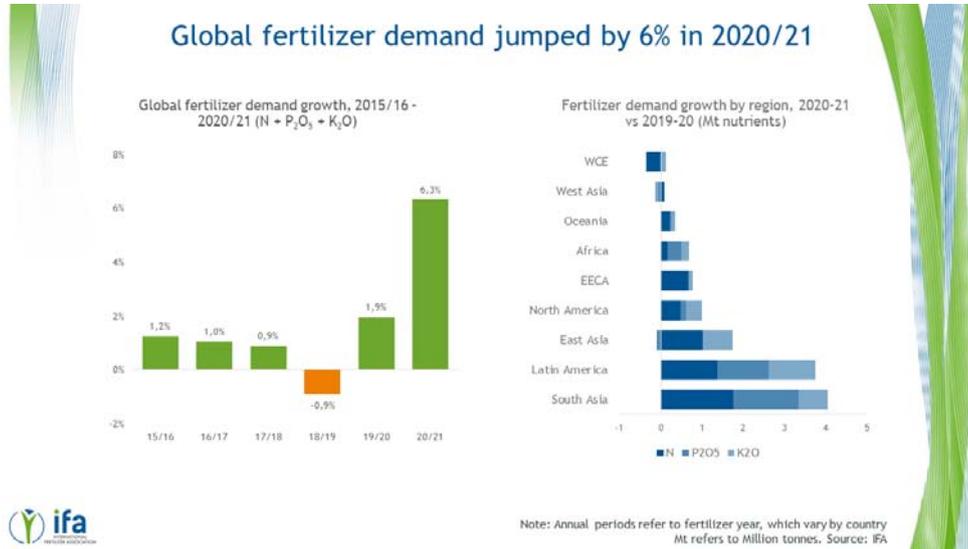


WHY ARE FERTILIZER PRICES SO HIGH?

By Laura Cross, Director, IFA Market Intelligence Service

Global fertilizer prices are market-driven, and determined by the balance between supply and demand, underpinned by production costs. Prices also vary with agricultural seasonality and the timing of fertilizer purchases in a year.

Fertilizer prices were particularly high in 2021. While some fertilizer prices are beginning to fall, prices are still much higher than they were this time last year. So why is that? There are five key drivers:



Driver #1: Strong fertilizer demand

Fertilizer demand has reached record levels since the start of the Covid-19 pandemic. This has been driven by a strong emphasis on food security and government support to the agricultural sector. It is also driven by strong crop prices globally, which have increased the incentive to plant additional acreage and increase fertilizer use to maximise yields.

It is rare for the fertilizer supply chain to encounter so many disruptions in a short space of time



Physical disruption

- ✓ US weather
 - ✓ Texas Freeze
 - ✓ Hurricane Ida
- ✓ Start ups in India

Production below capability



Economic disruption

- ✓ Higher raw material costs
 - ✓ Natural gas and coal
 - ✓ Ammonia and sulphur
- ✓ Spiralling freight costs

High production & delivery costs



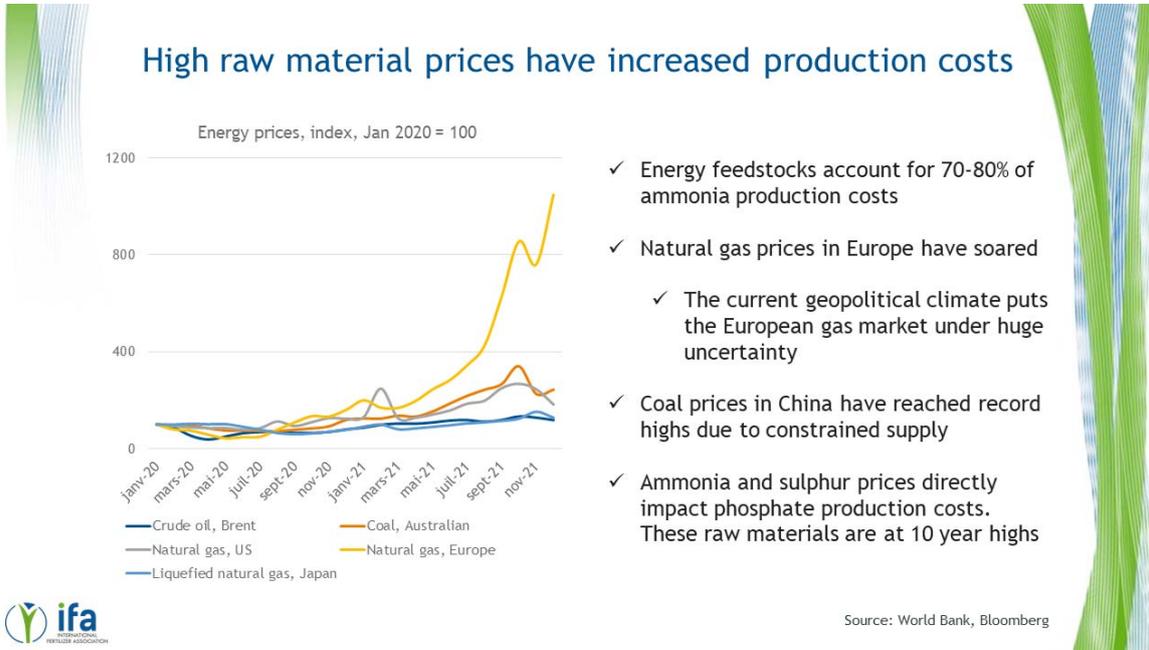
Geopolitical disruption

- ✓ Sanctions on Belarus
- ✓ Export restrictions amid availability concerns

Market uncertainty

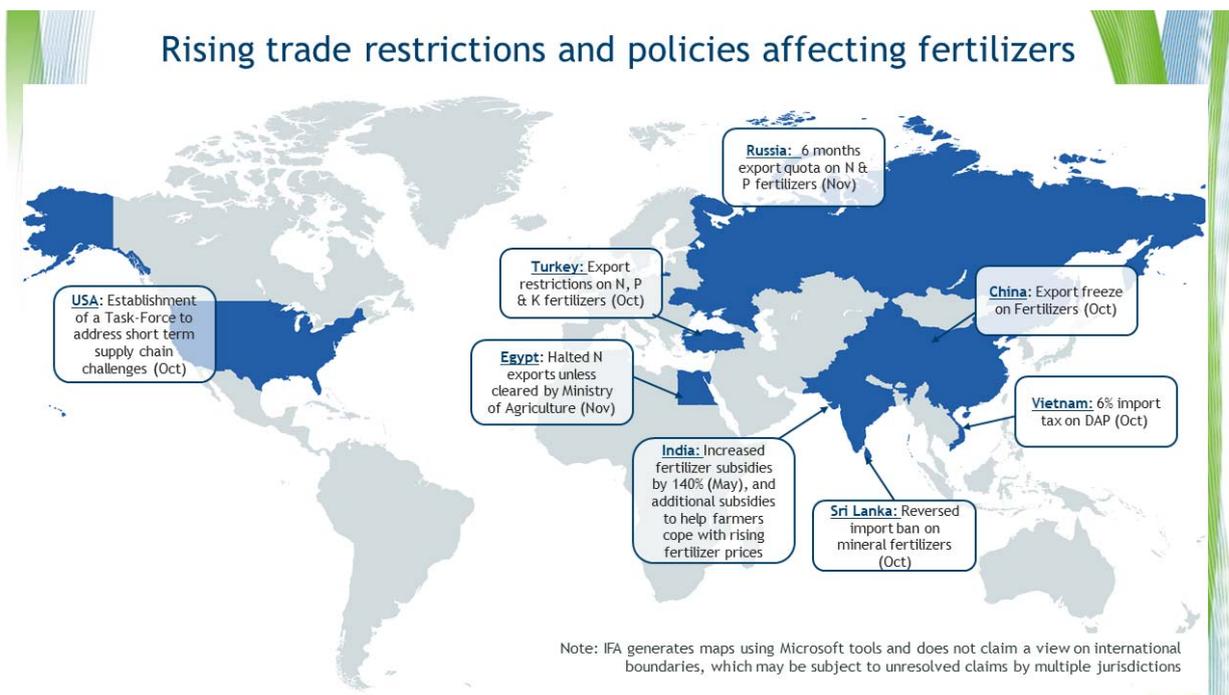
Driver #2: Supply disruptions

The production of fertilizers has been heavily impacted by a number of disruptions in 2021 – with several plants unavoidably shutting down due to a number of factors from weather events to high input costs. This has prevented fertilizer producers from maintaining the levels of supply required to meet market demand. As a result, the availability of fertilizers has fallen below global requirements.



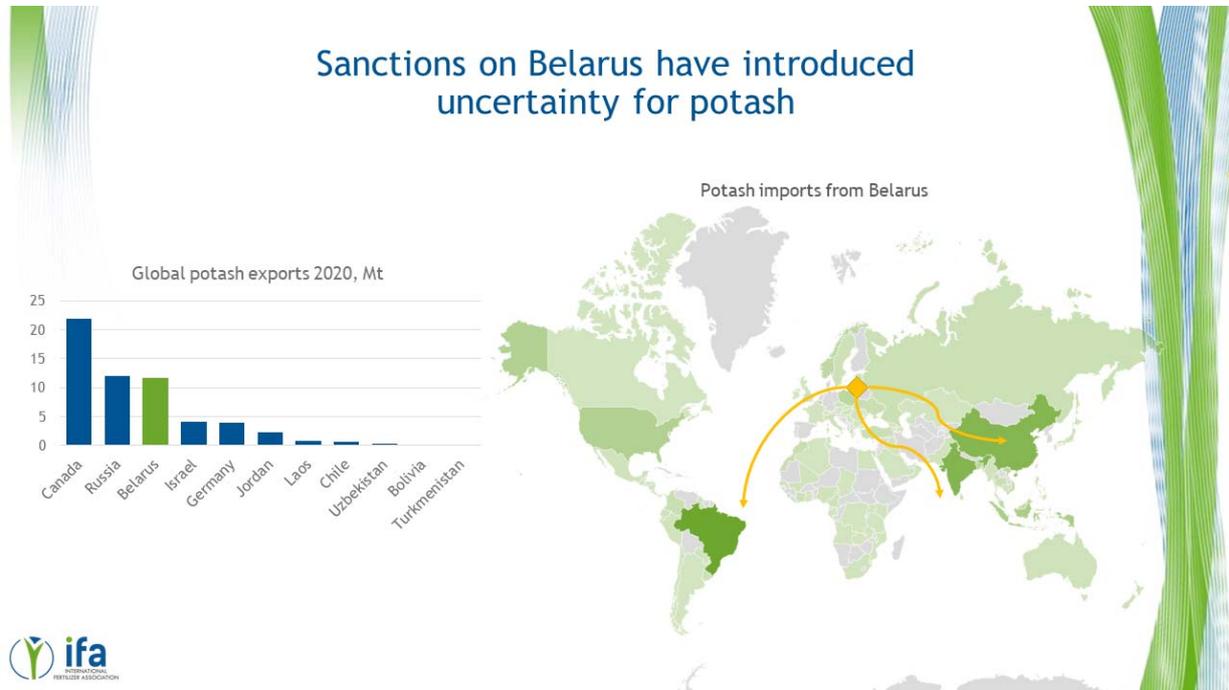
Driver #3: High raw material prices

The production processes of several key fertilizers are energy-intensive or energy-linked. In the nitrogen industry, energy feedstocks account for ~70-80% of the total production costs to produce ammonia. The phosphate sector is also exposed as it uses ammonia and sulphur (a by-product of oil and gas production) as raw materials. Energy prices have spiralled in 2021 in response to tight supply and demand dynamics. This has significantly increased the operating costs of many fertilizer producers around the world.



Driver #4: Domestic policies

In response to reduced fertilizer availability in 2021, several governments have implemented policies to protect domestic supply of fertilizers. Fertilizer supply is often deemed a matter of national importance, given its impact on crop yields and in turn on food supply. These policies have reduced or capped fertilizer export potential in major suppliers to the global market including China, Russia and Egypt. This has further tightened the global fertilizer market.



Driver #5: Geopolitical risks

The fertilizer market has been impacted by geopolitical disruptions in 2021. The most significant is the imposition of economic sanctions on Belarus by the EU and the US. Belarus supplies almost one fifth of the world's potash and is the third largest exporter. Potential removal of potash supply from Belarus has prompted an uncertainty in the market given the country's contribution to global supply. >/p>

IFA members are working hard to help meet demand sustainably by increasing their fertilizer production capacities, solving supply chain issues and investing in projects that improve access to fertilizers in developing countries.