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THE EVOLUTION OF FERTILIZER SUBSIDIES IN CHINA

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Evolution of fertilizer subsidy schemes in Asia

China Fertilizer Subsidy Policies

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Main Fertilizer Subsidy in China

1. Preferential prices for the fertilizer producers
 - Preferential electricity price
 - Preferential natural gas price
 - Preferential coal price
 2. Preferential transportation price
 3. VAT holiday for fertilizer products
 4. Export tax refund
 5. Duty free for imported raw materials and fertilizers
 6. Bank loan interests subsidy to the winter stored fertilizer storage
 7. Direct subsidy to the DAP producers
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1./2. Preferential prices for the fertilizer producers

□ 1. Preferential prices for the fertilizer producers

□ Preferential electricity price

- Since December 2003, the electricity price for small and large nitrogen fertilizer producers has been lowered by RMB0.12/kwh and RMB0.008/kwh respectively which is RMB6.32billion subsidy to the fertilizer industry in total every year;

□ Preferential natural gas price

- It can reduce the urea cost with RMB120/mt and lower RMB1.0billion for the urea producers in total every year;

□ 2. Preferential transportation price

- Since 2003 the preferential transportation price to fertilizer is about RMB80/mt in average that is about RMB5.0billion every year subsidy from the government.
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3. VAT holiday for fertilizer products

4. VAT refund for exported fertilizers

□ 3. VAT holiday for fertilizer products

- NPK compound fertilizer has been on VAT holiday since 1994;
- MAP VAT holiday since January 1, 1998
- Urea VAT holiday since July 01, 2005
- DAP VAT holiday since January 1, 2008

□ 4. VAT refund for exported fertilizers

- China stopped importing urea since 1997 and before March, 2004, Chinese government gave urea exporters with 50%-100% VAT refund.
 - Since March 16, 2004, Chinese government stopped the tax refund policy and began to impose export tax to exported urea and DAP
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5. VAT holiday and low tariff for imported raw materials and fertilizers

- Before 2002, Chinese government gave imported phosphoric acid VAT holiday policy to support those who were consuming imported PA for phosphate compound fertilizers production such as Sino-Arab Chemical Fertilizer Co. Ltd. etc.

 - Since May 20, 2008, Chinese government issued VAT holiday policy for imported sulfur;

 - Most of the imported fertilizers and related raw materials are given very low import custom tax which are all below 4%.
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6. Bank loan interests subsidy to the winter stored fertilizer storage

7. Direct subsidy to the DAP producers

6. Bank loan interests subsidy to the winter stored fertilizer storage

Since 2004, Chinese government gave bank loan interests subsidy to those qualified fertilizers distributors who hold the fertilizer storage during the winter season, the total volume is about 5-8million mt, the interests subsidy is about RMB300million to RMB500million every year.

7. Direct subsidy to the DAP producers

In 2004, Chinese government gave RMB100/mt direct subsidy to both domestic and imported DAP which was about 6.7million mt and about RMB670million subsidy.

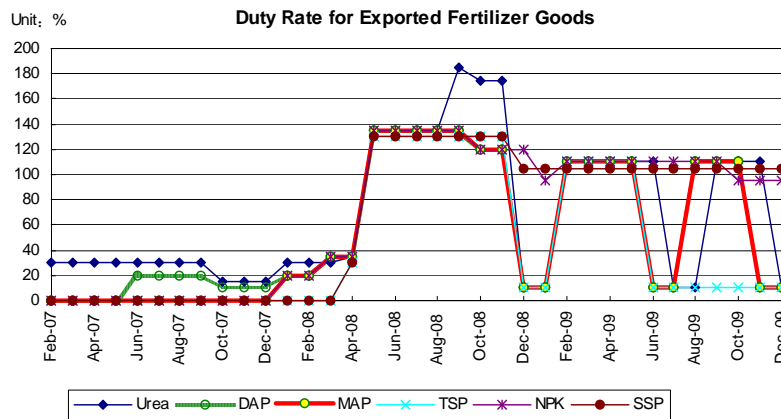
The latest policy set by China Central Government

Chinese central government set a new policy on the exported fertilizers on Nov. 14, 2008. According to the new policy:

1. To set export base price for the off-season and to reduce the export tariff from 125%~185% to 10%~110% till December 31, 2009;
2. From December 1, 2008, Urea, MAP and DAP export tariff will be 110% (35% basic+75% special) during mid-season and 10% during off-season;
3. The base prices are:
DAP RMB4000/mt; MAP RMB3700/mt; Urea RMB2300/mt;
4. During the off-season, if Urea, DAP and MAP prices are lower than the base prices, the export tariff will be 10%, otherwise the export tariff will be calculated by the formula:

$$[(1.1 - \text{base price} / \text{export price}) \times 100]$$
;
5. The seasons are defined:
 - Urea mid-season: Feb.1~Jun. 30, 2009 and Sep.1~Nov.15, 2009
 - Urea off-season: Dec.31, 2008~Jan.31, 2009 and Jul. 1~Aug.31, 2009
 - MAP&DAP mid-season: Feb.1~May. 31, 2009 and Aug.1~Oct.31, 2009
 - MAP&DAP off-season: Dec.1, 2008~Jan.31, 2009; Jun. 1~Jul.31, 2009 and Nov.1~Dec.31, 2009

China Fertilizers Export Tariff Changing Trend



Conclusions

1. The fertilizer subsidies in China are mainly for supporting China agriculture development and the food security, thus most of the subsidy policies could be continuous in the short term;
 2. China government will limit fertilizer production capacity expansion in a certain volume, thus the future expansion model of fertilizer industry in China could be merging, acquiring and integrated.
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3. Due to the great influences and uncertainties caused by the sharp change of fertilizer policies in recent years, the top leaders of Chinese government and the related departments have already started to study and consider to let the fertilizer price to be decided mainly by the market.

And the security of agriculture and food will be realized through direct subsidies and prices increasing of the crops.

So, in the coming future, the Chinese fertilizer export policies will be neither encouraging nor limiting based upon fully supply of domestic market.
