



Indonesia
Market Watch
April 2022

**How the Ukraine
Conflict will
impact Indonesian
fertiliser prices**

The Australia-Indonesia Partnership for Promoting Rural Incomes through Support for Markets in Agriculture (PRISMA) is a development partnership between the Government of Australia (Department of Foreign Affairs and Trade, DFAT) and the Government of Indonesia (Bappenas).



Introduction

Russia began a full-scale invasion of Ukraine in February 2022, and the resultant economic sanctions have disrupted international trade, increasing fertiliser prices globally. As prices surge, farm-level profitability and food security in Indonesia are likely to be severely impacted.

PRISMA, a DFAT-funded market system development program, is working with fertiliser companies to build the commercial market and provide services to smallholder farmers. These interventions will increase crop productivity and farmer income.

Fertiliser costs typically contribute up to 30 percent of the overall production cost for staple crops like rice or maize. Any increase in fertiliser price means a more significant financial burden for the smallholder farmers. So, how will the Russian invasion of Ukraine impact fertiliser prices in Indonesia?

Price pressure already exists

Fertiliser prices have been increasing since 2021 because of the high demand in crop-growing countries and the low supply of raw materials for fertiliser. The supply of critical inputs for producing fertiliser (natural gas, phosphorus, and potassium) has decreased because suppliers are curbing exports to meet growing local demand.¹ A surge in global trade in 2021 sent shipping costs soaring, contributing to further price increases.² Non-subsidised fertiliser prices have increased by more than 70% in Indonesia since mid-2021.

Impact of Ukraine Conflict

Russia accounts for around 16 percent of Indonesia's fertiliser imports. International trade restrictions on Russia have led to disruptions in the supply chain from Russia and Belarus, among the top exporters of raw materials for fertiliser. Shipping lane disruptions caused by the conflict are exacerbating the supply crunch contributing further to price increases.

Russia is one of the top five natural gas exporters, critical for producing nitrogen-based fertiliser. Indonesia is the tenth largest natural gas producer in the world and offers gas at subsidised rates for fertiliser production. If the international gas price increases, the government may be forced to reduce the subsidy on gas prices for the fertiliser sector.

¹ China has been restricting phosphate export since July 2021, and Russia banned ammonium nitrate export well before the conflict with Ukraine started.

² For example, urea prices jumped by almost 200 percent, and phosphate prices nearly doubled.

The opportunity

PRISMA's partners in the fertiliser industry supply different types of fertiliser products – synthetic, mineral, and organic. Increasing prices in synthetic fertilisers have opened an opportunity for PRISMA's partners to supply organic and mineral-based fertiliser. These fertilisers are more immune to ongoing global price increases. Smallholder farmers are now more inclined to adopt these fertilisers because they are more affordable. Combining organic and mineral fertilisers helps farmers reduce synthetic fertiliser usage (up to 25%) while maintaining balanced soil nutrients.

The drawback

Price increases in the raw materials for synthetic fertiliser will reduce the overuse of these fertilisers, which is a positive for the environment. However, organic and mineral fertilisers on their own are not sufficient to increase crop productivity. The danger is that if the price for urea and compound fertilisers containing potassium and phosphate continues to increase, smallholder farmer productivity will decrease as they reduce inputs. PRISMA's research into farmer behaviour shows that smallholder farmers involved in staple crops tend to have lower working capital and will offset the price increases by reducing their use of synthetic fertiliser.

To offset this impact, PRISMA continues to monitor farmers' behaviour regarding investing in agricultural inputs. PRISMA is sharing these insights so fertiliser companies can adapt their marketing strategies. The companies are now educating farmers on the proper application of balanced fertiliser use, including adopting mineral and organic fertilisers to adjust their investment costs and farm profitability.



The outlook



Fertiliser prices will continue to increase but at a slower rate compared to 2021 before stabilising towards the end of the year. Non-traditional exporters, such as the Middle East, Africa, and Canada, are expected to increase their supply of raw materials during the second half of 2022, which will stabilise fertiliser prices.



In Indonesia, the government has no immediate plan to increase the subsidy allocation for fertiliser. The budget for fertiliser subsidy in 2022 is Rs 25.3 trillion, which is 13% less than the previous year. Because of the continuing high demand for fertiliser, this opens the door a bit wider for the commercial fertiliser market, which PRISMA is helping to establish. However, growth will now be slower than previously expected.



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