

*Agricultural Situation and
Future Fertilizer Demand
in China*

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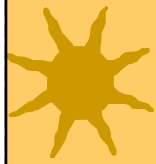


Part 1

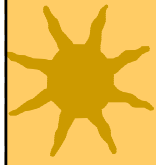
*Current Agriculture
Economy and Agriculture
Policy in China*



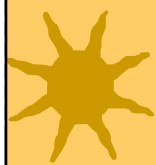
1.1 Stable Development of Current Agricultural Economy



I. Continuous restructuring of crop products



II. Stable development of livestock farming and fishery.

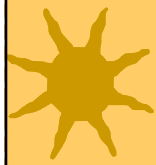


III. Slight increase of commodity prices

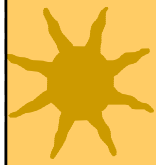
IV. Stable increase of farmers net income



Table 1 Output of main agriculture product 2003 ('000 tonnes)

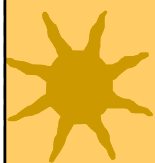
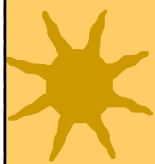
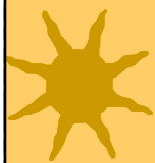


Product	Output	Variation over last year %
Crops	436070	-5.8
Summer crops	96220	-2.4
Early rice	29440	-2.8
Autumn crops	305010	-7.1
Oil crops	28050	-3.2
Peanut	13370	-9.8
Rapeseed	11410	8.1
Cotton	4870	-0.9
Sweet crops	96700	-6.1
Sugarcane	90510	0.4
Beet	6190	-51.8
Tobacco	2010	-5.7
Tea	780	4.5
Fruits	144700	0.3
Vegetables	539600	2.1





Imports and Exports Situation of Agricultural Product 2003



In 2003, both the import and export of agricultural products continuously were in a stable upward trend, but the rising of import was higher than export, favorable balance surplus was a downward trend. The total trading value of agricultural product was \$40.36 billion, increased by 31.9% over last year. Export value is \$21.43 billion, increased by 18.1%; import value is \$18.93 billion, increased by 52.1%. Favorable balance surplus is \$2.5 billion, declined by 56.1%.



Trade Statistic of Agriculture Product

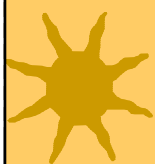
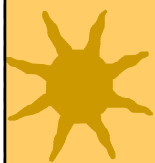
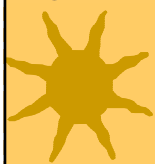
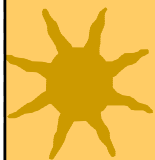
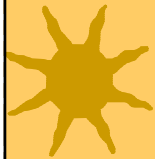
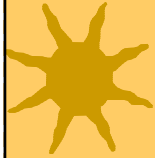


Table 2 Trade Statistic of Agriculture Product Unit: billion dollars; '000 tonnes

	Import	± %	Export	± %
Total trade value	18.93	+52.1	21.43	+18.1
Favorable balance		2.5		-56.1
Crops	2087	-268	22004	+483
Oil crops	20976	+756	1240	+24
Vegetables	90	-11	5527	+187
Fruits	1019	+78	2668	+338



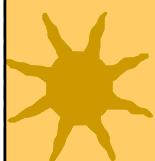
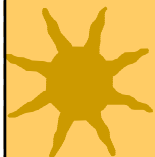
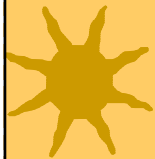
Characteristics of Agriculture Product Trade



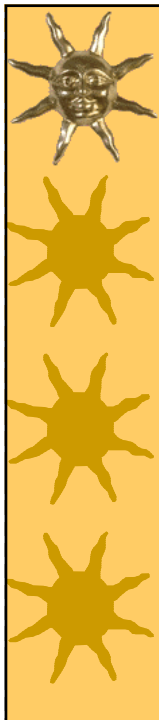
- Crop export increases greatly and import declines, so the overall situation is a net exporting trend.
- Soybean and oil crops keep the trend of increased import and declined export continuously.
- Cotton import is upward largely, sugar trade declines, export of vegetables and fruits rise.
- The import and export of livestock product and aquatic/marine product both increase, the trade of livestock product is a adverse balance of trade.
- Import and export value increases greatly all over the country, but the import and export of agriculture product owes mainly to eastern China, and the share of central China increases.
- Asia is the main export market of china agriculture product continuously, but the share declines slightly. America still is the main import market.
- The value of common trade and processing of investor's raw materials trade is a upward trend.



1.2 Main Problem of Agriculture Economic: the Difficulty to Increase Farmers' Income

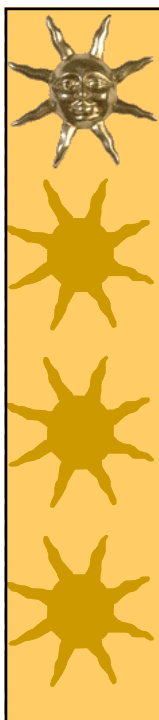


- ★ **The increase rate of Farmers' income is continuously very low.**
- ★ **The widening of earning gap between rural and urban residents.**
- ★ **It is more difficult to increase the income of farmers to whom crop is their main source of income.**



Part 2

**The Main Points of the 2004 No.1 Document
by
the CPC Central Committee and State Council**

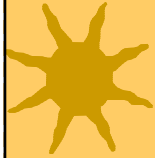


2.1 Characteristics of the 2004 No.1 Document by the CPC Central Committee and State Council

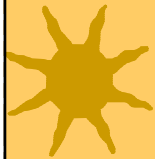
- *Although the meeting discussed such topics as the improvement of farmers' income, the safety of grain, rural reform etc., the main point is how to improve farmers' income.*
- *Transmitting this document as No.1 document, shows the concern of the China central leadership to agriculture problem.*



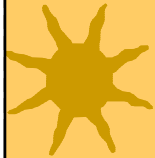
2.2 Main Points of the No.1 Document



▲ *Respectively stressing focal and difficult points of raising farmers' income in grain-producing and poverty-stricken areas.*



▲ *Respectively from three aspects consisted of agriculture interior, rural interior and rural exterior to put forward related measurements to enlarge employment and raise income.*



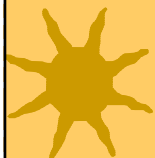
▲ *A series of measures have been raised in the document, including opening up farm produce market, increasing investment in agriculture and rural areas, and deepening rural reform.*

▲ *Leadership at various levels should reinforce leading and earnestly implement related policies.*



Part 3

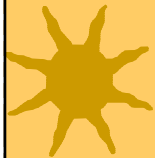
China Agriculture and Rural Economic Situation Outlook 2004



→ **Grain output will slightly recover.**

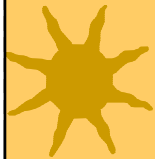
→ **Farmers' burden will further lessen.**

→ **Larger employment scale of rural migrant workers.**



→ **The income of farmers will increase steadily.**

→ **The import and export situation of crop product maybe fluctuates.**

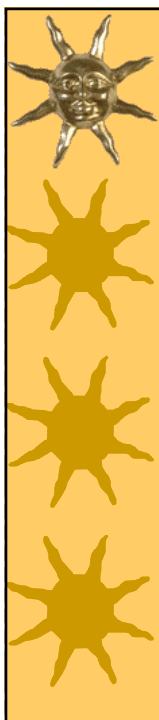


→ **Agriculture product tariff should reduce to 15.8% or so by 2004.**



Part 4

China Fertilizer Demand Tendency 2004



4.1 China Fertilizer Production, Consumption and Import in Recent Years

Table 3 China fertilizer production 1999-2003 '000 tonnes nutrient

Year	Production	Nitrogen	Phosphate	Potash
1999	30013	23239	6361	413
2000	31857	23981	6630	1246
2001	33830	24433	6959	1321
2002	36951	27426	8054	1471
2003	42009	31279	9085	1645

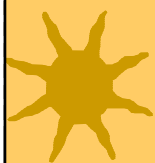
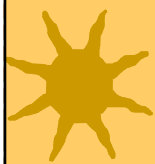
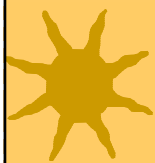


Table 4 China Fertilizer Import 1999-2003

Unit: '000 tonnes product

Year	DAP	NPK	NP	Urea	AN	KCl	K ₂ SO ₄
1999	5282.2	2362.2	141.5	68.1	-	5195.5	197.2
2000	3599.9	1985.2	88.3	248.9	-	5991.5	190.8
2001	3117.1	2262.1	27.2	247.1	-	5124.6	257.2
2002	4925.0	2819.7	31.8	790.7	1095.9	6648.1	302.4
2003	2609.0	2244.0	30.5	134.9	-	6233.2	332.8

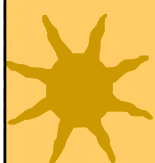
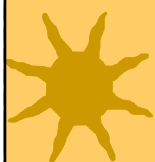
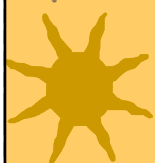


Table 5 China Fertilizer Consumption 1998-2003

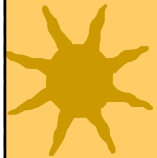
Unit: '000 tonnes nutrient

Year	Total	Nitrogen	Phosphate	Potash	NPK
1998	40854	22335	6841	3459	8220
1999	41246	21809	6970	3663	8803
2000	41460	21620	6910	3770	9180
2001	42538	21641	7057	3996	9837
2002	44356	22137	7305	4165	10749
2003*	46231	23073	7613	4341	11203

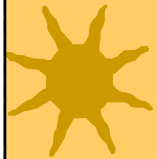
Annotation: the consumption of 2003 is an estimated figure.



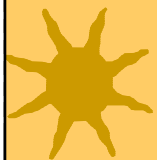
4.2 Analysis of Fertilizer Demand Tendency 2004



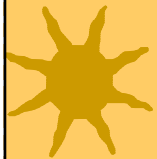
Surveying China agriculture situation in 2004, combined with the current application pattern of fertilizer, we forecast that fertilizer application may have such characteristics as following:



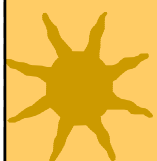
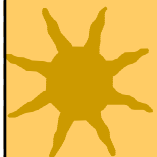
- Slightly increased fertilizer consumption
- Resource allocation Rationalization
- Alleviated regional disparity
- Stabilization of fertilizer application pattern
- Increased influence of crop restructuring to fertilizer consumption

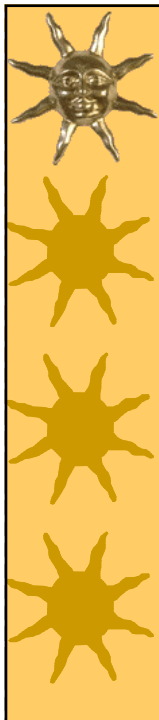


4.3 Basic Factors that Influence Agriculture Demand to Fertilizer



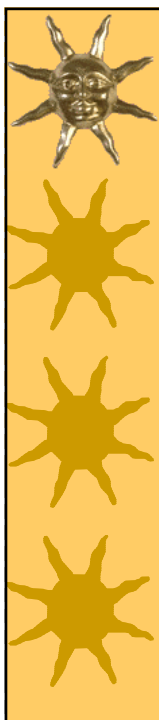
- Utilization ratio of fertilizer
- Strategic target of agriculture (especially crop planting)
- Anticipation of farmers' income improvement
- Apply situation of fertilizer resources
- Anticipation of technology progress
- Fertilizer demand of agriculture development





Part 5

Project of Fertilizer Demand for the Future Five Years

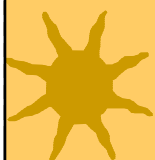
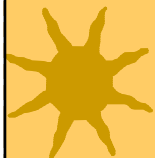
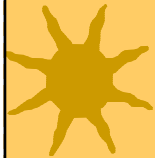


5.1 Project of Fertilizer Demand Scale

Adapted to the tendency of China agriculture development, fertilizer demand will also come into a new stage. Increasing demand to fertilizer is the basic tendency, but rapid increase stage has been over, and stable increase stage gradually comes.



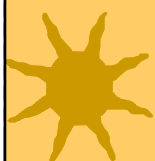
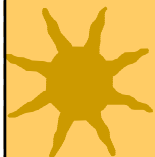
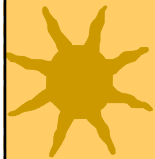
Project of Fertilizer Consumption Level by 2010



According to the overall development layout of government, fertilizer consumption will continue raising, reaching 50.0 Mt in 2010. Under this target, China fertilizer consumption will increase at a low annual growth rate of 1.3% in this stage, namely stable increase stage.

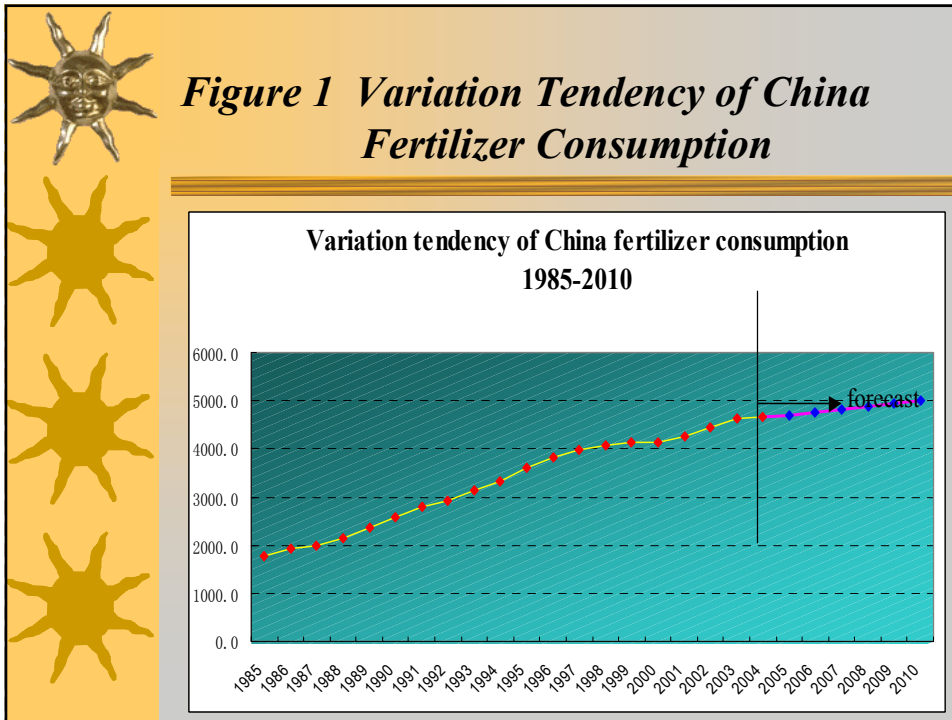


Table6 Project of China Fertilizer Demand 2005-2010



Unit: '000 tonnes nutrient

Year	Total	Nitrogen	Phosphate	Potash	Annual growth rate
2005	47000	29300	10700	7000	1.3%
2006	47600	29674	10837	7089	1.3%
2007	48200	30045	10975	7180	1.3%
2008	48800	30413	11115	7272	1.3%
2009	49400	30779	11257	7364	1.3%
2010	50000	31141	11401	7458	1.3%

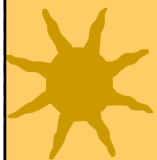
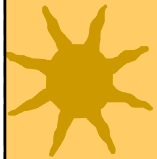
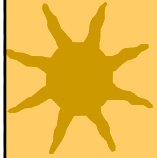


5.2 Don't Estimate too Optimistically about the Growth Level of China Fertilizer Demand

1. The use of fertilizer will gradually decline after reaching the zenith, and the variation of a country's economic develop level should sufficiently consider when making mid and long-term forecast of fertilizer consumption.
2. After reaching the zenith, fertilizer consumption has gradually reduced at most of the developed countries.
3. Our country has already become one of the highest fertilizer application countries in the world .
4. The influence of economic development on the recycle of crop nutrients.



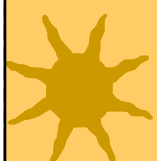
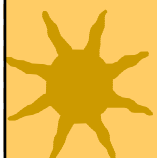
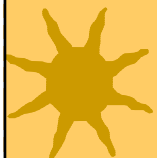
★ *Summarization*



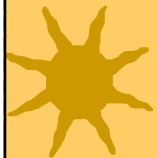
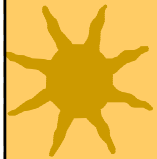
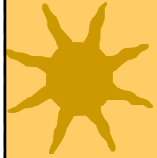
- ※ **Current rural economic is developing steadily, the restructuring of crop product is going on, the restructuring of agriculture and rural yield structure is pushing on step by step, and farmers' pure income is raising steadily.**
- ※ **Both the import and export of agricultural product continuously is a stable upward trend, but the rising of import is higher than export, favorable balance surplus is a downward trend.**
- ※ **Agriculture product tariff should reduce to 15.8% or so by 2004.**
- ※ **The prominent problem of current rural economic is how to increase farmers' income. Farmers' income increases very slowly, and the urban-rural disparity is widen.**



★ *Summarization*



- ※ **The government pay great attention to three agriculture-related issues, related measures have been constituted to improve farmers' income, strengthen safety of grain, and deepen rural reform.**
- ※ **China is a large country of fertilizer consumption, now it's fertilizer consumption is biggest in the world, and total fertilizer consumption expects to exceed 46 Mt in 2003.**
- ※ **Future fertilizer supply/demand may have such characteristics: slight increased fertilizer consumption, resource allocation Rationalization, alleviated regional disparity, stabilization of fertilizer application pattern.**
- ※ **Fertilizer demand will increase steadily, but rapid increase stage has been over, and stable increase stage gradually comes.**



★ *Summarization*

- ※ **From 2005 to 2010, China fertilizer consumption will increase at a low annual growth rate of 1.3%, reaching 50 Mt in 2010.**