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THE MALAYSIAN FERTILIZER MARKET

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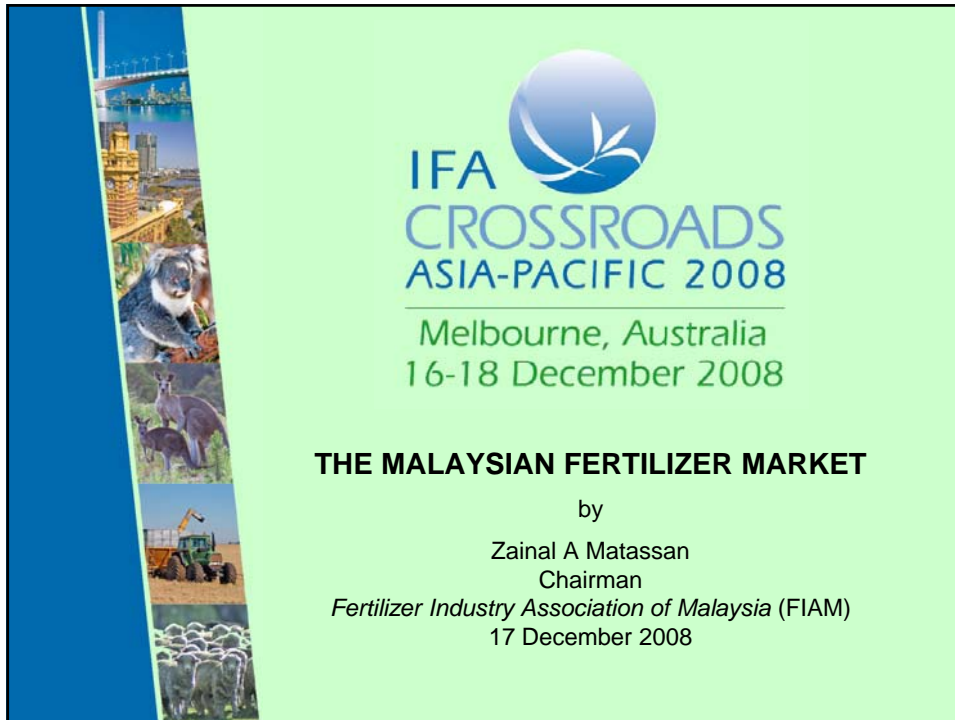
Fertilizer Industry Association of Malaysia (FIAM), Malaysia



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**All the papers and presentations prepared for the
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Fertilizer Industry Association of Malaysia

The Malaysian Fertilizer Market

INTRODUCTION

➤ Malaysian has a total land area of 327,733 km². The soils are highly leached infertile acid tropical soils and as such fertilizer application is essential in Malaysian agriculture. Large tracts of land are cultivated with perennial tree crops such as palm oil where large quantities of fertilizers are required annually to sustain high crop yields and ultimately profitability. Besides oil palm, the other cultivations are rubber, cocoa and padi.



Fertilizer Industry Association of Malaysia

Fertilizer Industry Association of Malaysia (FIAM)

BACKGROUND

- FIAM was established on August 13, 1987
- The founding members were Peladang Kimia Bhd, CCM Fertilizers Sdn Bhd, FPM Sdn Bhd, Pengedar Bahan Pertanian Sdn Bhd and Behn Meyer & Co (M) Sdn Bhd.
- Its Secretariat office is currently based in Wisma FMM, Bandar Sri Damansara, Kuala Lumpur



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Fertilizer Industry Association of Malaysia (FIAM)

OBJECTIVES

➤ As agriculture will continue to be an important sector of the Malaysian economy, and with Malaysia dependent on imports for all its fertilizer needs except urea, FIAM has been established with the following objectives:

- 1. To promote, foster and advance, in a manner consistent with the public interest, the progress and development of the fertilizer industry which imports, manufactures, produces, processes and/or distributes fertilizers.*
- 2. To cooperate with and offer advice to Federal, State and other Authorities in matters pertaining to the fertilizer industry and provide a consensus view to Government bodies in Association matters.*



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- 3. To inform members of the Association about Federal, State and other legislation, whether existing or proposed, and reports of Government or scientific committees which affect the fertilizer industry.*
- 4. To promote the correct and efficient handling and use of fertilizers.*
- 5. To establish liaison with similar organizations and agriculture associations in Malaysia and overseas with which the Association has a common interest.*
- 6. To encourage and support scientific research into all aspects of the fertilizer industry and inform members of commercial or technical developments locally or abroad which are of importance to the industry.*



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7. To foster the development and use of fertilizer products.
8. To conduct industry meetings and conventions.
9. With prior approval of the relevant authorities, to acquire, prepare, edit, print, publish or issue and circulate books, papers, periodicals and/or circulars on the fertilizer industry or matters of interest to the Association.



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ASSOCIATION LOGO / EMBLEM



Fertilizer Industry Association of Malaysia

➤ FIAM is represented by the above logo / emblem which depicts a green plant nourished by fertilizer-enriched brown soil. The whole is encapsulated within an oval outline. This shape connoted an acorn which brings to mind the old saying: "A mighty oak grows out of a tiny acorn." The significance of potential growth is thereby implied.



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MEMBERSHIP CATEGORIES

- 1. Ordinary Members** – any company incorporated in Malaysia, engaged in the importation of fertilizers in loose bulk and / or the manufacture / blending of fertilizers with a minimum annual sales of 30 000 tonnes
- 2. Associate Members** – any company incorporated in Malaysia, engaged in the fertilizer industry with a minimum annual sales of 30,000 tonnes of fertilizers.
- 3. Honorary Members** – any individual who, in the opinion of the Committee, has rendered distinguished service to the Association “or” to the industry concerned and has been unanimously elected by the Committee to honorary membership



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FIAM MEMBERSHIP

- Agromate (M) Sdn Bhd
- Agrifert Malaysia Sdn Bhd
- All Cosmos Industries Sdn Bhd
- Behn Meyer & Co. (M) Sdn Bhd
- Blue Sky Agriculture Sdn Bhd
- CCM Fertilizers Sdn Bhd
- Chemfert Sdn Bhd
- Felda Agricultural Services Sdn Bhd
- Federal Fertilizer Co. Sdn Bhd,
- FPM Sdn Bhd
- Hap Seng Fertilizers Sdn Bhd
- Malaysian International Trading Corporation Sdn Bhd (MITCO)
- P K Fertilizers Sdn Bhd
- Sarawak Fertilizers Sdn Bhd
- Sumifert Sdn Bhd
- United Compound Fertilizers Sdn Bhd
- Union Harvest Marketing Sdn Bhd
- Yara International (M) Sdn Bhd



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Fertilizer Industry Association of Malaysia (FIAM)

FIAM EXECUTIVE COMMITTEE MEMBERS (2008-2009)

Chairman: *En Zainal A Matassan*

Vice Chairman: *Tuan Hj Ali Sabri*

Honorary Secretary: *Mr K G Rajendran*

Honorary Treasurer: *Mr Wong Yu*

EXCO Members: *Mr Chong Yiew On*
En Ismail Hassan
Mr Kenneth Jacob



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Types of Fertilizers

TYPES AND FORMS OF INORGANIC FERTILIZERS

- **Straight fertilizers** - single or multi-nutrient; all imported except for some locally produced Urea
- **Blended fertilizers / Mixtures** - totally locally produced using mostly imported straight fertilizers
- **Granulated Compound Fertilizers** - mostly locally manufactured, using mostly imported straight fertilizers
- **Complex Compound Fertilizers** - premium quality fertilizers; all imported

ORGANIC FERTILIZERS –

- Imported, minimal local production



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Types of Fertilizers

COMMON SOURCES

- **Nitrogen(N)**
 - Ammonium sulfate(21%N)
 - Ammonium chloride(25%N)
 - Urea(46%N)
- **Phosphorous(P)**
 - Phosphate rock
 - Super phosphate
 - Diammonium phosphate (DAP)
- **Potassium(K)**
 - Muriate of Potash(MOP)
 - Potassium Nitrate and Potassium Sulfate
- **Magnesium(Mg)**
 - Kieserite
 - Ground Magnesium Limestone(GML)



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Types of Fertilizers

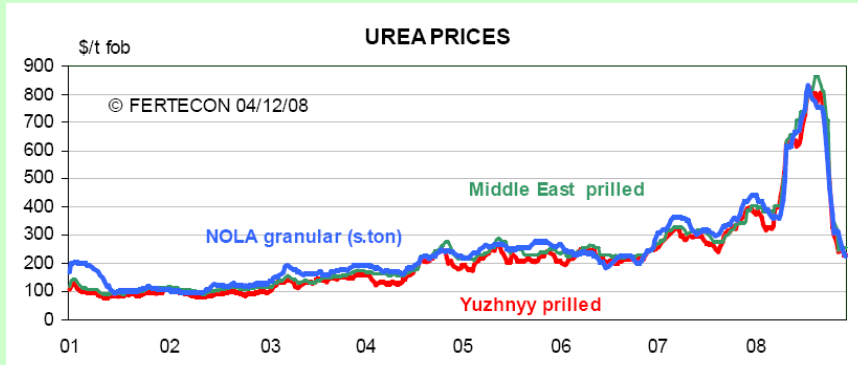
IMPORTED FERTILIZERS (Approximates for Year 2007)

Straight Fertilizers	Qty (metric tonnes)	No of Importers
Ammonium sulphate	800 000	17
Ammonium chloride	180 000	16
Urea	235 000	17
RP	800 000	20
DAP / TSP	45 000	17
MOP	1 400 000	18
Kieserite & related	240 000	19
Compounds (NPK, NK, etc)	300 000	19
Others (e.g. PN, B, SOP, etc)	200 000	8
TOTAL	4 200 000	



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International Prices of Fertilizers



Source: FERTECON Nitrogen Report – December 4, 2008



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International Prices of Fertilizers

PHOSPHATE PRICES



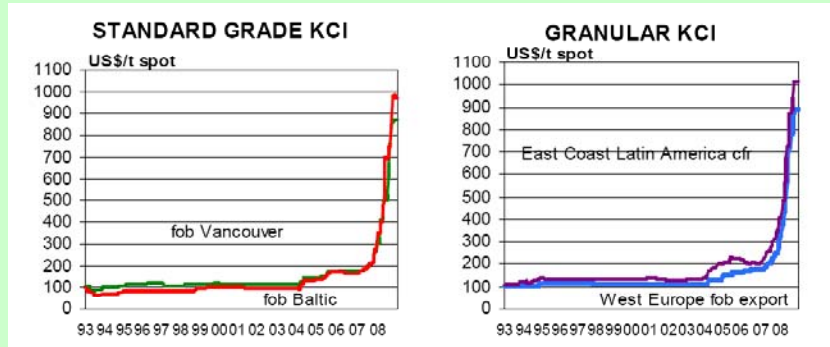
Source: FERTECON Phosphate Report – December 4, 2008



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International Prices of Fertilizers

POTASH PRICES



Source: FERTECON Potash Report – December 2, 2008



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Fertilizer Industry in Malaysia

STRUCTURE OF FERTILIZER INDUSTRY IN MALAYSIA

~ Comprise the following:

- Urea Manufacturers
- NPK Compound Manufacturers
- Importer / Distributors
- Second Liner Distributors

☞ STRUCTURE OF FERTILIZER INDUSTRY IN MALAYSIA



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SOURCE OF RAW MATERIALS FOR FERTILIZERS

(Main Countries of Origin)

- **Ammonium Sulphate** – Europe, Japan, China, Korea, CIS, Thailand, Philippines, Taiwan
- **Urea** – Middle East, Russia, China, Malaysia
- **Rock Phosphate** – Christmas Island, China, Middle East, USA
- **Muriate of Potash** – Canada, Russia, Jordan and Germany
- **Magnesium Sulphate** – Germany, China
- **Complex NPK Fertilizers** – Europe, China, Korea



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CONSUMPTION BY SECTORS

~ Comprise the following:

- **Government Subsidies**
- **Smallholders**
- **Government Bodies**
- **Plantation Companies**

➤ **MALAYSIAN CONSUMPTION BY SECTOR**



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MARKET SEGMENTS

- Padi farmers
- Vegetable farmers
- Pepper farmers (mainly in Sarawak)
- Fruits growers
- Flower growers
- Cocoa growers (smallholders & plantations)
- Tobacco growers (smallholders & plantations)
- Pineapple growers (smallholders & plantations)
- Rubber growers (smallholders & plantations)
- Oil palm growers (smallholders & plantations)



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PURCHASING SYSTEM

- Malaysian fertilizer importers acquire from international markets at global prices
- The purchases from global markets is based on demand and supply
- Malaysian farmers buy from local dealers at prevailing prices
- Smallholders usually buy from local dealers at prevailing prices
- Bigger estates & plantation groups usually call for tender, lock in prices for a period of usually 6 months to a year. The prices are also locked-in by the Malaysian importers with their overseas principals



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FERTILIZER PROCUREMENT SYSTEM BY PLANTATIONS

- **Open Tender System**
 - Normally for a period of six (6) months
- **Government Central Purchase System**
 - E.g. Department of Agriculture for the padi subsidy
- **Close Quote System**
 - Adopted mainly by private plantations
 - The frequency for calling for quotes may vary but at least twice yearly



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CURRENT ISSUES ON THE PROCUREMENT SYSTEM

- **Variance of $\pm 5\%$**
 - Meant for technical reason, could/has been abused for economic reason by Plantations.
- **Negotiation after tender closed**
 - Negotiation after negotiation, to get the lowest prices possible
- **Tender Voided**
 - Tender called for, declared void after submission
 - Another tender called for
- **Defaults by Plantations**
 - Non Performance by Plantations on contractual obligations



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The above measures taken by the Planters could be considered as unethical.

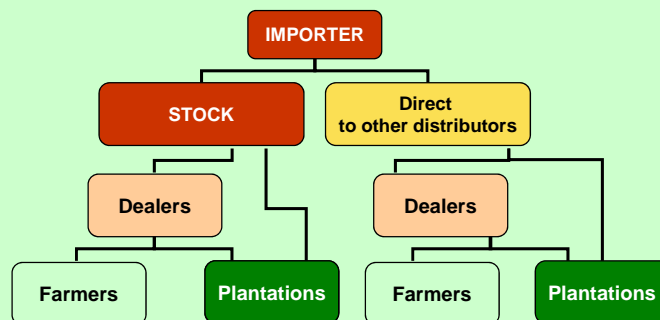
The Fertilizer Industry Association of Malaysia (FIAM) has established a “UNIFORM TERMS AND CONDITIONS FOR SUPPLY OF FERTILIZERS” as a safeguard for both the Malaysian fertilizers suppliers and the planters.



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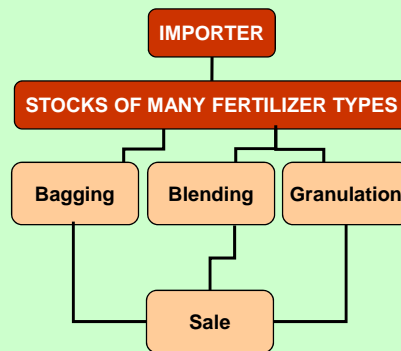
SALES DISTRIBUTION SYSTEM



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OPERATIONS OF A MALAYSIAN IMPORTER / DISTRIBUTOR



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ROLE OF MALAYSIAN IMPORTERS AS A STAKEHOLDER IN THE AGRICULTURAL SUPPLY CHAIN

- Source for required inputs
- Import, stock, bag, and process
- Finance holding cost
- Provides credit to buyers
- Provides relevant extension services to farmers
- Open competitions among the Malaysian importers ensure most competitive prices to the farmers and other end-users
- There is no cartel amongst FIAM members



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TRENDS IN THE CURRENT DEPRESSED MARKET

- Credit restrictions due to the global financial crisis have reduced the ability of the Malaysian Smallholders and Planters, and the Malaysian Fertilizers Importers, to purchase fertilizers internationally.
- Drop of commodity prices such as Crude Palm Oil (CPO) necessitates the reduction of purchases of high priced fertilizers. The price of Malaysian CPO has gone down by about 66% from a high of RM 4,486 per tonne in March 2008 to a low RM 1,510 per tonne scheduled for February 2009.



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- The big Malaysian Planters are trying to penetrate new markets.
- The big Malaysian Planters are seeking the Government's assistance to enable CPO to be used as an energy source in the form of 5% palm methyl ester blend with diesel, as biodiesel. The Government has allocated RM 200 million of the total RM 500 million in cess for palm oil to support the biodiesel initiative.
- 2009 will be a challenging year for the fertilizer industry in Malaysia.



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DEMANDS FROM THE PALM OIL PLANTERS

- Malaysian oil palm planters consumed more than 75% of the imported fertilizers.
- From 2007 and up to September 2008, despite the higher prices of fertilizers, sales of the Malaysian Crude Palm Oil (CPO) were very firm. The highest was RM 4,486 per tonne in March 2008.



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- The Malaysian six (6) big palm oil planters IOI Corp Bhd, Sime Darby Bhd, Kuala Lumpur Kepong Bhd (KLK), Boustead Holdings Bhd, Felda Holdings Bhd and United Plantation Bhd, which represent almost 60% of the country's annual production of about 17.5 million tones, have stated that they are "considering not using fertilizers for the next six months if the current fertilizer prices do not fall further." But KLK also stated that "efficient planters are still making profits and are not distressed yet."



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- **But the six big palm oil planters, and the other palm oil planters, are expected to continue to utilize fertilizers, albeit in a reduced quantity and delayed applications. In fact some of the big planters have finalized and confirmed their supply for the next six months.**
- **By February 2009 CPO production is expected to be reduced by 700,000 tonnes via a replanting exercise which would cover 200,000 ha. The exercise covers palm oil trees of more than 25 years old.**



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- **When the prices of CPO were high, there was no complaint from the planters on the high prices of fertilizers. They wanted more and exercised their rights for the maximum supply at the shortest time possible.**
- **When the CPO was not moving, and the prices were falling down, some of the palm oil planters did not honour their contractual obligations to the fertilizer suppliers. They deferred their offtakes and some even cancelled parts of their contracted volumes. Due to this non-performance by the planters, the suppliers are left with high cost inventories. These inventories are estimated to be in the region of 800,000 to 1.2 million tonnes.**



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- **One of the big Malaysian palm oil planters was reported to return a profit of about RM 2.3 billion.**
- **The Malaysian palm oil planters are expected to continue to source for fertilizers.**



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SUMMARY

- **Credit restrictions due to the global financial crisis have reduced the purchase of imported fertilizers.**
- **Drop of commodity prices such as Crude Palm Oil (CPO) has reduced the power to purchase the same volume of fertilizers. Thus the total volume of fertilizers purchased will be drastically lower than the 4.2 million tonnes.**
- **Malaysian planters, the biggest users of fertilizers, are seeking new markets and seeking the Government's assistance to utilize CPO as an energy source.**



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- **The Malaysian Government is providing assistance to palm oil planters to replant their palm trees which are more than 25 years old.**
- **The Malaysian Smallholders and Planters are expected to continue to utilize imported fertilizers.**
- **2009 will be a big challenge for the Malaysian fertilizers importers / suppliers.**



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ACKNOWLEDGEMENT

- **IFA**
- **FIAM Members**
- **FERTECON Limited**
- **The Malaysian “NEW STRAITS TIMES”**
- **The Malaysian “The STAR”**



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