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Unprecedented fertilizer year

The last six months on the Polish fertilizer market was unlike anything producers, distributors and farmers have ever seen before on the Agro supply market. Record volatility and soaring prices of key feedstocks used in fertilizer production, namely natural gas, phosphate rock and potassium chloride, triggered an unprecedented, sharp growth of production costs, which in turn pushed up fertilizer selling prices.

Gas prices stabilised slightly at the beginning of the fourth quarter of 2021, unfortunately at a very high level of around EUR 90/MWh (in the same period of 2020, gas cost about EUR 14/MWh). This helped to partly stabilise the market, allowing Grupa Azoty to extend the validity of its commercial offers to one month. As the market signalled shortages of selected fertilizer formulations on the domestic market, Grupa Azoty responded by reducing fertilizer exports to secure fertilizer supplies for Polish farmers. These efforts, combined with a full commitment to optimising commercial terms of authorised distributors, also helped to stabilise the selling prices of fertilizers offered by Grupa Azoty.

WHAT IS THE FUTURE OF THE FERTILIZER MARKET?

Grupa Azoty believes the coming weeks will determine whether Polish agricultural producers can properly conduct field work in spring. Their decisions whether to purchase the required volumes of agricultural inputs, fertilizers in particular, will have a direct impact on the efficiency of their farms in the coming season. At present, the key to an accurate assessment of the situation by farmers when purchasing fertilizer is an in-depth analysis of the domestic fertilizer market balance.

Despite a very difficult situation on the cost side, unlike its foreign competitors, who either halted or significantly cut production at most fertilizer plants in Europe, Grupa Azoty was able to maintain continuity of production. Grupa Azoty's authorized fertilizer distribution network offers a full range of fertilizers at its retail outlets to meet demand from domestic customers. At the same time, the Polish market is witnessing a significant reduction in the supply of imported fertilizers as manufacturers focus mainly on supplying their home markets to meet demand from local agricultural producers. In the coming months, the continued surge in the prices of fertilizers in European markets will continue to be a reason they curb supplies to their export countries, including Poland.

IS A FERTILIZER SHORTAGE POSSIBLE?

The situation on the fertilizer supply side is also influenced by the current time of year. The coming winter will most likely contribute to further increases in the prices of key energy commodities such as gas, electricity, coal and fuels, which will drive up demand from households and the industrial sector. As a result, the prices of finished products, including fertilizers, may continue to rise.

This is a reason why Grupa Azoty has encouraged farmers for years to purchase fertilizer as a key agricultural input in several tranches throughout a year, as this improves security of farm operations by enabling farmers to average their purchase costs and gradually build the required fertilizer stocks for uninterrupted and efficient production.

'We constantly analyse the levels of agricultural input stocks, including fertilizer, held by farms, and we can see that a significant proportion of farms in Poland have no fertilizer stocks secured for the first spring application,' **said Piotr Zarosiński, Head of the Corporate Agro Sales Department, Grupa Azoty S.A.**

Given the time of year we are in and the possible further reduction in fertilizer availability, driven by:

- Russia's decision to reduce fertilizer export volumes from December 1st 2021 to May 31st 2022,
- extremely strong demand from export markets for Polish fertilizers due to their prices being lower compared with foreign fertilizers (export pressure),
- continued shutdowns or production cuts at many European fertilizer plants (resumption of production would not make up for output lost during the shutdowns of plants in Europe – production directed to meet domestic market needs),
- volatility in commodity markets,

Grupa Azoty recommends that decisions to purchase fertilizer should not be delayed.

*'In today's reality, every farmer is an effective manager making production decisions informed by thorough analysis. He treats his farm as his own production and distribution company, attaching priority to secure and efficient operations. A business managed in a stable way **should not allow for speculation.** Unfortunately, speculation is playing a major role in the input procurement process at many farms in Poland, and this will most likely have a negative impact on yields in 2022 and on their future operations. In the present situation, postponing fertilizer purchases until shortly before their application is a risky decision, which will most likely cause supply problems in spring,'* **added Piotr Zarosiński.**

NO QUICK DECISION IS A BAD DECISION

The current assessment of the prevailing market situation should prompt farmers to immediately plan purchases and buy fertilizer for spring application. Most potential risks have already been identified, but we would like to further remind you that ensuring a full availability of fertilizer in a short period of time may not be possible due to transport, storage and financial constraints that may occur if purchases are left until the last moment. Also, we should not forget about potential early application of nitrogen fertilizers due to adverse weather conditions. This happened in the spring of 2019, when consent was given to apply nitrogen fertilizers two weeks ahead of schedule.

We believe that farmers will thoroughly consider all these factors and take a reasonable decision to secure the required volumes of production inputs for their farms. As Grupa Azoty, we wish all farmers intensive and efficient work progressing on schedule in the spring fertilizer application season.