



Briefing for Maciej GOLUBIESKI

MEETING WITH FERTILIZERS EUROPE

27 January 2022, 11h

Webex

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SCENE SETTER

Fertilizers Europe (FE) represents the industry producing fertilisers in Europe. It groups 17 fertilizer manufacturers from countries across the Union (including the Norwegian giant Yara) and eight national fertilizer associations.

The association asked to meet Commissioner Wojciechowski to informally discuss issues related to the crisis generated by the very steep increase of price of fertilizers, but also their affordability and possible shortages, including from the point of view of food security.

FE will be represented by **Personal data**

Personal data Borealis LAT, the fertilisers branch of Borealis), **Personal data**
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Grupa Azoty S.A. **Personal data**

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Prices for fertilisers have peaked since last summer at levels never seen, following prices of energy. For nitrogen fertilisers in particular, such increase follows the surge of natural gas prices. Such increase has an impact on the costs of production of grains and other crops. This is partly compensated by a relatively high level of agricultural prices, mitigating so far the impact on farmers' income. Following closure of certain European plants (UK, Spain, Romania, Lithuania), and concerns around Belarus (a main potash producer), there were worries at the end of 2021 that there could be shortages of fertilisers, nitrogen in particular for the applications foreseen in winter-spring 2022. These concerns have eased, at least in developed countries, but it is accepted that the price surge will result in lower application rates and therefore a slight decrease of yields.

One of the heated issues is the application of AD duties on certain nitrogen fertilisers from Russia, the US and Trinidad and Tobago since 2019, in protection of the EU industry. Farmers association (COPA, supported by IFA the Irish farmers, and AGPB, French cereals growers) are complaining this increases unduly their prices in the EU and asked for suspension in April 2021. DG TRADE has not yet concluded whether this request was receivable. Over the longer term, the dependency of EU fertilisers industry on fossil fuels is debated: within the hydrogen alliance under DG GROW industry strategy, fertilisers companies have submitted several projects whereby nitrogen would be produced using renewable energies (Green ammonia projects).

Please note that your interlocutors are strongly against the lifting of anti-dumping duties. As regards Carbon Border Adjustment Mechanism, Fertiliser Europe wants CBAM imposed on imported non-green fertiliser. On the other hand, our farmers would (i) want agriculture imports to be subject to CBAM (so as to have loyal competition), and if this was not to be, (ii) not want CBAM to be covering also fertiliser imports – even if green – as this would make input

costs higher for farmer,s while the non-green fertilised goods would be coming into EU (if CBAM doesn't apply to those).

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Fertilisers' crisis

KEY MESSAGES

- The European Commission remains highly concerned by the evolution of fertilisers' prices and the impact the price surge can have on farmers' income and on food security. Commissioner Wojciechowski was very clear on this with agricultural ministers in the Council and in COMAGRI at the EP. This includes careful consideration by our colleagues in DG TRADE of the requests received concerning suspension of AD duties, requests backed up by several ministers at the Council.
- We do not think the current situation can result in a risk for EU food security. But we keep the situation under close scrutiny, because:
 - It contributes to the overall inflationary pressure that affects food prices, through higher costs for farmers that will be passed along the chain.
 - The situation may be more challenging for developing countries.
- As you now, following the COVID pandemics, the EU is upgrading its level of preparedness to respond to crises. For food security in the EU, this included the creation of the European food security Crisis Mechanism (EFSCM) that will meet for the first time in March. Commissioner Wojciechowski promised that the first meeting of this new mechanism should will look at the potential impact of input prices on food security. I understood it was your intention to participate to this mechanism and I welcome your decision.
- Over the longer term, fertilisation practices by farmers should improve in sustainability. The Farm to Fork strategy foresees reduction of 20% of the use of fertilisers to reduce nutrient losses. This implies for example the introduction of more pulses in crop rotations and the development of precision farming. I also see the fertilisers' industry looks at its own energy transition, with for example participation to the European Clean Hydrogen alliance.
- I would be interested to have your views on these different aspects :
 - Short term: what is your perception of possible impacts of the current price spike for EU farmers and food security? for your companies ? What about potential fertiliser shortage in Europe due to several, prolonged closures of production facilities? Would you have any information on farmers purchasing strategies, have they

already secured fertilisers for this spring or they wait the last moment?

- Long term: do you think we need to improve our level of strategic autonomy for fertilisers? How is the industry approaching the European Green Deal challenges for fertilisation and farming ?

DEFENSIVES

In these circumstances, is the Commission reflecting to suspend antidumping (AD) measures for Nitrogen fertilisers?

- *Note: your interlocutors are strongly against the lifting of the anti-dumping duties*
- The Commission imposed anti-dumping measures on imports of urea and ammonium nitrate solutions (UAN) originating in the USA, Trinidad and Tobago and Russia in 2019, following an investigation that established that imports from these countries were dumped and caused material injury to the producers of UAN in the Union.
- The Commission is aware that the price of fertilisers as well as the price of gas (the main raw material for the production of the aforementioned fertilisers) have significantly increased in recent months.
- Pursuant to the EU antidumping Regulation, the Commission may suspend the application of antidumping measures, in the Union interest, where temporary changes in market circumstances make injury unlikely to resume as a result of the suspension.
- The Commission is currently considering, upon request of COPA and AGPB (French cereals growers), whether it is appropriate, in view of the circumstances currently prevailing in the fertilisers and gas markets, that the above-mentioned antidumping measures on imports of UAN be suspended, in accordance with the law.
- Along this procedure for suspension that will be carefully followed, like at the time of deciding upon AD duties, parties concerned, including the fertilizers' industry, can make submissions to support the substantive assessment by the Commission.

Can EU farmers be compensated for the increase of production costs due to increasing fertiliser prices?

- In a market-oriented agriculture, changes in the costs of inputs are business contingencies. Fertilisers and energy represent around 20% of the costs of farmers. The CAP's direct payments exist to stabilise farmers' income. In addition, the CAP includes risk management tools available for this purpose, for instance income stabilisation tools. State aids can also be used for smoothening the impact of temporary external shocks.
- The current situation shows that concerning fertilisers, our EU agriculture might be too dependent on imported minerals such as phosphate rock and potash and fossil fuels. Transition is necessary towards greener fertilisation solutions, a reduction of use as foreseen by the Farm to Fork strategy and a reflection on our open strategic autonomy for fertilisers.
- CAP strategic plans should play a decisive role in this transition for more sustainable fertilisation, through for instance the development of precision farming, the reinforcement of risk management tools or incentives for crop

rotation schemes that allow a reduction of fertilisation needs (ie incorporation of more legumes and nitrogen-fixing crops).

- Compensation of increased farmers' costs entails the risk to undermine both the implementation of risk management strategies and the transition to greener fertilisation. However, if needed, to the extent the markets are truly disturbed, the CAP includes the possibility for exceptional measures provided the necessary financial resources are found.

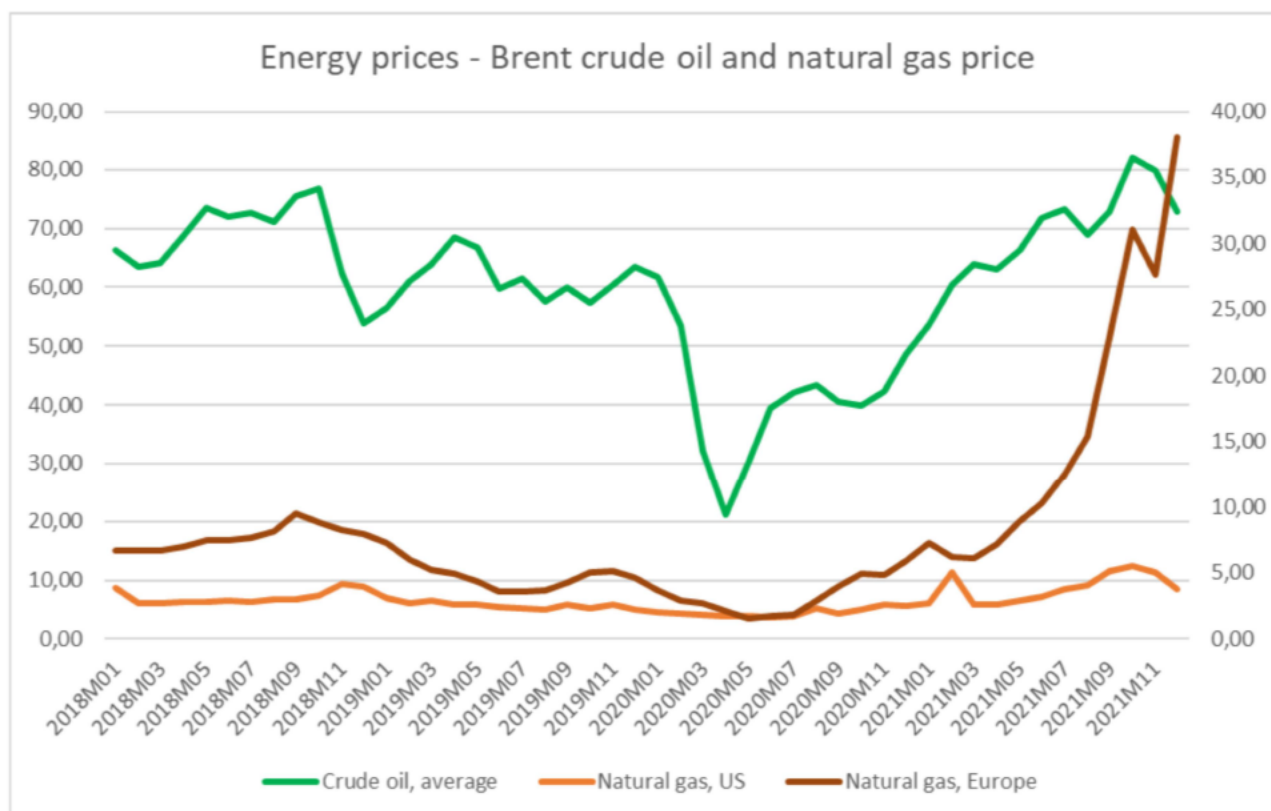
Is there a risk for food security in the EU?

- At EU level, given the net exporting position of the EU for agricultural products, the existence of a significant fertilisers' industry in the EU and the competitiveness of the EU farming sector, it is unlikely that the current situation presents significant risks for food security in the EU.
- Experts tend to estimate that at most the reduction of use of fertiliser due to increased costs could range between 10 and 15% in 2022. This may have an impact on yields of EU crops, as well as on their quality, but most certainly not to the point to put EU food security at stake.
- The Commission established a new European Food Security Crisis preparedness and response Mechanism (EFSCM) that will examine, at its first meeting scheduled in March 2022, the issue of input costs in general, fertilisers in particular, and their potential impact on food security in the EU.

BACKGROUND

Energy and fertilisers markets

The main driver for fertilisers prices recent changes are the main energy markets. Cost and supply of chemical fertilisers are directly impacted by the situation of energy markets. The production of chemical fertilisers is an energy-intensive activity. Many sectors of our economy, and our citizens, have in recent months been feeling the impacts of rising energy prices. Agricultural markets are no exception. The recovery of the EU, USA and China economies, which is good news in itself, means higher demand for energy and other inputs. If oil prices have only moderately increased, to levels seen in 2019, at around 80 USD per barrel, gas prices have suffered a spectacular four-fold increase since last year concerning the European market. We also see a linked increase in electricity prices. This is a combined effect of adverse weather event (higher demand, lower supply of renewables), maintenance of nuclear plants and geopolitical tensions, that could only be compensated by natural gas imports (which is relatively constrained, except for its liquid form, by the existing gazoduc capacities)



Source: World Bank

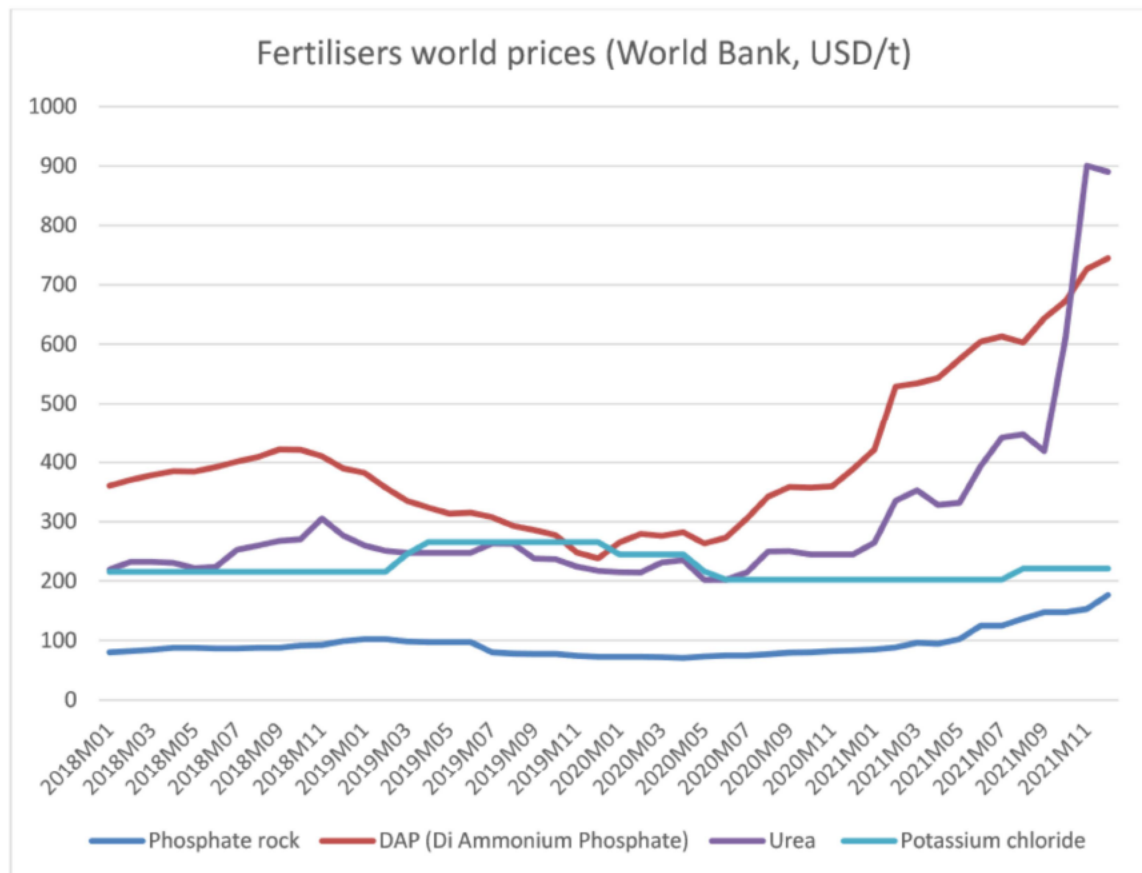
Recently, after a peak along the month of December 2021, natural gas price in Europe tended to stabilise, at a still relatively high level, 3 to 4 times more than what it was before summer.



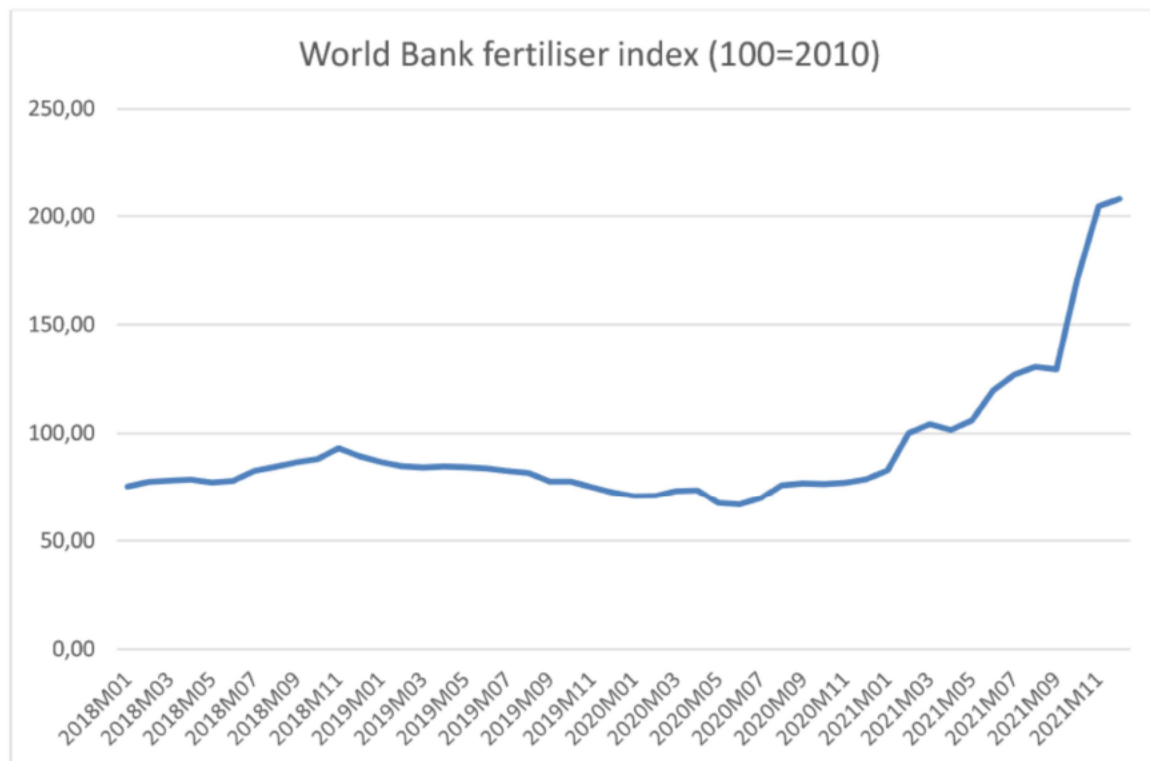
Source Trading economics

Fertiliser prices soared over the past 12 months. Nitrogen fertiliser prices in particular are strongly influenced by gas prices, one of the main feedstock is natural gas, used both as source of energy and of carbon, and indeed increased significantly over the past year. For example, the world price of urea increased by 263% since December 2020 and that of di-ammonium phosphate by 92%. In addition, supply constraints from China strengthened the upward price pressure.

Phosphate and potash fertilisers prices are also under pressure (but less than nitrogen) due to their energy-intense process of production, increased demand, supply chain disruptions linked to COVID, and geopolitical tensions.

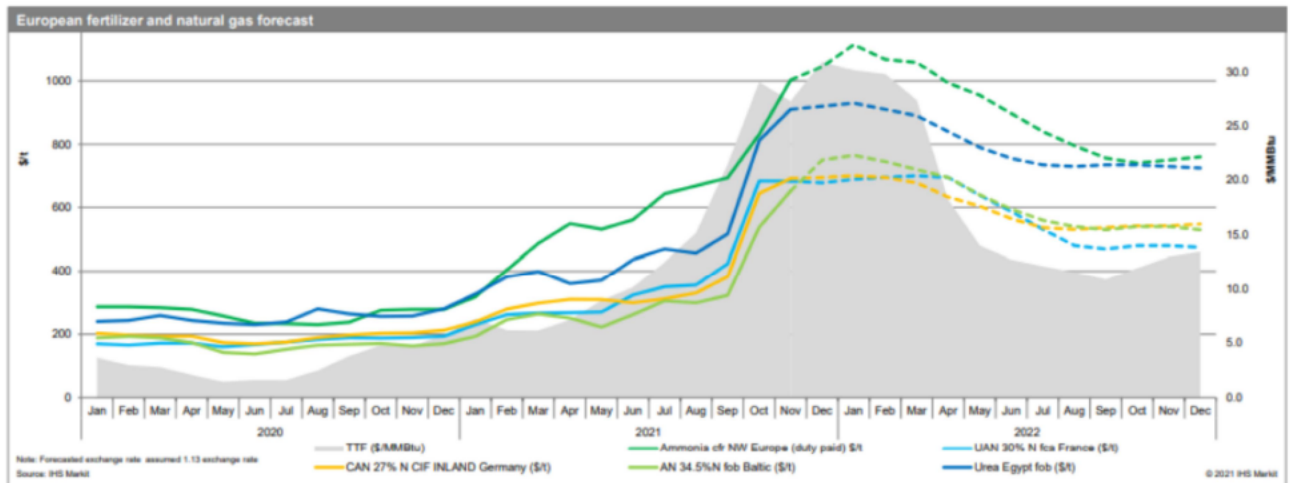


The compound index for fertilisers of the World Bank for December 2021 was 165% above (2,5 times higher) December 2020.



Prospects are according to IHS Markit (see graph below) to a decrease of price in 2022 but not down to the level of the first half of 2021. This is consistent with macro-economic projections of the main agencies concerned, DG ECFIN, ECB, IMF etc.. as well as private agencies like IHS markit, that inflationary pressure due to the surge of energy prices are likely to decrease along the year 2022. On top of energy prices expectations, demand disruption signals should materialise in Feb/Mar (with decisions by farmers to optimise application rates, likely to result in a 10 to 20% decrease of consumption). China should resume production and exports after the

Olympic games. Decline will only be progressive in 2022 as traders will try to offset losses due to purchases at high prices, Indian stocks are at record low levels and producers may time their annual maintenance if prices are decreasing too fast.

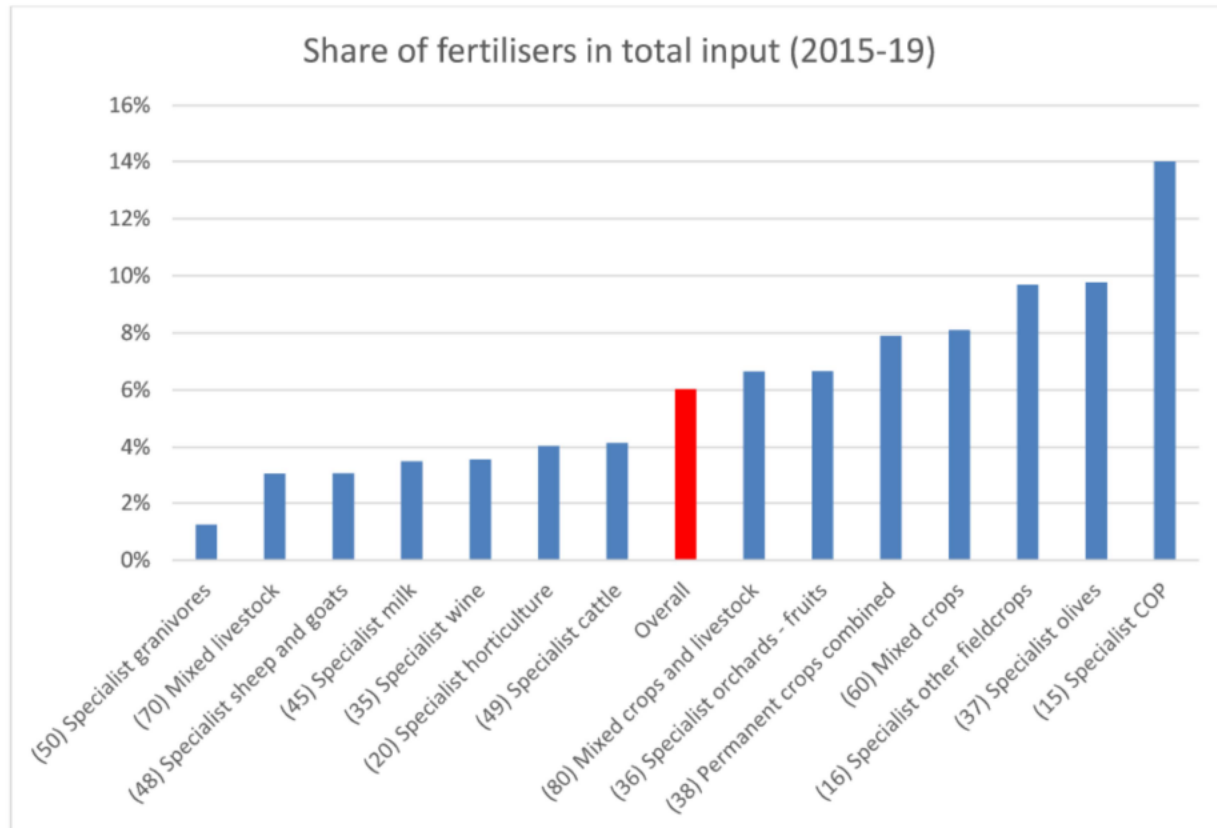


Already, future markets show indeed such a trend of partial normalisation of fertilisers prices (CBOT urea below, option February 2022).



Impact for farmers

Fertilisation represents a reasonable share of the costs of production of EU farmers, around 6 % of their total costs of production on average. Of course, this share is higher for farmers producing cereals, oilseeds and protein crops (COP), ie 14%, while the share is a lot lower for farmers specialised in livestock, wine or vegetables.



In view of rising fertiliser prices and of the ratio to output prices expected, farmers might consider reducing fertiliser application and /or try to switch to crops requiring less fertiliser input. The optimum for the application rate for fertilisers depends on the ratio between the price of fertilisers and the price at which the crops will be sold. Both have increased, but as fertilisers prices increased more than the price of crops, the optimum for farmers should be to apply slightly less fertilisers than usually this year, (experts float a reduction by 10-15% of use in the EU, but globally IFA – International fertilisers association, predicts -3% in 2021/22 and a recovery in 2022/23 (+3%). The impact on yields could be modest, thanks a better optimisation of the applications.

Expectation remains that there will be sufficient fertiliser supplies available for the forthcoming spring operations.

Advisory services are there to help farmers to optimise their fertilisation practices. Farmers may also adjust their rotations and choose crops with less needs for chemical fertilisers. It is not expected though that this would represent a risk to EU food supply and food security.

Fertilisation and CAP / Farm-to-Fork

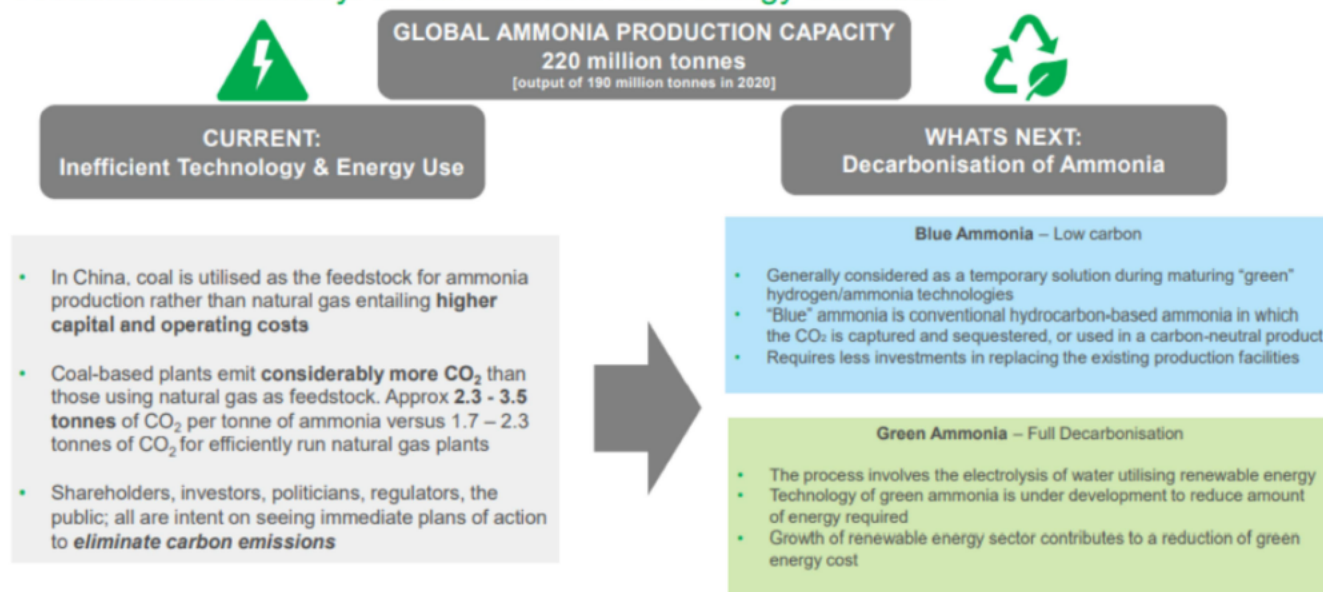
The reformed CAP will continue to support our farmers through direct payments, risk management tools and the rural development fund, as well as - if necessary - exceptional measures. These were instrumental to the success of our agri-food system in proving its resilience at the height of the COVID pandemic.

In a longer term perspective, this episode demonstrates how the agri-food sector is especially vulnerable due to its heavy dependence on fertilisers, and therefore on fossil fuels. Specifically concerning food security, the European Commission just established a new European Food Security Crisis Mechanism Expert Group (EFSCM) in November. In this context the Commission will map vulnerabilities and dependencies linked to the food chain, discuss them and the ways to mitigate them with the Member States and stakeholders of the food supply chain, in order to be better prepared. The first meeting of this mechanism scheduled in this quarter will look at the issue of high input costs, including fertilisers. Fertilisers Europe announced informally its intention to participate to the EFSCM.

In the wider Green Deal objectives, we are committed to reducing nutrient losses (ie Farm-to-Fork strategy, Soil strategy). By 2030, we have the target to reduce by 20% the use of fertilisers for this purpose. This is an incentive to use less gas and mineral based fertilisers and to use them more efficiently. Under the new CAP, the transition to a more sustainable agriculture should accelerate, for example through greater use of precision farming, of more bio-based nutrients and organic fertilisers, more crop rotation practices that are less dependent on fertilisation with a higher share of pulses and more interventions aiming at risk management.

European clean hydrogen alliance / energy transition for the fertilizer industry

A sustainable industry: decarbonization and energy transition



The European Clean Hydrogen Alliance supports the large-scale deployment of clean hydrogen technologies by 2030 by bringing together renewable and low-carbon hydrogen production, demand in industry, mobility and other sectors, and hydrogen transmission and distribution. It aims to promote investments and stimulate the roll-out of clean hydrogen production and use. Set up in July 2020, the European Clean Hydrogen Alliance is part of EU efforts to ensure industrial leadership and accelerate the decarbonisation of industry in line with its climate change objectives. The European Clean Hydrogen Alliance brings together industry, public authorities, civil society and other stakeholders. Alliance members meet twice a year in the Hydrogen Forum to discuss the large-scale deployment of clean hydrogen technologies and what this requires.

https://ec.europa.eu/growth/industry/strategy/industrial-alliances/european-clean-hydrogen-alliance_en#:~:text=The%20European%20Clean%20Hydrogen%20Alliance,and%20hydrogen%20transmission%20and%20distribution.

A significant number of projects in the pipeline deal with hydrogen being the main feedstock for ammonia production.

ABC Ottmarsheim (previously: Low Carbon Ammonia @ OT)	BOREALIS PEC Rhin	C.G Hydrogen as feedstock for ammonia	FRF1 - Alsace	2026
Barents Blue Project	Horisont Energi AS	C.G Hydrogen as feedstock for ammonia	NO0A - Vestlandet	2025
CEO Alliance - Green Hydrogen Value Chain	CEO Alliance	C.G Hydrogen as feedstock for ammonia	ES - Espana; IT - Italia; DEA - Nordrhein-Westfalen	
ChemCH2ange	INEOS Manufacturing Deutschland, Alte Strasse 201,	C.G Hydrogen as feedstock for ammonia	DEA2 - Köln	2025
Demo Green ammonia Porsgrunn	Yara Norge AS	C.G Hydrogen as feedstock for ammonia	NO09 - Agder og Sør-Østlandet	2023
Full-scale Green ammonia Porsgrunn	Yara Norge AS	C.G Hydrogen as feedstock for ammonia	NO09 - Agder og Sør-Østlandet	
GAMMA GF	Resilient Group Lda	C.G Hydrogen as feedstock for ammonia	PT18 - Alentejo	
Green ammonia as maritime fuel	Fundación Universidad Loyola Andalucía	C.G Hydrogen as feedstock for	ES61 - Andalucía	

			ammonia		
Green Ammonia Yara Brunsbüttel	YARA Brunsbüttel GmbH		C.G Hydrogen as feedstock for ammonia	DEF0 - Schleswig- Holstein	2025
GREEN H Production - Ferrara (IT)	SAPIO PRODUZIONE IDROGENO OSSIGENO SRL		C.G Hydrogen as feedstock for ammonia	IT - Italy	
Green Hydrogen @ Blue Danube	Borealis Agrolinz Melamine GmbH	C.G Hydrogen as feedstock for ammonia	AT31 - Oberösterreich		
Green Hydrogen @ Blue Danube	Borealis Agrolinz Melamine GmbH	C.G Hydrogen as feedstock for ammonia	AT31 - Oberösterreich		
Green hydrogen for Finland	P2X Solutions Ltd	C.G Hydrogen as feedstock for ammonia	FI19 - Länsi- Suomi		
GREEN HYDROGEN FOR PRODUCTIO N OF AMMONIA	FERTIBERIA	C.G Hydrogen as feedstock for ammonia	ES42 - Castilla- La Mancha;ES61 - Andalucía		
Green Octopus	WaterstofNet	C.G Hydrogen as feedstock for ammonia	BE - Belgium; NL - Nederland; DE - Deutschland		
Green P(Hy)sics	Grand Port Maritime de Bordeaux	C.G Hydrogen as feedstock for ammonia	FR11 - Aquitaine		
H2Muctynic	DUSLO	C.G Hydrogen as feedstock for ammonia	SK02 - Západné Slovensko		2025
HY2SAUDA	HY2GEN AG	C.G Hydrogen as feedstock for ammonia	NO09 - Agder og Sør- Østlandet		
HydrGEN-1 Green Ammonia	Haldor Topsøe A/S	C.G Hydrogen as feedstock for ammonia	DE94 - Weser- Ems		2024
Hydrogen Pilot	ENEA	C.G Hydrogen as	IT14 - Lazio		2022

Lines		feedstock for ammonia			
HyTech Harbour Rostock	RWE Generation SE	C.G Hydrogen as feedstock for ammonia	DE80 - Mecklenburg-Vorpommern		
Project Petronila	Copenhagen Infrastructure Partners	C.G Hydrogen as feedstock for ammonia	ES24 - Aragón		
Project Renato	Copenhagen Infrastructure Partners	C.G Hydrogen as feedstock for ammonia	ES24 - Aragón		
Pulawy_1	Grupa Azoty	C.G Hydrogen as feedstock for ammonia	PL81 - Lubelskie		
Scalable hydrogen / e-fuels production	Ventspils nafta terminals (VNT)	C.G Hydrogen as feedstock for ammonia	LV00 - Latvija		
Sines Green Energy Park	Petrogal SA (GALP)	C.G Hydrogen as feedstock for ammonia	PT18 - Alentejo		2025
Southern European Hydrogen Bay Algeciras	Magtel Energía Sostenible	C.G Hydrogen as feedstock for ammonia	ES61 - Andalucía		
Trelleborg City & Port - Green H2 Hub	Trelleborg Energi AB	C.G Hydrogen as feedstock for ammonia	SE22 - Sydsverige		
VerAmonia-GreenNH3 (greenH2) fertilizers	EDP Energias de Portugal, S.A.	C.G Hydrogen as feedstock for ammonia	ES24 - Aragón		2025
ZAK_1	Grupa Azoty	C.G Hydrogen as feedstock for ammonia	PL52 - Opolskie		

- Should be written in a concise and clear way so that important information is easily understandable!
- Follow order of speaking points!
- Times New Roman, 12, line spacing option 1, justified
- Paragraph spacing: 0 before, 6 after
- For bullets use • (◦, ▪)

ANNEXES [if requested/necessary]

BOREALIS

Borealis AG is an Austrian chemical company which is the world's eighth largest producer of polyethylene (PE) and polypropylene (PP). It is headquartered in Vienna, Austria.

Fertilizers

Borealis supplies over five million tonnes of fertilizers and technical nitrogen products each year via its Borealis L.A.T distribution network. Borealis L.A.T has 60 warehouses in Europe and an inventory capacity of over 700 kilotonnes. Its distribution network stretches from its headquarters in Linz along the Rhine and Danube, all the way from the Atlantic to the Black Sea. There are subsidiaries all across Europe: Czech Republic, Slovakia, Romania, Hungary, Croatia, Serbia and Bulgaria. In Germany, Italy and France, dedicated L.A.T sales representatives work on site for customers.

Borealis operates fertilizer production plants in Austria, France, the Netherlands and Belgium. In France, Borealis is the largest producer of nitrogen fertilizers with three production facilities in Grand-Quevilly, Grandpuits and Ottmarsheim, as well as a storage site at La Rochelle. Borealis sites are located at the heart of important grain-producing regions. With the recently announced world-scale ammonia project in the United States, Borealis continues its ambitious growth strategy in the fertilizer business.

GRUPA AZOTY

Grupa Azoty S.A. (previously Zakłady Azotowe in Tarnów-Mościce) is the leading Polish chemical industry company headquartered in the Mościce district of Tarnów, in the Lesser Poland Voivodeship of southeastern Poland.

The company was established in 1927, during the Second Polish Republic, as one of the most modern factories in Europe at the time. Currently, Grupa Azoty is the largest chemical company in Poland and is a major producer of fertilizers, plastics, chemicals, oxo alcohols and pigments.

Agricultural fertilisers

Mineral fertilisers are one of the main products of Grupa Azoty. It specialises in the production of nitric and compound fertilizers. Additionally, in the sector the company produces ammonia and other nitrogen-based half-products. Grupa Azoty mines phosphorite, the main material in compound fertilizer production from its part-owned mine in Senegal. Grupa Azoty leads the Polish market and is the second largest producer of mineral fertilizers in the European Union.