Opening Statement,
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Meeting of the Joint Committee on Agriculture, Food and the Marine invites to discuss the cost and supply of fertiliser in the European Union

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- The issue of fertiliser prices and availability is of serious concern for the European Commission. Agriculture EU Commissioner Wojciechowski clearly said it at the last sessions of the Council of Agriculture Ministers including last Monday, in view of the potential impact for farmers and for the agri-food supply chain.

- 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. We also see a linked increase in electricity prices.

- Energy markets are of concern for the EU economy as a whole, and were on the agenda of Heads of States at the two last European Council in October and December.

- 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%.

- 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.
- Overall, the World Bank fertiliser index for December 2021 was 165% above (2,5 times higher) December 2020.
- According to the Farm Accountancy Data Network, we know that fertilisers represent a modest share of the costs of production of EU farmers, around 6 to 7%.
- However, some farmers, such as cereals growers, use more fertiliser than average: for field crops specialist farms, the share of fertilisers in the costs of production reaches 13%.
- We also know this share is higher for Irish farmers, 9 % on average, but 18% for field crops specialist farms and 9% for dairy, beef and sheep specialist farms (while it is only 3,5% at EU level for grazing livestock farmers).
- In a market-oriented economy, price signals, both for the inputs and for the outputs, are the information that allows farmers to adjust their production and investment decisions.
- However sudden and strong volatility of prices are difficult to cope with for farmers. The CAP addresses such difficulties by supporting our farmers through direct payments, which have a strong income stabilisation impact, as well as a variety of risk management tools, for instance within the rural development fund. Farmers can protect themselves against such volatility through hedging tools ie forward contracts, directly or via producer organisations or cooperatives they are members of. We should encourage them to do so.

- Farmers are not bound to fully bear these extra costs. Sooner or later, extra costs will be passed into the food supply chain towards consumers, through price transmission mechanisms. This is why the European Commission paid a particular attention in recent years to measures ensuring a well-functioning of the food supply chain, so that the benefits or burdens linked to external factors are adequately shared at all the stages of the chain. We adopted in particular measures related to cooperation between producers, contractualisation, unfair trading practices and market transparency, all aiming at reinforcing the position of farmers in a food supply chain where other stages are more concentrated.
- Clearly, the recent sharp increases in price of fertilisers as shown by the figure I quoted earlier are going beyond what is considered normal fluctuations. For the moment, very strong increases in producer prices have sufficiently offset the input price increases.
- The main indices for agricultural prices show that they have increased by at least 10 % since last year and by close to 30% in the two last years.
- There has been also some concerns on the supply of fertilisers for the next applications foreseen as from next spring. Expectation remains that there will be sufficient fertiliser supplies available for the forthcoming spring operations and that there will also be a sufficient incentive for our farmers to maintain production levels.
- 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. As we saw, 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, with a possible modest yield impact. 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.

- We will have to remain vigilant and follow projections from for example, the European Central Bank. It remains of the view that we can expect to see the factors leading to supply chain bottlenecks easing this year, and thus a return to more moderate price trends.
- The Commission keeps a close eye on the markets and stands ready to intervene in case it is necessary to do so.
- Just a reminder that President Von der Leyen discussed the current situation of energy markets with the Heads of Government at the European Council. The Commission presented a toolbox of measures to mitigate the current spike in energy prices, including for fertilisers.
- 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.
- Furthermore, the EU State aid rules also provide possibilities for Member States to support farmers in this exceptional situation. In the first place, Member States may quickly act by granting *de minimis* aid. Amongst others, the State aid Temporary Framework may offer possibilities to the Member States. It has just been prolonged until end of June 2022 and the overall State aid amount per undertaking active in the primary production of agricultural products has been increased by EUR 65,000 to an overall amount of 290,000. Where it can be shown that the market is already under pressure due to the COVID situation, this should allow Member States to address this

difficult situation for our farmers in the short-term, and some of you have indeed already used this opportunity.

- 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 fossils fuels.
- We must tackle this vulnerability by reducing our dependence on key imports especially from unstable sources or unreliable third countries. In the context of the EU industry strategy, the Commission continues to work with Member States on strengthening our strategic autonomy by reducing our dependencies on certain imports. Phosphate rock was for instance listed in the EU's list of Critical Raw Materials in 2020.
- Specifically concerning food security, the European Commission just established a new European Food Security Crisis Mechanism Expert Group in December. 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.
- This is an issue not only in relation to input prices and food security but also our wider Green Deal objectives, where we are committed to reducing nutrient losses. By 2030, we have the target to reduce by 20% the use of fertilisers for this purpose.
- We now have an even bigger incentive to use less gas and mineral based fertilisers and to use them more efficiently. We must therefore act decisively under the new CAP to accelerate the transition to a more sustainable agriculture, for example through greater use of precision farming, of more bio-based nutrients and organic fertilisers, implement more crop rotation

practices that are less dependent on fertilisation with a higher share of pulses and relying on more interventions aiming at risk management.

- I would conclude that the current situation provides many more excellent reasons to use the opportunities of the reformed CAP to improve the sustainability of our food production through reduced use and greater efficiency in relation to fertilisers.