

**AN ANALYSIS OF FERTILIZER POLICIES
IN THE PHILIPPINES**

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Introduction

Fertilizer policy has been an important component of Philippine agricultural policy, particularly in the seventies. Although expenditure for fertilizer is still relatively low for most crops, fertilizer has been a critical source of agricultural growth in the Philippines where land-man ratio is low and declining, and technological innovations are directed towards increasing yields per hectare. With the gradual phasing out of direct subsidies to the domestic fertilizer industry and the declining real price of rice and sugar, the issue of fertilizer price becomes of great concern.

The government's involvement in fertilizer covers wide ranging areas, including breeding for more fertilizer-responsive crops, extension, development of domestic production capacity for fertilizer, rural credit, prices, and so forth. The purpose of this paper is to analyze government

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policies affecting fertilizer prices during the postwar period emphasizing the policies after 1973. Our approach distinguishes the impact of government policies on the price of fertilizer paid by farmers from the price received by domestic fertilizer producers. The impact of both broad economic policies pertaining to exchange rate, tariffs, taxes, import quotas, etc. and policies specific to the industry such as price control and direct subsidies is quantified. Before that, however, the growth and characteristics of the fertilizer market are briefly described.

Growth and Changes in the Fertilizer Industry

Over the past three decades, total availability of fertilizer, based on the quantity of domestic production and imports, has increased at an annual rate of about 8 percent (Fig. 1). This growth was fairly stable except in the early 1970's when world prices of fertilizer quadrupled due to the oil crisis and when the government launched the Masagana 99 Program. To hedge against further price hikes and physical shortages of fertilizer, the government increased imports by almost 175 percent in 1974. Ironically, the sharp increase in world prices turned out to be largely a short-run phenomenon.

Increases in available fertilizer supply during the first two decades originated mainly from domestic sources as the proportion of imports declined from 100 percent in 1950 to 41 percent by the close of the 1960's. Three fertilizer plants, namely, Chemical Industries of the Philippines (Luzon), Maria Cristina Fertilizer Corporation (Mindanao),

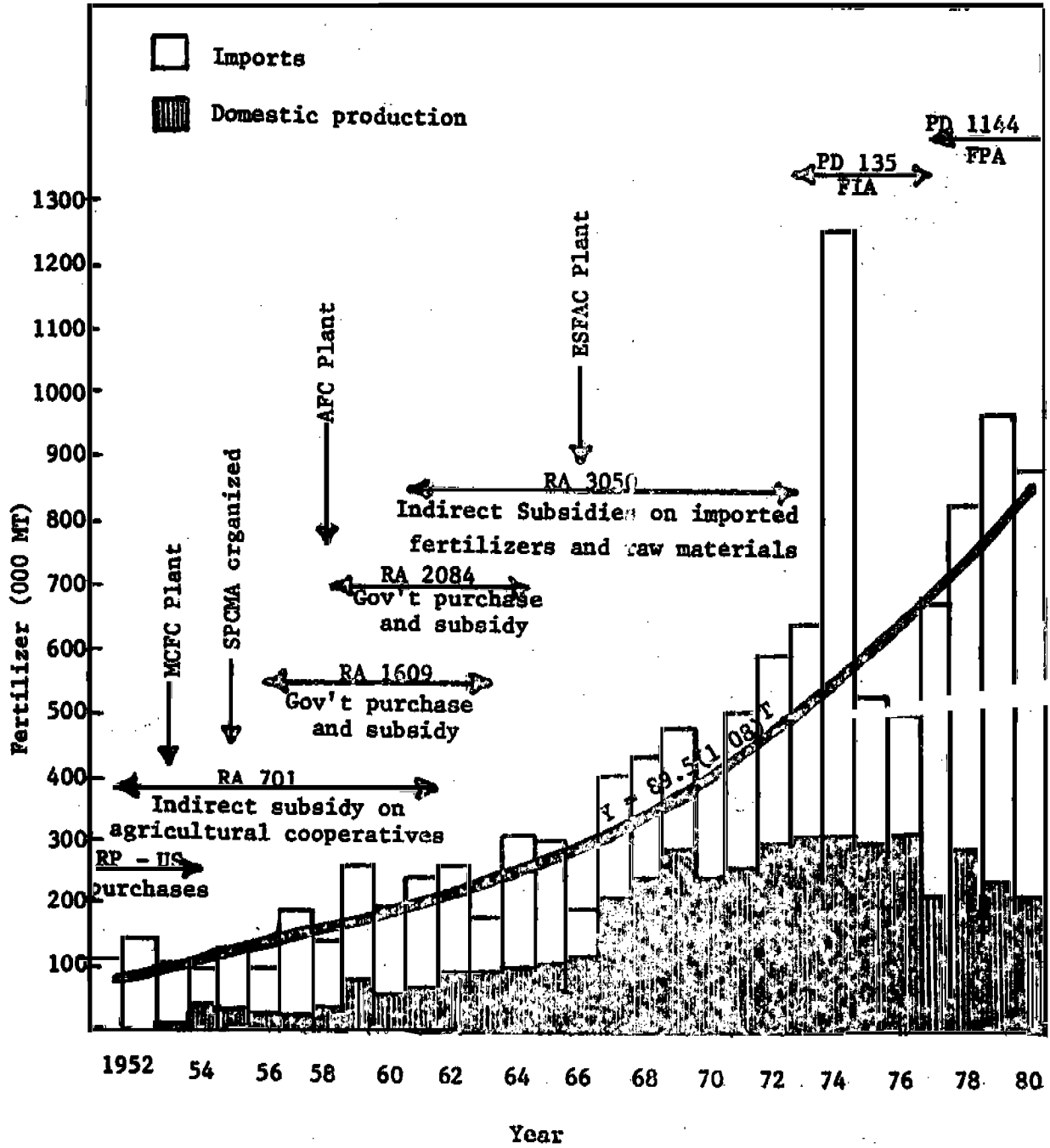


Fig. 1. Total imports and domestic production of inorganic fertilizers, Philippines, 1951-1980.

and Atlas Fertilizer Corporation (Visayas) were established in the 1950's. Despite the addition of the largest plant, Planters' Products, Inc. (formerly the Esso Fertilizer Company) in 1966, domestic production leveled off as early as the late 1960's. Since then, imports have accounted for the growth in fertilizer supply, its share rising to 75 percent of total supply by the early 1980's.

Growth in fertilizer supply is even more rapid if measured in terms of nutrients or changes in the composition of fertilizer over time. In the early period, the bulk of fertilizer consumption consisted of ammonium sulphate while the growth in domestic production was primarily made up of mixed fertilizer (Barker, 1969). Demand shifted significantly in favor of urea during the seventies as a result of increases in fertilizer demand in the rice sector where nitrogen is the most appropriate nutrient supplement (Table 1). As evidenced by the trends of the nitrogen-rice and nitrogen-sugar price ratios in Table 2, urea is a cheaper source of nitrogen. The worsening of the price relationship was less for rice than for sugar during the 1970's. The shift in demand for urea also explains the increasing reliance on imports.

Up to the late sixties, the export crop sector absorbed two-thirds of total supply, with the sugar industry as the single most important buyer (Table 3). Increased demand for fertilizer in the rice sector changed the crop distribution of fertilizer by the latter part of the 1970's. The share of sugar dropped to 40 percent, second only to rice which now consumes nearly half of total supply. The introduction of

Table 1. Distribution of fertilizer by origin and by type of fertilizer, 1970 - 1980.

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	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Percent of total supply											
Urea	28	32	22	24	27	21	19	38	40	37	33
Ammonium sulphate	26	25	20	31	25	23	28	27	19	21	19
NP & P	18	17	17	19	20	25	18	15	11	14	14
NPK	17	17	33	15	20	17	20	9	19	17	19
Potash	11	9	8	11	8	14	15	11	11	11	15
Total	100	100	100	100	100	100	100	100	100	100	100
Percent of imports to total supply											
Urea	82	86	85	93	97	79	85	100	100	100	100
Ammonium sulphate	35	45	34	59	76	20	25	66	63	98	98
NP & P	5	1	10	12	25	17	-	-	18	17	31
NPK	6	1	49	2	91	29	-	-	2	32	14
Potash	100	100	100	100	100	100	100	100	100	100	100
Total	45	48	51	54	76	44	39	66	65	76	74

SOURCE: Fertilizer & Pesticide Authority.

Table 2. Price relationship between nitrogen and some agricultural crops, Philippines, 1968-1980.

Year	Palay Price ₱/MT	Sugar Price ₱/MT	Nitrogen(N) Price		Price Ratio			
			Urea ₱/MT	Ammosul ₱/MT	N-urea Palay	N-ammosul Palay	N-urea Sugar	N-ammosul Sugar
1968	330	587	1078	1390	3.27	4.21	1.84	2.37
1969	340	597	980	1390	2.88	4.09	1.64	2.33
1970	360	738	1253	1867	3.48	5.19	1.70	2.53
1971	550	841	1304	1909	2.37	3.47	1.55	2.27
1972	610	943	1304	1909	2.14	3.13	1.38	2.02
1973 ^{a/}	790	943	1231 2138	1762 2686	1.56	2.23	1.30	2.85
1974	890	1750	3844 6498	4286 8038	4.32	4.81	2.20	4.59
1975	930	1812	3738 5780	4433 7305	4.02	4.77	2.06	4.03
1976	960	1350	3409	4586	3.55	4.78	2.52	3.40
1977	1000	1500	3409	5195	3.41	5.19	2.27	3.46
1978	1000	1500	3409	5195	3.41	5.19	2.27	3.46
1979	1050	1653	3973	6105	3.78	5.81	2.40	3.69
1980	1078	2058	4502	7143	4.18	6.63	2.19	3.47

^{a/} From 1973 to 1975, domestic fertilizer prices were based on a two-tier system: the first entry refers to Priority I prices (for food crops) and the second to Priority II prices (for export crops).

Table 3. Total fertilizer consumption by crop, 1967 and 1977.

	1967 ^{a/}		1977 ^{b/}	
	thousand MT	Percent share	thousand MT	Percent share
Food crops	133.8	32.9	353.6	51.5
Rice	107.4	26.4	315.1	45.9
Maize	13.0	3.2	26.8	3.9
Vegetables	13.4	3.2	11.7	1.7
Export crops	283.0	67.1	333.0	48.5
Sugarcane	221.1	51.9	270.0	39.4
Others	62.6	15.4	62.5	9.1
Total	406.8	100.0	686.6	100.0

^{a/} From "Data Series on Rice Statistics," Philippines, IRRI, 1976.

^{b/} From Fertilizer and Pesticides Authority.

modern varieties and expanded irrigation raised yield response to fertilizer in rice significantly, but the Masagana 99 supervised credit program and the subsidized price of fertilizer to the food crop sector from 1973 to 1975 have also cushioned the impact of the oil crisis on fertilizer demand.

Government Fertilizer Policies

As in food policy, the government's approach to fertilizer policy is to achieve a balance between the conflicting objectives of providing low fertilizer prices to farmers and giving adequate incentives to domestic fertilizer producers. The former is in line with the goal of low food prices, higher agricultural production and farm income. The latter is related to the pervasive concern for self-sufficiency, particularly in the supply of inputs considered critical to food production.

Policies Prior to 1973

Two types of government incentives to develop the domestic fertilizer industry existed before 1973. One consisted of various tax exemptions granted in a series of general tax incentives laws. During the 1950's, fertilizer was included in the list of "new and necessary" industries which were granted full exemptions from internal revenue tax and customs duties under Republic Act 35. This law was replaced by the Basic Industries Act in 1961 limiting exemptions to taxes related to imports of capital equipment. However, a special tax incentive law for fertilizer was passed extending the tax exemptions

to all types of imports by the industry from 1961 to 1965. The subsequent Investment Incentives Act of 1967, which provided broader tax incentives, also included fertilizer as one of the priority industries.

Another type consisted of incentives given to producers which raised domestic fertilizer price above world prices. These originated mainly from import controls and multiple foreign exchange rates during the 1950's which were replaced by a set of tariffs, differential sales tax, and margin deposit requirements for imports after the devaluation and decontrol period in the early 1960's.

At the same time, the government implemented a number of programs to reduce the cost of fertilizer to farmers. Republic Act 701 passed in 1972 provided tax exemptions to cooperatives, including exemption from payment of advance sales tax on imported fertilizer. Republic Act 3050 of 1961 further exempted cooperatives from payment of import duties. This was, however, rescinded in 1965. The same law continued the provision found in Republic Act 701 which exempted registered cooperatives from payment of advance sales tax for imported fertilizer.

Since only the sugar cooperatives, specifically the Sugar Planters Cooperative and Marketing Association (SPCMA), were sufficiently organized to benefit from these privileges, the government enacted two other laws to bring lower fertilizer prices to rice and corn farmers. In 1955, ₱42.5 million was released under RA 1609 to the Agricultural Credit and Cooperative Farmers Association (ACCFA) for the purchase and

distribution of fertilizer over a period of seven years (Table 4). Purchases from domestic producers under this program averaged 11 percent of total supply during this period (Table 5). These were distributed through farmers' cooperatives at 50 percent of the commercial retail price.

Republic Act 2084 supplemented the same effort with the purchase of ₱44.5 million worth of fertilizer, sold at a 50 percent subsidy between 1958 and 1964. There were reports, however, that about half of the fertilizer intended for rice and corn producers was diverted to the sugar sector. The disproportionate share of mixed over nitrogenous fertilizer that was purchased by ACCFA relative to the pattern of farm demand also created problems (Barker, 1969).

Policies from 1973

With the four-fold jump in the world price of fertilizer, coupled with the immediate need to recover from the 20 percent drop in rice production in 1973, the government intervened directly into the operation of the fertilizer industry. Presidential Decree (PD) 135 established the Fertilizer Industry Authority (FIA) primarily to regulate prices, imports, domestic production and marketing aspects of the fertilizer industry. In 1977, PD 1144 reorganized FIA into the Fertilizer and Pesticide Authority (FPA) to continue and extend the FIA regulations to the agricultural chemical industry. In addition, the control of the quality and safety of fertilizer and agricultural chemicals became part

Table 4. Total fund releases for fertilizer subsidy under RA 1609 and RA 2048.

(thousand pesos)

YEAR	RA 1609	RA 2084
1956	2,500	-
1957	7,650	-
1958	8,923	5,547
1959	3,773	11,161
1960	2,375	9,088
1961	8,333	5,498
1962	7,458	6,255
1963	1,500	5,606
1964	-	1,376
Total	42,513	44,531

SOURCE: Agricultural Credit Administration (from R. Barker, "The Philippine Fertilizer Industry: Growth and Change", IRRI, 1969).

Table 5. Fertilizer procured and distributed under RA 1609.

YEAR	Fertilizer Procured	Fertilizer Distributed	Fertilizer Distributed Percent of Total Supply
1957	52.5	44.5	23.9
1958	52.5	47.5	34.1
1959	9.0	10.0	3.9
1960	9.0	8.0	4.1
1961	29.0	9.5	3.8
1962	44.5	32.5	12.2
1963	15.5	33.0	18.8
1964	-	9.0	2.9
Total	212.0	194.0	-
Average	26.5	24.2	10.9

SOURCE: Agricultural Credit Administration (from R. Barker, "The Philippine Fertilizer Industry: Growth and Change", IRRI, 1969).

of its functions.

Between 1973 and 1975, a two-tier price system was enforced which provided for a significantly lower price of fertilizer to food compared to export crop producers. Fertilizer for the food crop sector was sold at prices 50 to 70 percent less than prices for export crops which were allowed to rise with world prices. The Masagana 99 supervised credit program for rice which linked credit, extension, and fertilizer subsidy was the mechanism for distributing the lower-priced fertilizer to the rice sector. Because of the difficulties of enforcing a two-price system as well as the decline in the world price of fertilizer, a single price was set starting in 1976.

Two sets of policy instruments ensured that the fertilizer price announced by FPA prevails in the market. First, FPA, together with representatives from four other national agencies, decides on the level of fertilizer imports which would "fill up the difference between domestic production and total requirements". The FPA then allocates the targeted imports to existing domestic producers or to authorized importers. Imports are allowed only with FPA authorization and are exempted from customs duties, advance sales tax, and the 50 percent margin deposit on the value of the import letters of credit.

Second, domestic producers are also exempted from the same requirements for imports of raw materials. In addition, direct cash subsidies are paid from the government budget for losses incurred by the domestic

producers as a result of the price control and despite tax and duty exemptions on imported finished fertilizer and raw materials.^{1/}

Impact of government policies on farmers

The impact of government policies may be analyzed from the viewpoint of the farmers as users of fertilizer and from the viewpoint of fertilizer producers. From the standpoint of farmers, the relevant question is what the effect of government interventions has been on the fertilizer price paid by farmers. This can be quantified by the concept of the implicit tariff (T) which measures the percentage difference between domestic price and border price at a comparable point in the marketing chain.^{2/}

The border price, in this case the CIF import unit value, represents the social opportunity cost of fertilizer, i.e., the price farmers would have paid without government intervention or under free trade. Domestic price differs from border price as a result of government interventions which in this case are primarily due to import quotas and price controls.

Table 6 presents estimates of implicit tariffs of the four major types of fertilizer from 1973 to 1981. Implicit tariffs have changed

^{1/} Direct subsidies as determined by FPA are based on the difference between sales valued at government set prices and actual production cost plus a 5 per cent mark-up. In the case of Planters' Products, Inc., the 5 per cent mark-up is not supposed to apply

$$\frac{2/}{T} = \left[\frac{P_d}{P_b} - 1 \right] \times 100; \text{ where } P_b \text{ denotes border price, } P_d \text{ is domestic}$$

wholesale price, ex-Manila. These two prices are assumed to be at a comparable point in the marketing chain so that differences between domestic and border prices may be explained by government interventions rather than by real marketing costs.

through time mainly as a result of fluctuations in world prices as government policy tried to stabilize domestic prices (Appendix Table 1). Overall average implicit tariff during this period indicates that farmers in general paid a price for fertilizer that is about 10 percent higher than border prices. For the first three years when the two-tier pricing system was in effect, the food crop sector indeed received a price subsidy of about 32 percent. In 1975, both food and export crop sectors enjoyed a price subsidy of about 46 and 14 percent, respectively, because the FIA lowered the price of urea, ammonium sulphate, and mixed fertilizer to the export crop sector to draw down the large inventory carryovers from the huge imports ordered in 1974. After 1975, however, implicit tariffs rose to a high level of 56 percent above world prices to allow the fertilizer industry to recoup losses incurred by the price stabilization measures of the 1973-1975 period. Of course, one reason for the very large losses was the government's decision to almost double imports at the very high prices of 1974 in anticipation of even higher prices. The private sector would most probably not have made the same magnitude of imports and, thus, of losses. In recent years, implicit tariffs have been relatively low, averaging from 5 to 7 percent.

Price policy has not been uniform by type of fertilizer. There appears to be a strong tendency to promote the use of mixed fertilizer based on the Masagana 99 typical recommendation on fertilizer use for rice of about 4 bags of mixed fertilizer and 3 bags of urea. It is only in mixed fertilizer where there has been, although small, a measure of

Table 6. Estimated implicit tariffs on four grades of finished fertilizer, 1973-1981.

(Percent of border prices)

		Fertilizer Grade				Weighted Average
		Urea	Ammosul	Mixed	Muriate of Potash	
1973	I Food crops	-25	- 9	-49		- 5 ^{a/}
	II Export crops	31	39	- 2	119	
1974	I Food crops	-11	-23	-33		7
	II Export crops	50	44	17	81	
1975	I Food crops	-39	-43	-56		-30
	II Export crops	- 5	- 5	-31	86	
1976		65	86	30	85	56
1977		55	59	13	105	41
1978		28	37	- 5	96	19
1979		34	52	15	89	32
1980		7	43	-14	68	5
1981		8	45	-11	80	7
Weighted Average		16	27	- 4	86	10
Legislated Implicit Tariffs						
1960s						16
1970s						35

^{a/} From 1973-1975, figures refer to weighted average of Priority I and II prices.

price subsidy over the whole period. For urea and ammonium sulphate, farmers have paid prices that were on the average, 16 and 27 percent higher than border prices. The implicit tariff for muriate of potash, which is all imported and typically used for sugar and other export crops, has been set much higher, at 86 percent.

Impact of government policies on fertilizer producers

From the standpoint of fertilizer producers, the impact of government policies may be measured by the concept of the total nominal protection rate. The protection to fertilizer producers is in the form of a price wedge between domestic and border prices, i.e., the implicit tariff and a cash subsidy. As mentioned earlier, government-regulated prices have been achieved since 1973 through import quotas, tariff and tax exemptions on imports of raw materials and finished fertilizer, and cash subsidies. The total nominal protection rate measures the amount of total protection or subsidies received by the fertilizer producer as a proportion of the value of domestic production at border prices.^{3/} Since domestic producers are, usually, also the authorized importers, the value of protection due to the price difference caused by government policy on the imported component of total supply was also included. On the other hand, the total value of protection is related to domestic

^{3/} It should be noted that the value of tax exemptions on imports of raw materials was not included in our measure of total protection rate. If this was included, the measure of total effective protection rate which takes into account the impact of government policies on the prices of inputs, would even be higher.

production only and not to total supply on the assumption that the protection afforded by government policy is intended to promote domestic production and not simply the activity of importing.^{4/} A more detailed explanation of the concept of the total nominal protection rate is given in Appendix A.

Table 7 gives the estimates of the value and rates of total nominal protection on the fertilizer industry. The 10 percent average implicit tariff on fertilizer paid by farmers is translated in column 1 as the value of price subsidy received by fertilizer producers/importers from both domestic production and imports because the latter are exempted from all tariffs and taxes. It represents about one-third of the total protection accorded the fertilizer industry with the major part accounted for by direct cash subsidies. From 1973 to 1981, the percentage excess of the value of total protection relative to the value of production at border prices was over 50 percent. One third of this level of protection was funded by implicit taxes charged to farmers through higher prices while the remaining two-thirds was financed by the national budget and shouldered by the general public.

The bottom rows of Tables 6 and 7 indicate the implicit tariffs and nominal rates of protection due to the legal tariff and indirect taxes on finished fertilizer before and during the 1970's. These were

^{4/} However, imports of mixed fertilizer were added to domestic production because the cash subsidy would be covering losses from its imports due to the negative price protection on mixed fertilizer.

Table 7. Estimates of value of subsidies and nominal rate of protection of fertilizer, 1973-1981.

Year	Subsidy (₪ million)			Value of Fertilizer ^{b/} (₪ million)	Nominal Protection Rate ^{c/}
	Price ^{a/}	Cash	Total		
1973	- 22	47	25	262	9
1974	88	68	156	1,106	14
1975	-380	333	-47	836	-6
1976	281	108	389	245	159
1977	256	55	311	224	139
1978	161	117	278	372	75
1979	322	15	337	417	81
1980	71	300	371	580	64
1981	116	550	666	672	99
Average					53
Legislated Protection System					
1970s					31

^{a/} Does not include indirect subsidies on inputs of domestically produced fertilizer.

^{b/} Fertilizer production plus imported mixed fertilizer valued at border prices.

^{c/} Percentage of total subsidy to total value of fertilizer production plus imported mixed fertilizer at border prices.

superceded by the FIA-FPA policy package in the latter period. Implicit tariffs in both periods were higher at 16 and 35 percent, respectively, than actual average implicit tariffs but nominal protection rates implied by the tariff and indirect taxes were much lower than 53 percent. The legislated implicit tariff paid by farmers on the imported fertilizer, although higher, would, however, be received by the government. Thus, it may, in part, accrue back to the agricultural sector in the form of government expenditures.

The growing subsidy which seems to be required by domestic producers despite a declining share of domestic production to total supply and the significant profit margin permitted by the FPA on imports are perhaps not surprising. As noted earlier, existing plants were built in the 1950's and 1960's. Technological developments in the fertilizer industry have been quite rapid as evidenced by the falling world price of fertilizer in current terms before 1973 and in real terms even after the oil crisis. The nature of technological improvement has also been in the direction of increasing economies of scale, particularly in the production of nitrogen, the most important fertilizer element in Philippine agriculture. Somehow, domestic plants have been operating only at about 55 percent of total rated capacity, and technologically, they have become much less competitive over time. Even with technologically up-to-date plants, we probably do not have comparative advantage in the domestic production of fertilizer because it involves a highly capital intensive technology and the importation of basic raw materials.

Concluding Remarks

It should be emphasized that the FIA policy package was initiated to protect food production from the sharp increases in the world price of fertilizer in 1973. Undoubtedly, stronger government regulation was necessary at that time of virtual crisis in food grain supplies. Clearly, too, there was a significant subsidy given to the food crop sector from 1973 to 1975. However, after 1975, the FIA-FPA policy package has served to increase protection of domestic producers-importers. Moreover, in the choice of policy instruments/guidelines, there was no attempt to relate the distribution of protection to efficiency of firms. Indeed, protection is highest to firms with the largest import allocation especially of muriate of potash, and to the least efficient firm since the cash subsidy is determined by the losses incurred rather than by some objective measure of efficiency.

Given the recent empirical findings that government policies in the 1970's have generally undervalued agricultural product prices, it is unfortunate that farmers, together with the general public, also have to bear the burden of the growing inefficiency of the domestic fertilizer industry (David, 1981). There is a need, therefore, to review current fertilizer policies. Without import quotas, tariffs, and taxes, fertilizer prices will drop to world levels, but domestic fertilizer production may likewise shrink. This will put pressures on the fertilizer industry to search for more efficient means of meeting farmers' demand

for fertilizer. Efficient firms will survive. The cost of subsidizing inefficient firms can be allocated to economic activities which will use less resources to obtain the foreign exchange needed to purchase imported fertilizer, or to other means which will raise the profitability of agriculture.

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Appendix Table 1. Border and domestic wholesale prices of finished fertilizers, 1973-1981.

Year	Urea			Ammosul'			Mixed Fertilizer			Muriate of Potash		
	Import Price (₱/mt)	Domestic ex-ware- house price (₱/mt)	Implicit tariff (%)	Import price (₱/mt)	Domestic ex-ware- house price (₱/mt)	Implicit tariff (%)	Import price (₱/mt)	Domestic ex-ware- house price (₱/mt)	Implicit tariff (%)	Import price (₱/mt)	Domestic ex-ware- house price (₱/mt)	Implicit tariff (%)
1973 ^{a/}	735	554 962	-25 31	406	370 564	- 9 39	1029	528 1005	-49 - 2	364	798	119
1974	1946	1730 2924	-11 50	1176	900 1688	-23 44	1974	1319 2306	-33 17	616	1115	81
1975	2745	1682 2601	-39 -05	1621	931 1534	-43 - 5	2797	1231 1941	-56 -31	666	1242	86
1976	927	1534	65	517	963	86	950	1231	30	578	1072	85
1977	988	1534	55	684	1091	59	1094	1231	13	524	1072	105
1978	1201	1534	28	798	1091	37	1300	1231	- 5	547	1072	96
1979	1330	1788	34	844	1282	52	1345	1548	15	684	1290	89
1980	1900	2026	7	1049	1500	43	1999	1724	-14	1125	1890	68
1981	2200	2387	8	1217	1766	45	2319	2069	-11	1178	2120	80

^{a/} From 1973 to 1975, domestic fertilizer prices were based on a two-tier system: the first entry refers to priority I prices (for food crops) and the second to priority II prices (for export crops). For muriate of Potash, domestic prices given for this period refer to priority II prices.

Source: Fertilizer and Pesticide Authority



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