Afghanistan's Fertilizer Market

Reliant on Imports from Neighboring Countries

Emerging Asia

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18 January 2009

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Agriculture has traditionally been fundamental to the livelihood of the Afghan people, generating 50% of the country’s GDP and supporting 85% of its people. Use of fertilizers in Afghanistan has steadily grown since the 1970s and today is one of the fastest growing markets in the country with at least $50M US dollars invested during 2007 and 2008. Demand continues to be strong, and has been a driver of the sharp price increases for fertilizer experienced over recent years.

Background

The Afghanistan Government through the Ministry of Agriculture, Irrigation & Livestock is responsible for the management and growth of agriculture in the country. Many of the central entities operating within the Afghanistan agrochemicals sector were established during the late 1960s and 1970s during the Soviet era and thus relied upon then Soviet knowledge and technology. These entities, some profiled below, are now disbanded or operating at reduced capacity and non-government organizations (NGOs) and aid agencies have assumed key roles in managing the distribution of fertilizers.

Regulations restricting private sector participation in agricultural activities have been gradually reduced and in 2007 a 2% fee on private sector imports of fertilizer was removed. Under Afghanistan’s new policy, duties on fertilizers and pesticide imports have been lifted in order to make them more affordable. Also removed are legal and institutional restrictions on the movement of agricultural commodities.

Key Organizations within Afghanistan

1. Afghan Fertilizer and Agro Services Enterprise (AFAS)

The Afghanistan Fertilizer Company or Afghan Fertilizer and Agro Services Enterprise (AFAS) as it later became known was established during the early 1970s and received assistance through a USAID project and was later administered by other foreign private companies. It played a role in importing, storing and distributing fertilizers throughout Afghanistan as well as regulating the industry after the company was converted to a government enterprise in 1985. During the civil war in the early 1990s the AFAS operations stalled. Eventually, in 2006 the Afghanistan Government approved the liquidation of the enterprise. Although a key reason for its liquidation were concerns over its role with both providing quality control to the market as well as being a distributor, in reality AFAS’ role in distributing fertilizers had been declining for some time, as private organizations and NGOs stepped into the field.

2. Kud Bergh Fertilizer Plant

The Soviet Government also built Afghanistan’s only fertilizer plant in the North of Afghanistan (South of Mazar-e-Sharif), known as the Kud Bergh facility. This was built in

1967 and commissioned in 1974 producing urea fertilizer and reliant on natural gas from the Afghanistan Gas Enterprise as its feedstock.

The facility's capacity of 105,000MT is not being utilized, as only a third of this amount of urea is being produced – far less urea required to supply the nation's farmers. This is due to a lack of spare parts, shortage of gas, and other needed infrastructure upgrades, which was identified in a 2004 report from consultants Hill International, who concluded that the Kud Bergh facility is outdated, has high operating costs, poor technical management and is not viable to be rehabilitated.

> *The Kud Bergh Fertilizer Plant cannot be rehabilitated to produce fertilizer effectively and at a reasonable price due to its inefficient and obsolete design, high operating cost, extensive cannibalization of equipment and machinery, and unavailability of spare parts.(Hill International Report, 2004)*

3. Aid Agencies and NGOs

Distribution programs of fertilizer in Afghanistan are today operated by aid agencies and other NGOs or private companies contracted by these NGOs. Agencies that have a key role in distribution programs include: USAID, the FAO (Food and Agricultural Organization) of the UN, the World Food Program, IFDC (International Center for Soil Fertility and Agricultural Development), the SDC (Swiss Development Corporation) and the CNFA (Citizens Network for Foreign Affairs). This is in addition to the role that the Afghanistan Ministry of Agriculture plays in the distribution of fertilizers.

Private import and distribution companies such as Ghulam Mohammad Din – one of the largest fertilizer companies in Afghanistan with reportedly upwards of a 40% market share, have thrived under this environment and rely and work closely with the NGOs and aid agency programs to source and distribute fertilizers.

Aid agencies and NGOs typically provide a dual role of advisory services as well as distribution – a major focus is teaching local farmers how to use fertilizers more efficiently.

Current Fertilizer Market and Supply Chain

Urea and DAP are the two most commonly used fertilizers in Afghanistan. All DAP is imported to the country largely from the US, Australia, China and Pakistan while most urea is imported (or smuggled) from Pakistan, with smaller quantities from neighbors such as Tajikistan, Iran, Uzbekistan and Saudi Arabia. Another fertilizer used in lesser quantity is Mono Ammonium Phosphate from Iran. Fertilizer from the US and Australia is typically exported to Pakistan where it is repackaged and then exported to Afghanistan.

> *The potential market in Afghanistan is about 1,000,000 metric tons, but at the moment it would be about 500,000 metric tons (Country Director, CNFA Afghanistan)*

The Kud Bergh fertilizer plant's reduced capacity for supplying fertilizer has contributed to an undersupply of fertilizer in Afghanistan leading to rise in market prices. Market prices for DAP fertilizer have more than doubled since 2007, jumping from 1,100 Afghanis a sack in 2007 to 2,500 Afghanis a sack in 2008. This in turn has resulted in a profitable business for importing fertilizer to the country through both legal and illegal channels.

In neighboring Pakistan there are major concerns about fertilizer being redirected to Afghanistan. Due to government subsidies, fertilizer prices in Pakistan are significantly cheaper than Afghanistan's and world prices, which has contributed to the practice of smuggling fertilizer produced in Pakistan for domestic use, into Afghanistan.

Fertilizers also enter Afghanistan from neighboring Turkmenistan, Uzbekistan, Tajikistan and Iran. Emerging Asia's research uncovered that between 80% to 90% of the fertilizer used in Afghanistan is smuggled into the country, mostly from across the Pakistan border. DAP and urea are often transported into Afghanistan in trucks carrying cement. It is understood that truck drivers making their way from neighboring countries to Afghanistan must bribe to various security and civilian officials which also impacts the final price in Afghanistan.

> *In the years following the American invastion a lot of construction and development work was initiated in Kabul and surrounding areas. A lot of cement was purchased for Afghanistan and exported legally. However, since DAP is very expensive, DAP and urea were smuggled into Afghanistan in trucks carrying cement (a contact in Pakistan)*

It is believed that as much as 500,000 MT of fertilizers is imported from Pakistan into Afghanistan, legally and otherwise, however this figure is difficult to substantiate.

Due to the undersupply of fertilizer in Afghanistan, large multi-million dollar seed and fertilizer distribution projects through agencies such as USAID may struggle to source required amounts of fertilizer for Afghanistan's farmers.

Conclusion

Decades of conflict has contributed to poor infrastructure and a lack of viable fertilizer producers in Afghanistan, creating a substantial black or grey market for fertilizer imported from neighboring countries, particularly Pakistan. Sharply rising prices for fertilizer is a significant problem for the Afghanistan Government and NGOs / aid agencies who continue to face pressures with sourcing and supplying fertilizer to farmers in an effort to diversify their crops away from illicit poppy production.

Research Methodology for this Study

Emerging Asia's consultants conducted over 35 in depth interviews with senior managers at manufacturing companies, distributors, NGOs, aid agencies, research insitutes and embassy / consulate staff. This was in addition to leveraging any existing on-line secondary research from government reports, journals, etc.

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