

Paris, 21 March 2008

The Secretary
Senate Select Committee
on Agriculture and Related Industries
PO Box 6100
Parliament House
CANBERRA ACT 2600
Australia

Dear Ms. Radcliffe:

With regard to your letter of 25 February, received on 3 March, it is my honour to provide input for the Select Committee's inquiry in pricing and supply arrangements in the Australian and global fertilizer market.

You will find attached the following market outlooks for the global supply and demand of fertilizers:

Short-term outlooks prepared in November/December 2007

- Global Fertilizer Supply and Trade: 2007-2008
- Short-Term Prospects for World Agriculture and Fertilizer Demand: 2006/07-2008/09
- World Agriculture and Fertilizer Demand, Global Fertilizer Supply and Trade: 2007-2008 (Summary Report)

Medium-term outlooks prepared in May/June 2007

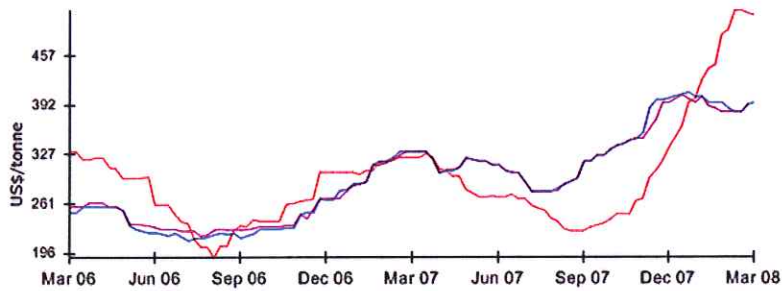
- Global Fertilizers and Raw Materials Supply and Supply/Demand Balances: 2007 - 2011
- Medium-Term Outlook for World Agriculture and Fertilizer Demand: 2006/07-2011/12
- Medium-Term Outlook for Global Fertilizer Demand, Supply and Trade: 2007-2011 (Summary Report)

Please note that, with the exception of the Summary Reports, these outlooks are, in principle, reserved for IFA's members. Since access to this detailed information is one of the highly valued benefits of belonging to IFA, we would appreciate if only the Summary Reports were published in full in the course of your work, although you are welcome to cite the other reports.

I would also like to draw your attention to the fact that the medium-term outlook is only produced once a year, and a new forecast is due to be released in May. Given the current state of agricultural markets, it would not be surprising if our demand projections were to shift upwards, which would further tighten the global fertilizer markets.

You may also be interested in global prices for some key products and intermediates. As part of its competition law compliance policy, the International Fertilizer Industry Association (IFA) does not track prices itself. The following data, quoted from *Fertilizer Week*, a reputable trade publication in our field of expertise, show the recent trends for the free on board (FOB) prices of several products from the Arab Gulf, which is a major point of departure for Australian imports of fertilizers and their intermediates.

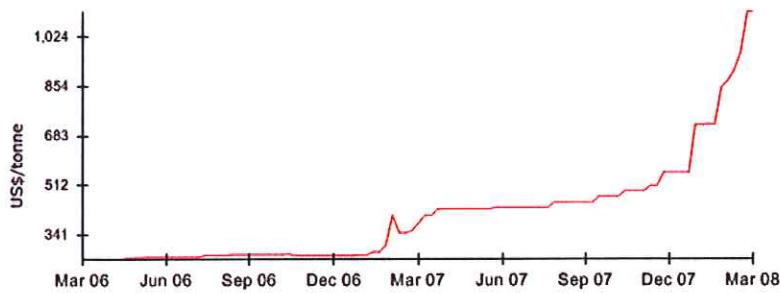
Ammonia and urea



Source: www.crugroup.com

Key	Product	Region	Class	Unit	Description
	Amm fob	Global	Spot price	US\$/tonne	Arab Gulf
	urea gran	Global	Spot price	US\$/tonne	Arab Gulf
	urea prilled	Global	Spot price	US\$/tonne	Arab Gulf

Diammonium phosphate (DAP)



Source: www.crugroup.com

Key	Product	Region	Class	Unit	Description
	DAP	Global	Spot price	US\$/tonne	N Africa

If you have any further questions, please do not hesitate to contact me or my colleague Michel Prud'homme, Executive Secretary of IFA's Production and International Trade Committee, who handles statistical and economic questions with regard to global fertilizer supply. He can be reached by e-mail at mprudhomme@fertilizer.org, by telephone at +33 1 53 93 05 13 or by fax at +33 1 53 93 05 45/47.

With kind regards,

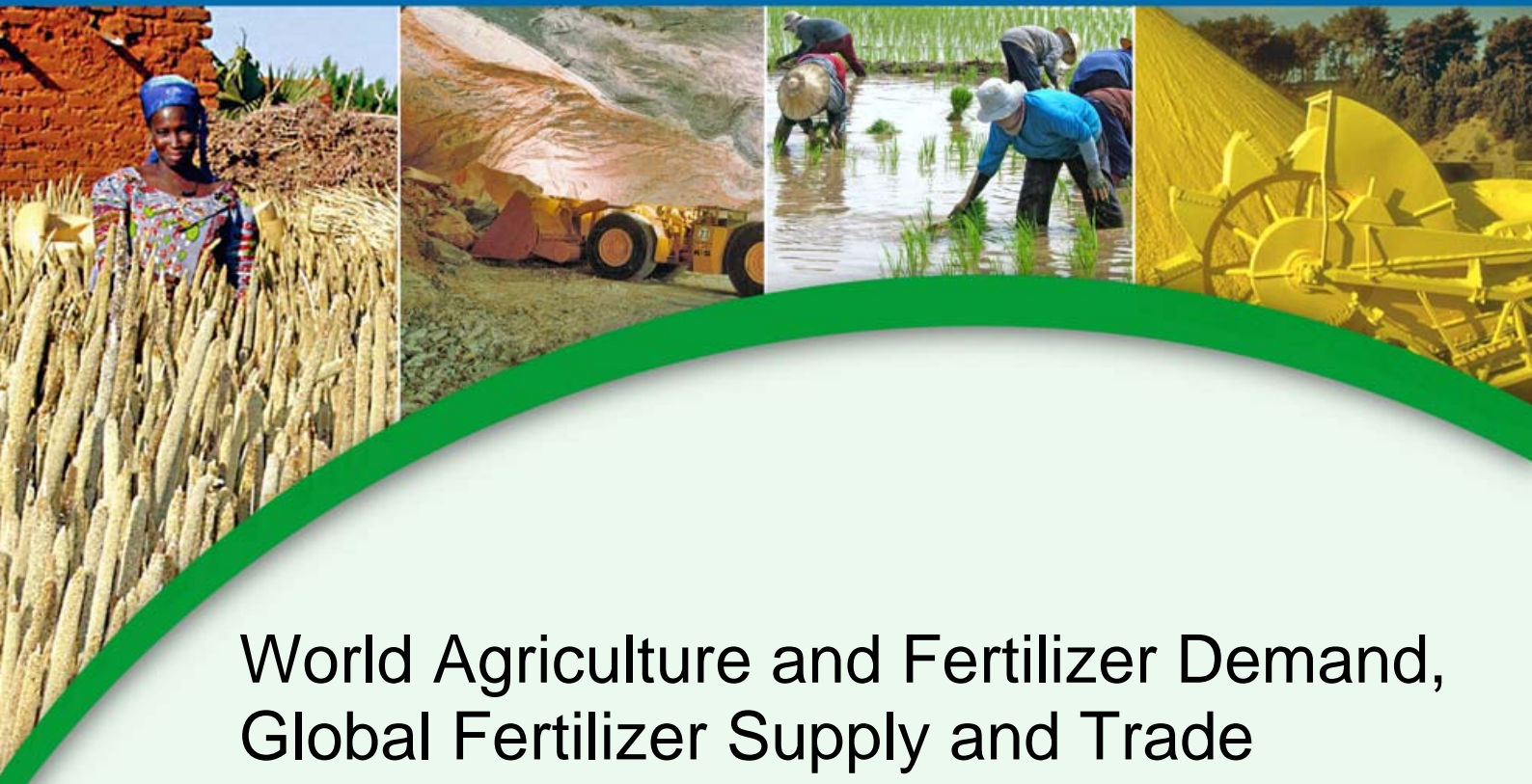


Luc M. Maene
Director General

Encl: 6 documents

CC: Nick Drew, Fertiliser Industry Federation of Australia (FIFA)
Michel Prud'homme, IFA
Patrick Heffer, IFA

33rd IFA Enlarged Council Meeting
Doha (Qatar), 27-29 November 2007



World Agriculture and Fertilizer Demand, Global Fertilizer Supply and Trade 2007-2008

Summary Report

Patrick Heffer and Michel Prud'homme
International Fertilizer Industry Association (IFA)

This Summary Report was prepared by Patrick Heffer, Executive Secretary of the IFA Agriculture Committee, and Michel Prud'homme, Executive Secretary of the IFA Production and International Trade Committee. It presents an overview of short-term prospects for world agriculture and fertilizer demand, as well as the global fertilizer supply and trade situation in 2007 and 2008.

This report is available to the general public on the IFA web site, or by request to the IFA Secretariat.

The Summary Report draws on the revised versions of two IFA reports presented at the 33rd IFA Enlarged Council meeting held in Doha in November 2007: *Short-Term Prospects for World Agriculture and Fertilizer Demand 2006/07-2008/09 (A/07/155)* and *Global Fertilizer Supply and Trade 2007-2008 (A/07/147b)*. These two comprehensive reports are restricted to IFA members only.

The first part of the Summary Report looks at the global economic context and agricultural situation. The second part provides fertilizer consumption estimates for 2006/07 and forecasts for 2007/08. The third part presents IFA's perspective on fertilizer supply and supply/demand balances for 2007 and 2008.

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PART 1 – GLOBAL ECONOMIC CONTEXT AND AGRICULTURAL SITUATION

1.1. Global Context

An outlook driven by impressive economic growth in Asia, increasing demand for biofuel and a tight grain market.

Despite surging oil prices and an economic slowdown in the United States, the world economic context remains very robust. Reflecting continued rapid growth in Asia, world GDP in 2007 would increase by some 5% for the fourth consecutive year. In 2008, with fundamentals remaining positive, world GDP growth is seen as declining marginally, to slightly below 5%.

World GDP Growth (%)

	2005	2006	2007 (f)	2008 (f)
World	4.8	5.4	5.2	4.8
China	10.4	11.1	11.5	10.0
United States	3.1	2.9	1.9	1.9
India	9.0	9.7	8.9	8.4
EU	2.0	3.2	3.0	2.5
Brazil	2.9	3.7	4.4	4.0
Russia	6.4	6.7	7.0	6.5

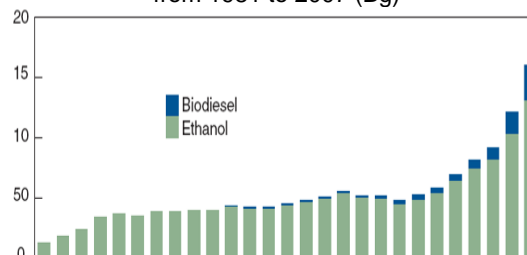
(f) forecast

Source: IMF

Weather conditions in 2007 were favourable overall, although Europe, the Black Sea area, Morocco and Australia were affected by dry spells. Projections for the next six months indicate that La Niña conditions are likely to prevail, which could result in below-average rainfall in parts of the southern hemisphere.

Policy leaders in the Brazil, the United States, and the EU have provided strong support for biofuel production. The expansion of maize-based bioethanol production has been particularly rapid in the United States. The bioethanol boom has resulted in a dramatic crop mix change in that country, with a 20% increase in the area planted to maize in 2007. In response to rising demand for feedstock from the biofuel industry, the area planted to sugar cane in Brazil and to rapeseed in the EU is also increasing quickly. This trend is expected to continue in 2008 with, however, a temporary decline in the area planted to maize in the United States following the 2007 bumper crop, which made it possible to rebuild domestic maize inventories.

Evolution of Global Biofuel Production from 1981 to 2007 (Bg)



Source: IEA and F.O. Licht, in W. Coyle

The Doha Round of WTO negotiations and the negotiations on the accession of Russia and Ukraine to the WTO are not expected to have direct impacts in 2008. However, the stagnation of the Doha Round could result in the postponement of national agricultural policy reforms or of reforms on a smaller scale. It is against this background that policy makers are discussing the proposed new US farm bill and the mid-term “Health Check” of the EU Common Agricultural Policy. At this stage it is premature to anticipate the content of reforms or when they would enter into force. In the context of the current tight grain market, the European Commission has decided to discontinue the 10% mandatory set-aside in 2008, which should result in a 1.5-2.0 Mha increase in the EU cropped area.

On the environmental side, reactive N remains the main issue. Discussions focus on losses to the atmosphere and hydrosphere, but increasing attention is also being paid to the impact of lack of reactive N. In response to societal demands, N use efficiency has been improving in developed countries for more than two decades. While it has not improved in most developing countries, such an improvement could be observed in China towards the beginning of the next decade.

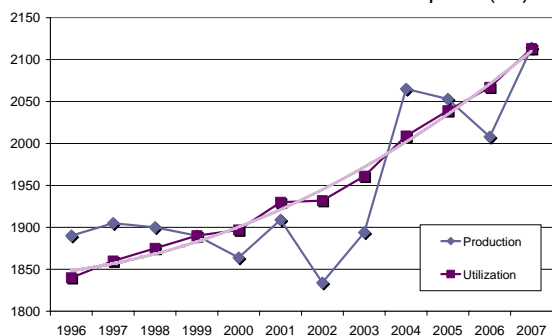
1.2. Agricultural Situation

Unusually high prices, resulting from tight supply/demand conditions for almost all agricultural commodities.

Market conditions for agricultural commodities improved in the second half of 2006, and they have been exceptionally favourable since the first half of 2007. With 4.1% year-on-year growth in 2007, world cereal output is projected to reach a new record level at 2.07 billion metric tonnes.

The increase in coarse grain production in general (+7.4%), and the increase in maize production in the United States in particular (+25%), account for most of the 80 Mt increase in world cereal output. The wheat harvest would only partly recover (+1.2%) from the 4.6% contraction observed in the previous year, and the global rice crop is seen as stable for the second consecutive year.

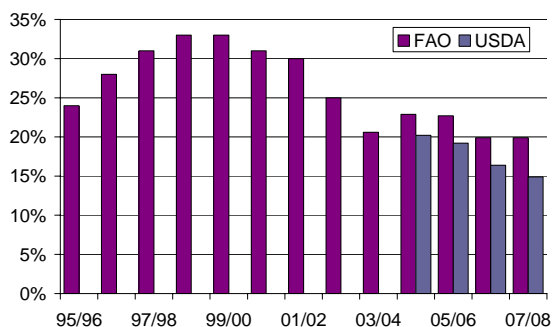
World Cereal Production and Consumption (Mt)



Source: FAO

At the same time, global cereal demand is booming, with average annual growth since 2002 that is almost double historical growth rates. This trend is essentially driven by strong demand from the bioethanol and meat sectors, responding to economic growth in developing countries and high crude oil prices. As a result, USDA forecasts a 17 Mt contraction of world cereal inventories, and an aggregate stock-to-use ratio dropping to a low of 15%. This would be the lowest level registered for more than two decades, corresponding to 54 days of consumption. The stock-to-use ratio for coarse grains is forecast at only 12.8%. Consequently, international wheat, maize and rice prices are high.

Evolution of the Global Cereal Stock-to-Use Ratio



Source: FAO + USDA

Because of the strong competition from cereals, the 2007 soybean and cotton harvests are seen as down, and ending stocks for both crops are declining.

In this unusual context of competition for land, oilseed futures are soaring to ensure adequate oilseed crop plantings for the 2008 harvest.

This overall positive outlook for agricultural commodities is not expected to change in the short term. In addition, steady diet diversification in developing countries provides strong incentives to increase fertilizer consumption.

Plantings and the emergence of winter crops in the northern hemisphere have occurred under relatively favourable conditions, offering good preliminary prospects for the 2008 harvest. The global area planted to winter wheat and rapeseed is seen as significantly up from the previous year. In the United States, it is anticipated that farmers will temporarily shift back from maize to soybean for their 2008 spring plantings.

PART 2 – GLOBAL FERTILIZER DEMAND

The need to boost agricultural production worldwide is stimulating fertilizer consumption in Asia and the Americas and leading global demand to new record levels.

After modest 1.5% growth in 2005/06,¹ aggregate world fertilizer consumption is seen as increasing sharply (+5.0%) in 2006/07, to 163.9 Mt nutrients. Contrary to the medium-term trend, consumption of N fertilizers increased more rapidly (+5.4%) than that of P (+5.1%) and K (+3.5%) products. By region, demand recovered strongly in North America (+9.9%) and West Asia (+8.1%) after drops during the previous campaign. More moderate but still strong growth in consumption is seen in South Asia (+5.7%), Eastern Europe and Central Asia (+5.5%), Africa (+5.2%), East Asia (+5.0%) and Latin America (+4.6%). Consumption declined significantly in Oceania (-5.3%), and modestly in Western and Central Europe (-0.8%). East Asia and North America together are estimated to account for two-thirds of the increase in world fertilizer consumption in 2006/07. If South Asia were added, the three regions together would account for 84% of growth.

¹ Or in 2005 for countries with fertilizer consumption statistics in calendar years.

Global Fertilizer Consumption (Mt nutrients)

	N	P ₂ O ₅	K ₂ O	Total
05/06	93.2	37.1	25.8	156.1
06/07 (e)	98.2	39.0	26.7	163.9
Change	+5.4%	+5.1%	+3.5%	+5.0%
07/08 (f)	100.8	40.5	29.0	170.3
Change	+2.7%	+3.8%	+8.4%	+3.9%
08/09 (f)	103.6	41.8	30.4	175.8
Change	+2.7%	+3.3%	+4.9%	+3.2%

(e) estimated; (f) forecast

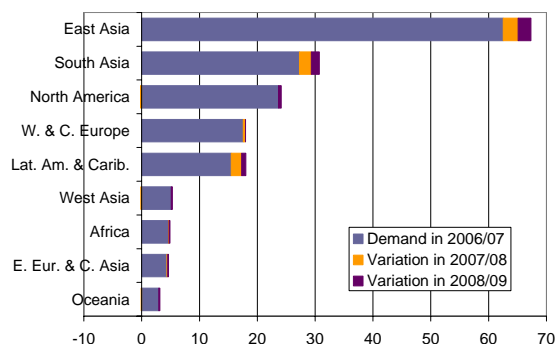
Source: IFA

In response to strong market fundamentals, world demand is expected to further expand in 2007/08. Global demand would reach 170.3 Mt nutrients, corresponding to a 3.9% year-on-year increase. Demand for K fertilizers is anticipated to sharply rebound (+8.4%) after relatively modest growth compared to N and P in 2006/07. Demand for P fertilizers would remain firm (+3.8%) while demand growth for N products would slow (+2.7%). In this overall positive context, fertilizer consumption is anticipated to increase in all regions except Oceania (-3.1%), West Asia (-2.6%) and North America (-0.8%). The strongest relative increase in demand is forecast in Latin America (+11.5%), followed by South Asia (+6.6%) and East Asia (+4.1%). Demand would rise by 1 to 3% in all the other regions.

Global economic and agricultural contexts are projected to remain favourable in 2008/09. As a result, the upward trend in world fertilizer demand would continue. Projections to 2008/09 point to an expansion (+3.2%) of global demand, which would reach 175.8 Mt. Similarly to the previous year, growth would be stronger for K fertilizers (+4.9%) than for P (+3.3%) and N (+2.7%) products.

Between 2006/07 and 2008/09, it is anticipated that 89% of the increase in world fertilizer consumption would come from East Asia, South Asia and Latin America together.

Projected Evolution of Regional Fertilizer Demand between 2006/07 and 2008/09



Source: IFA

PART 3 – GLOBAL FERTILIZER SUPPLY

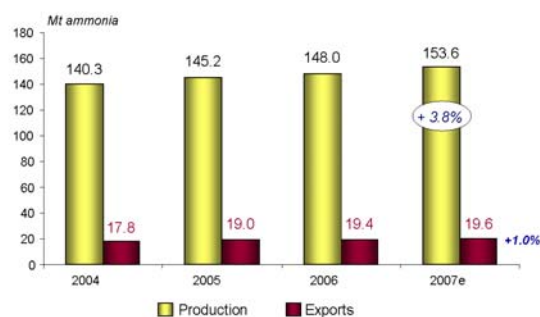
2007 was a record production year for most nutrients, as buoyant demand stretched the industry's capability to meet global requirements.

Nitrogen

Nitrogen supply/demand conditions in 2007 remained very tight, driven by strong nitrogen fertilizer consumption worldwide, particularly in the main consuming countries. Production outages in exporting countries and delays in the commissioning of new capacity further tightened supply availability, as most producers operated at close to capacity. Ammonia imports rose moderately, but most of the growth in import demand concerned urea. A few capacity closures occurred in 2007 and a few ammonia and urea plants were idle.

World ammonia production in 2007 increased by 3.8%, to reach 153.6 Mt NH₃. More than half the increase occurred in ammonia consuming countries. China contributed half of the net increase. Other significant increases occurred in Saudi Arabia, the United States, Egypt, Iran, Australia and the United Kingdom.

World Ammonia Production and Trade



World ammonia trade in 2007 grew by 1% in 2006, to 19.6 Mt NH₃. The main increases in exports came from new export-oriented facilities, notably in Saudi Arabia, Australia and Iran. Regarding imports, the main growth destinations in 2007 were the United States and North East Asia. Global seaborne ammonia availability was relatively balanced in 2007. World seaborne trade in 2007 rose by 3% to 16.6 Mt NH₃ (85% of global trade).

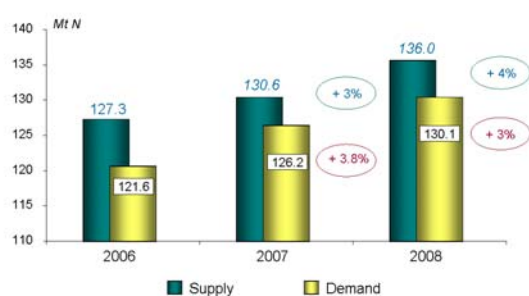
In 2007, world ammonia capacity was estimated at 176.6 Mt NH₃, expanding by 2.6% over 2006. The main additions to capacity were in China, Egypt and Iran. World ammonia capacity in 2008 would expand by 4.5% to 184.6 Mt NH₃. The world nitrogen/ammonia supply/demand balance was reduced in 2007, but the surplus in 2008 would expand by one-third as a result of new capacity. However, this surplus may drop to less than 1.4% of world demand if nitrogen demand remains firm. In addition, ammonia imports are projected to increase in Europe if natural gas prices escalate.

Urea Supply / Demand Balance : 2006 - 2008



The world urea supply/demand balance in 2007 showed tight market conditions, with the industry operating close to effective capacity. The global urea market may remain tight in the first half of 2008, with firm import demand into North America, West Europe, South Asia and Latin America. India will be the main driver of import demand. China will likely remain in a strong net exporting position in 2008.

Nitrogen Supply / Demand Balance : 2006 - 2008

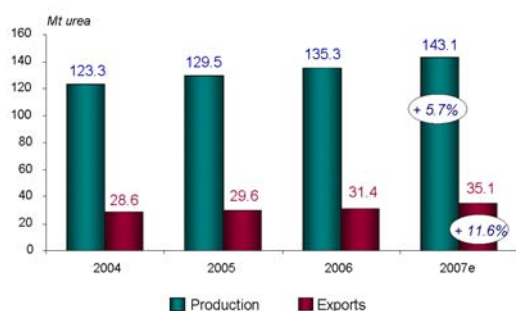


Global urea production in 2007 was forecast at 143.1 Mt *product*, representing a 6% increase over 2006. The main production expansions occurred in China, Egypt and Saudi Arabia. Global urea trade was very robust, growing by 12% to 35.1 Mt. It has been driven by sustained requirements from large consumers such as India, West Europe and the United States. China emerged as one of the world's largest urea exporters, with exports exceeding 4 Mt.

Phosphate

World demand for phosphate fertilizers in 2007 grew by 3.8%, pressuring the industry to operate at high rates during the whole year. Production of raw materials, intermediates and processed phosphate fertilizers rose to near record levels, while input costs continued to expand, notably in the case of sulphur and ammonia.

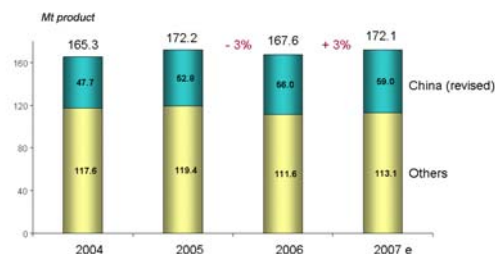
World Urea Production and Trade



Close to 4.5 Mt of new urea capacity was commissioned in 2007, mostly in China, Egypt and Iran. Global urea capacity is projected to further increase in 2008 to 165.7 Mt, with China accounting for one-half of the increase.

World production of phosphate rock rose by 2.7% to 172.1 Mt, of which China contributed one-third. Global trade of phosphate rock increased by 6% over 2006, after registering two years of decline; strong deliveries were reported into Europe, North America and Latin America.

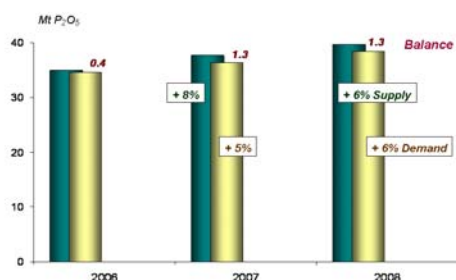
World Phosphate Rock Production



The supply of phosphoric acid was tight on account of strong domestic demand, as international trade remained static due to soft imports in India. World phosphoric acid capacity in 2007 decreased to 43.2 Mt, but would rebound to 45 Mt P_2O_5 in 2008 with new projects in China and Morocco.

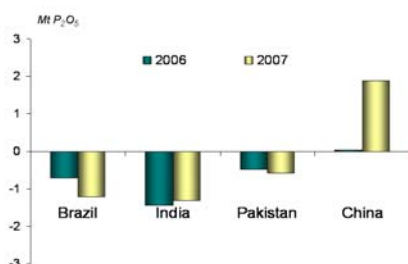
World phosphoric acid supply/demand showed a marginal surplus in 2007, which led to a tight supply conditions. In 2008, growth in demand would match that in supply, keeping the current balance tight.

Global Phosphoric Acid Supply / Demand



World production of processed phosphates (MAP, DAP and TSP) grew by 5% over 2006, to 25.2 Mt P_2O_5 . The global trade of MAP and DAP in 2007 rose moderately to 8.4 Mt P_2O_5 . A decrease in DAP volumes was more than offset by an increase in MAP exports.

Major MAP/DAP Importers / Exporters



In 2006 and 2007, global phosphate fertilizer capacity barely expanded. Global processed phosphates capacity in 2008 is projected at 33.6 Mt P_2O_5 .

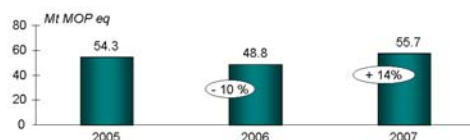
New DAP-MAP capacity is projected to come on stream in China, Bangladesh, Pakistan and Viet Nam. In 2008, the global processed phosphates market is projected to continue to grow.

Import demand for processed phosphates is projected to increase in Latin America (Brazil), South Asia and West Asia and to further decline in China. New DAP-MAP exportable tonnage is anticipated in China and Morocco.

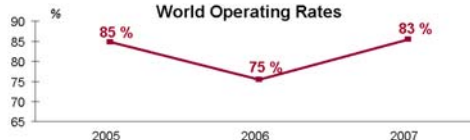
Potash

World potash market conditions were very tight in 2007, due to stronger than anticipated demand for potassium nutrient. A surge in import demand stretched producers' ability to supply potash to a widening base of customers. Global potash production was estimated at 55.7 Mt MOP eq., a 15% increase over 2006.

World Potash Production



World Operating Rates



Potassium fertilizer consumption in 2007 was very strong in China, Brazil and India, while recovering in the United States and, to some extent, in Europe. Potash deliveries reached 55.7 Mt MOP. Global potash exports were estimated at 44.6 Mt MOP, a 16% increase over 2006.

There were important capacity additions in 2007, mostly in Canada and China, but these remained at a ramp-up stage during the year; thus production was limited to existing capacity. Capacity addition in 2008 will be relatively marginal.

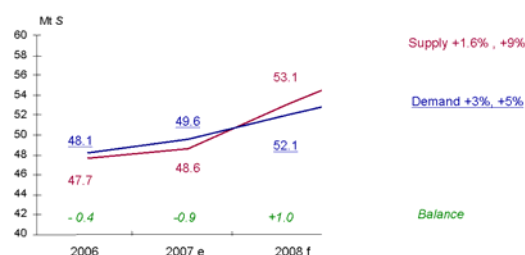
World potash supply/demand balances for the period 2006 to 2008 show a rapid reduction of the prevailing surplus, of which some remains in the form of non-readily available capacity in Canada.

Overall market conditions in 2008 are expected to remain tight.

Potash Supply / Demand Balance : 2006 - 2008



World Sulphur Supply / Demand Balance



In 2008, world production of elemental sulphur is forecast to grow at a rate exceeding that of demand. The balance between production and consumption in 2006 and 2007 showed a net deficit, which would develop into a marginal balance in 2008 and a more significant surplus in 2009.

Sulphur

The global sulphur market showed remarkable strength in 2007 in the light of strong overall demand combined with lower than anticipated production growth. World elemental sulphur production in 2007 was estimated at 48.6 Mt S, increasing by 1.6% over 2006.

World Elemental Sulphur Production
2006-2007

Mt S	2006	2007
Frasch Sulphur	0.8	0.8
Gas-Recovered Sulphur	24.0	24.0
Oil-Recovered Sulphur	20.6	21.4
Other Recovered Sulphur	2.3	2.4
Total	47.7	48.6

Consumption of elemental sulphur for fertilizers was very firm, at about 49.6 Mt S, in response to strong demand in the fertilizer and industrial sectors.

Growth in global sulphur demand exceeded that in supply, which exacerbated market pressures and resulted in higher export levels.

A/07/88
June 2007

75th IFA Annual Conference
Istanbul, Turkey
21-23 May 2007

Medium-Term Outlook for Global Fertilizer Demand, Supply and Trade 2007 – 2011

Summary Report

Patrick Heffer and Michel Prud'homme
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This public summary report was prepared by Patrick Heffer, Executive Secretary of the IFA Agriculture Committee, and Michel Prud'homme, Executive Secretary of the IFA Production and International Trade Committee. The first part of the Summary Report looks at the economic context and at the global agriculture situation. The second part provides global and regional fertilizer consumption projections for the period of 2006/07 to 2011/12. The third section provides IFA projections of fertilizer supply and supply/demand balances for the period of 2007 to 2011.

This report is available to the general public on the IFA web site or by request to the IFA Secretariat.

The Summary Report draws on the revised versions of two reports presented at the 75th IFA Annual Conference held in Istanbul in May 2007: IFA report *Medium-Term Outlook for World Agriculture and Fertilizer Demand: 2006/07 – 2011/12 (A/07/93)*, and IFA report *Global Fertilizers and Raw Materials Supply and Supply/Demand Balances: 2007 – 2011 (A/07/78c)*. These two comprehensive reports are strictly reserved for IFA members.

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PART 1 – GLOBAL ECONOMIC CONTEXT AND AGRICULTURAL SITUATION

1.1. Global Context

1.1.1. Economic Situation

In 2006, the global economy remained very firm, supported by strong growth in the USA and in emerging Asia. Growth of world GDP is assessed at 5.4%. Economic expansion is expected to slightly decelerate in 2007 and 2008, to some 4.9% for both years. This slowdown is essentially due to a weakening housing market in the USA.

In the medium term, global growth is seen remaining firm, with annual rates lower than those observed since 2004, but still above 3%. Income growth in emerging economies stimulates food diversification towards more meat, fish, fruits, vegetables, sugar and vegetable oils and less cereals and pulses per capita. More meat production will require greater amounts of coarse grains and oilseed meals. Fruit and vegetable production expands also very quickly. For instance, in China, the area planted to fruits and vegetables increases on average by more than one million hectares (Mha) every year, reaching today some 32 Mha. Production of fruits, vegetables and other labour-intensive cash crops expands quickly in India as well.

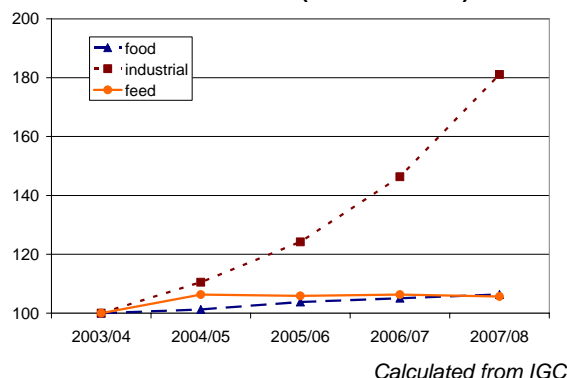
Crude oil prices have declined from their record high of last year, but still remain above US\$ 60 per barrel. Such prices have a dual effect on fertilizer demand: they impact fertilizer prices on one hand and they stimulate biofuel production on the other hand.

1.1.2. Policies and Regulations

On the policy side, food security and self-sufficiency objectives, environmental concerns and, more recently, biofuel development are the key drivers of world fertilizer consumption. The impact of these factors depends essentially on the socio-economic status of each country.

As a result of surging biofuel production, industrial coarse grain uses are growing much faster than food and feed uses over recent years. Between 2003/04 and 2007/08, industrial maize uses are seen up 80% worldwide, while food and feed uses would increase 5% only over the same period (Figure 1).

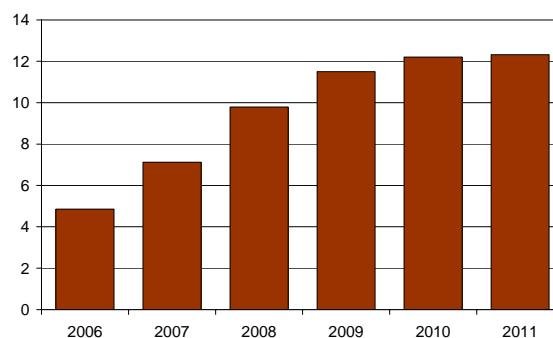
Figure 1: Relative Evolution of World Maize Uses (2003/04 = 100)



Industrial uses in general, and biofuel production in particular, generate huge amounts of co-products such as distillers' grains and oilseed meals that are used as animal feed. These co-products can partly replace grain uses in feed rations.

In the USA, it is estimated that 17% of the domestic maize output served for ethanol production in 2005/06, and that this share would jump to almost one third in 2007/08. This surge of ethanol production in the USA is seen decelerating from 2009, and the domestic ethanol output might stabilize in 2010 (Figure 2).

Figure 2: Evolution of US Ethanol Production (billion gallons)



Source: FAPRI

Because of the very fast expansion of the US ethanol industry and of the huge amounts of maize needed as feedstock, world cereal production is not seen matching demand before 2009.

From 2002 to 2008, world cereal consumption has increased some 2% annually while, during the same period, world production rose 1% per year only, resulting in seven years of deficit over the past eight campaigns.

With the anticipated deceleration of US ethanol production, world cereal consumption should come back to annual growth rates of some 1%, which should make it possible for world agriculture to slowly rebuild world grain stocks from 2009 or 2010. This should lead to very tight grain market conditions at least until the end of the decade. Crop prices should remain strong over the outlook period, but very volatile and increasingly linked to crude oil futures. Because of the strong demand from the ethanol and feed industries, global maize production is seen growing much faster than the wheat and rice output in the next five years. Apart from the US situation, biofuel development will lead to an expansion of sugarcane and oil crops in Brazil, of rapeseed in the EU and of oil palm in South-east Asia.

Environmental concerns have a great impact on fertilizer demand in developed countries, but increasingly in developing countries as well. More and more countries are developing regulations on water, air and soil quality. These regulations impact the way nutrients are used, requiring farmers to optimize the recycling of organic nutrient sources and to implement nutrient budgeting at the farm or field level. In this context, nitrogen use efficiency has greatly improved over the past two decades in the developed countries. The trend is still different in most developing countries. In response to efforts from the industry and its partners, a reversal of trend could be seen towards the end of the outlook period in some developing countries.

1.1.3. Weather Conditions

Weather conditions in 2006/07 have been very favourable over the winter period in the northern hemisphere, but abnormal conditions occurred over the past two months. In the USA, wet and cold conditions in April hit the winter wheat growing areas and delayed spring crop plantings. In Europe, most of the region was affected in April by an unusually dry and hot spell. In China, dry conditions were reported in the North Plain. In Eastern Australia, low soil moisture remained a concern for wheat plantings. These conditions might result in a smaller cereal crop than initially projected.

1.2. Agricultural Situation

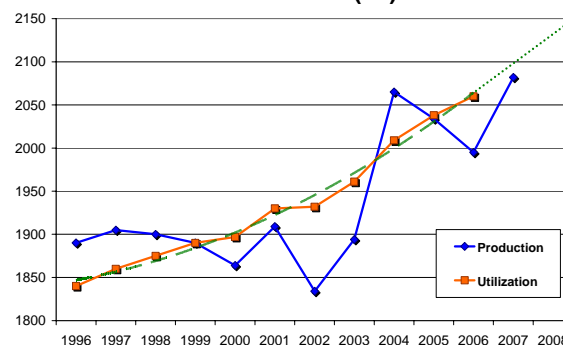
1.2.1. Short-term Prospects

Market conditions have dramatically changed over the past twelve months with declining prospects for the 2006 harvest, leading to a significant drop in world cereal inventories.

The aggregate cereal output in 2006 is seen dropping to some 1,985 Mt, which would be 70 Mt short vs. anticipated consumption during the 2006/07 marketing campaign. This would result in a contraction of world inventories, and a stock-to-use ratio only slightly above 15%. In this context, cereal prices strengthened in 2006, in particular during the second half of the year.

Preliminary forecasts for the 2007 harvest point to a record cereal crop, up 5.5% from previous year, to 2,094 Mt. The coarse grain and wheat crops are seen increasing 8.4 and 3.9% respectively. The sugar output is seen rising 1.3%, while the oilseed and cotton harvests would drop 0.9%. Despite the anticipated record harvest, world cereal inventories are likely to contract again in 2007/08 as demand would increase 2.6%, to 2,109 Mt (Figure 3).

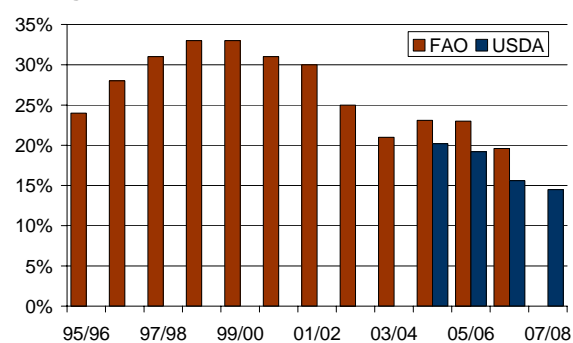
Figure 3: World Cereal Production and Utilization (Mt)



Source: FAO

In response to the strong industrial demand, coarse grain consumption is seen increasing very firmly (+4.5%). World inventories would contract 15 Mt or 4.6%, to 305 Mt. The global cereal stock-to-use ratio would decline to 14.5%, its lowest level for more than two decades (Figure 4).

Figure 4: Global Cereal Stock-to-Use Ratio



Calculated from FAO and USDA

The coarse grain ratio would fall as low as 11%, corresponding to some 40 days of consumption only.

World inventories are also seen declining for oilseeds and cotton, while they would increase for sugar. In this tight supply/demand context, and because of fears of lower than expected harvests due to recent unfavourable weather conditions in North America, Europe and China, cereal and soybean prices remained high –and even very high for maize– since the beginning of the year. Prices are less attractive for sugar and cotton. These overall very supportive market conditions are likely to remain for the next few months and to boost fertilizer consumption in 2007.

1.2.2. Medium-term Outlook

In a five-year timeframe, growing food and fiber requirements of a steadily growing world population that still comprises 800 million hungry, food diversification, development of biofuels and environmental concerns are the key factors that will impact the outlook.

Significant shifts in crop mix are projected at the country level, with in particular: more maize and less soybean in the USA; more soybean, sugarcane and maize in Brazil; more soybean and cereals in Argentina; more rapeseed and less sugar beet in the EU; more cereals and oilseeds in the CIS; more cash crops in India; more maize, fruits and vegetables and less wheat and rice in China; more oil palm in Indonesia and Malaysia. Because of the limited potential to increase cultivated land in the medium term, with the noticeable exception of Brazil and Indonesia, increasing productivity is an objective, and achieving this goal will require greater and better use of nutrient sources, including manufactured fertilizers.

PART 2 – GLOBAL FERTILIZER DEMAND

2.1. Short-term Prospects

In response to high agricultural commodity prices since mid-2006 and supportive policies in Asian countries, global fertilizer demand is seen increasing 4.8% in 2006/07. World demand in 2006/07 is estimated at 163.9 Mt nutrients, compared to 156.5 Mt the year before. Phosphate and nitrogen consumption are seen increasing by some 5% compared to 3% for potash.

Region wise, the strongest relative growth is expected in North America (+8.7%) in response to surging maize-based ethanol production and to the resulting rapid shift from soybean to maize. Demand increased also strongly in South Asia (+7.9%) and in East Asia (+4.1%).

Consumption in Latin America started to recover (+4.1%) after the sharp decline of the year before. These four regions account for the bulk of the 7.4 Mt increase in fertilizer demand. Consumption increases in all the other regions but Western and Central Europe (-0.3%) and Oceania (-4.4%) because of the extreme drought that hit Australia.

With market conditions anticipated to remain very favourable in 2007, global fertilizer demand is seen further up in 2007/08 by some 2.9%, to reach 168.6 Mt. Contrary to previous year, growth in demand is forecast to be stronger for potash (+4.7%) than for phosphate (+3.0%) and nitrogen (+2.3%). The fertilizer market is anticipated to expand in all the regions, with Latin America growing faster (+6.3%) as the recovery of its farming sector is supported by strong crop prices. Consumption growth is seen slowing down, but would remain still firm in South Asia (+4.0%) and East Asia (+3.3%). On the contrary, with the US maize area being close to its maximum limit in 2007, little growth in fertilizer demand is anticipated in North America (+0.7%). In all the other regions, fertilizer consumption is seen growing less than 3%.

2.2. Medium-term Outlook

In the medium term, world fertilizer demand is projected to grow steadily. Compared to average consumption between 2004/05 and 2006/07, global demand in 2011/12 is seen increasing 2.6% annually on average, to reach 184.2 Mt. The need to rebalance fertilization and to improve nitrogen use efficiency results in a stronger increase in demand for potash (+3.2% p.a.) and phosphate (+2.9% p.a.) than for nitrogen (+2.3% p.a.).

Table 1: Global Fertilizer Consumption (Mt nutrients)

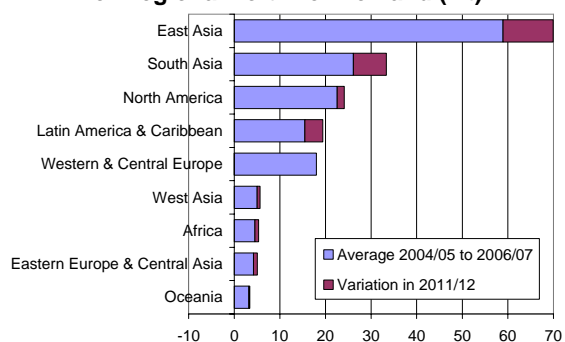
	2006/07 (e)	2007/08 (f)	Change	2011/12 (f)	Annual Change*
N	97.9	100.1	+2.3%	107.5	+2.3%
P ₂ O ₅	38.9	40.0	+3.0%	44.6	+2.9%
K ₂ O	27.1	28.4	+4.7%	32.1	+3.2%
Total	163.9	168.6	+2.9%	184.2	+2.6%

(*) Compared to the average 2004/05 to 2006/07
Source: IFA

At the regional level, the bulk of the increase in demand is expected to come from Asia and, to a lesser extent, Latin America. South Asia and East Asia together would account for some 70% of total growth.

If Latin America is added, the three regions together would account for 85% of the increase in demand in the next five years (Figure 5).

Figure 5: Projected Medium-Term Evolution of Regional Fertilizer Demand (Mt)



Source: IFA

In East Asia, regional demand is seen firm (+2.9% p.a.), essentially under the impulsion of China, Indonesia, Malaysia and Vietnam. Potash demand is projected to increase much faster than phosphate and nitrogen demand. A progressive slow-down of nitrogen demand growth is forecast over the outlook period, but it will probably happen at a slower pace than anticipated one year ago.

Demand is anticipated to remain very strong in South Asia (+4.2% p.a.) as greater amounts of fertilizer are needed to achieve food self-sufficiency objectives. The need to rebalance fertilization points to significantly stronger growth rates for phosphate and potash than for nitrogen.

After an 8.7% jump in 2006/07 in response to the surging domestic ethanol market and the resulting change in crop mix, fertilizer consumption is seen remaining high but evolving only moderately from current levels (+1.1% p.a.).

Fertilizer consumption in Latin America and the Caribbean responds quickly to market signals and is forecast to strongly recover (+3.9% p.a.) after its 1.2 Mt drop in 2005.

In the EU, aggregate consumption is expected to remain stable, with an anticipated decline in phosphate and potash demand offset by an increase in nitrogen consumption. Country wise, the contraction of fertilizer demand forecast in Western Europe would be counterbalanced by a gain of a similar magnitude in Central Europe.

Fertilizer demand in West Asia would increase 2.0% p.a. in order to try filling the gap between domestic food and feed demand and current crop production levels.

Fertilizer consumption in Africa is tentatively forecast up 2.8% p.a., mostly driven by a steady increase of the irrigated area and yields in Egypt and erratic consumption patterns in South Africa. High maize prices might help demand increase faster in Southern Africa.

Sustained growth of fertilizer demand is anticipated in Eastern Europe and Central Asia (+3.1% p.a.) as the CIS sees opportunities for increasing its crop product exports and recovers slowly from the drastic cut in fertilizer consumption in the early 1990s.

Fertilizer consumption in Oceania is seen recovering very slowly (+1.0% p.a.) from the series of droughts that have affected Australia over the past few years.

PART 3 – GLOBAL FERTILIZER SUPPLY AND TRADE

World fertilizer consumption in 2006 grew 3.9% over 2005, largely exceeding the average growth rate of the past ten years. Demand growth was unevenly distributed, as both China and India pulled consumption over 2005, while reduced demand was reported in the other main consuming countries and regions.

As regards supply, 2006 was a record production year for most products, with the exception of potash due to contractual delays. The prices of fertilizers products reached record levels of the past 10 years.

3.1. Nitrogen Prospects

3.1.1. World Nitrogen Situation in 2006

The nitrogen supply/demand conditions in 2006 were tighter than expected late in 2005, due to sustained nitrogen fertilizer consumption in Asia and a recovery of demand in Brazil. Nitrogen fertilizer application slowed down in North America. World ammonia production in 2006 totaled 148 Mt NH₃, increasing 2% over 2005. The most significant increases occurred in China, West Asia and Australia. Some technical problems and shortfalls in natural gas supply caused unforeseen production reductions in Central Europe, West Asia and Asia. No plants closed during 2006 and only a few ammonia plants remained idle. Global ammonia trade in 2006 was close to 19.5 Mt NH₃, representing an increase of 2% over 2005. Western Europe was the main growth destination.

3.1.2. Global Ammonia Capacity and Balance

During the period from 2007 to 2011, nitrogen capacity developments will take place in most exporting countries.

According to the IFA 2007 world capacity survey, global ammonia capacity will increase by 33 Mt, from 172 Mt in 2006 to 205 Mt NH₃ in 2011. Three-quarters of this increase will be dedicated to domestic markets, while the remaining 25% will be for export.

In terms of regional distribution, the bulk of the capacity growth will occur in East Asia (mostly China), West Asia, EECA, Africa (essentially in Egypt and Algeria) and Asia (notably India and Pakistan). Ammonia capacity is projected to remain static in Europe and Oceania and to potentially decrease in North America.

During the period from 2007 to 2011, the consumption of nitrogen nutrient is projected to increase by an overall 7.3%, equating to an annual growth rate of 1.8%. Total nitrogen nutrient consumption is forecast at 107.2 Mt N in 2011, compared to 99.8 Mt N in 2007. Urea will take the bulk of the growth in demand.

IFA estimates that the global nitrogen supply/demand balance shows a surplus of 5 Mt N in 2007, rising to 17 Mt N in 2011. Starting in mid-2008, the rapid growth of capacity will ease the global supply-demand balance. The growth of the surplus will accelerate after 2009, as new large plants come on stream.

Table 2 : Global Nitrogen Supply/Demand 2007-2011

<i>Mt N</i>	2007	2011
Nitrogen Supply	131.1	154.2
Nitrogen Demand	126.1	137.2
Global Balance	+5.0	+17.0

Source: IFA, June 2007

3.1.3. World Urea Situation in 2006

World urea demand was firm during 2006, fostering high production levels, rising prices and increased trade. World urea production in 2006 rose 4.5%, to 134.7 Mt. China contributed 85% of the global increase in 2006. World urea exports in 2006 increased by 6%, to 31.5 Mt, with firm deliveries to India, Iran, Pakistan and West Europe. However, imports declined in United States, Egypt, Vietnam and Australia.

As regards capacity developments, world urea capacity expanded by 4% over 2005, to 152.3 Mt. Close to 80% of the increase occurred in East Asia (mostly China).

3.1.4. Global Urea Capacity and Balance

IFA's 2007 global capacity survey shows that close to 50 new plants are planned to come on stream between 2007 and 2011. During this period, world urea capacity is forecast to grow by an overall 22%, to 192.5 Mt urea in 2011. This corresponds to a compound annual growth rate of 5.2% or, on average, an increase in capacity of 8-9 Mt of urea annually.

On a regional basis, West Asia and East Asia will contribute two-thirds of the overall capacity expansion. The other main sources of new capacity are Africa and South Asia.

World urea supply is estimated at 145.2 Mt in 2007 and 178.8 Mt in 2011, while global demand is forecast to increase from 143.3 Mt in 2007 to 163.7 Mt in 2011, representing a net growth of 20.4 Mt or 3.4% per annum.

The global urea supply/demand balance for the period from 2007 to 2011 shows a tight market situation in 2007, softening in 2008. A growing surplus will emerge in 2009, expanding to 15.1 Mt in 2011. By 2011, the surplus will equate to 8% of global capacity, assuming that all announced projects proceed as planned.

Table 3: Global Urea Supply/Demand 2007-2011

<i>Mt urea</i>	2007	2011
Urea Supply	145.2	178.8
Urea Demand	143.3	163.7
Global Balance	+1.9	+15.1

Source: IFA, June 2007

3.2. Potash Prospects

3.2.1. World Potash Situation in 2006

World potash supply/demand balance tightened in 2006, as strong demand ran up against an unexpected reduction of supply during the fourth quarter. Potassium fertilizer consumption was relatively firm in China and India, and recovered slightly in Brazil. Sales were depressed in both the United States and Western Europe during the first half of 2006.

World potash production in 2006 (expressed as potassium chloride, KCl; or muriate of potassium, MOP) declined by 10%, to 48.8 Mt MOP. The world's major potash producers were Canada, Russia, Belarus and Germany, which accounted altogether for 76% of world production.

World potash deliveries dropped by 7%, to 48.6 Mt MOP. Domestic sales accounted for 21% of total deliveries. They were stable at 10.1 Mt MOP, with higher sales within China, Russia and Brazil offsetting a decline in West Europe and North America. IFA estimated global potash exports in 2006 at 38.5 Mt MOP, representing a 8% decline over 2005; however, most of the decrease occurred during the first half 2006.

3.2.2. Global Potash Capacity and Balance

Global potash capacity is forecast to increase from 65.6 Mt MOP in 2006 to 76.3 Mt in 2011. This represents an additional 10.7 Mt of capacity that will occur mostly in Canada, Russia and China, along with new tonnage in Jordan and Argentina. Altogether, these additions represent an increase of 16% of capacity over 2006. By 2010, the main addition to capacity would come from Argentina. On a regional basis, most of this new capacity will be dedicated for exports, except in China.

IFA estimates that world potash supply will grow from 38.3 Mt K_2O in 2007 to 43.2 Mt K_2O in 2011, equating to an annual increase of 1.2 Mt K_2O or 3.2% per annum.

The global demand of potash is estimated at 32.4 Mt in 2007 and 36.4 Mt K_2O in 2011; this equates to an average annual growth of 3%, or 1 Mt K_2O per annum.

IFA estimates that the global supply/demand balance will tighten in the short term, with a declining surplus from 6.0 Mt K_2O in 2006 to 5.1 Mt in 2009. Starting in 2010, the addition of new capacity will reverse the declining surplus trend. By 2011, the global surplus will reach 6.8 Mt K_2O , or equating to 16% of capacity.

Table 4: Global Potash Supply/Demand 2007-2011

<i>Mt K₂O</i>	2007	2011
Potash Supply	38.3	43.2
Potash Demand	32.3	36.4
Global Balance	+6.0	+6.8

Source: IFA, June 2007

3.3. Phosphate Prospects

World demand of phosphate fertilizers in 2006 grew by 4.3% over 2005, to 38.3 Mt P_2O_5 . The global supply of processed phosphates in 2006 expanded, but tonnage for phosphoric acid export was tight in view of strong domestic demand and some production disruption.

The international phosphate fertilizer industry continued to face high input costs, which resulted in sustained prices of DAP and MAP during 2006. In early 2007, projections of strong demand and expectations of tight supplies led to record price levels.

3.3.1. World Phosphate Rock Outlook

World phosphate rock production was estimated by IFA at 167.6 Mt rock, representing a 2.7%-decrease over 2005.

This reduction was caused by much lower output of phosphate rock, especially in North America and, to some extent, in most of the exporting countries.

Based on IFA's projections for the period from 2007 to 2011, world phosphate rock capacity is expected to increase at a compound annual growth rate of 4%, from 182 Mt in 2007 to 215.7 Mt in 2011.

On a regional basis, future rock supply is projected to increase in West Asia, Africa, East Asia (mostly China) and Latin America (Brazil, Peru and Venezuela).. As a single country, China will account for one-third of the increase during this period.

3.3.2. World Phosphoric Acid Outlook

In 2006, global production of phosphoric acid production increased to 34.2 Mt P_2O_5 but trade declined by 4.8%, to 4.8 Mt P_2O_5 . Exports from Morocco and Senegal were lower than in 2005. India remained the world's largest importer of phosphoric acid; with 2.6 Mt P_2O_5 in 2006.

During the period from 2006 to 2011, the global phosphoric acid capacity is forecast to increase by 5.9 Mt to 49.6 Mt P_2O_5 in 2011. Close to three-quarters of this net expansion will be dedicated to domestic downstream processing. The main additional capacity will occur in China and Saudi Arabia. Therefore, no significant addition to merchant phosphoric acid capacity is expected during the forecast period.

3.3.3. Global Phosphoric Acid Balance

The global supply of phosphoric acid is estimated at 37.1 Mt in 2006, 36.8 Mt in 2007 and 43.3 Mt P_2O_5 in 2011, growing 4.2% per annum over 2007.

The IFA Agriculture Committee forecast the global P_2O_5 fertilizer demand would reach 44.5 Mt P_2O_5 , equating to a 3% annual growth over 2007.

Taking into account the increasing share of phosphoric acid-based fertilizers in total phosphorous nutrient consumption and the tonnage used in non-fertilizer sectors, the total demand of phosphoric acid is forecast to grow at a compound annual rate of 3.6%, to 41.5 Mt P_2O_5 in 2011.

IFA estimates that the overall phosphoric acid supply/demand situation will be tight during the period from 2006 to 2010, with a marginal surplus equating to less than 2% of global supply. However, a surplus will emerge in 2010/11, reaching close 1.8 Mt P_2O_5 and equating to 4% of global supply.

Table 5: Global Phosphoric Acid Supply/Demand 2007-2011

<i>Mt P₂O₅</i>	2007	2011
Phosphoric Acid Supply	36.8	43.3
Phosphoric Acid Demand	36.0	41.5
Global Balance	+0.8	+1.8

Source: IFA, June 2007

3.4. Elemental Sulphur Prospects

3.4.1. World Sulphur Situation in 2006

In 2006, world elemental sulphur consumption was estimated at 47.7 Mt S, while production reached 47.9 Mt. The demand of elemental sulphur for fertilizers showed a slight increase due to higher production of phosphate-based fertilizers. The demand in the industrial sector remained firm. In 2006, the global trade of elemental sulphur increased 2% to 28 Mt S. Major exporters were Canada, Russia, Saudi Arabia and a few other countries in West Asia, Japan and Kazakhstan. Major importers were China, Morocco, the United States, India, Brazil and Tunisia

3.4.2. Global Sulphur Supply/Demand Balance

Between 2007 and 2011, the world production of elemental sulphur is projected to reach 64.0 Mt S in 2011. This increase represents an annual growth rate of 6.4%, the highest growth rate that has been registered since the mid-1980s. On a regional basis, West Asia will account for more than one-third of the growth in elemental sulphur production. Other major contributing regions are Asia and North America.

Global consumption of elemental sulphur is projected to grow at an annual rate of 4.6% between 2007 and 2011, reaching 59.2 Mt S in 2011. This increase will come from higher consumption of sulphuric acid in the manufacture of phosphoric acid-based fertilizers and its growing use in ore leaching.

In the near future, the global supply/demand balance of elemental sulphur would be tight in 2007 and 2008, softening in 2009 and expanding rapidly in 2011, above 4.8 Mt S.

Table 6: Global Elemental Sulphur Supply/Demand 2007-2011

<i>Mt S</i>	2007	2011
Elemental Sulphur Supply	50.0	64.0
Elemental Sulphur Demand	49.5	59.2
Global Balance	+0.5	+4.8

Source: IFA, June 2007

