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India accuses potash producers of unfair prices

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VIENNA, Austria -- For three decades, India has subsidized its fertilizer industry to keep costs low for farmers. Now, with prices for chemical crop nutrients soaring, that subsidy is taking a giant bite out of the nation's coffers and India's agriculture leaders are accusing the world's producers, led by Potash Corp. of Saskatchewan Inc., of pushing prices too high and exacerbating the global food crisis.

"What we've observed in the last year is a cartelization of suppliers," said U.S. Awasthi, managing director of one of the world's largest buyers of fertilizer, Indian Farmers Fertilizer Co-operative Ltd. (IFFCO), with 55 million members, many of them small holder farmers.

IFFCO is the largest fertilizer producer in India and buys three million tonnes of potash through an affiliated firm.

"There is a control of phosphate suppliers, control of potash, which are creating havoc with agriculture," he said at the International Fertilizer Industry Association conference in Vienna, Austria. "We are appealing to the United Nations to put some fear of God in these cartels, which are . . . obnoxiously raising the price of fertilizers."

J.S. Sarma, secretary to the Indian government's department of fertilizers, said prices are going up "abnormally high, and not justified at all."

"The correlation (to demand, which is rising in India by around 10 per cent per year) is just not there," Sarma said. "I would stop short of using the word 'profiteering' . . . but it is an unhealthy practice. The way the fertilizer price-fixation system is structured is likely to affect global food security."

Prices of the three main fertilizers -- nitrogen, potassium-based potash and phosphates -- have shot up this year, generally by between 150 and 300 per cent.

The effect on India's finances is striking: The size of the subsidy forecast for the 2008-09 budget year is \$22.5 billion US, almost two-and-a-half times higher than last year and up eightfold from six years ago. At this year's forecast level, spending on fertilizers is approaching the size of India's defence budget, and equal to 2.5 per cent of

GDP.

"I would not be honest if I said that it is not putting a strain on (India's) financial resources," said Sarma.

But the subsidy is also one reason why India -- with 200 million poor people among its 1.1 billion inhabitants -- has thus far escaped the kind of social unrest seen in more than 30 other countries because of rising food prices, which affects the poor most dearly.

"For us, what is most important is the poor should not die of starvation," said Awasthi.

The World Bank has estimated 100 million people will be thrown into poverty because of the food crisis. Some nations have responded by curtailing rice exports or, in the case of China, slapping an export tax on fertilizers, to protect their food supplies.

One fertilizer producer wasn't going to leave the Indian accusations unchallenged.

"They are saying fertilizer is driving up grain prices," said Bill Doyle, chief executive of PotashCorp, the world's largest fertilizer producer. "I said to (Awasthi), 'You know it's not true.' Grain prices are driving up fertilizer prices, not vice-versa. He has an agenda, which is they want low fertilizer prices, and I don't blame him."

Complicating matters is the fact potash and phosphate deposits are concentrated in a few countries and produced by few firms, which are organized into three marketing groups, including Canpotex, which sells Sask-atchewan potash on behalf of Potash Corp. and two other producers. While they have existed for years, Awasthi alleged industry consolidation had emboldened them -- as well as players in the more fragmented nitrogen market -- to raise prices too aggressively.

"They are manipulating the market," he said.

He said the Indian fertilizer industry is responding by trying to secure other supplies and by decreasing consumption through more careful use.

Doyle rejected allegations the producers act in tandem, pointing out that Canpotex, his company's marketing group, has not matched a rival's latest price rise -- to \$1,000 US a tonne -- feeling the increase is too much, too soon.

"If you look at the record, we act independently," he said.

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