

EU Fertiliser Industry – A Case for a Sector Enquiry

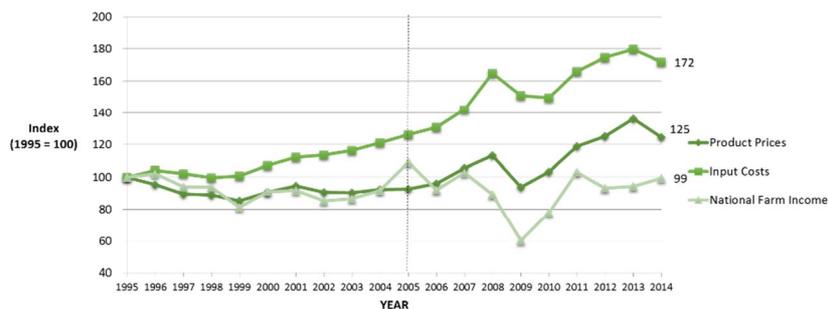
Background

Primary agriculture and food associated businesses are of critical importance to the Irish and wider EU economy. The reform of the Common Agricultural Policy, with the removal of price support structures and the decoupling of payments from production has increased farmer exposure to world market prices. As a result, product price and input cost volatility have increased significantly in the last decade, adding to the volatility already inherent in farming due to weather events.

Input costs eroding productivity gains and incomes

The value of Ireland's goods output at farm gate prices have increased significantly over the last 10 years, rising from €4.85bn¹ in 2005 to €7.06bn¹ in 2014, with the value of associated agri-food exports rising to €10.5bn². In the same period total expenditure by Irish farmers on inputs has increased by almost 50%, from €3.7b to €5.4b, representing over 70% of the farm-gate value of output produced. However, income retained by farmers over the same timeframe has remained largely static. This is due largely to a sustained and substantial increase in input costs and a significant reduction in direct payments to the sector.

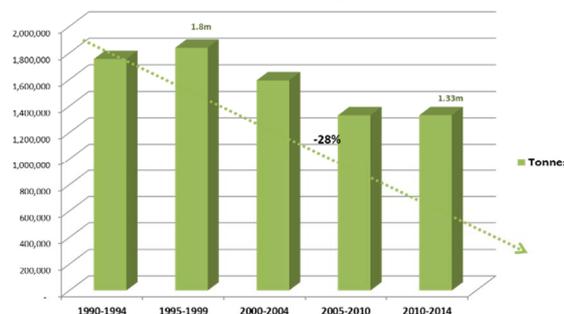
Graph 1: Changes in Product Prices-Farm Income-Input Costs 1995-2014
(CSO Input-Output Price Index, Operating Surplus)



Escalating fertiliser costs undermining competitiveness

As the second biggest expenditure on farms, the soaring price of fertiliser over the last decade is a major cause of concern, and is undermining the competitiveness of agricultural production. Despite a substantial reduction in use from 1.8m tonnes per annum in the mid to late 1990's to 1.3m tonnes average over the last 5 years expenditure on fertiliser at national level has gone from €350m in 2001 to €565m in 2014. Fertiliser expenditure as a percentage of total input spend has increased more rapidly.

Graph 2: Trends in Irish fertiliser usage 1990-2014
(Irish Department of Agriculture)



¹Central Statistics Office

²Bord Bia 2015

Fertiliser prices failing to reflect falling energy costs

Following on from the spike in cereal prices in 2007 world fertiliser prices responded almost immediately peaking in the spring of 2008. Irish farm gate prices swiftly followed international prices higher. While 2009 saw some price reversal, farm gate prices as tracked by the Central Statistics Office Input Price Index were pegged at 208 for 2014. Historically, fertiliser manufacturers, blenders and retailers blamed rising fertiliser prices on escalating oil and gas prices. Agricultural production is sensitive to changes in energy prices, either through energy consumed directly or through energy-related inputs such as fertilizer. The transformation of atmospheric nitrogen into ammonia is energy intensive. Natural gas accounts for 72-85% of ammonia production costs (Huang 2007). However, urea and in particular CAN prices have moved higher this season despite a 30% plus fall in gas and oil prices. Given the low income levels in farming the EU Commission must examine why lower production costs have not been reflected in farm gate fertiliser price.

Graph 3: Fertiliser prices 1995 – 2014
(Central Statistics Office – Input Price Index)

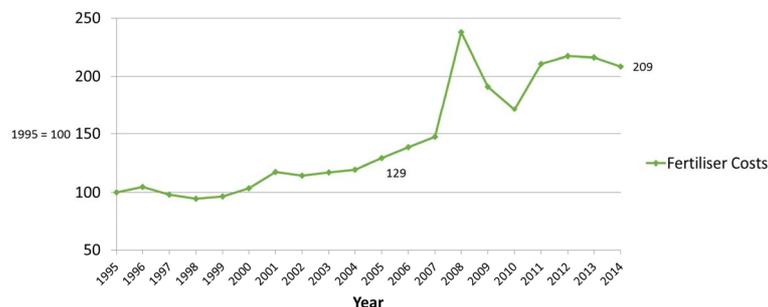
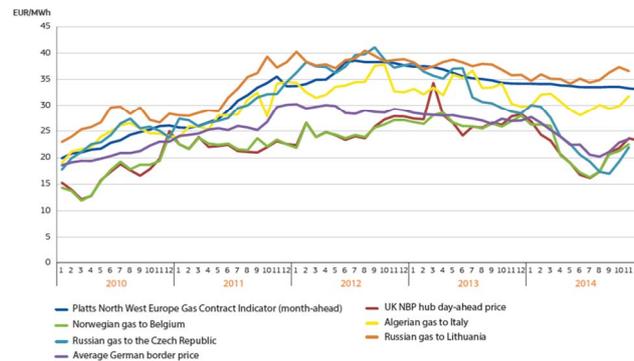


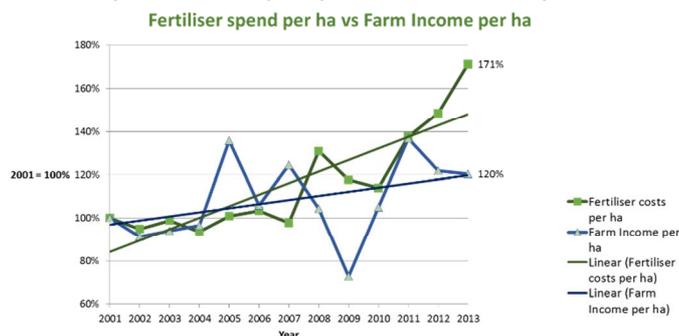
FIGURE 18 – COMPARISON OF EU WHOLESALE GAS PRICE ESTIMATIONS



Fertiliser market lacks price transparency

Fertiliser is the second biggest expenditure on Irish farms. Unlike feeding-stuffs, which is the number one item very little transparency exists around fertiliser pricing. Cereal farmers have the opportunity to forward sell / hedge cereals, oilseeds and protein prices, while livestock farmers can forward purchase /hedge grain and many other feed ingredients. The lack of transparency around fertiliser pricing is hindering competition.

Graph 4: Fertiliser spend per ha vs Farm income per ha



¹Central Statistics Office

²Bord Bia 2015

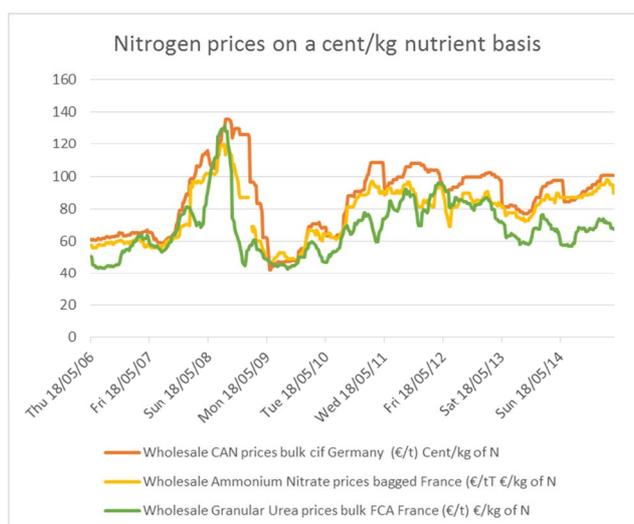
Industry concentration stymying competition

Rationalisation of the industry over recent decades has resulted in the concentration of the industry into the hands of a few key players. It is evident that in the case of calcium ammonium nitrate (CAN) that there is a real lack of competition. CAN is very much Northern European manufactured product and unlike granular urea it is not subject to much international competition. The lack of price transparency coupled with increasing vertical integration of this industry within the EU allows manufacturers to control prices right down to farm gate level thus stymying real competition. Granular urea is very much an internationally traded product and subject to greater competitive pressures as is clear from the graph below (source: CRU Fertilizer Week – Historical Dataset)

According to Yara's first quarter 2015 report

"A weaker euro and lower gas prices have improved the relative competitiveness of European fertilizer capacity. Based on current forward markets for oil products and natural gas (15 April) Yara's European energy costs for the second and third quarter 2015 are expected to be NOK 650 million and NOK 150 million lower respectively than a year earlier. The estimates may change considerably depending on future energy prices."

"**Margin development** - Yara's average European gas and oil cost was 33% below first quarter 2014 on a USD per MMBtu basis, in line with Yara's guiding, as average spot gas prices declined significantly. Yara's global average gas and oil cost decreased 27%."



Actions needed

While many of our farm input costs are determined externally through the world market, it is vital that all avenues are explored to identify measures that can be taken to reduce costs across the whole input spectrum. It is critical that the EU Commission takes action to address market concentration and the unbalanced power held by a small number of multinational input suppliers particularly, by the fertiliser industry. DG Competition must initiate a sector enquiry into the EU fertiliser industry given their ability to raise prices despite the significant fall in energy prices. It is clear that the vertical integration of the industry is stymying competition and impacting on producers. Production and distribution must be separated to create real competition. In addition custom duties on non-EU manufactured fertilisers must be suspended with immediate effect. Precedence has been set by the Commission regarding the reduction or elimination of customs duties for other products on the grounds of public interest. Their suspension will increase competition thus benefiting farmers and the rural economy.

¹Central Statistics Office

²Bord Bia 2015

Policy perspective

According to the International Food Policy Research Institute (IFPRI) there are significant benefits to be gained from increased competition in the fertilizer industry at a global and regional level. Increasing competition in the global fertilizer industry could be created by: Investment through foreign investment, Public Private Partnership, or multilateral platforms to create new plants in priority regions. Coordination between the various competition agencies / authorities is vital in avoiding trade restrictions, while promoting competition in the fertilizer industry. IFPRI says that it is necessary to promote the sustainable use of fertilizers based on soil maps to ensure the sustainable intensification of agriculture.

Ends

¹*Central Statistics Office*

²*Bord Bia 2015*