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India's IFFCO expects new fertilizer subsidy regime soon

Thu Feb 11, 2010 7:49pm EST

* New regime may hurt potash, phosphate demand in India

* Potash price has to remain in \$350 to \$360/tonne range

(All figures in U.S. dollars, unless noted)

By Euan Rocha

TORONTO, Feb 11 (Reuters) - The Indian government will announce a new fertilizer subsidy policy in coming weeks that could make it harder for Indian farmers to afford potash- and phosphate-based fertilizers, the head of fertilizer maker IFFCO said on Thursday.

India's fertilizer subsidy more than doubled in the 2008-2009 fiscal year to more than \$25 billion as high raw material prices and tight nutrient supplies led to a sharp run-up in fertilizer costs.

This increased the country's fiscal deficit and has forced the Indian government to rethink its fertilizer subsidy regime.

The current policy forces producers to sell fertilizer at below-market prices, while the government compensates them for the deficit through cash subsidies and bonds.

"The new policy will result in a fixed subsidy and a floating price," said IFFCO's Managing Director U.S. Awasthi.

Hence, if the price of nutrients like potash and phosphate rise dramatically, the government's subsidy will cover only a portion of the costs, while the remainder of the increase will have to be borne by farmers.

"In my mind, the potash suppliers have to very seriously think of supplying to India within a \$350 to \$360 range, if they think of selling at a higher price, then they may be in for a surprise, as our farmers may not be able to pay," Awasthi told Reuters.

India relies completely on potash imports to meet its domestic needs and the country was hurt, when the price of the crop nutrient spiked to over \$1,000 a tonne in mid-2008, from below \$150 levels, earlier in the decade.

A handful of producers control the majority of the world's potash supplies. Two export consortiums -- BPC and Canpotex -- currently account for more than 60 percent of global potash exports. [ID:nN20132301] [ID:nN25401844]

The price of potash retreated over the course of 2009 during the recession. In December, BPC signed a contract to sell potash to Chinese buyers at \$350 per tonne, but this month it announced plans to raise prices again. [ID:nN03149519]

But Awasthi argues that BPC's price hike is meaningless unless buyers consent to pay.

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The potash price on the current BPC-China contract is reasonable, but anything much higher than the \$350 price will crimp demand, said Awasthi, who has also previously headed the International Fertilizer Industry Association.

IFFCO, in a bid to secure some of its own potash requirements, has acquired a stake in a Canadian potash explorer and plans to keep scouring the globe for other low-cost potash projects.

[ID:nN11182843]

IFFCO, one of India's top fertilizer manufacturers, owns a 34 percent stake in Indian Potash Ltd, the country's largest potash importer. IFFCO produces more than 7 million tonnes of fertilizer annually and has overseas joint ventures and investments. (Reporting by Euan Rocha; Editing by David Gregorio)

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