KEYNOTE MESSAGE

Fertilizer Market in the Philippines:Evolution, Challenges and Outlook

By Honorable Proceso J. Alcala [1]

Secretary, Department of Agriculture

Philippine agriculture plays a vital role in the economy. It is in the rural areas where most Filipinos, including the country's labor force, live. Agriculture is the major source of raw resources on which the rest of the economy depends. It accounts for about one-fifth of the country's gross domestic product, while over one-third of the population is employed in agriculture or agriculture-related industries.

The role of fertilizers in the agricultural production particularly for rice and corn cannot be understated – less fertilizer means lesser yield; conversely, proper fertilization brings about optimum yield. Simply put: enhancing agricultural productivity is a function of farm inputs, foremost of which is the use of fertilizer.

Fertilizer in the Philippines

Fertilizer use in the Philippines dates back to the early 1950's. At the end of the decade and in the early 1960's fertilizer industries were started by four private companies, based mainly on imported raw materials. Sulphuric acid was practically the only indigenous raw material. Until the first oil crisis in the early 1970's, these factories were flourishing and playing an important role in the country's fertilizer logistics and in educating farmers in the use of fertilizer, and thus in the establishment of demand. Simultaneously, the introduction of new high-yielding varieties of rice and corn, which responded particularly well to fertilizers, helped to feed the increasing population.

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[1] Presented by Dr, Norlito R. Gicana, Executive Director of the Fertilizer and Pesticide Authority in behalf of Secretary Proceso J. Alcala of the Philippines Department of Agriculture during the International Fertilizer Association Crossroads Asia-Pacific Conference, Manila Philippines 29-31 October 2012

Policies and Laws

In the years prior to February 1973, the fertilizer industry in the Philippines was marked by a policy of laissez faire, the importation, distribution, marketing and all other aspects of the industry were free from government control, regulation or monitoring. This was the period when fertilizer demand was low given the priority that the government accorded to agriculture. Although there are certain fertilizer laws which were promulgated, these statutes mainly concern incentives and subsidy.

In 1972, the government launched a program geared towards attaining self-sufficiency in major staple crops, namely, rice and corn. One of the major components of this program continues to be fertilizer. There was a marked increase in the demand for fertilizer especially the nitrogenous grades which are mostly imported, in line with the extensive fertilization program aimed at enhancing production. It was then that the government realized that some form of control is needed to be exercised over the fertilizer industry. On February 13, 1973, Presidential Decree No. 135 was promulgated creating the Fertilizer Industry Authority (FIA). By virtue of this law, the government completely changed its policy of non intervention to one of rigid and all encompassing control over the fertilizer industry. FIA power was so broad since its jurisdiction included control over prices, mark-up, distribution channels, promotion, import, export and production of fertilizers. The same law likewise empowered FIA to enter into contracts for purposes of exporting or importing fertilizer. One of the most significant provisions of the law, however, was the mandate of outright tax exemption for the importation of all kinds of fertilizers.

In May 1977, presidential Decree No. 1144 was promulgated abolishing the FIA and creating in its stead the Fertilizer and Pesticide Authority (FPA) which is currently the implementing agency for fertilizer laws. PD 1144 merged the fertilizer and pesticide industries and placed them under the jurisdiction of a single government agency.. The law also adopted and retained the broad power provided for under PD 135 on fertilizer regulation and control.

Liberalization Policy of the Government

In line with the liberalization policy of the government in 1986, FPA relegated considerable administrative control on the industry and replaced this with developmental support through mutual cooperation and implementation of policies and guidelines for the interest of the agricultural sector, the industry and for the betterment of the farmers. While there is lesser government intervention, quality assurance and strict monitoring system are being institutionalized. Fertilizer trade was deregulated through the following measures: Removal of procurement control (i.e. determination of import requirements, conduct of bidding and allocation of import volume) Scrapping of the price-setting function of the government Discontinuance of the issuance of FPA Import Permit for fertilizer importations.

Subsidies and incentives

Undoubtedly, subsidies have contributed to the increasing consumption of fertilizer in the Asia-Pacific. The global trend, especially since the setting up of the World Trade Organization, has however been to finally do away with subsidies and allow trade to flow freely. The fertilizer subsidy in the Philippines was temporarily put on hold from the latter part of 1995 up to March 1997. Because subsidies lower fertilizer prices and encourage farmers to use fertilizer to increase yield, however, the ban was lifted. The Department of Finance (DOF) allowed the release of fertilizer shipments from the Bureau of Customs without the prepayment of duties and other charges starting March 25, 1997. Known as the import duty incentives on fertilizer importation, the scheme allows the duty exemption of fertilizer shipments under Section 12 of the General Appropriations Act of 1996.

Tariff Exemption and other Incentives

While the subsidy on fertilizer imports, covering the amount of customs duties (3%), was discontinued effective Jan 1, 1998 the 10 % value-added tax exemption on fertilizer is

still in effect. Starting on the last quarter of 1999, fertilizer imports by direct users (i.e. cooperatives, farmers associations, partnership and other entities directly involved in agriculture/fishery) will be granted total exemption. The incentive is in line with the implementation of R.A. 8435 otherwise known as the Agriculture and Fisheries Modernization Act.

Types of Fertilizers Marketed/Used in the Philippines

Fertilizer supply in the Philippines comes from two sources: domestic production and imports. In addition, the Philippine receives assistance from the Government of Japan in the form of fertilizer grant.

Currently, several fertilizer grades available on the world market are also available in the Philippines. Of the straight N fertilizer, urea and ammonium sulfate dominated the market; while potash was derived mainly from muriate of potash. Of the MOPs, 16-20-0 and DAP are the dominant grades and of the complete formulations, 14-14-14.

In addition there are other specialty formulations, all imported, used mainly in the cut-flower, cut-foliage, ornamental and nursery business.

Fertilizer Production

Domestic production depends mainly on imported raw materials such as rock phosphate, anhydrous ammonia, sulfuric acid and other finished fertilizer grades which are needed in the blending process of fertilizer production.

Challenges and Issues

High cost of fertilizer will always be a factor in agricultural productivity taking into consideration the cost of oil, high demand for fertilizer in the production of crops for biofuel.

The effect of climate change has taken its toll in the agriculture sector affecting the planting calendars, the type of seeds to be planted among others. The fertilizer industry has to be responsive on the type of fertilizers to be used to address the changes in the environment through development of soil specific, crop specific grades of fertilizer.

In the protection of the environment, the industry should adopt a product stewardship program in coordination with the government. Initially, the DA and the Department of Environment and Natural Resources are now working together to address the problem of pollution of Manila Bay. One pollutant are the agricultural waste water from farms using fertilizer and pesticides. A master plan has already been designed and both agencies are monitoring this water system of contaminants.

Partnership of the government and the fertilizer industry in protecting the interest of the farmers by being vigilant against unscrupulous traders – adulteration of fertilizers depriving farmers value for their investment in fertilizer.

The Government has to push through intensively also its efforts on the judicious use of fertilizer through training, information campaign; while the fertilizer industry has to implement its own product stewardship program to safe guard the environment, the health of the farmers and their trade/businesses.

Outlook of the Philippine Fertilizer Sector

Agricultural growth will require active support for increase in the use of fertilizers particularly in the use of high yielding variety seeds to attain the country's goals for food sufficiency and food security by the year 2013. The government and the fertilizer industry should work closely to achieve these goals and sustain this growth.

Thank you.