



## Market Overview

### Proposed EU cadmium limit continues to raise questions over long-term phosphate sources

Fertiliser discussions in Europe continue to centre around the implications of the EU Commission's plan to impose cadmium limits on phosphate fertilisers as part of an environmental protection and public health push. The proposal is giving rise to major concerns across the European fertilizer industry, especially among those who buy of North African and Middle Eastern supplies that have a high cadmium content. Concerns focus on the potential for the legislation to reduce the eligible sources of phosphate for EU buyers, and also sparks debate over the increasing influence of Russian producers on the EU fertiliser market.

The Commission has proposed to limit the cadmium content of phosphate rock to 60mg/kg initially. This would then be reduced to 40mg/kg after three years, with a long-term aim of limiting cadmium levels in phosphate rock to 20mg/kg. The average cadmium content of EU phosphate is around 34mg/kg and it is estimated that roughly 8% of current product is in breach of the 60mg/kg limit, with 31% in breach of the 40mg/kg proposal.

Europe imports almost all of its phosphate and typically sources a large portion of its phosphate fertiliser from North Africa but the phosphate produced in these countries has high levels of cadmium. A significant portion of this product would be banned from entering the EU if the proposed limits were to come in to force. Those limits could cut off North African producers from their key market, which is spurring concerns about the possibility of adding to economic instability in North Africa.

The other concerns raised by the proposals are about the influence of Russian fertiliser producers in the EU. If the legislation goes ahead, Russian producers would have a clear advantage when it comes to supplying phosphate fertiliser to the EU. Russian phosphate rock has a significantly lower percentage of cadmium than that produced in North Africa and already has established trade links.

A defined outcome of the proposal or a time-frame for changes in legislation has yet to be formally announced and a variety of suggestions to resolve the issue have been discussed. Some supporters of the proposal believe that there are enough other sources of low-cadmium phosphate deposits that could offset lower North African imports. The few other sources of high grade rock supply eligible to fulfil the 20mg/kg limit are from South Africa and Jordan, although both have been relatively small scale suppliers into Europe to date. It is unclear if either country has the capacity or reliability to supply Europe on the scale required to meet the new proposed lower limits.

Others in the industry believe that North African suppliers can do more to meet tighter cadmium limits by transitioning to blending and through increased technical innovation.

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### Report Key points

- European demand for nitrogen has been weak over summer months
- Global oversupply of nitrogen persists
- Prices for nitrogen fertilisers continue to fall
- DAP prices continue to soften, despite some upticks in demand
- European phosphate demand subdued
- K+S currently unable to produce potash at full capacity

For the EU grower, it is still unclear what impact the restrictions would have if they were implemented, but some price movement could occur if North African producers were forced to invest in additional technology to enable their product to meet the requirements. Additionally, growers could see changes in the sourcing of their product, though general pricing movement will likely still follow larger global trends.

## N Nitrogen



### Demand

Globally, demand for nitrogen fertilisers has remained fundamentally weak, as most buyers' nitrogen requirements are already covered after some upticks in buying in the spring season.

Demand for urea in both Europe and the UK has followed the broader global trend and has remained subdued over the summer months. Demand is unlikely to pick up until October/November, when some seasonal buying is likely to occur.



### Supply

The global nitrogen market has remained in a chronic state of oversupply in recent months, and the same can be said for Europe. It seems that the imbalance has been driven by weak demand in the urea market. Many global suppliers continued to have ample stock and lowered their prices to move volumes.

The lacklustre demand reported globally has led some producers in the Black Sea to slow production, with their main focus on domestic markets until the international market begins to pick up.



### Prices

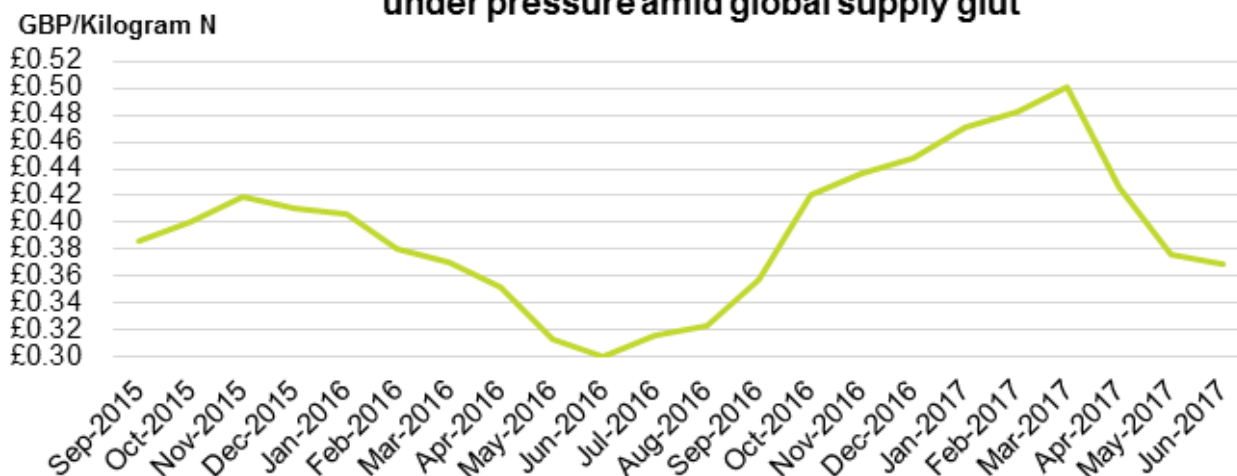
Price sentiment for nitrogen has been weak in recent months, as the market remains chronically oversupplied and demand subdued.

prices were supported by short-term supply issues.

The Black Sea ammonium nitrogen (AN) benchmark averaged at £0.39/kg N in the second quarter of 2017. This is down by £0.09/kg N compared with the first quarter of the year, when

While prices have not fallen as dramatically between May and June as between March and May, the market is still overwhelmingly cautious heading into the third quarter. Suppliers continue to drop prices to place tonnes.

### Black Sea AN price decreases slowed in June 2017 but remain under pressure amid global supply glut



Source: ICIS Fertilizers

Note: AN = ammonium nitrate. Prices are FOB Black Sea and displayed in GBP per kilogram and in nutrient terms, assuming 33.5% nitrogen.

# P Phosphates



## Demand

Global demand for phosphates has seen some upward movement over the course of the summer, but this has done little to alter the fundamentally weak demand that has persisted through 2017.

In Europe, many buyers have taken to the sidelines in anticipation of lower prices during the seasonal lull.



## Supply

Most suppliers have had a comfortable amount of demand in recent months, with limited production issues and are now focusing on autumn volumes.

Russian producers are mostly focusing on domestic and regional markets, but are expecting an uptick in demand from Brazil, Argentina, and India for autumn application. Saudi producers have seen demand from India, Pakistan, and Southeast Asia in July.

In the UK, diammonium phosphate (DAP) imports were steady on a monthly basis through the first

quarter of 2017 and a year-on-year increase of 28%, driven by increases in imports from Tunisia. The majority of DAP imports are still sourced from Russia and Morocco, which together accounted for 37% of all imports in the first quarter of 2017.

UK-based Galileo Resources has entered into an agreement to produce a phosphate project study with a major producer, to advance in the redevelopment of a prospective brownfield phosphate site in South Africa.

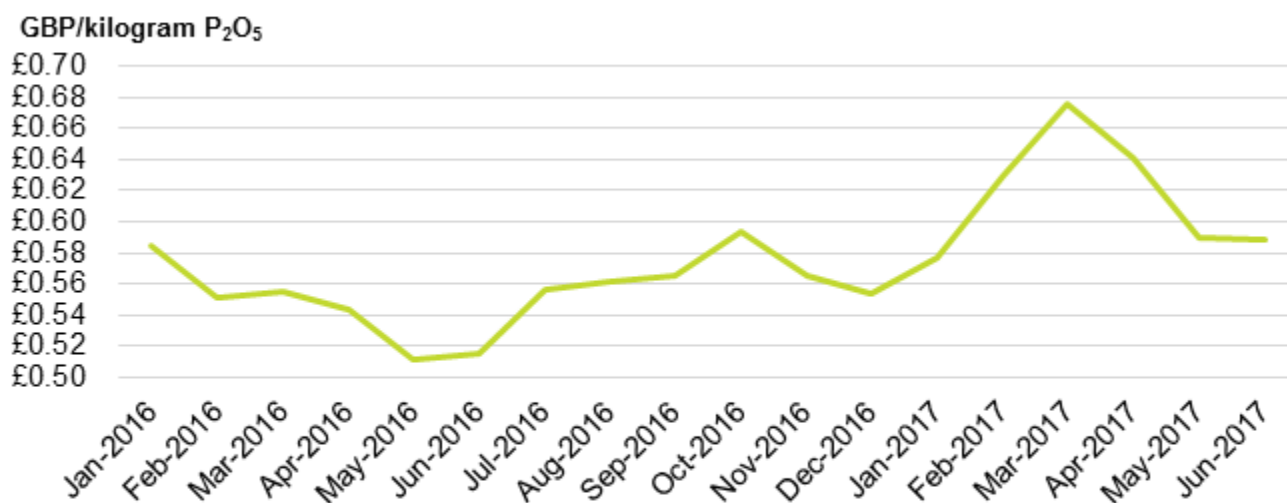


## Prices

DAP prices have continued to soften in recent months, despite an uptick in demand. The continued fall in raw materials costs served to keep a lid on prices, making the drops less dramatic than those seen between March and April.

As shown below, DAP FOB prices in the Baltic have decreased month-on-month during Q2 2017. Baltic FOB DAP prices averaged £0.61/kg  $P_2O_5$  in Q2 2017, falling 3% compared to Q1 2017. The price decrease was off the back of falling ammonia feedstock.

### Baltic DAP prices soften slightly in June to reach £0.59/kg $P_2O_5$



Source: ICIS Fertilizers

Note: DAP = diammonium phosphate. Prices are FOB Baltic and displayed in GBP per kilogram and in nutrient terms, assuming 46%  $P_2O_5$ .



## Potash



### Demand

UK potassium chloride (MOP) imports in the year up to May more than tripled compared to the same period in 2016. The increase is because buyers have lost some of their domestic source of MOP,

as the Boulby mine reduces MOP output. It is unclear how increasing imports of MOP will impact prices for UK farmers and growers.



### Supply

German MOP and potassium sulfate (SOP) producer, K+S, is still unable to produce at full capacity, as its permits that allow it to dispose of wastewater underground are restricted to a daily limit. As a result, K+S continues to rely on rainfall levels such that it can discharge wastewater into the Werra River. Given that river levels are generally lower in the summer months, we expect production at the Hattorf site to continue to be limited.

In other news, major Canadian producers PCS and Agrium have announced that they are entering the final stages of their merger and the new company will be named "Nutrien." The

regulatory review and approval process for the merger is still underway, but the deal is expected to conclude at some point in Q3 2017.

UK MOP buyers continue to source product from Israel Chemicals' facilities in Spain and Israel as the company gradually transitions its UK MOP mine, Boulby, to polyhalite production. Latest trade statistics indicate that Spain became the main supplier of MOP to the UK during the first five months of 2017, accounting for 31% of all UK MOP imports. Spain has displaced Germany, which has historically been the leading exporter to the UK.



### Prices

MOP prices have remained stable from December 2016 through June 2017. The MOP Vancouver FOB granular benchmark has averaged £0.32/kg K<sub>2</sub>O through that entire period.

The continued period of price stability is due to the market balancing, but is still representative of a fundamental weakness in the market, as prices

are still resting at some of their lowest levels in nearly ten years.

In July 2017, a new contract price was signed between Russian suppliers and buyers in China at \$230 per tonne CFR, which is likely to act as a benchmark for prices globally.

## Explanation of pricing

*Black Sea AN, Yuzhny Urea, Vancouver MOP and Baltic DAP prices are international benchmark prices. Prices in which the prices are originally reported. The price is into the UK will vary from those shown in the report, also converted from product tonnes into nutrient kilogram depending on local market conditions and additional (kg) terms. An example of how the nutrient and kg freight and taxes. adjustment adjusts the price is shown in the table below.*

Spec. of Product Product Price	AN	Urea	TSP	MOP
	33.5%	46.0%	46.0%	60.0%
	Nitrogen	Nitrogen	Phosphate	Potash
	335 kg N/t	460 kg N/t	460 kg P <sub>2</sub> O <sub>5</sub> /t	600 kg K <sub>2</sub> O/t
GBP/t	GBP/kg N	GBP/kg N	GBP/kg P <sub>2</sub> O <sub>5</sub>	GBP/kg K <sub>2</sub> O
£400/t	£1.19/kg	£0.87/kg	£0.87/kg	£0.67/kg
£375/t	£1.12/kg	£0.82/kg	£0.82/kg	£0.63/kg
£350/t	£1.04/kg	£0.76/kg	£0.76/kg	£0.58/kg
£325/t	£0.97/kg	£0.71/kg	£0.71/kg	£0.54/kg
£300/t	£0.90/kg	£0.65/kg	£0.65/kg	£0.50/kg
£275/t	£0.82/kg	£0.60/kg	£0.60/kg	£0.46/kg
£250/t	£0.75/kg	£0.54/kg	£0.54/kg	£0.42/kg
£225/t	£0.67/kg	£0.49/kg	£0.49/kg	£0.38/kg
£200/t	£0.60/kg	£0.43/kg	£0.43/kg	£0.33/kg
£175/t	£0.52/kg	£0.38/kg	£0.38/kg	£0.29/kg
£150/t	£0.45/kg	£0.33/kg	£0.33/kg	£0.25/kg
£125/t	£0.37/kg	£0.27/kg	£0.27/kg	£0.21/kg
£100/t	£0.30/kg	£0.22/kg	£0.22/kg	£0.17/kg

Source: AHDB



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