

**2003 IFA PRODUCTION AND INTERNATIONAL TRADE CONFERENCE
AND
REGIONAL CONFERENCE FOR EASTERN EUROPE
AND CENTRAL ASIA**

22-26 September 2003, St-Petersburg, Russia

**DEVELOPMENT OF RUSSIAN AGRICULTURE
AND FERTILIZER INDUSTRY**

by

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All the papers and presentations prepared for the IFA Conference in St-Petersburg are included on a cd-rom released in October 2003.

Development of Russian Agriculture and Fertilizer Industry

by

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Ladies and gentlemen! Colleagues!

The current situation in the agriculture of the Russian Federation is characterized by a lack of investments and working assets at farm enterprises and by a dependence on changes in commodities and food markets. The majority of Russia's territory belongs to a high-risk farming area. Every third hectare of sown acreage has a low content of humus, phosphorus and potassium, a higher acidity level, which considerably limits agricultural production.

Under these circumstances, the application of mineral fertilizer has a significant impact on the agricultural production alone.

Starting from 1964 the chemical industry developed rapidly in the Soviet Union. Application of chemicals became one of the major aspects in agricultural production. Fertilizer plants, federal and local agricultural inputs centers were built, which provided farms with fertilizer and fertilizer application machinery.

By 1990 fertilizer production reached 16 million tonnes (nutrient) in the Russian Federation, consumption was 12 million tonnes (nutrient). The application rate of fertilizer per hectare of arable land increased eightfold on 1964 and reached 100 kg nutrient. As for such crops as sugar beet, potatoes, sunflower and vegetables, the application rate was 300-500 kg nutrient, which was in line with the application rate in Europe.

Economic changes started in early 1990s negatively and radically affected the whole agricultural industry of the country. I am not going to look at all our challenges. I will dwell on fertilizer supplies to agricultural producers.

From 1994 onwards to support agricultural producers, the Government of the Russian Federation has adopted provisions to partly compensate to agricultural producers for costs of fertilizer and crop protection chemicals.

Until 1999 in accordance with the government provisions the compensation was paid to agricultural producers immediately after they purchased chemicals. Agriculture controlling authorities allocated compensation funds among regions and farms. However, due to insufficient funds from the federal budget and low solvency of agricultural producers, only 50-60% of the funds envisaged by the government provisions were allocated.

From 1999 the Russian Ministry of Agriculture used tenders to define suppliers of chemicals, made arrangements for prices, subsidy rates, a range of chemicals. The Ministry concluded contracts with tender winners, obliging them to comply with the stipulations provided in the Order of subsidizing the chemical supplies to agricultural producers. In 2000-2002 subsidies were paid to producers if farmers received agricultural chemicals and the agriculture controlling authorities confirmed it. That time saw the creation of a network of regional agents and operators, which were mainly supplied mineral fertilizer and crop protection chemicals and confirmed deliveries of chemicals to agricultural producers.

However, the arrangement did not promote an increase in sales to agricultural producers.

Thus, from 2002 chemical subsidies have been paid directly to agricultural producers.

It is noteworthy that in the last three years the Ministry of Agriculture has received all the funds allocated from the federal budget to partly subsidize agricultural chemicals. In 2000-2001 the budget funds totaled 2.6 billion roubles, this year -2.1 billion roubles. In 1995-2002 yearly fertilizer deliveries did not exceed 1.6 million tonnes nutrient, i.e. the application rate for fertilizer was 12-14 kg/ha.

The reasons for that are well known to many of you, but I would like to look at two major ones – the price differential and solvency of agricultural producers.

Fertilizer production is one of the few sustaining chemical industries in the country. The production crisis of 1995-1998 has been overcome. Last year production was 14 million tonnes nutrient.

Production growth is accompanied by a rise in revenues. So, in 2000 the agreed price for AN was 950 roubles, excluding VAT. In 2002 the price was 1900 roubles, excluding VAT. In the spring 2002 diesel fuel was priced at 4.5 rouble/litre, at harvesting the price varied from 7.5 to 9 roubles.

In 2000, the price for food wheat was 3200 roubles, and in 2002 : 2000-2200 roubles.

In 2001, 46% of farms were loss making; in 2002, the number was 55%. In 2001 profitability of agricultural production was 9.2%, in 2002 – 0.2%. Yearly profitability of fertilizer production is 15-30%.

The gap in goods exchanged between agriculture and other industries has grown much wider. The instability and volatility of prices in domestic food markets, above all, in grain markets has had a negative impact on performance of agricultural producers.

In 2002, according to experts' estimates there was an opportunity to achieve 2 million tonnes in domestic fertilizer supplies. In the spring season, domestic sales went up by 200-250 000 tonnes nutrient: 8.8 million hectares in winter cereals were top-dressed, nearly 30% of land in spring crops were banded. This resulted a production of 86.6 million tonnes of grain. However, the fall in grain prices at harvesting restricted fertilizer sales. The yearly sales totaled 1.44 Mt, which is lower than in 2001.

This year the fertilizer supply situation is far worse than in 2002. Sales are 140-150 000 tonnes nutrient lower, many producers feel the shortage.

In the end, I would like to point out to some positive developments.

It is creation in the last couple of years of large fertilizer holding and distribution companies, which helps reduce the number of mediators. Producers became closer to farmers not only in sales but also in agricultural production. Farmers continue receiving commercial credit. Every year the range of fertilizer expands, fertilizer blending is promoted, which in the future will possibly become priority in fertilizer production and application.

On our part, we put great hopes on adoption of new laws, in particular the law "On agriculture" and other laws, which will promote sustaining development of our agriculture at the same pace as that of the fertilizer industry.

At the beginning of my speech I share with you, colleagues, the activities that gives us an opportunity to produce bread, vegetables, meat, milk. You are also involved here. Farmers appreciate it and I hope your involvement will get deeper and deeper year in year out.

I would like to thank the organizing party of the IFA Conference for the invitation to participate in it and wish it success.

Thank you.