

TRADE & ECONOMIC POLICY
OUTLOOK OF THE EU NITROGEN FERTILIZER INDUSTRY

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Meeting Europe's food needs...



INCREASING AGRICULTURAL PRODUCTIVITY THROUGH
BETTER USE OF NATURAL RESOURCES....



EU LEGAL FRAMEWORK FOR BUSINESS IS FUNDAMENTAL

EU FERTILIZER INDUSTRY AND MARKET IS PROFOUNDLY IMPACTED BY EU REGULATORY FRAMEWORK based on negotiated TREATY LAW and secondary supporting legislation:

LISBON TREATY: - contemporary confirmation of EU LIBERAL MARKET ECONOMY MODEL fixed into EU Treaty law;

Secondary laws back up the Base Treaty law

HIGH (and enforced) HSE STANDARDS;
UNIQUE CLIMATE CHANGE REGIME;

OPEN LIBERALISED INDUSTRY MARKETS INCLUDING
FERTILIZERS

PROGRESSIVE SINGLE EUROPEAN ENERGY MARKETS

COMMON AGRICULTURAL POLICY

COMMON AGRICULTURAL POLICY

EU MARKET ECONOMY MODEL (based in EU TREATY LAW)

LISBON TREATY- EU
GLOBAL MARKET
ECONOMY PARTNER

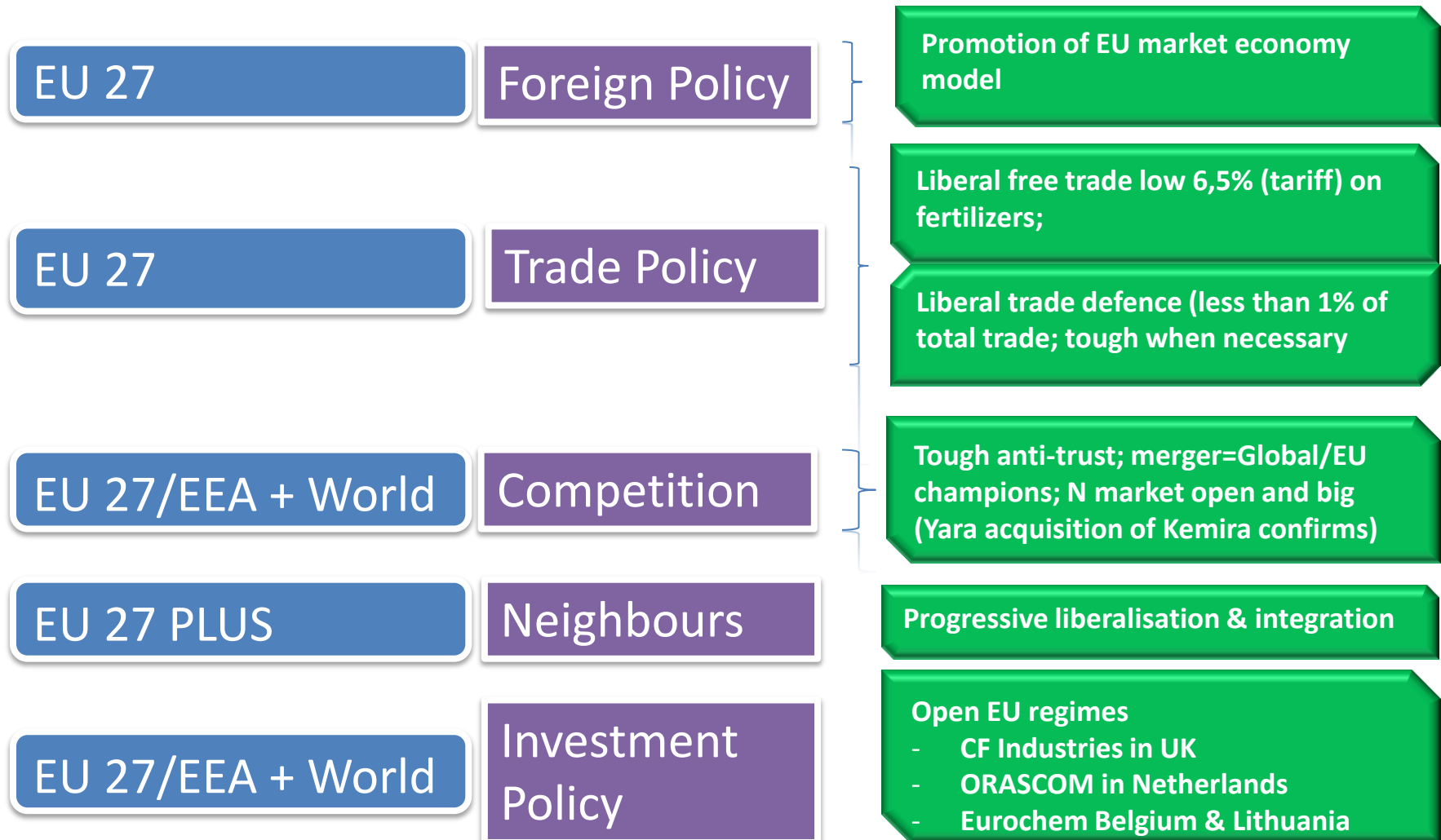
20 – 20 – 20 – 10
ENERGY & CLIMATE CHANGE
ETS 2013
BORDER MEASURES 2014 ?

3rd ENERGY (GAS) PACKAGE

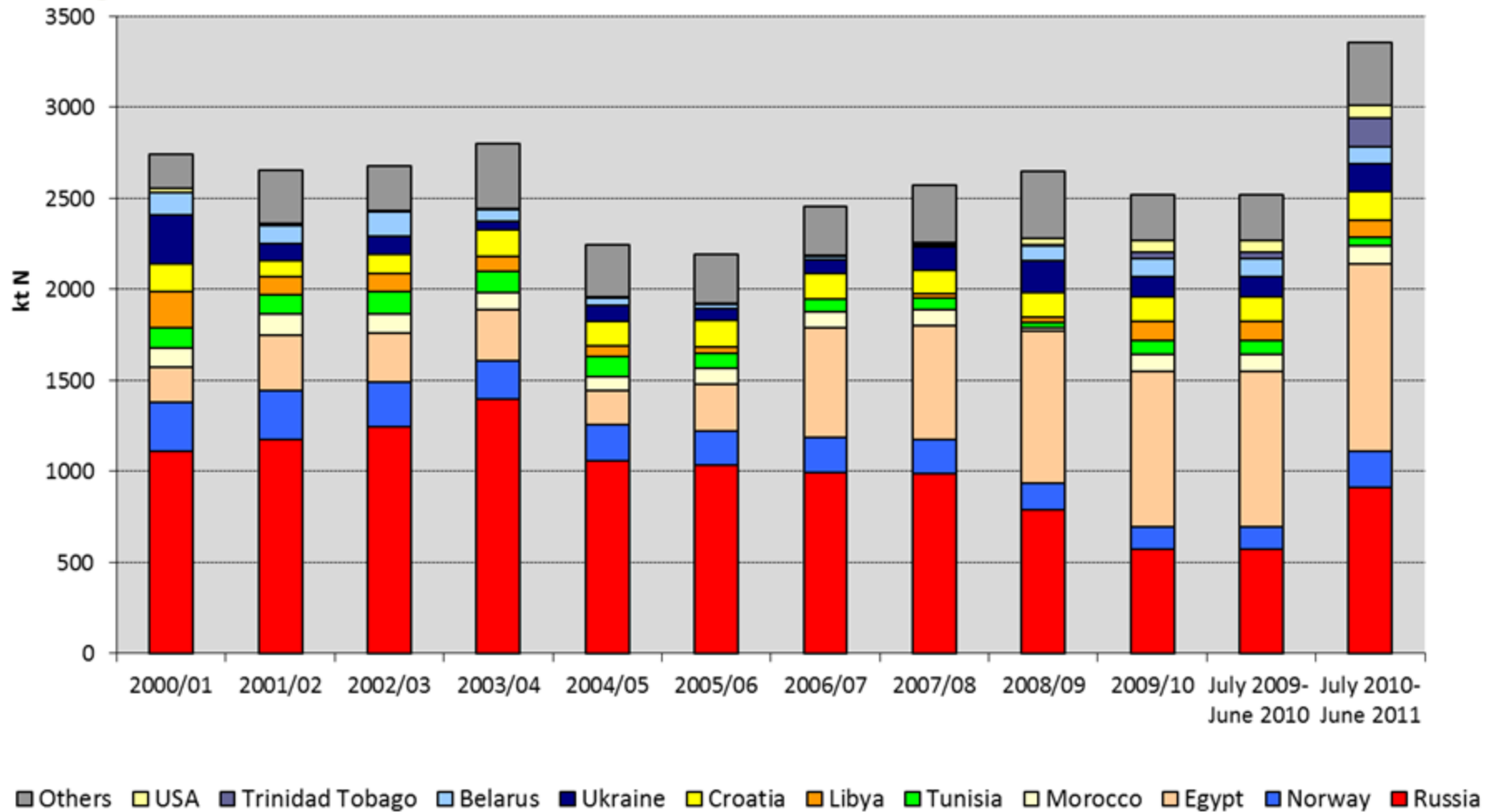
CAP
SUSTAINABLE « GREEN »
INTENSIFICATION

GLOBAL EUROPE
Trade, competition;
investment

EU MARKET ECONOMY MODEL (based in EU TREATY LAW)
(DETERMINANT OF SUPPLY SIDE AND COMPETITION)



**Eurostat N Fertilizer imports into EU 27 (extra trade)
by Origin**



Source: Eurostat

GLOBAL EUROPE

DEEP COMPREHENSIVE FTA'S
FIRST ROUND (2010-2015)

NEAR NEIGHBOURS

ACCESSIONS (BALKANS, TURKEY)
EASTERN PARTNERSHIP – UKRAINE
RUSSIA – PARTNERSHIP & CO-OPERATION

EURO – MED

NORTH AFRICA & LEVANT

ASIA

SOUTH KOREA

GCC – GULF
INDIA
JAPAN

North America

CANADA

South America

- ANDEAN PACT
- MERCOSUR

EXAMPLE - EU FERTILIZER ISSUES

EU – UKRAINE BI LATERAL= PCA II by 2014

- Energy Pricing and structures – Ukraine became member of European Energy Community April 2011;
- Climate change commitments – carbon leakage
- Competition law and enforcement
- HSE standards alignment with EU; their implementation and enforcement

Frontier Measures: Tariffs & Trade Defence

- **EU COMMON TARIFF ON FERTILIZERS —**
- maximum rate 6.5% ;
- Zero rated for developing countries under GSP and ACP (ex-colony) agreements;
- Only “OECD plus “ pay full rate;
- Doha Round will zero rate all EU fertilizer tariff rates; so will earlier FTAs.
- **EU TRADE DEFENCE REGIME**
- EU conducts world’s most liberal regime: lesser duty rule and public interest test means far lower measures than others, eg USA;
- EU regime very WTO compatible; well established technical and legal rules;
- EU gets tough with consistent problem cases, eg Euro 47/mt on Russia;
- Good behaviour can result in “easier” undertakings, ie not duty payments
- **NITROGEN FERTILIZERS TRADE DEFENCE**
- Only two products covered by trade defence measures: AN and UAN solutions
- Only 4 countries covered: Algeria, Belarus, Russia and Ukraine;
- 2 Sunset reviews announced: AN Ukraine and UAN – Algeria, Belarus, Russia and Ukraine
- Fertilizer Europe maintains systemic trade defence capability

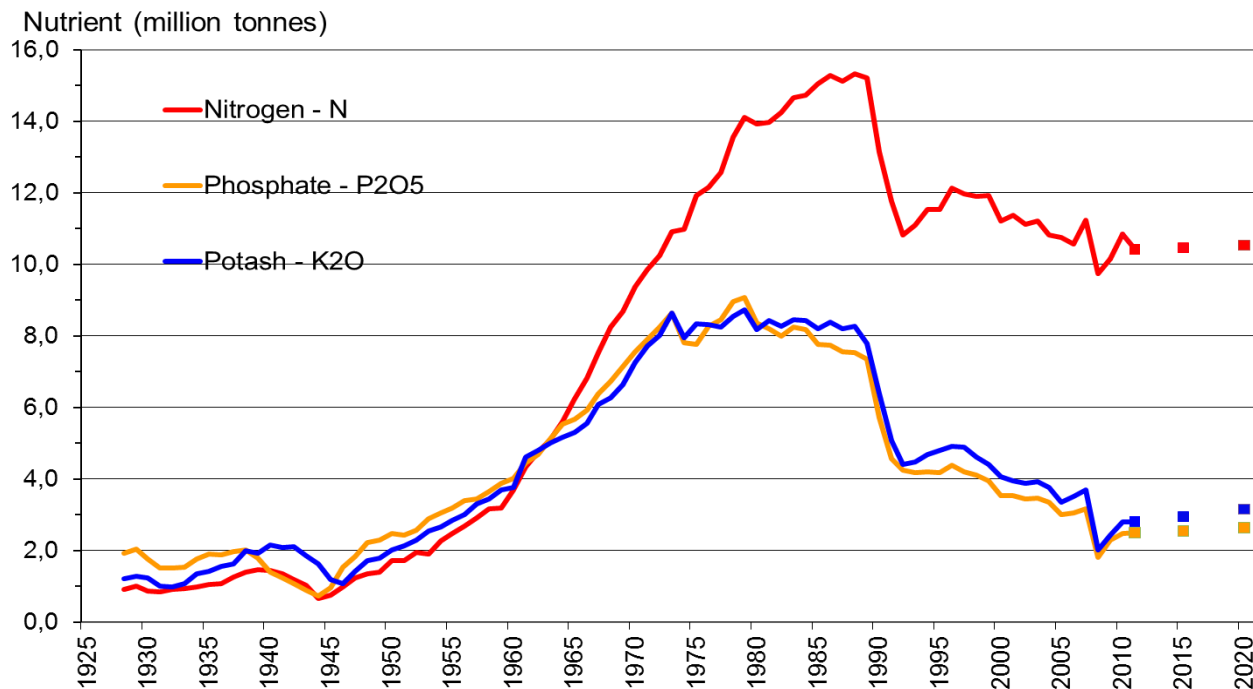
EU Fertilizer DEMAND Side Outlook : Modest growth

- EU12 development is growth factor
- EU 15 Stabilisation
- Biofuel demand (promoted by 20-20-20-10; RED = 10) – modest growth by world standards; open market & environmental constraints likely to limit EU growth development;
- World demand – EU as “contributor” -
- CAP REFORM – Commission proposal Oct 2011; new regime by January 2014 – probable – maintain two pillars – market management and environment.

Fertilizer Demand in EU

Fertilizer nutrient consumption in the European Union 27

2007 reference



+ 1.6%

- 10.2%

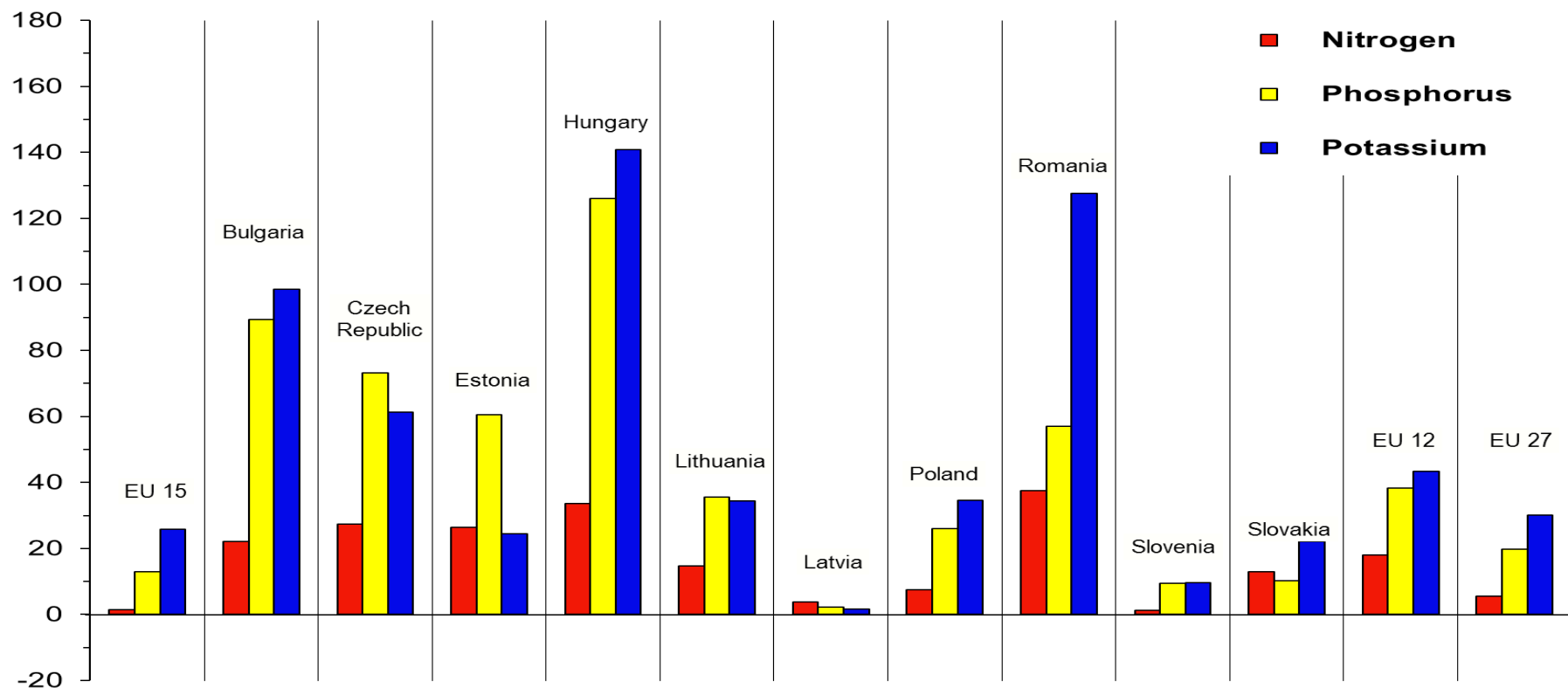
- 15.1%

>> still slow return to 2005/2007 level

Source: Fertilizers Europe forecast 2010-2020

EU12 drives the increase

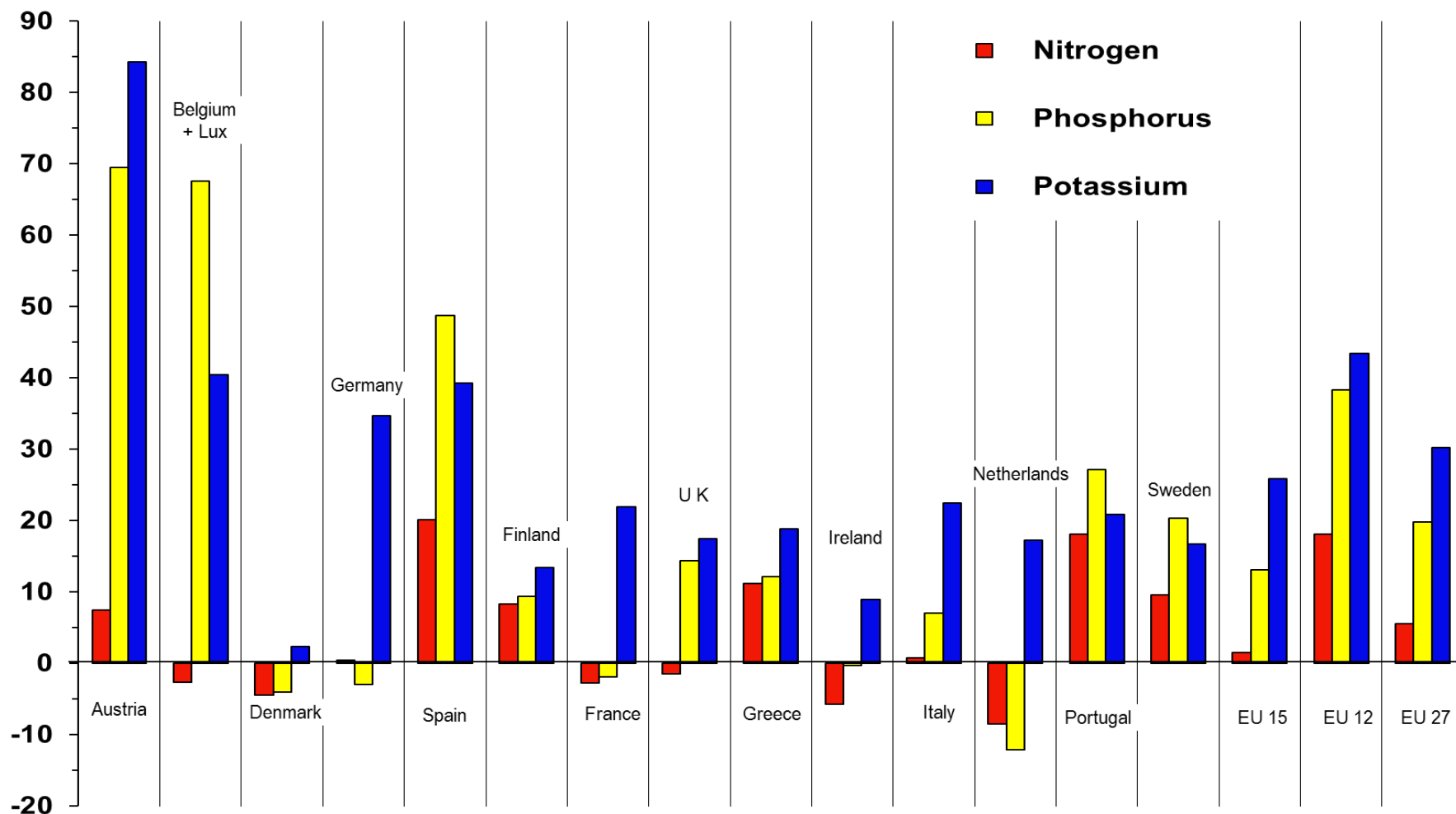
Forecast changes (%) in regional fertilizer use - 2011/2021



EU 15 STABILISATION



Forecast changes % in regional fertilizer use - 2011/2021



>> *stabilization of decrease in EU15*

CAP REFORM 2014 to 2020

CAP 2014 to 2020: Pillar 1 and elements on Green Premium.

- Single Farm Payment (EU15) and Single Area Payment Scheme payments (EU 12) replaced by equalisation
 - Basic Payment Entitlements
 - Toward uniform payment (2019) and single flat rate (2028)
 - Additional payments:
 - Greening : 30% of national budget ceiling (**mandatory**) based on
 - Crop diversification
 - Permanent grassland
 - **Ecological focus area (at least 7% of farm area)**
 - Other payments:
 - Small farms, young farmers (**mandatory**)
 - Area with natural handicap (optional)
 - Few coupled payments (voluntary)

CAP REFORM 2014 to 2020

CAP toward 2014 to 2020

- New provisions to define/redefine:
 - « Agricultural activity »
 - Minimum direct payment per farm
 - Progressive capping.
 - Modulation
- Rural development (pillar 2)
 - 6 new directions for investment under pillar 2 (following main EU policies)
 - Encouraging transfer of knowledge
 - Enhancing competitiveness of all types of agriculture
 - Promoting organization of the food supply chain
 - Safeguarding and improving ecosystems
 - Encouraging efficient resource use (including toward low carbon economy)
 - Meeting employment needs (development in rural areas)

EU Biofuels

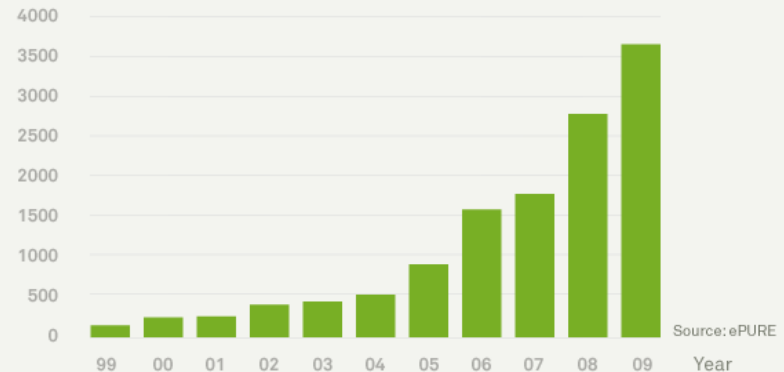


➤ Compared to the U.S.A, Brazil, and the European biodiesel sector, the EU fuel ethanol sector is rather small.

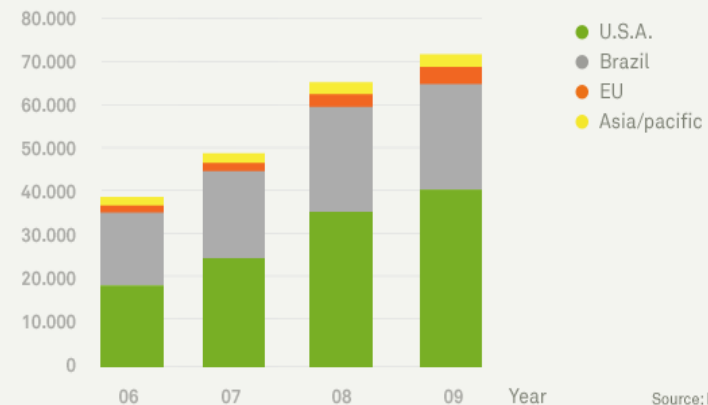
➤ Whereas the U.S. biofuel market is dominated by ethanol, the EU biofuel market is predominantly a biodiesel market (75%)

➤ From a policy perspective, the first Biofuels directive was adopted in 2003 and set a target of 5,75% renewable fuels in transport by 2010. The new RED directive sets a target of 10% by 2020

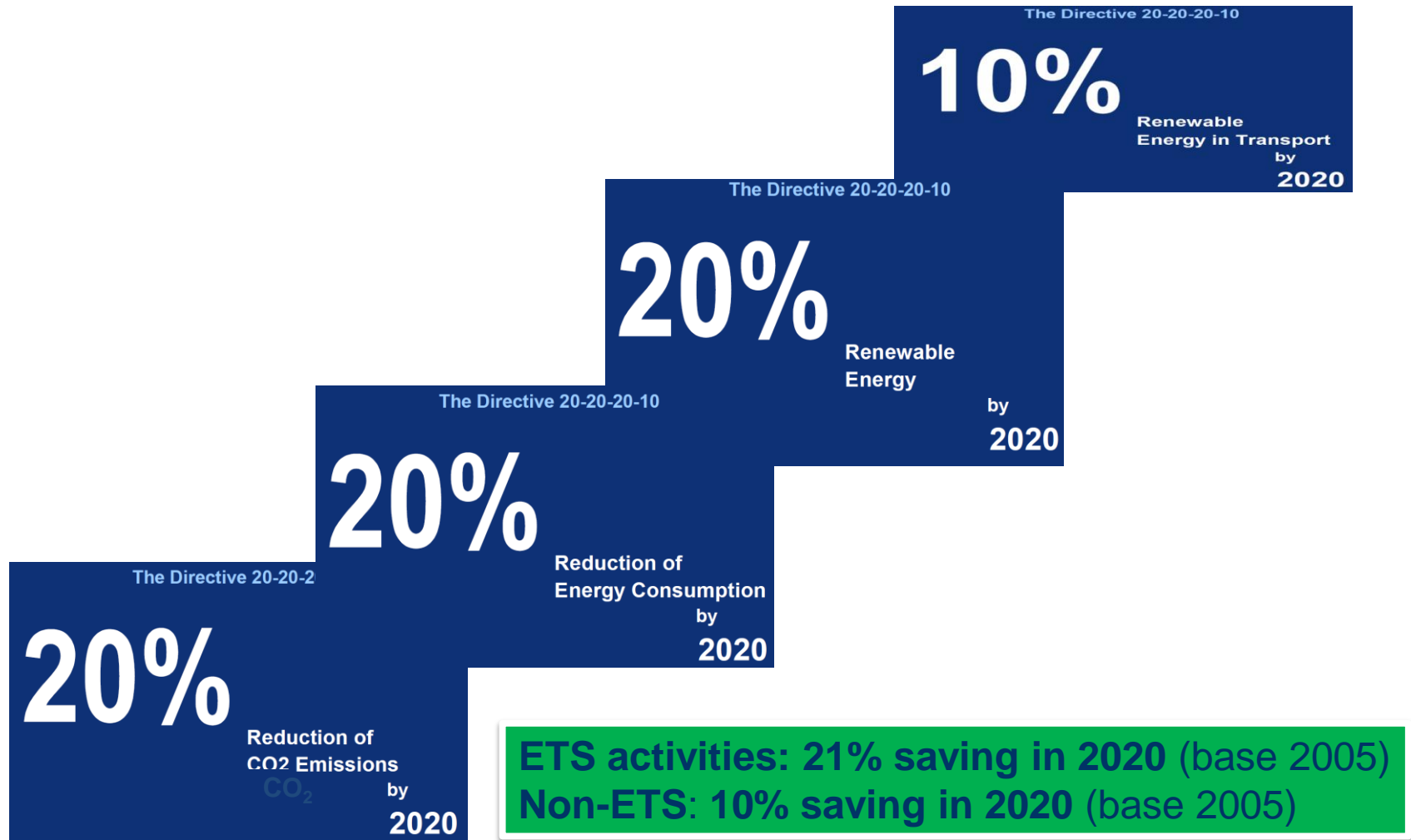
EU ethanol production for fuel
Million litres



Global ethanol supply for fuel
Million litres



EU ENERGY & CLIMATE CHANGE POLICY TO YEAR 2020



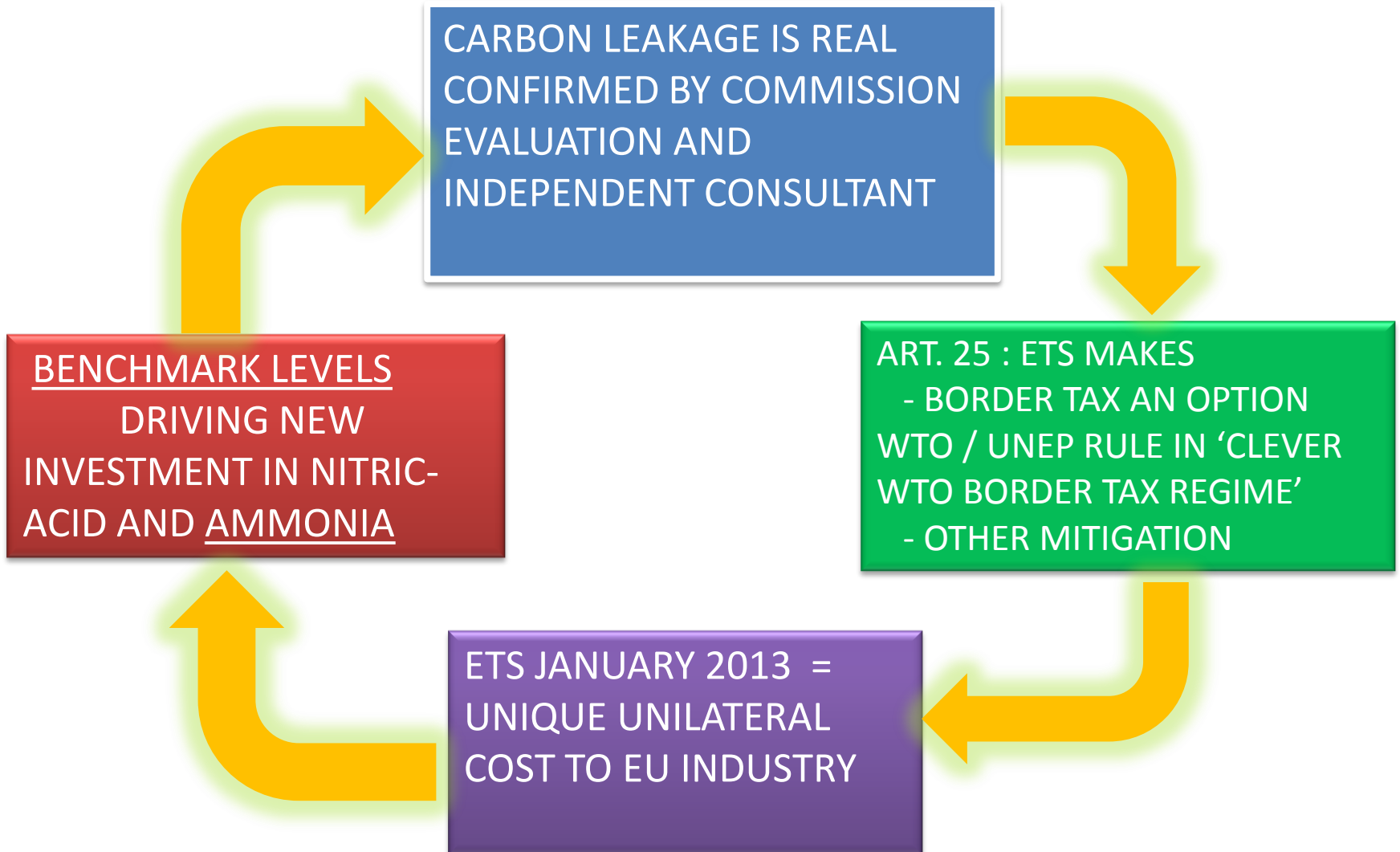
CLIMATE CHANGE

CARBON LEAKAGE IS REAL
CONFIRMED BY COMMISSION
EVALUATION AND
INDEPENDENT CONSULTANT

BENCHMARK LEVELS
DRIVING NEW
INVESTMENT IN NITRIC-
ACID AND AMMONIA

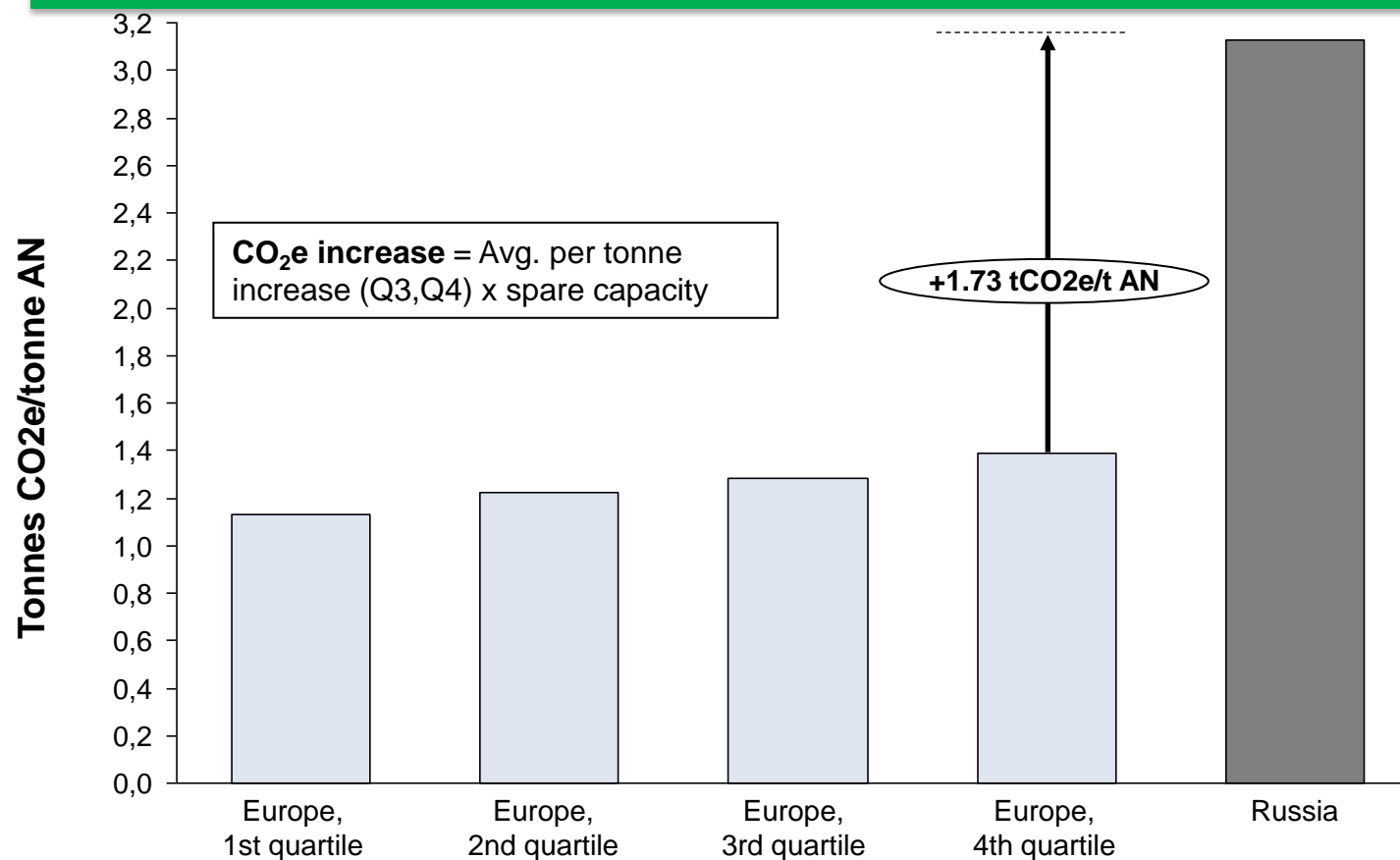
ART. 25 : ETS MAKES
- BORDER TAX AN OPTION
WTO / UNEP RULE IN 'CLEVER
WTO BORDER TAX REGIME'
- OTHER MITIGATION

ETS JANUARY 2013 =
UNIQUE UNILATERAL
COST TO EU INDUSTRY



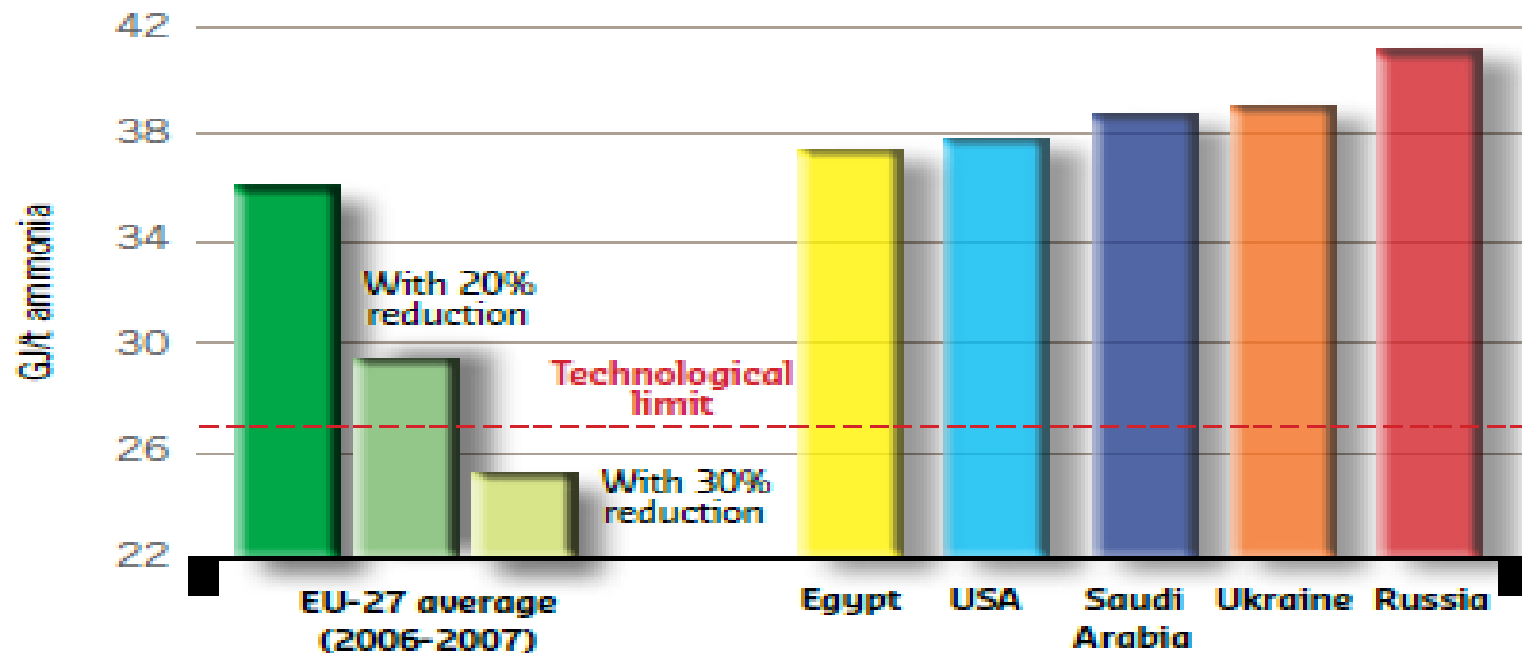
Environmental leakage

Projected emissions from ammonium nitrate production in 2013



If capacity is relocated to RUSSIA from the 3rd & 4th quartiles, up to 2.9 million tpy of extra CO₂e will be generated

Gas efficiency in ammonia production

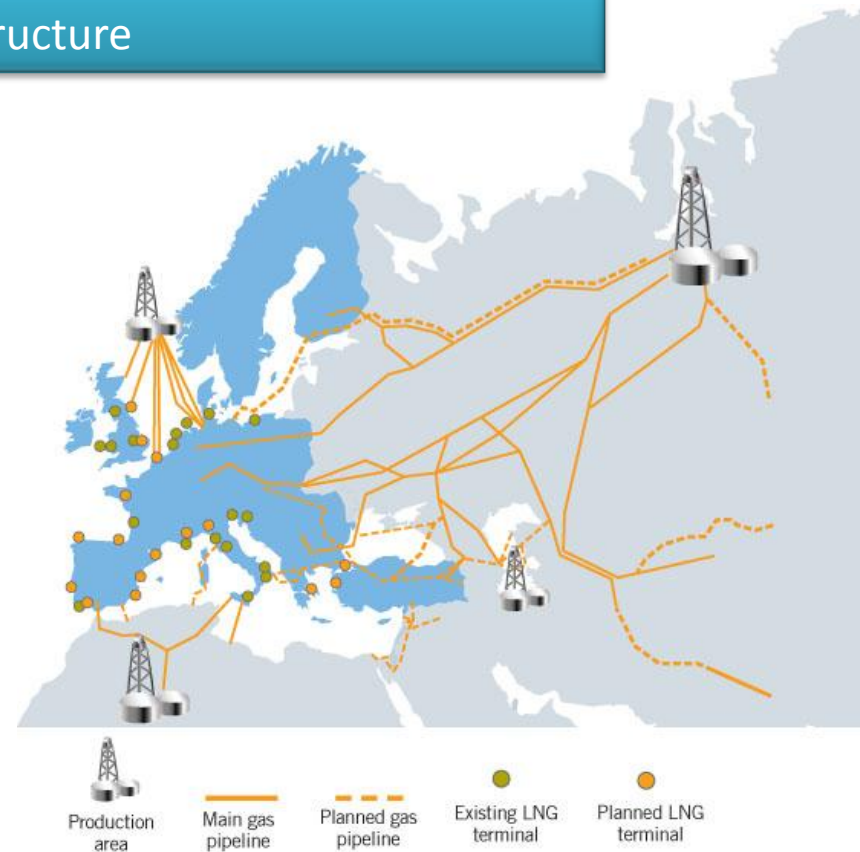


GAS MARKET – EVOLUTION NOT REVOLUTION

New 3rd Gas Directive – toward an integrated Single EU Gas Market

New EU public and private push on infrastructure

- ❑ Unbundling rules limiting national monopolies from controlling production/supply and transportation;
- ❑ The establishment of new transportation companies with a mission to supply the maximum amount of gas will – or should – improve supply – and conditions of supply – to the market;
- ❑ Promotion of the regional interconnectivity with the promise of sub-regional 10 year investment plans tackling infrastructural blocks or bottlenecks;
- ❑ Access to storage, LNG and financial/physical gas trading hubs are also addressed; congestion management schemes will be introduced;
- ❑ Stronger Independent National Regulators/European Agency: to champion and control competitive conditions and grid development;
- ❑ Competition powers are also to be better focused using Commission and enhanced national level powers – all in the cause of pro-competitive gas supply;

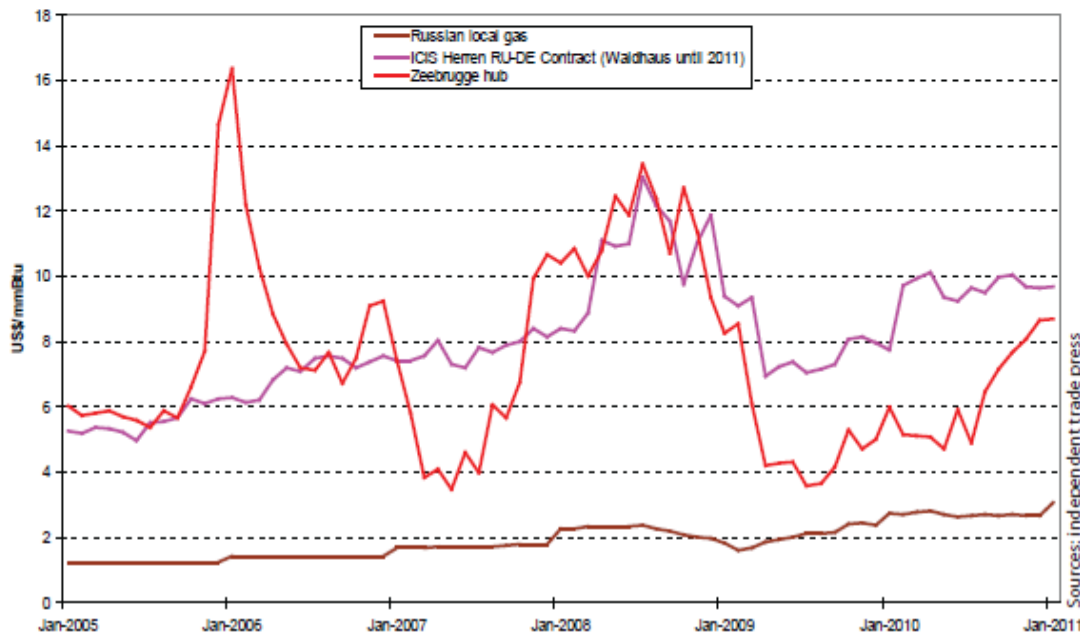


Uncertain Gas price reform

"Several suppliers practice unfair dual-pricing and artificially low state fixed pricing to advantage local industries."

RUSSIA by PIPELINE to EU

Current EU correction is by trade defence actions but in future the WTO should outlaw unfair pricing practices which distort a level playing field.



Sequencing of Russia's own gas price reform programme.

WTO Accession = adoption of coverage of costs of production + profit + allocation for future investments.

EU market price minus transportation minus export tax.

Profit alignment of Gazprom's EU market sales with domestic sales.

World Energy Outlook 2011 - special report – International Energy Agency

'Are we entering a golden age of gas?' NOT IN EUROPE

- *Uncertain gas price reforms by major suppliers*
- *Uncertain energy mix post Fukushima and Germany's nuclear phase out by 2022;*
- *LNG positive outlook when on spot basis but there is considerable oil indexation on EU sales ;*
- *No shale gas revolution in Europe; Shale gas limited by geology, water and environmental considerations;*
- *Poland and Ukraine best prospects*
- *Indexation to oil prices makes for link with OPEC high oil pricing;*

Table 1.1 ▷ Natural gas import price assumptions by scenario
(in year-2009 dollars per MBtu)

	GAS Scenario						New Policies Scenario WEO-2010				
	2009	2015	2020	2025	2030	2035	2015	2020	2025	2030	2035
United States	4.1	5.6	6.1	6.4	7.0	8.0	7.0	8.1	9.1	9.9	10.4
Europe	7.4	9.0	9.5	9.7	10.1	10.9	10.6	11.6	12.3	12.9	13.3
Japan	9.4	11.5	11.7	11.9	12.3	12.9	12.2	13.4	14.2	14.9	15.3

Note: Natural gas prices are weighted averages, expressed on a gross calorific-value basis. Prices are for wholesale supplies exclusive of tax. The United States gas import price is used as a proxy for prices prevailing on the domestic market.

Summary: impact trends on fertilizer industry

Cap - agriculture

**Reform = two pillars:
economic & environment = modest growth.**

Energy

**European single energy market – hoped to
expand to near neighbours – still high
oligopolistic prices – no gas revolution for EU.**

Climate change

**Unique/unilateral carbon market = stress test for
EU industry = mitigation may include border tax
adjustment.**

Free trade areas

**Zero tariff for industrial goods; even agri goods
on « road to zero » = counterbalance logic is
tougher trade defence.**

HSE

**European standards – convergence inside EU/
approximation for neighbours.**

EU industry commitments vs challenges arising in the business outlook

Free and fair trade and competition with a “level playing field” on fertilizers, gas and carbon;

Responsible HSE and Responsible Product Stewardship;

Sustainable and productive agriculture;