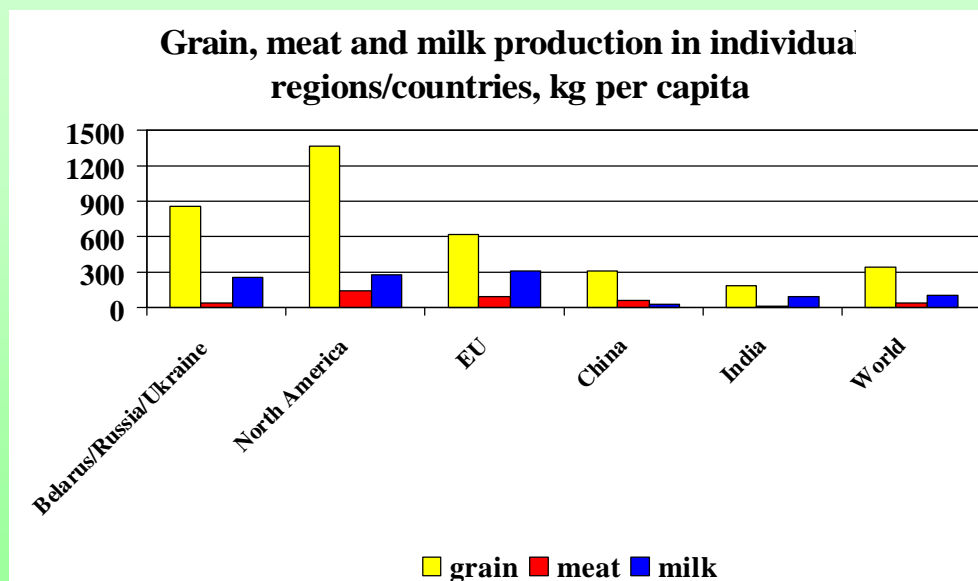


Source: World Bank, FAO, CIS StatCommittee

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The region has vast agricultural land resources and accounts for above 10% of global arable land as can be seen on Slide 12. After the collapse of the USSR millions of hectares were left uncultivated. If required this land can be brought back into cultivation which is helpful in view of limited spare agricultural land resources in the world and higher food demand. In terms of grain production, Belarus, Russia and Ukraine have approximately an 8% share in global grain output, with meat production being behind - at 3%.

## Grain, meat and milk per capita production is below the indicators in North America

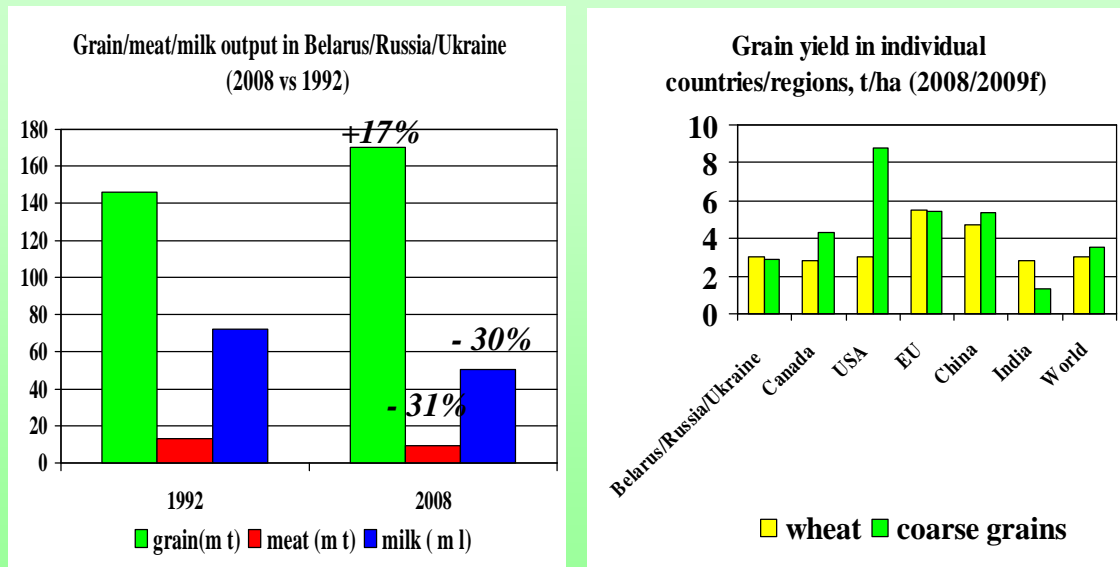


Source: FAO, World Bank, CIS StatCommittee

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These shares shown on the previous slide can be further expanded boosting per capita production of agricultural products that still falls short of the similar indicators in North America. Slide 13.

# Meat and milk production is still below the level of 16 years ago



Source: FAO, USDA, CIS StatCommittee

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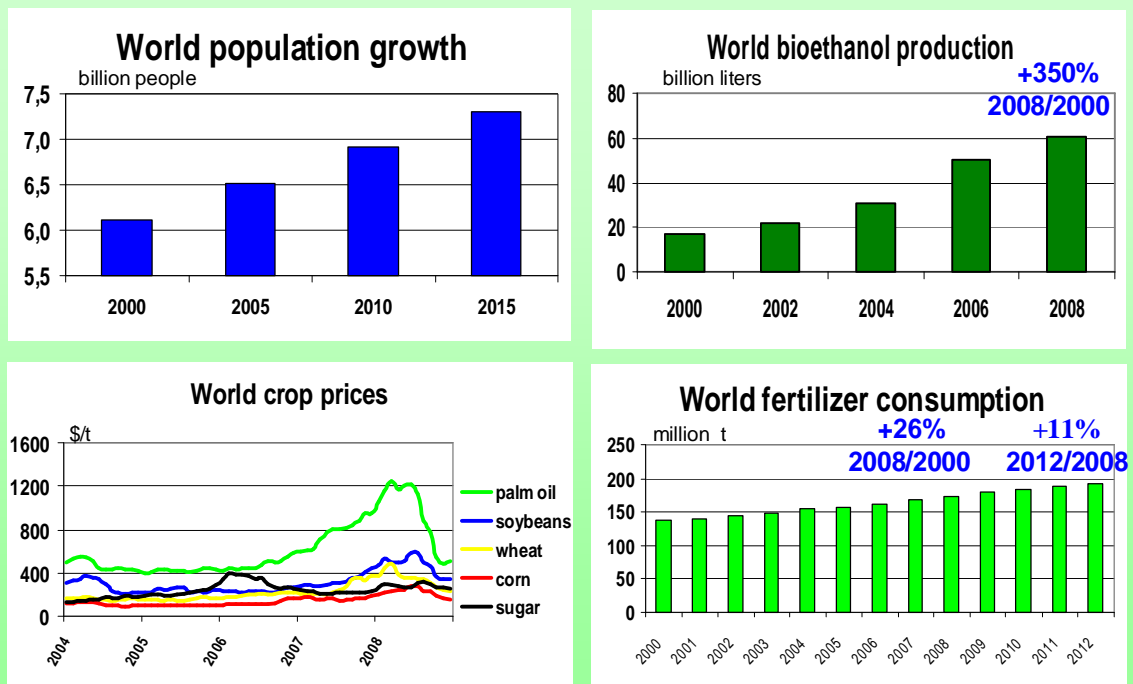
It should be noted that grain production has returned and even exceeded the level of 1992 in 2008 by 17%. (Slide 14.) This makes it possible for the region both to meet its own requirements for grain and to expand its export potential. In 2008/2009 grain exports are estimated to reach record 41 million t. But the yield, mainly in the coarse grain segment, remains below major grain producers. Meat and milk production, though steadily increasing, is still behind these indicators of 16 years ago – around 30% below those levels. Lower output is seen in other food production segments as well, whereas food consumption in the region is improving. The increasing gap which results from insufficient local supplies is filled by rising agricultural imports. For example in Russia, agricultural imports have been up 3fold in monetary terms over the last 5 years.

So it is obvious that agriculture in Belarus, Russia and Ukraine has a great production potential and is a growing market for local fertilizer producers.

The governments of the region are committed to improve food security, self-sufficiency in food supplies as well as expand food exports to meet rising global demand for food and diversify its revenue sources. A number of specific programs are in place which target higher meat and milk production as well as increased crop output. Higher crop production is expected to be achieved through expansion of arable land acreage as well as through higher yields due to increased

fertilizer application. Combined efforts by governments and fertilizer companies are made to reach the goal. The companies are increasing the number of agrochemical centers across the region like their foreign counterparts both to supply fertilizers to local farmers as well as to render them extension services. In the current financial crunch the governments are anxious to facilitate bank credits for farmers, introducing new financial arrangements.

## World fertilizer demand is set to rise in the near future



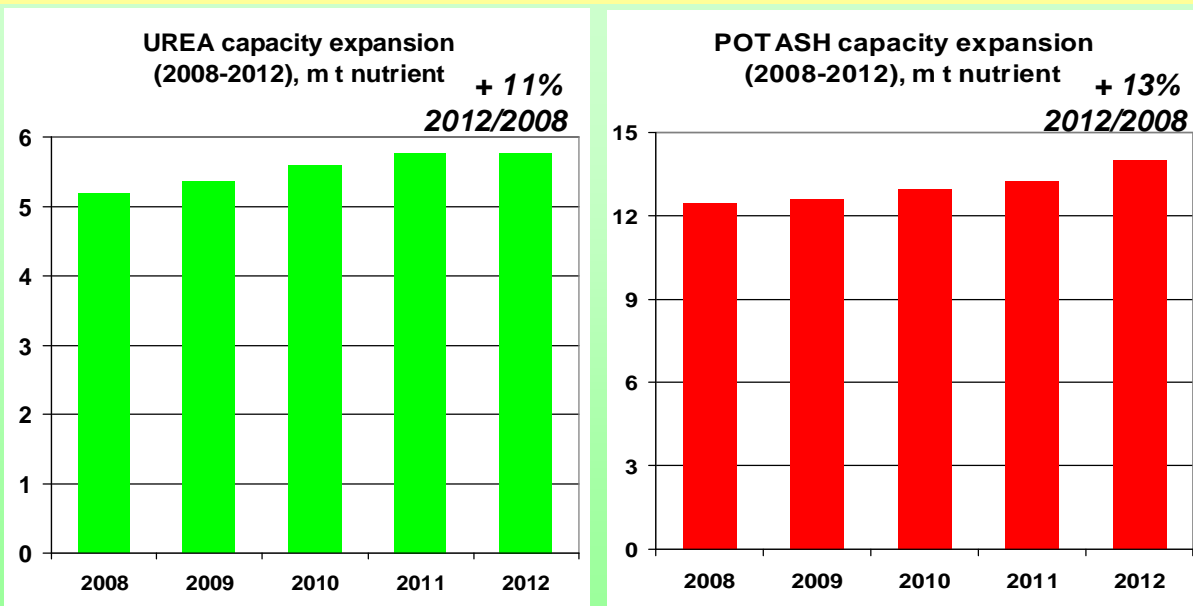
Source: UN, EPI, FAO, World Bank, IFA

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Global and local food requirements will continue to increase driven by such fundamentals as growing world population and biofuels production and better diets. (Slide 15.) Higher global food, feed and biofuels demand was behind rocketing food prices during 2 years before the world financial crisis broke out. Prices for corn, wheat, palm oil increased 2.5-3 times respectively. Bioethanol production has been up 3.5 times over the last 8 years. As a result, world fertilizer consumption has risen by 26 % over the last 8 years. Last summer IFA projected an increase in total N P K fertilizer consumption of 11% in 2012 against 2008. The figure may be somewhat corrected downward because of the current crisis. But this crisis is mostly financial in its nature and does not change the fundamentals in place. So, in the mid and long term the upward trend in global fertilizer consumption is evident. In this environment the fertilizer companies in Belarus, Russia and Ukraine are intent to have sufficient capacities to be able to meet rising fertilizer consumption in the internal and external markets. This is done through modernization of current capacities and by the launch of new ones.

## Belarus/Russia/Ukraine:

By 2012 fertilizer production capacities are planned to increase by 11% for nitrogen and by 13% for potash\*



\* Substantial expansion of phosphate capacities is not envisaged in the period  
Source: IFA

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By 2013 nitrogen and potash capacities in Belarus, Russia and Ukraine are set in rise by 11% and 13% respectively. (Slide 16.) Substantial expansion of phosphate capacities is not expected in this period.

<i>N/P/K</i>	<i>Country</i>	<i>Announced projects in the region</i>
<b>N</b>	<b>Belarus</b>	Grodnoazot: Urea 500-600 Kt (Proposed project by the government)
	<b>Russia</b>	Capacity expansion through revamping (a number of plants)+ a new plant at Novgorod (2011)
	<b>Russia/Kalmykia</b>	JV Kalmyk government- Petrovietnam: NH <sub>3</sub> 750 Kt, fertilizers +800 Kt
	<b>Russia/Tatarstan</b>	Mendeleevsk: Urea 717 Kt, NH <sub>3</sub> 717 Kt, AN 380 Kt
<b>P</b>	<b>Russia</b>	Expansion of capacity to 2.3 m t P <sub>2</sub> O <sub>5</sub> (2008-2010)
<b>K</b>	<b>Belarus</b>	Belaruskali: Capacity expansion to 9.650 m t MOP (2 new shafts, 2015)
	<b>Russia</b>	Silvinit:Polovodovsky area - MOP (2.5 m t )
		Eurochem: Gremyachenskoye deposit – MOP ( 2.3 m t, 2012) Palashersky–Balakhontsevsky area - MOP (1.7 m t, 2014)
		Uralkali: Production increase to 7 m t MOP (2011)
		Acron: Talitsky area (2014)

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The projects are being implemented and studied mainly in Russia and Belarus. (Slide 17.) In recent years a number of licenses to develop natural resources, namely in the phosphate and potash segments, have been sold. The highlight came last year when at an auction held in March licenses to develop 3 plots of the Verkhnekamskoye potash deposit were sold. JSC Silvinit has acquired rights to develop the Polovodovsky area with reserves of 3 billion t sylvinite ore. The enterprise intends to build a processing plant with the capacity of 2.5 m t MOP. The other 2 lots have been acquired by Eurochem (Palashersky area) and Acron (Talitsky area). There are a number of other potash projects which are being studied and implemented at present. Belaruskali is expanding mining capacity by building 2 new mine shafts. Another project is being implemented in Russia by Eurochem on the Gremyachenskoye deposit. Time will tell what projects will be successfully completed, as many of these are very capital-intensive with possible investments of USD 1.5-2 billion. In the present circumstances terms of implementation of some projects may be revised. Apart from these greenfield projects, the fertilizer producers take measures to modernize existing capacities in order to expand them and reduce costs of production. So, the companies have large-scale programs to replace old equipment and technologies by new and modern ones to raise production efficiency of the enterprises. In 2008 production investments by potash enterprises, for example, reached over USD 1 billion. Implementation of greenfield, modernization and other projects raising efficiency of operations and product sales require significant inflow of capital. Different companies choose different

methods to raise funds for these purposes. A number of Russian companies have announced plans of IPO. Some companies have realized them. Other companies had to postpone this decision in view of the crisis. It should be noted that the form of ownership of the fertilizer plants varies from country to country. In Belarus fertilizer enterprises remain state-owned. In Ukraine some enterprises have been privatized, the other ones are still owned by the state. In Russia the fertilizer industry is private. It has basically replicated the model of the North American fertilizer industry which has been consolidating assets through mergers and takeovers over the last decade. In fact, above 80% of fertilizers in Russia are produced by 7 companies – Silvinit, Uralkali, Eurochem, Phosagro, Acron, Uralchem, Gazprom structures. The trend is expected to persist. The government has adopted a liberal approach in relation to the fertilizer industry.

## Governments support the fertilizer industry

- Removal or expiry of export duties: Russia (nitrogen, phosphate, potash), Belarus (potash).
- Debt restructuring and easier access to credits at state banks in Russia.
- Introduction of tax benefits till 2014, removal of V A T on imports of energy-saving equipment and 6% charge on natural gas imports (Ukraine).

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Besides, with the slowdown of the world economy, the governments in all the 3 countries of the region have been introducing various measures to support the fertilizer industry, including (Slide 18.):

- Removal of export duties in Russia and Belarus. Exports duties for potash have been lifted this year in Belarus. They were 200 Euro per t. In Russia exports duties introduced for one year in 2008 for nitrogen, phosphate and potash fertilizers have either been lifted or expired.
- Debt restructuring and easier access to credits at state banks in Russia.

- Introduction of tax benefits till 2014, removal of VAT on imports of energy-saving equipment and 6% charge on natural gas imports in Ukraine.

## CONCLUSIONS

- **The region (Belarus/Russia/Ukraine)** is a leading producer and exporter of all 3 major fertilizer types: nitrogen, phosphate and potash.
- **The fertilizer industry of the region:**
  - ü is a large contributor to GDP of its respective country;
  - ü historically enjoys relatively low production costs;
  - ü remains export-oriented;
  - ü has potential for fertilizer capacity expansion to serve rising global and regional demand for food;
  - ü is committed to increase production and sales efficiency by further reducing expenses.

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To sum up, I would like to add that the region is a leading producer and exporter of all 3 major fertilizer types – nitrogen, phosphate and potash.(Slide 19.) Apart from significant existing production capacities it has potential for further capacity expansion in the mid and long term. This potential is sufficient to serve rising global and regional demand for food. It should be noted that domestic fertilizer supplies are increasing. At the same time, the industry remains and will remain export-oriented in the near future. The industry is a large GDP contributor in Belarus, Russia and Ukraine. The fertilizer companies in the region historically enjoy relatively low costs of production due to availability of natural resources (natural gas). Besides, they are committed to increase production and sales efficiency by reducing expenses. These 2 factors are solid preconditions for fertilizers manufactured in Belarus, Russia and Ukraine to remain competitive and in demand in the global marketplace in the future.

Thank you for your attention!