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First Consultation Meeting
on the Fertilizer Industry

Vienna, 17 - 21 January 1977

ISSUES TO BE CONSIDERED
BY THE CONSULTATION MEETING ^{1/} ON THE FERTILIZER
INDUSTRY. (1976)

Note by the UNIDO Secretariat

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INTRODUCTION

1. The Second General Conference of UNIDO at Lima, Peru in March 1975 declared that in view of the low share of developing countries in total world industrial production, their share should be increased to the maximum possible extent and as far as possible to at least 25 per cent of total world industrial production by the year 2000.
2. The General Assembly at its seventh special session in September, 1975 endorsed the Lima Declaration and Plan of Action and requested UNIDO to establish a system of consultations in the field of industry between developed and developing countries. Consultations are intended to explore ways and means of bringing about the above objective and the new distribution of industrial activities in the world that its achievement requires.
3. The developing countries' share of world production need not be the same in each industrial sector by the year 2000; in some sectors it may be less than 25 per cent and in others greater. In the case of the fertilizer industry, UNIDO estimates that developing countries will need to have a 25 per cent share of world production in 1980 and 40 per cent in 2000 to supply their own needs in full; their share could be about 50 per cent in 2000, if they become net exporters to developed countries on a substantial scale.
4. Therefore, this, the First Consultation Meeting on the Fertilizer Industry is invited to consider as the first issue:
 - The allocation of production between developed and developing countries and amongst developing countries.
5. Having decided what the target for the increased share of developing countries in total world production of fertilizers should be, the following issues are proposed for consideration:
 - Infrastructure needed for the production and distribution of fertilizers in developing countries.
 - The construction and operation of fertilizer plants.
 - The financing of fertilizer plants and associated infrastructure.

6. These four priority issues have been selected by UNIDO and included in the Provisional Agenda of this, the First Consultation Meeting on the Fertilizer Industry. The selection follows the advice of the Preparatory Meeting for this Consultation Meeting. But the selection is not exhaustive or final; the Consultation Meeting may decide that its Agenda should add (or delete) issues from the Provisional Agenda proposed by UNIDO. And since further Consultation Meetings are envisaged in line with the principle of the continuity of consultations, there will be an opportunity to consider at a later date, any of the four issues proposed or other issues.

7. The Consultation Meeting is expected to reach consensus agreement on what needs to be done in the above areas involving co-operation between developed and developing countries. To help reach the consensus among the large number of participants expected to attend, the UNIDO Secretariat has used the discussion and conclusions of the Preparatory Meeting to prepare a suggested text for the consideration and agreement of the participants. The suggested text should be viewed as a stimulus to guide discussion that will lead participants to draft an appropriate text that reflects their discussions and consensus agreement.

8. In view of the complexity of some of the subjects to be considered in the process of consultations, the UNIDO Secretariat has included in the suggested text the proposal that Working Groups on selected specific subjects should be established to further examine the subject concerned and to elaborate detailed technical proposals for implementing the broad recommendation on which the Consultation Meeting is expected to reach agreement. Since at present there exist no Permanent Organs of UNIDO (such as Permanent Industrial Sector Committees) to which such Working Groups could report, it is suggested that their conclusions are distributed to all parties concerned and reported in a formal manner to the Second Consultation Meeting on the Fertilizer Industry.

9. The issues and proposals considered in this working document for the Consultation Meeting are supported by the following reference documents for the Meetings:

- Conclusions and Recommendations of the Preparatory Meeting for Consultations on the Fertilizer Industry
12 November, 1976. 1/
- Supporting information on eight issues which might be selected for consideration at the Consultation Meeting
prepared by the UNIDO Secretariat. 21 October 1976. 2/
- The UNIDO World-wide Study of the Fertilizer Industry: 1975-2000
to be distributed early in January 1977.

1/ The Preparatory Meeting for Consultations on the Fertilizer Industry was held in Vienna, 8 - 12 November, 1976. Participants from the following 28 countries attended the Meeting: Algeria, Austria, Brazil, Canada, Cuba, France, German Democratic Republic, Germany (Federal Republic of), India, Indonesia, Iran, Italy, Japan, Mexico, The Netherlands, Nigeria, Norway, Philippines, Poland, Romania, Senegal, Sudan, Trinidad and Tobago, United Kingdom, United Republic of Tanzania, United States of America, United Soviet Socialist Republic, Venezuela.

2/ This document was first issued to participants of the Preparatory Meeting under the symbol ID/WG.236/2. The first five of the eight issues considered in this document will be considered at the Consultation Meeting. Issue 4 (distribution of production) and 5 (fertilizer prices) will be considered under the first issue. Issues 2 (the construction) and Issue 3 (the operation) of fertilizer plants have been combined as the third issue. And Issue 4 (financing of fertilizer plants) remains as the fourth issue.

TEXT SUGGESTED FOR CONSIDERATION AND POSSIBLE CONSENSUS AGREEMENT
BY THE CONSULTATION MEETING

I. THE ALLOCATION OF FERTILIZER PRODUCTION BETWEEN DEVELOPING AND DEVELOPED COUNTRIES AND AMONGST DEVELOPING COUNTRIES

I-(1) To emphasize the link between international co-operation in developing the world fertilizer industry and the achievement of the goal of increasing developing countries' share of world industrial output to at least 25 per cent by 2000 established by the Lima Conference, Governments and fertilizer manufacturing enterprises in both developed and developing countries agree that:

- (a) the developing countries as a group should aim at achieving production of sufficient fertilizers to meet their own needs as a minimum goal;
- (b) in addition, developing countries should aim at increasing exports to developed countries to a level that requires about 20 per cent of their over-all production by the year 2000;

UNIDO estimates suggest that the achievement of these goals is likely to require that the developing countries produce (a) about 40 per cent and (b) about 50 per cent, respectively, of total world production of nitrogen and phosphate fertilizers by the year 2000.

I-(2) To ensure an adequate supply of fertilizers for developing countries in the period until they become self-sufficient as a group, fertilizer manufacturing enterprises in developed and developing countries that export fertilizers agree:

- (a) to continue their production at a level high enough to meet the import needs of the developing countries at reasonable prices;
- (b) to offer to developing countries the option to purchase a fixed quantity of fertilizer each year for five years at an ex-factory price not exceeding the price at which fertilizer is sold in the domestic market;
- (c) to offer to negotiate long-term contracts for the supply of fertilizers to developing countries.

Governments of the countries concerned agree to support these actions in accord with the authorities available to them.

I-(3) To help prevent erratic movements in the availability and price of fertilizers supplied to developing countries in this period, UNIDO and other concerned UN agencies should:

- (a) initiate urgently and administer the option scheme suggested above under I-(2)(b) in co-operation with interested parties;
- (b) offer to promote and assist the negotiation of long-term contracts for the supply of fertilizers;

I-(4) To ensure that adequate supplies of fertilizer are available on a continuing basis at the global level, the Consultation Meeting requests UNIDO to convene a Working Group on World Fertilizer Production at least once a year comprising participants from about 30 countries selected by the Consultation Meeting. The Terms of Reference of this Working Group should include, inter alia:

- (a) to facilitate the orderly growth of the fertilizer industry at the global level through an exchange of information and views on the progress made by the developing and developed countries in increasing production at a rate consistent with the achievement of the long-term goal agreed for the developing countries above in paragraph I-(1);
- (b) to review information on the list of additions to fertilizer production capacity that are planned in both developed and developing countries;
- (c) to consider what steps Governments should take to harmonize the further growth of the fertilizer industry in developed and developing countries.

I-(5) Recognizing that developing countries should give more intensive consideration to co-operative arrangements that combine the relevant strengths of several countries in developing the fertilizer industry, fertilizer manufacturing enterprises and Governments of developing countries agree:

- (a) to co-operate with UNIDO in studying the steps that might be taken to promote the complimentary expansion of fertilizer production in developing countries;
- (b) to discuss these suggestions at meetings convened by UNIDO and other concerned bodies at the regional and interregional levels;
- (c) to consider the use of UNIDO when appropriate as a forum for the negotiation of agreements related to co-operation in developing the fertilizer industry.

II. INFRASTRUCTURE NEED FOR THE PRODUCTION AND DISTRIBUTION OF FERTILIZERS IN DEVELOPING COUNTRIES

II - (1) Recognising that

- the investment in a battery limits fertilizer plant often needs to be matched by an equally large additional investment in the infrastructure required for the production and distribution of fertilizers;
- if the additional investment costs of the infrastructure were paid by the fertilizer manufacturing enterprise instead of public expenditure, the cost of providing fertilizers would be considerably increased;
- that the price paid by farmers for fertilizers needs to be kept as low as possible and in some cases to be reduced by subsidies contributed by the Government;

the Consultation Meeting emphasized the importance of

- (a) keeping the additional investment in infrastructure to a minimum by expanding production at the sites of an existing fertilizer plant rather than at a new "greenfield" site whenever possible;
- (b) clearly defining the additional infrastructure needed and agreeing responsibility for financing it before the fertilizer plant is built;
- (c) obtaining the maximum possible contribution from public funds to financing the additional investment costs of infrastructure;
- (d) obtaining concessionary terms for financing contributed by external sources for the development of infrastructure in developing countries.

II - (2) Bearing in mind that the successful operation of fertilizer plants depends on the integrated and timely development of infrastructure needed for the production and distribution of fertilizers, the Consultation Meeting recommends that UNIDO, in co-operation with FAO and the IBRD, should prepare

- (a) a description of the infrastructure needed for the production and distribution of fertilizers and an analysis of the alternative practices used to finance this infrastructure in developed and developing countries;
- (b) proposals for financing the development of this infrastructure and the installation of fertilizer plants as an integrated project;
- (c) recommendations regarding the terms and conditions on which financing might be contributed by Governments and other sources of finance.

III. THE CONSTRUCTION AND OPERATION OF FERTILIZER PLANTS

- III- (1) Bearing in mind that about half of the new fertilizer plants likely to be built in the period 1980-2000 will be constructed in developing countries, certain steps are needed to ensure that modern and efficient fertilizer plants that are reliable to operate are constructed at reasonable cost in developing countries. To this end, Governments, fertilizer manufacturing enterprises, international contractors and suppliers of equipment agree, inter alia
- (a) to use international competitive bidding for the supply of machinery and equipment and all other services; and when this is not possible, take other steps to ensure that the prices charged for equipment and services are not higher than would be charged under international competitive bidding conditions;
 - (b) to cooperate with UNIDO in elaborating detailed proposals for establishing a multilateral insurance scheme to cover risks and consequential losses derived from defects in the design of plant and equipment;
 - (c) to cooperate with UNIDO in elaborating model contracts for the installation of fertilizer plants that include, inter alia, adequate provision for a continuing flow of information on technological developments and know-how on concessionary terms;
 - (d) to examine the possibilities for adopting a standard design for the equipment used in fertilizer plants built in the same developing country or region;
 - (e) to make full use of skilled and unskilled personnel available locally and associate them during all phases of installing fertilizer plants in developing countries;
 - (f) to make optimum use of machinery and equipment that can be manufactured in the developing country in which the fertilizer plant is installed.
 - (g) to cooperate with UNIDO on a continuing basis in examining how Government financial assistance and insurance could more effectively promote the development, testing and initial installations of new manufacturing processes and adapted technology that are particularly appropriate for developing countries;

III- (2) Taking into account the need for developing countries to operate existing and new fertilizer plants at high rates of capacity utilization, Governments, fertilizer manufacturing enterprises, international contractors and equipment suppliers agree to take the necessary steps to ensure that:

(a) the reasons for low capacity utilization in existing fertilizer plants are identified and corrected by, inter alia, providing the additional investment required for projects that remove a bottle-neck in production, by making available reliable and speedy supplies of spare parts and by providing temporary assistance in the operation and maintenance of plants;

(b) adequate arrangements are made for training the management and skilled personnel required to operate and maintain existing and new fertilizer plants, including where appropriate a supporting financial contribution by the Government of the contracting parties.

IV. THE FINANCING OF FERTILIZER PLANTS AND ASSOCIATED INFRASTRUCTURE

IV- (1) Bearing in mind that the fertilizer industry is of great importance for agricultural development and that fertilizers should be sold to farmers at the lowest possible price, Governments of developing and developed countries and the contributors of financing recognise the need:

(a) to arrange financing for overall fertilizer projects that include both the manufacturing plant and the associated infrastructure needed for the production and distribution of fertilizers;

(b) to continue to give a high priority to financing such projects;

(c) to contribute financing on concessionary terms justified solely by the nature of the overall fertilizer project;

(d) to permit external financing in the form of loans and grants to contribute to the local component as well as the foreign component of total investment costs of such projects;

IV- (2) Noting the large volume of financing likely to be required to construct fertilizer plants in developing countries in the period 1980-1990, Governments and fertilizer manufacturing enterprises in developed and developing countries agree that a Working Group on Financing Fertilizer Industry Projects should be convened by UNIDO to consider as priority topics;

(a) the problems developing countries already face or are likely to face in raising a sufficient volume of funds from domestic and external sources to finance fertilizer plants and associated infrastructure;

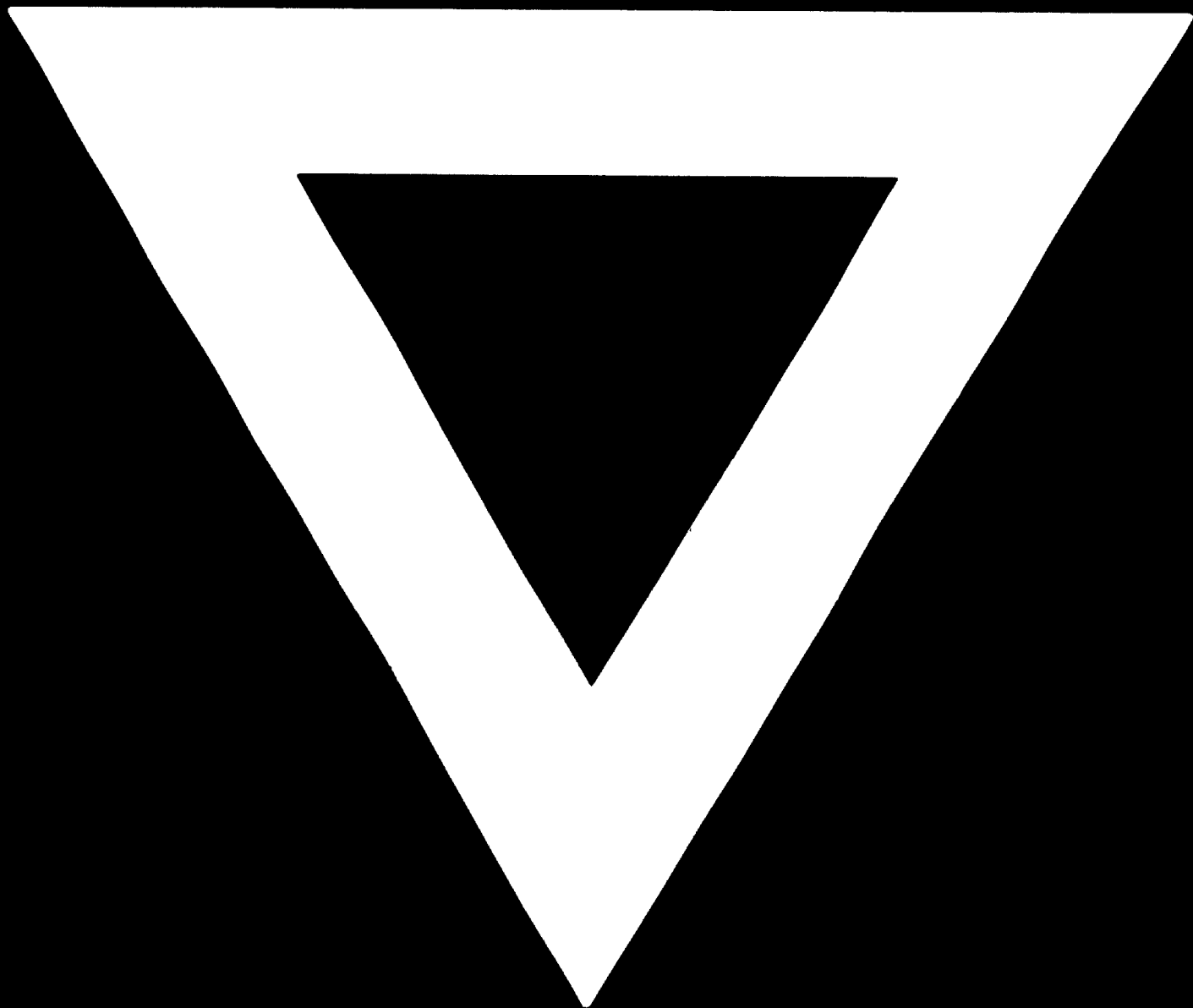
(b) the suitability of the terms and conditions on which financing is provided for the construction of fertilizer plants and associated infrastructure in developing countries;

(c) the nature and content of guarantees that need to be provided in order to attract large external contributions to financing fertilizer plants;

(d) new ways of combining national control of fertilizer enterprises with large external contributions of financing; for example, leasing arrangements.



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