

Mechanisms to stimulate competition in the EU fertilizer market

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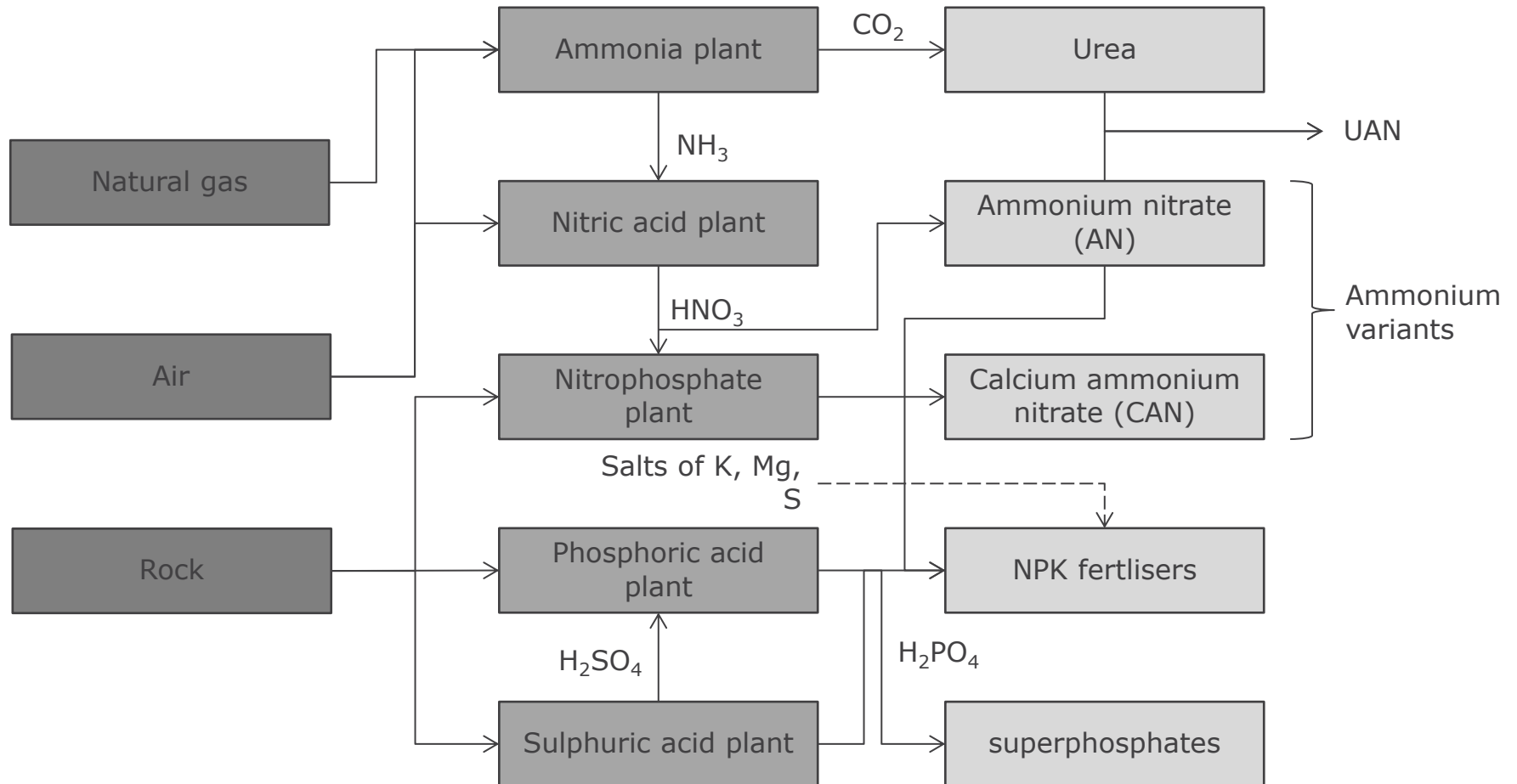
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EU FERTILIZER MARKET

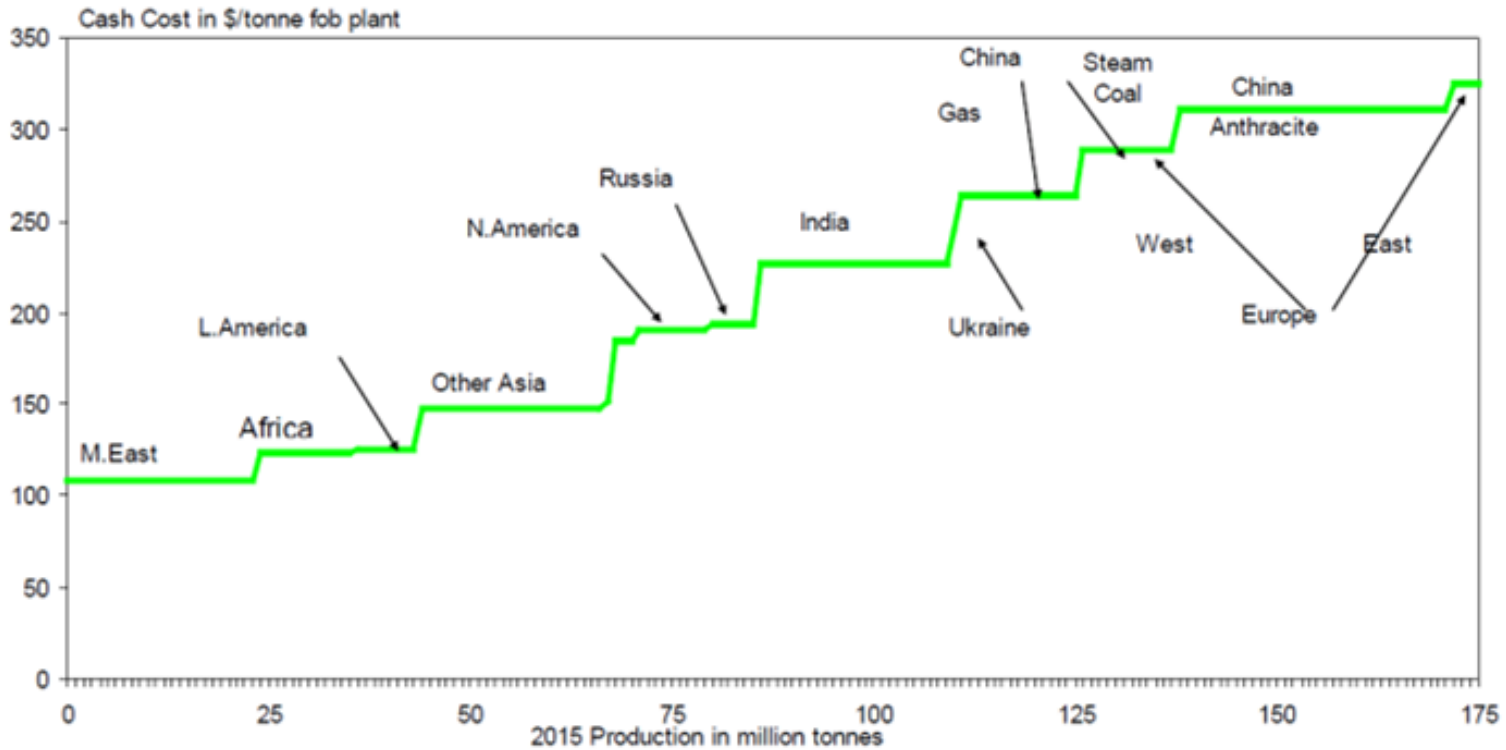
Fertilizer Production



Source: Yara fertilizer handbook (2012)

EU producers at the high-end of the cost curve

- Urea cost curve for 2015

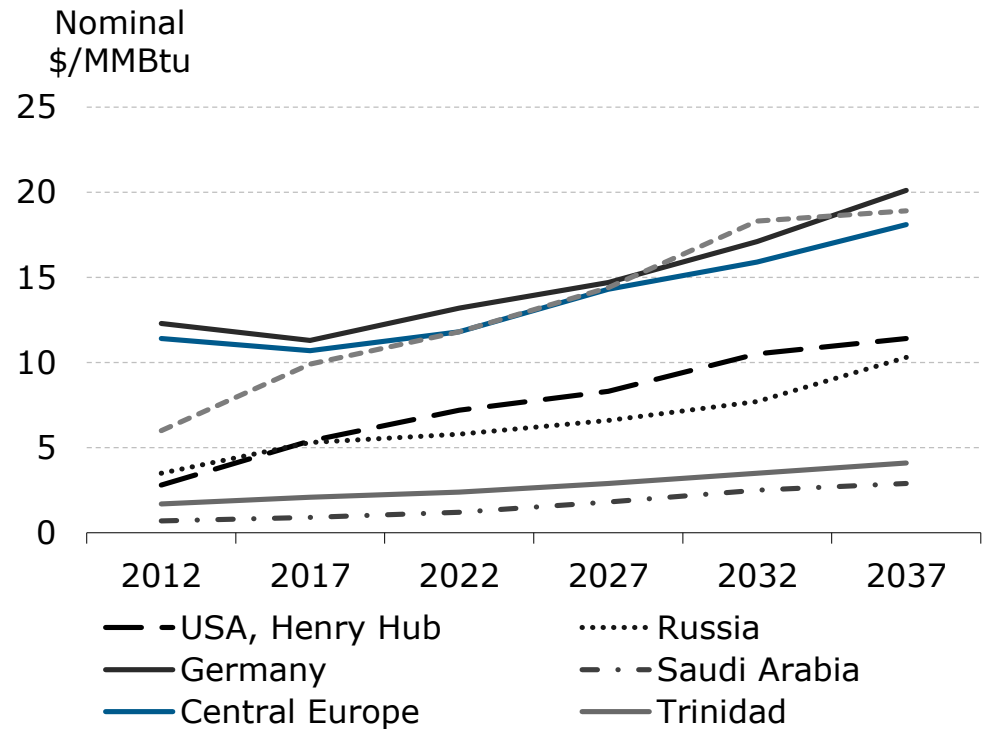


Source: CRU Urea market outlook June 2013

Price of natural gas in the EU

- Natural gas prices in EU higher and expected to rise
- EU prices also dependent on oil-indexed Russian gas
- Production cost of ammonia:
 - Yara Brunsbuttel (EU) = \$ 650 per ton
 - Ain Sokhna (Egypt) = \$ 100 per ton

• Gas Price Forecast, 2012-2037

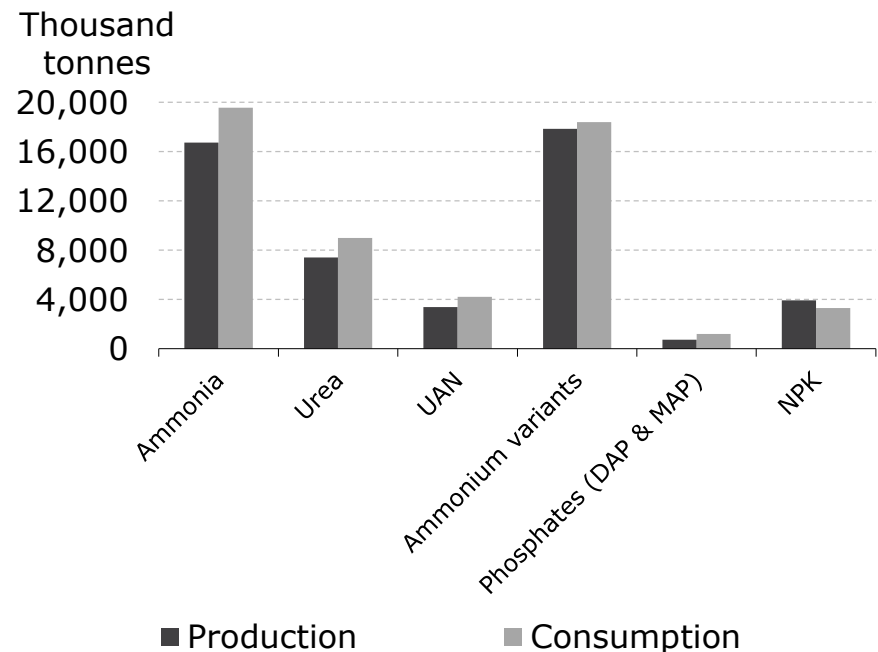


• Source: Ammonia Market Outlook 2013

EU is dependent on imports of fertilizers

- Ammonia, Ammonium variants, and Urea are consumed in large quantities within the EU
- NPK, UAN, and superphosphates in lower quantities.
- Production does not cover consumption within the EU
 - On average only 88 per cent of EU fertiliser consumption is supplied by EU production

• EU production and consumption 2011

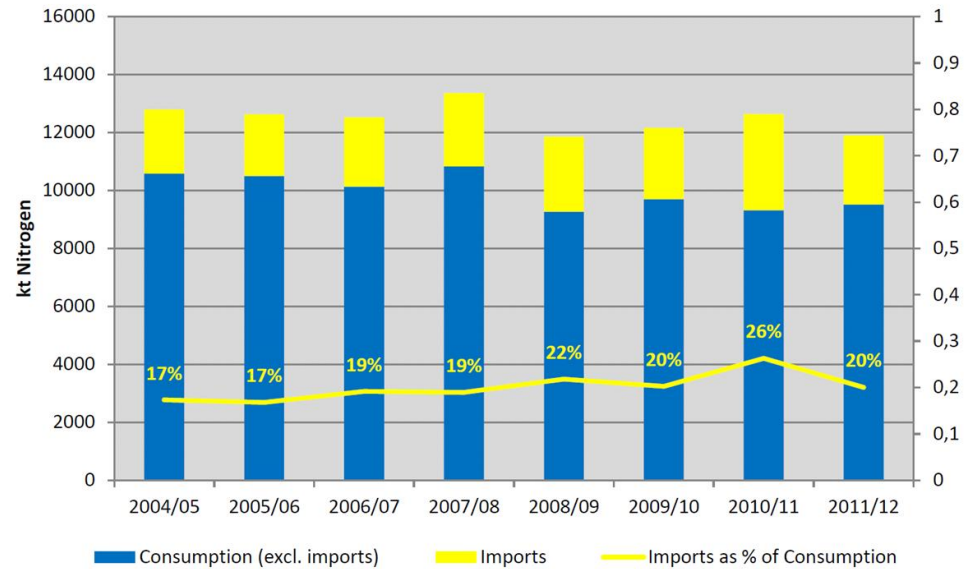


- Note: NPK includes NPK, NP compounds and PK compounds
- Source: CRU Fertilizer Market Outlooks 2013, IFA, FAOstat

Insufficient EU capacity – Imports are needed

- Excess demand in the EU is covered by imports
- Imports of fertilisers containing nitrogen is stable around 20 per cent of consumption
- Mid-term projections predict EU consumption to be basically constant

- Import share of Nitrogen fertilisers in EU-27



- Note: Consumption includes both agriculture and technical use of nitrogen containing fertilisers
- Source: Fertilisers Europe 2012 Overview

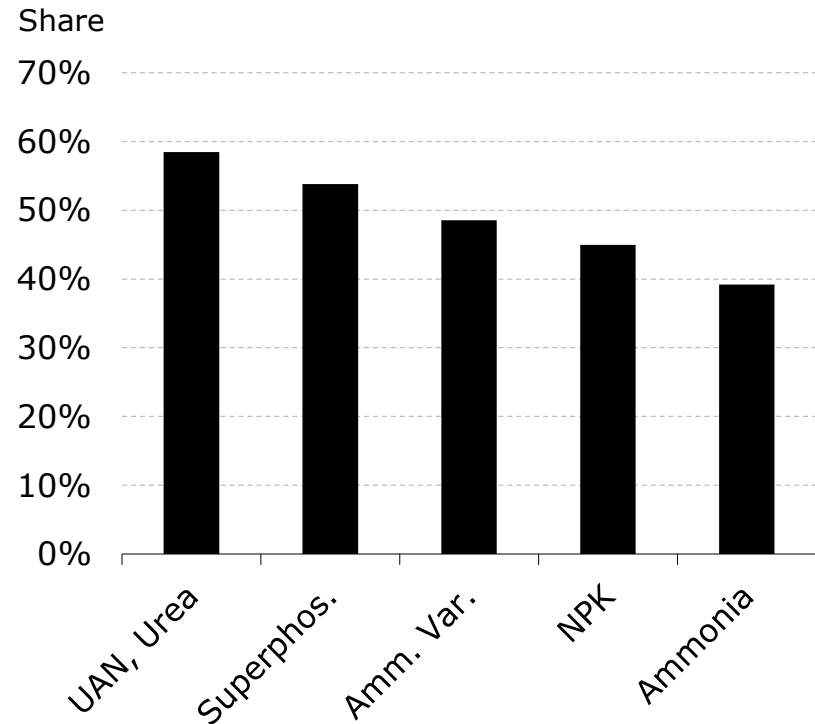
Size of tariffs on imported fertilizers in the EU

Product group	MFN tariff
AMMONIA	5,5%
AMMONIUM VARIANTS	6,5%
NPK	6,5%
UAN	6,5%
UREA	6,5%
SUPERPHOSPHATES	6,5%

Production within EU is concentrated

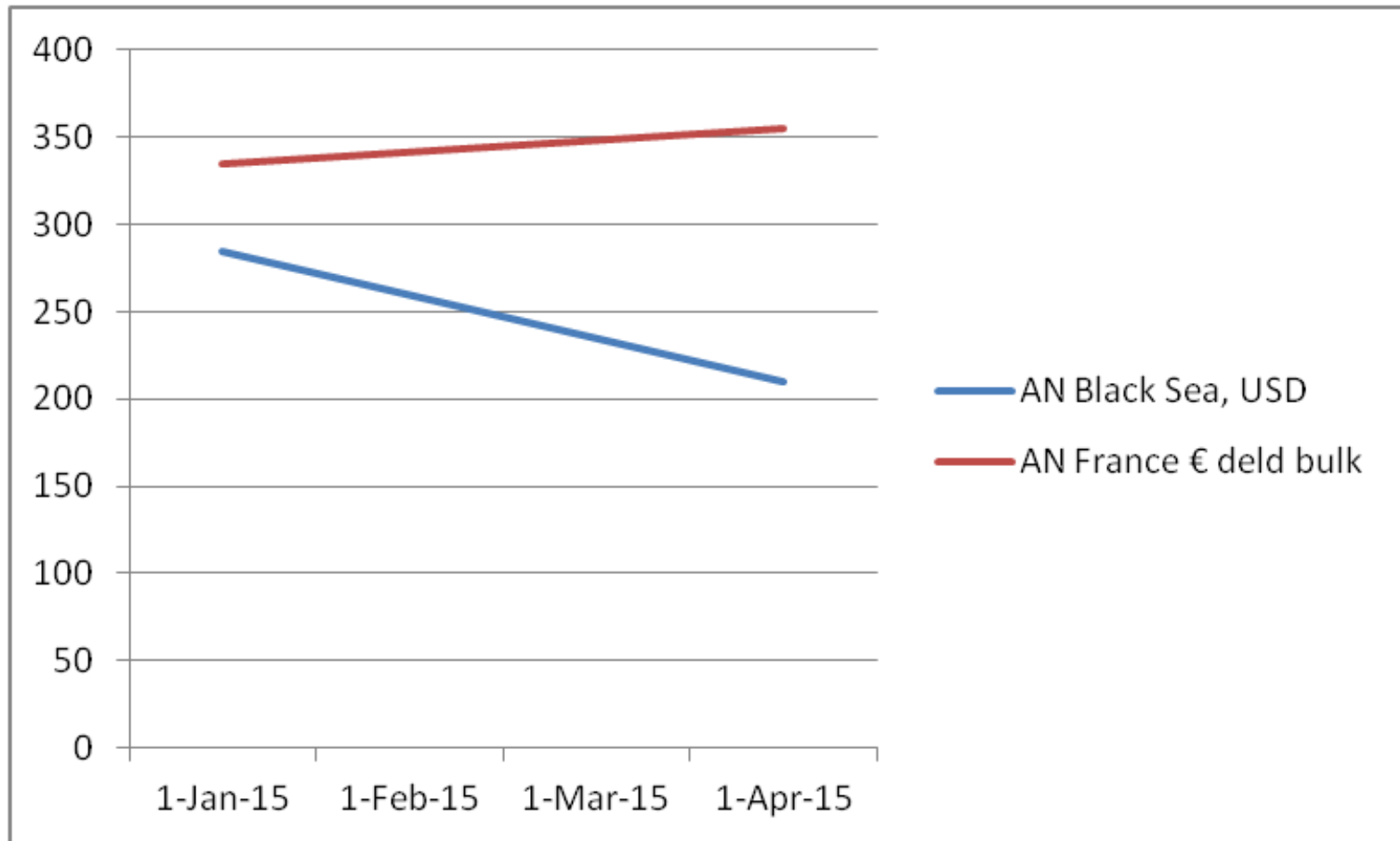
- Production is
 - Capital intensive
 - Subject to large economies of scale
 - This naturally leads to high producer concentration
- 159 fertiliser manufacturing sites in EU-27 owned by few firms
 - Seven largest producers account for 93% of ammonium nitrate capacity in Western Europe
 - Ammonia production in Germany and Poland are highly vertically integrated with Urea production

- Share of EU capacity held by 4 largest EU producers 2006



- Source: EU Commission (2007), Large Volume Inorganic Chemicals - Ammonia, Acids and Fertilisers

Ammonium Nitrate Prices Inside and Outside the EU



Source: the Market by ICIS

MECHANISMS TO STIMULATE COMPETITION IN THE EU FERTILIZER MARKET

Customs Duty Suspension for Imported Fertilizers

- EU Customs duties can be suspended or eliminated in the public interest.
- Customs duty suspensions have been granted in the past on grounds of economic interests of EU users.
- Customs duty suspension for fertilizers is in the EU's public interest because it would contribute to lowering the cost of agricultural activities in the EU, improve their competitiveness, stimulate the growth of these activities and result in the creation of significant additional employment

How will competition be affected?

- The high international concentration and European market concentration suggest that a tariff removal will have positive effects on competition in the European market
 - Tariffs are higher from countries with no investments in production capacity by European firms
 - Tariffs also affect imports from the USA, where decreasing prices for natural gas will generate competitive cash costs for EU deliveries
 - This suggest a that a tariff suspension will increase competition and create a downward price pressure

A fertiliser tariff suspension is beneficial for EU agriculture

- A tariff suspension will increase competitiveness in downstream industries
 - EU production costs for fertilisers are high
 - High energy and natural gas prices
 - Fertiliser tariffs reduce the competitiveness of EU agriculture
 - Affects the overall European fertiliser market since main sources are subject to high MFN tariffs
 - Adds to the price of existing imports
 - Keeps relatively competitive producers from supplying the EU market
- Impact on farmers
 - For the average EU wheat farmer a tariff suspension will
 - Reduce cost by 5 EUR per hectare
 - Reduce total operating costs with 1%
 - Reduce total annual operating costs with 181 EUR (based on an average of 36.6 ha per farmer)
 - French wheat farmer
 - Reduce cost by 9 EUR per hectare
 - Reduce total operating costs with 1%
 - Reduce total annual operating costs with 439 EUR (based on an average of 50.5 ha per farmer)

Source: Copenhagen Economics 2014

EU economic impact of a tariff suspension (Million EUR)

Product	Surplus for EU fertiliser producers	Surplus for EU fertiliser consumers	Tariff revenues	Total welfare
Ammonia	-17	75	-51	8
Urea	-36	134	-32	67
UAN	-8	26	-3	15
Superphosphates	-22	83	-22	38
NPK	-52	177	-20	104
Ammonium variants	-119	455	-28	308
Total	-254	950	-155	540

Source: Copenhagen Economics 2014

Impact on employment in the agricultural sector

- A tariff suspension will reduce the costs in downstream industries
- This increases the international competitiveness of the EU agricultural sector
 - Cost savings in total operating cost approximately 1% due to lower fertiliser prices
 - Lower cost will lead to a larger surplus for consumers
 - Increased agricultural output at the lower prices

Estimated employment increase

Region	Surplus for EU fertiliser consumers (m EUR)	Number of jobs created	Of which cereal
FRANCE	128	3 131	804
ITALY	60	20 028	3 050
UNITED KINGDOM	72	865	395
GERMANY	109	1 851	577
SPAIN	86	9 775	1 402
Rest of EU	494	71 088	17 304
EU	950	106 738	23 532

Source: Copenhagen Economics 2014