

Industry competitiveness

Why Europe needs a strong domestic fertilizer industry

Fertilizers – a vital industry for Europe

Fertilizers enable

Fertilizer industry produces



of European food production



of European hydrogen

Fertilizers enable 50% of food production, contributing to food security in Europe and beyond. In doing so, the industry is essential in providing European consumers with nutritious, affordable, and sustainable food, supporting the objectives of the EU Farm to Fork strategy.

Furthermore, the fertilizer industry produces about 40% of the total of European hydrogen as raw material of ammonia production. It is therefore also uniquely placed to contribute to the objectives of the EU Green Deal and the development of a green hydrogen economy in Europe.

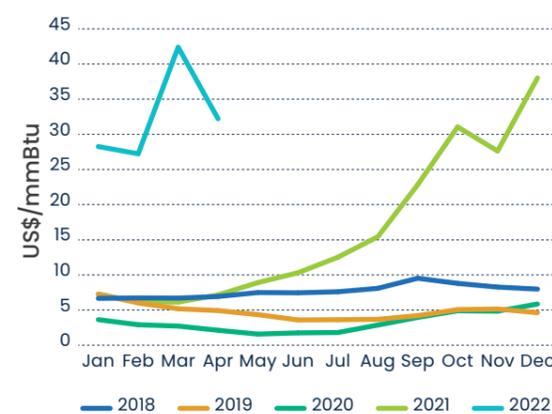
EU Fertilizer industry's competitiveness challenged

Since September 2021, Europe has been grappling with exceptionally high energy prices.

With record high prices and gas moving up to 90% of the variable costs in fertilizer production, the situation has become economically stressed for the fertilizer sector in Europe.

In early March 2022, the EU's monthly average gas price peaked at US\$42 MMBtu on the TTF exchange. The long-term average since 2005 to date has been around US\$8 MMBtu.

Spot gas prices in Europe (TTF)

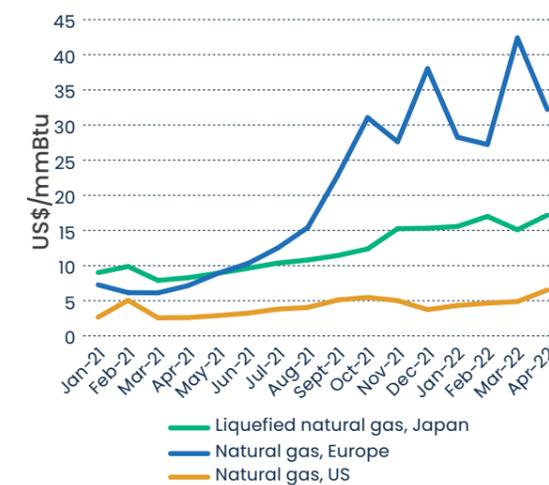


Source: The World Bank Data (in US\$/mmBtu).

The unprecedented high gas prices in Europe have made production of ammonia and fertilizers at times unviable. Several fertilizer producers across Europe have either announced short-term closures or temporary curtailment of ammonia and fertilizer production.

Meanwhile, most non-EU producing countries have been benefiting from access to artificially low, state-fixed priced gas and thus have been profiteering from the artificial gas price gap.

Spot gas prices in the EU, US, Japan



As an immediate response, Fertilizers Europe ran in October 2020 an all-out advocacy and media campaign to raise awareness about the gravity of the situation in the fertilizer industry. It called for EU and Member States authorities to take urgent corrective action as well as to address the challenges on the European energy market.

Corrective actions sought by Fertilizers Europe:

- EU commercial diplomatic pressure on the major gas suppliers to Europe.
- Increased fertilizer industry planning security by placing a stabilisation mechanism on gas price increases and reducing the insecurity related to electricity prices.
- Monitoring of the economic situation for farmers and if necessary, providing instruments to help them deal with the volatile market environment, including support for the purchase of fertilizers.
- Preventing loss of ETS allowances due to energy crisis.
- Consideration for making emergency 'kick-start' state aid permissible.
- Maintaining the existing EU anti-dumping duties.

The association reached out to the top EU officials, including the EU Commission President von der Leyen, the Council President Michel, the Slovenian Presidency as well as the Commissioner Simson responsible for the energy portfolio. A public awareness campaign was launched in October through main Brussels media. Fertilizers Europe digital channels were used to extend the outreach and underline the urgency to act.

EU's first energy toolbox

On 13 October, the European Commission presented a toolbox of measures to tackle the exceptional rise in energy prices and its impacts on the economy at large. EU Member States and the European Commission were aligned that given a wide divergence in terms of energy mix and tax policies there is no 'one tool fits all' solution. Thus, actions and assistance were deferred to Member States. The proposal focused on households and SMEs, offering limited support for energy intensive industries.

In December 2021, the European gas prices reached another peak, resulting in the second round of fertilizer production curtailments.

By end-2021, it has been widely recognised that the unprecedented high gas prices in Europe and Northeast Asia were likely to endure at least until spring 2022. Europe has definitely been the hardest hit region in the world by high gas spot prices. In January and February 2022, spot prices decreased slightly in Europe. However, by the end of February, amidst the tension of Russia-Ukraine, gas prices spiked again, increasing nearly 30% the day after Russia attacked Ukraine.

Fertilizers Europe created a dedicated Board task force to help industry navigate through these difficult waters and help establish conditions needed for industry to return to business as usual. The industry communicated broadly that while being in a stressed situation, the sector has been committed to making every endeavour to maintain production, sales and services to EU agriculture.

RePowerEU – Second energy toolbox

Europe currently depends on Russia for 40% of its gas imports. Following the invasion of Ukraine, the European Commission has drafted a plan to curb EU's dependency on Russian gas.

The 2nd Energy Toolbox called REPowerEU was announced by the European Commission on 8 March 2022 with the overarching objective to make Europe independent from Russian fossil fuels well before 2030. The plan stipulates an introduction of a series of measures to respond to rising energy prices, diversify Europe's gas supply and accelerate the clean energy transition.

RePowerEU measures

Urgent action on prices

- State aid measures to help companies face high energy costs

Refilling gas storage

- Minimum gas storage legislation, 90% target by 1 October
- Support for coordinated gas refilling (e.g. joint procurement)
- Investigation into behaviours by operators, notably Gazprom

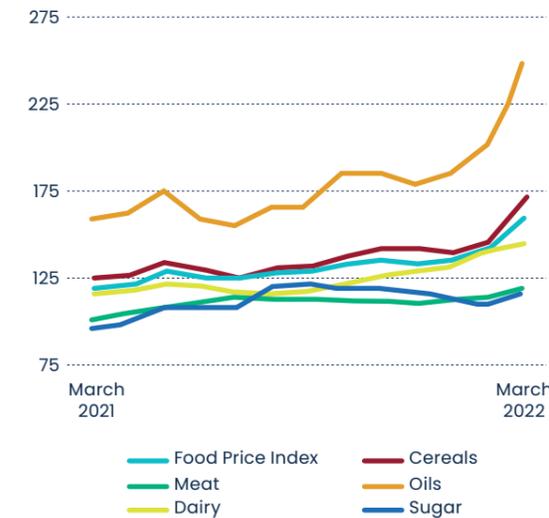
Cutting dependence on Russian gas

- Accelerating industry decarbonisation
- Speeding up renewables permitting
- Diversifying gas supplies
- A hydrogen accelerator
 - Development of infrastructure, storage facilities and ports
 - Additional 10 mt of imported renewable hydrogen + 5 mt of domestic renewable hydrogen

The EU's ambition to reduce the reliance on Russian gas means that the European fertilizer industry must do its best to make its production green even faster. While the sector is already investing in new low-carbon technologies, public support on the EU and Member States level must now be reinvigorated, boosted and speeded up.

War in Ukraine: Implications for industry, gas market and food security

Food prices at all time high, large jump in March



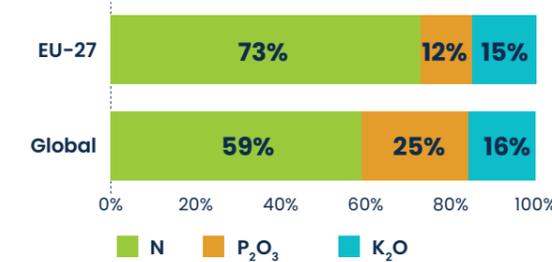
Source: FAO

The invasion of Ukraine by Russia further destabilised an already stressed market situation, and particularly agriculture, fertilizers, gas and energy sectors. It has exposed vulnerabilities in the agri-food systems and has driven prices up putting both consumers and producers in a stressed situation.

War in Ukraine has reduced food and fertilizer supply, driving prices higher and threatening global food security.

In terms of fertilizers, Russia has in recent years been the foremost third country for the EU fertilizer market and for fertilizer consumers alike.

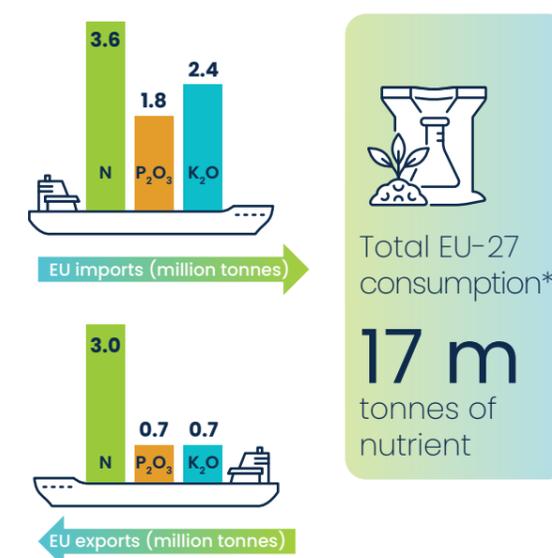
Fertilizer production by nutrient 2019



In nitrogen fertilizers, EU has an 8% share of global production, while in phosphate it is 3%, and potash 6%

Source: Fertilizers Europe / IFA

European trade by nutrient 2020



Source: Fertilizers Europe / Eurostat
*Includes products for agricultural and industrial use

Imported product's share of EU consumption 2020



Source: Fertilizers Europe / Eurostat

The fertilizer industry is the main natural gas consuming industry. With the EU being highly dependent on Russia for natural gas (41% of total imports to the EU), the fertilizer sector is highly exposed to the commodity's price volatility and availability.

Russia has also been one of the main nutrient exporters to the EU, with 30% nitrogen and 36% urea fertilizer imports. Moreover, Russia and Belarus together account for a large share of the production and supply of potash and phosphate rock.

Sanctions and its impact on fertilizer supply

The six packages of sanctions employed against Russia and Belarus have been profound and unprecedented in scope and depth. Fertilizer supply, already affected by energy market destabilisation, has been further impacted by export bans and restrictions on imports from Russia and Belarus. These developments acted as a powerful reminder of the vital importance of safeguarding Europe's domestic fertilizer production to guarantee long-term food security.

Fertilizers Europe welcomed the decisive reaction from the European Commission to the stressed market situation in agriculture and in the fertilizer sector specifically.

Temporary Crisis State Aid allowed

By adopting a Temporary Crisis Framework on 23 March 2022, the European Commission enabled Member States to use the flexibility foreseen under State aid rules to support vulnerable operators in the context of Russia's invasion of Ukraine. More specifically, the Framework enabled Member States to support companies affected either by sanctions or exceptionally high gas and electricity prices.

Fertilizers Europe welcomed the Commission's initiative as a necessary step to help the European fertilizer manufacturers cope with the unprecedented market situation driven by record high gas prices and disrupted supply chains.

Supporting EU farmers and consumers

On 23 March 2022, the European Commission issued the communication "Safeguarding food security and reinforcing the resilience of food systems". A range of short-term and medium-term actions has been presented to support farmers and consumers in the EU in light of rising food prices and input costs. Most notably, the Commission put forward a €500 million support package for farmers to address market disturbances, prioritising farmers engaged in sustainable practices as well as those hardest hit by the crisis. An exceptional and temporary derogation has also been put forward to allow the production of any crops for food and feed purposes on fallow land.

In this context, the Commission vowed to support farmers with liquidity and aid for increased gas and electricity costs while considering the availability of mineral fertilizers to be a priority. Farmers are urged to optimise fertilizer use efficiency, thus reducing use, in CAP strategic plans. Temporary remedial actions to source phosphate and potash from other countries will be put in place to address eventual shortages.

Fertilizers Europe welcomed the Commission's support for the industry's long-term efforts to roll out low-carbon technologies such as green ammonia, while also recognising the need to incentivise European farmers to make a more efficient use of nutrients through better management and uptake of the precision agriculture solutions through the National Strategic Plans.

Looking ahead

The European fertilizer industry continues to be committed to decarbonise and play its part in enhancing sustainable agriculture and decarbonising value chains. The transition requires significant long-term investments. These are only possible if substantiated by a business case.

Recent developments have potentially endangered the sector's ability to finance future investments in technologies necessary to get to climate neutrality in 2050, for both fertilizer production but also for ammonia as a hydrogen carrier.

Hence, the European fertilizer industry's prime goal has been, and still is, to return to normalised commercial conditions, allowing domestic producers to continue supplying the EU farmers with high quality and climate-friendly EU fertilizers.

Fertilizers Europe actions and response to energy crisis

September 2021 – March 2022

