

Several Policy Issues Related to Inorganic (Mineral) Fertilizer in China

By Luo Yousheng

Inorganic fertilizers are important to successful agricultural production in China. Investment for increasing domestic fertilizer production must be made quickly. There is need for constant revision of fertilizer price controls and narrowing the gap between supply and demand. Balanced fertilizer use could increase crop production and farmer profit potential. To achieve balanced fertilization will require additional imports of phosphorus (P) and particularly potassium (K) until increased domestic production of these essential nutrients is realized.

Mineral fertilizers are an important input for agricultural production. Fertilizers have contributed one-third of China's total grain production since the start of economic reforms.

China's investment in the fertilizer industry through 1994 has been 68 billion Yuan (RMB). The annual investment now is about 10 billion RMB. The main fertilizers produced in 1994 were nitrogen (N), about 17.4 million tonnes, and P, about 5.0 million tonnes.

The Chinese government supports fertilizer production by favorable policies such as preferential prices for electricity for small and medium sized factories, exemption of value-added taxes for raw materials, and priority rail service and fuel supplies for large factories. Tax exemption is granted when fertilizer is marketed to the China National Agricultural Means of Production Group Corporation (CNAMPGC), marketing cooperatives, state farms, agricultural extension organizations and major agricultural projects. The Government has also provided funds for CNAMPGC to purchase and store fertilizers in the off-season.

Fourteen common types of fertilizers are exempt from registration with the Ministry of Agriculture (MOA). All other materials, either for sale or donated, must be inspected and registered. Advertisements in the mass media for fertilizer products can only be done after permission is obtained from the MOA.

The Chinese fertilizer marketing system is mainly handled by the CNAMPGC and its local agents. No other company or individual is permitted to deal in fertilizers. Fertilizer importation is managed at the national level by the China National Chemical Import and Export Corporation (SINOCHEM).

Price controls for fertilizers have been changing in the last two years. The State Planning Commission (SPC) has allowed a uniform business margin to be built into sale prices. Imported fertilizers can sell at prices approximately 10 percent higher than domestic products. The SPC checks fertilizer prices periodically. Quotas for supply of fertilizer are controlled by the SPC. Retailing is done on a commission basis.

There are problems with the present system of distribution. These are:

- Domestic production cannot supply enough N, P and K nor supply them in a balanced manner. The shortfall must be made up with imports. This is likely to increase unless

new domestic facilities are soon brought into production.

- Plant nutrient balance is a critical problem. Nitrogen supply is close to sufficiency, but P and particularly K fall far short of demand. Furthermore, the locations of domestic P and K resources are distant from major areas of use creating transportation difficulties. Imports are needed to improve plant nutrient balance.
- Better local storage facilities to absorb off-season production as well as imported fertilizers are needed.
- Both domestic and imported fertilizer prices increased recently, and price controls of farm products are being abused. High fertilizer prices dampen farmer enthusiasm to produce crops and invest their labor and money in agriculture.

Further reform in agricultural policy is needed along the lines of these suggestions:

- Domestic fertilizer production needs to increase rapidly to stabilize prices and provide adequate supplies to farmers. This can be done by opening new facilities and technology improvements to increase efficiencies in present small and medium sized facilities.
- Fertilizer prices must increase to allow reasonable producer profits, which in turn encourage greater production.
- Fertilizer use efficiency is low. Emphasis is needed on extending modern technologies, including balanced fertilization, to farmers. Prices farmers receive for crops are also important incentives.
- The fertilizer distribution system needs reform. Several cuts can be made to reduce transportation costs. Having the marketing cooperatives purchase fertilizers based on contracts from farmers would improve the supply and demand situations.

Fertilizer policy and regulations need improvement. Registration should be institutionalized, standardized and streamlined. Licensing systems are needed for domestic purposes and standards set to identify fertilizers. Quality monitoring needs improvement and punitive actions set for those who break the rules. BCI

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Potash supply in China is too low:

- **Productivity is limited**
- **Crop quality is reduced**
- **N and P fertilizer efficiency lowered**