

**Speech made by Mr Thorleif Enger, President of the International Fertilizer Industry Association (IFA) at the OPENING SESSION of the 76th IFA ANNUAL CONFERENCE in Vienna, Austria on Tuesday, 20 May 2008, 11.00-12.15**

Good morning, Ladies and Gentlemen. Welcome to Vienna and the 76th IFA Annual Conference. What an exciting and challenging time to be involved in the fertilizer industry! We have some very important issues to discuss while we are here this week, and I would urge you to join the debate about what the coordinated industry response should be. We should all be concerned about the plight of the world's poor, who already spend two-thirds or more of their incomes on food and are therefore hardest hit by rising food prices. We need to feed people today, but when doing so, we should also make it possible for them to feed themselves in the future.

I would like to take a few minutes to outline some of the main questions we face, and share my thoughts about them. IFA's Executive Management Group already started to discuss these issues yesterday, and its Executive Committee will continue the debate tomorrow.

Observers of the industry are questioning the current high level of fertilizer prices. They want to know why prices have increased so rapidly and if they are justified. In this connection, I would like to make the following observations:

- Current fertilizer prices are the illustration of the basic principles of supply and demand. They reflect a properly functioning, but very tight, global market. In fact, the energy, mineral and mining sectors have experienced similar price trends in recent months, but they are under less scrutiny because their products are not directly linked to food production. In fact, agriculture in general has been subject to underinvestment for several decades as a result of low food prices.
- Trade in fertilizers is truly global. IFA counts nearly 200 fertilizer producers among its members, and the market shares of even the largest companies do not exceed seven per cent of total world fertilizer production.
- Before the current increase, fertilizer prices were more or less flat in real terms for at least 15 years. The same was true of prices for agricultural commodities, which are a major determinant of the level of fertilizer consumption. These factors, and political complacency after decades of cheap food prices, combined to limit investment in agriculture and fertilizer production capacity. As a result, capacity expansion – which requires a significant injection of capital and up to five to eight years of lead time – has not kept pace with demand. Fertilizer markets will remain tight until this gap is closed, especially since production capacity is currently operating at or near record levels.

- When medium-term forecasts for fertilizer demand started to indicate positive growth rates several years ago, the investment level increased. But the rapid increase in income for large populations (e.g. China) and the sudden interest in biofuel production, raised demand for agricultural output – and thus fertilizers – even faster than predicted.
- Many of the non-fertilizer elements affecting fertilizer supply have also increased in price. Nitrogen fertilizer production is energy intensive and relies on hydrocarbon feedstocks, so high fuel costs drive up fertilizer prices. Energy prices have also affected the cost of shipping bulky fertilizers and their raw materials around the globe, as has robust demand for limited freight capacity. Building materials, equipment and manpower are in great demand, so construction costs have risen and timelines lengthened. Crucially, the fertilizer industry's current revenue stream makes the necessary investments possible, despite a challenging investment climate.
- Finally, I would like to briefly mention the fact that cross-border fertilizer transactions are denominated in US dollars, which has pushed quoted prices of fertilizers upwards.

The other key point that I would like to emphasize is the need to stay focused on the longer-term even while responding to the current food crisis. In such a complex situation, the law of unintended consequences is likely to manifest itself unless our immediate reactions are very carefully designed.

A number of organizations are calling for the distribution of fertilizers and related inputs in order to quickly raise global agricultural production and ease the current food crisis. This is an appropriate step for policy makers and donors to take, but it must be executed properly.

First, the distribution of inputs should, to the largest extent possible, be channelled through networks of private sector retailers in order to strengthen markets in developing countries. Direct government handouts could be disastrous for the fragile fabric of rural entrepreneurs who sell fertilizers, seeds and other inputs to farmers. Malawi is often cited as a successful case where providing inputs to small farmers has raised yields dramatically and made the country better prepared for adverse weather conditions. But Malawi also provides some important lessons. The subsidy programme was greatly improved from the second year, when farmers started to use vouchers to purchase inputs from their village retailers, who then redeem the coupons for payment from the government programme. This has provided relief to poor farmers, supported local entrepreneurs and provided the basis for lasting rural development. Malawi has even been able to export some grain, thus raising farmer incomes and giving them an incentive to further increase their output.

Second, providing assistance to one group of farmers should not displace the problem to another. When a food crisis is restricted to a fairly limited area, it is easy to determine the right thing to do: feed people to keep them from starving and help them get back on their feet as soon as possible. When the crisis spans the globe, the correct response is less obvious. Given current tight international fertilizer markets, large-scale procurement for emergency assistance carries the risk of further raising fertilizer prices and thus making them too expensive for farmers in other developing countries, who may not benefit from emergency aid.

Third, solving the current food crisis by trying to mandate lower prices could have serious unwanted impacts, and governments must manage the transition wisely. An abrupt decline of agricultural prices could be devastating for commercial farmers who buy inputs at current high prices and then find themselves unable to earn enough to pay back the associated credit. Governments need to enact policy measures in order to avoid driving farmers out of business just when they are most needed.

These points illustrate that short-term responses must be designed while keeping the longer term in mind. So what can the fertilizer industry do in the short term? Our primary duty is to take every possible step to overcome production and logistical bottlenecks in order to optimize existing production capacity as much as possible. The next step is to work with partners to increase the efficiency of fertilizer use, which also stretches the available supply. There are some efficiency practices that could be spread very quickly, such as urea deep placement in rice paddies. Since rice is the primary staple crop for nearly two-thirds of the global population, this would also make an important direct contribution to easing the food crisis by raising rice yields significantly.

In the medium to long term, the impact of increasing the average fertilizer use efficiency could be substantial. Combined with measures to reduce greenhouse gas emissions in fertilizer production sites, our sector has an important role to play in helping to achieve ecological intensification, which makes it possible to yield more per unit of land while ensuring environmental goals such as preventing deforestation and increasing soil organic matter.

Our industry needs to continue working with all concerned parties to find innovative ways to respond to the current situation. IFA and its member companies will stay engaged with governments, donors, international institutions and other business sectors in order to maximize our contribution to resolving the current crisis and to reforming the agricultural system to prevent a recurrence. In that context, several of the invited speakers will discuss timely topics to inform our thinking on this complex state of international affairs.

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During the preparations for this Annual Conference, IFA has been actively and generously supported by member company Agrolinz Melamine International, known to many of you as AMI. In addition to extensive logistical assistance, AMI has kindly agreed to co-host tomorrow's closing evening, which I am sure you will all enjoy very much.

Allow me to express the gratitude of all of IFA's members to Mr Hubert Puchner, Vice President, Marketing and Sales at AMI, for the role his company has played in what is so far an extremely successful Annual Conference. He will now deliver the welcoming address.

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Mr Puchner, thank you for welcoming us to Vienna and for providing your insights into the regional market.

At this time, I would like to introduce Mr **Stephen Mink, Lead Economist, Sustainable Development Department, Africa Region at the World Bank**. Mr Mink has been with the World Bank since 1986 in various capacities and recently returned to the Bank's Africa Region, where he works on agriculture, rural development and natural resource policy and strategy issues as part of the Bank's efforts to support Africa's agricultural sector.

Prior to joining the World Bank, Mr. Mink worked in the International Economics Department of Morgan Guaranty Bank in New York City, conducted maize economy research for the Government of Indonesia's food security agency and taught agriculture in a vocational high school in the Democratic Republic of the Congo.

Mr Mink, I am happy to welcome you here today for a very relevant presentation on "Fertilizer, Food and Fuel: New Connections and New Directions for Agricultural Development".

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Thank you Mr Mink. It is good to hear about the World Bank's renewed interest in agriculture, particularly since your approach seems to be oriented on building sustainable markets.

It is now time to introduce the recipient of the **2008 International Crop Nutrition Award, Dr. Achim Dobermann**. This honour is bestowed on researchers who have made significant contributions to more efficient fertilizer use. This year, the field was open to candidates based in developed countries or at international research centres.

The nominations submitted by IFA member companies were judged by an independent panel of distinguished scientists on the basis of:

- the quality of the research;
- how effectively results were communicated to farmers;
- the attention paid to environmental issues; and
- the international implications of the results.

This year's recipient was nominated by K+S KALI GmbH in recognition of his pioneering research on the fine-tuning of fertilizer and crop management practices in order to



promote the ecological intensification of rice, maize and soybean production systems in many countries.

When he was a Soil Nutrient Specialist and Project Team Leader at IRRI from 1992 to 2000, Dr Dobermann led the development of a new approach to site-specific nutrient management in small-scale rice production systems, which is especially important in the current context. One of his most important contributions has been the innovative crop-driven management of plant nutrients for cereal crops. This approach is more flexible than traditional recommendations for soil fertility and fertilizer management. At IRRI he spearheaded work concerned with on-farm research strategies that set new standards for long-term involvement of farmers in the research process. His efforts led to closer collaboration between scientists, extension workers and the private sector in many countries.

After working in intensive systems in North America, Dr Dobermann recently returned to IRRI, where he is now the Deputy Director General responsible for Research.

It gives me great pleasure to present the 2008 IFA International Crop Nutrition Award to **Dr Achim Dobermann.**

[Handshakes and photos]

I now invite Dr Dobermann to say a few words about his work.

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Thank you, Dr Dobermann.

Ladies and gentlemen, this concludes the Opening Session of the 76th IFA Annual Conference. Let me reiterate my thanks to our speakers.

Before we close, I would like to remind you that the First General Session, which is open to all participants, will convene this afternoon at 2:30 in this room. Please encourage your colleagues to attend this Session, presided by IFA's Senior Vice President, Ajay Shriram. Enjoy your lunch.

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