

M. Kaplucha Speech EEF, European Parliament - Strasbourg, 14/1/2014

“Competitiveness: Vital Importance of Gas for Industry and Agriculture”

Good evening.

Dear Members of Parliament, dear Chairman of European Energy Forum,
Ladies and Gentlemen,

My name is Marek Kaplucha and I am with you tonight as the Vice President of Fertilizers Europe.

(Slide 2)

We represent the main fertilizer producers in Europe and they range from major multinational groups such as Yara International and Borealis, to national champions such as ACHEMA in Lithuania Nitrogenmuvek in Hungary and my own company in Poland Grupa Azoty.

In my everyday job I am Vice President of the Board of Grupa Azoty – a new consolidation in Poland established in June 2013.

Grupa Azoty is the largest industrial manufacturing consumer of natural gas in Poland. The same is true of many fertilizer manufacturers in their countries, as typical major factories use between 1 to 1.5 BCM of gas per annum.

As the N°1 purchaser of natural gas in manufacturing we are very much aware of the value of a fully functioning gas market in Europe.

Typically, natural gas represents between 60 to 80% of production costs of a finished fertilizer, therefore we truly are challenged to secure competitive gas supplies.

As I will explain, Europe is surrounded by a “sea of gas supply”, but unfortunately this supply is characterised by monopolistic type of pricing set by Gazprom and several OPEC suppliers. Breaking these supply conditions is a major challenge.

Another challenge is removing the constraints on competitive supply within the European Single Energy market.

Tonight therefore I shall address both the external and internal supply challenges that Europe now faces - and how we suggest Europe can find solutions.

But before I do that let me also say a few words about agriculture.

Agriculture is about turning the energy of the sun into energy in food.

Modern agriculture is very energy intensive: Diesel for tractors, heating and electricity for stables, the energy needed to produce input, like fertilizers, and equipment.

Competitive energy prices will therefore also have an important effect on agriculture.

Let me then turn to the first task that is:

(Slide 3) COMPLETING A COMPETITIVE SINGLE INTERNAL ENERGY MARKET

Managing our own affairs should normally be the easier task. Yet despite several political attempts to move the implementation of the 3rd Gas Directive and the overall Energy Package to a conclusion by first quarter 2014, it seems that our Heads of State will announce at the February Summit that the deadline will be missed!

One can argue with some legitimacy that creating an EU28 energy market in just 6 years was simply not realistic, as Europe's energy structures are all highly national in their character.

Breaking down energy frontiers and indeed corporate bundling is not the easiest of tasks. This is now evident from the number of EU Commission infringement and competition cases.

We in the Fertilizer industry remain hopeful though that progress will be made. There are positive signs of this.

One is the roughly 33% increase in the capacity for receiving LNG gas.

Another is the establishment of a new European regulatory agency, ACER.

The Commission has also managed a serious and deliberate implementation plan. In fact we must admit it is one of the most professional implementation programmes we have experienced with the Commission.

Also, we welcome the potentially ground breaking anti-trust investigation of the Commission into the pricing practices of Gazprom in Eastern Europe.

It's questionable, that the same Russian gas in Germany is cheaper than destinations nearer to Russia such as Poland and Lithuania. Our German Energy Commissioner, Mr Oettinger has made this clear on several occasions.

The differences cannot be explained by normal economics but rather the out-dated use of long term take or pay contracts and the continued use of out-dated references to oil indexation.

We are not arguing here for the complete removal of such contractual conditions – but rather for flexibility and choice, which is not the case at the moment.

(Slide 4)

From this slide on the Russian pricing to Lithuania it is obvious based on what the allegations by Lithuania of "excessive pricing" are founded.

The outcomes of the European Commission's anti-trust investigation on Gazprom will present significant new signposts on the road to improved prices in the Single EU market. We of course hope the result affirms the removal of "excessive pricing" and the promotion of better prices and better contractual terms for the European industry.

Our call this evening to European politicians is for your support in completing this construction of the European single gas market.

With energy costs once again to be discussed at the next EU Heads of State summit in March 2014, we appear to have the right political recognition and momentum to get Europe back on a regulatory and practical set of actions to help improve our competitiveness.

We really do recognise the considerable effort currently being made by the Commission, Council and Parliament to improve the situation.

(Slide 5) THE EXTERNAL CHALLENGES

But there is an urgency!. By 2016/17 the new USA industrial renaissance based on shale gas will have arrived, which will result in much stronger competition in our market.
The emphasis should be on faster actions.

EU should create an environment for chemical industry, which can level playing field and press for rather reduction of energy/gas prices in EU long term in order to be able to compete with external world, like – as example – US market, where the shale gas revolution effected in the gas price 4-times lower compared to Europe.

Fertilizers Europe stands behind further opening of EU market to other countries and we see this direction as clear opportunity for Europe, as well. However, while deciding on Free Trade Agreement between US and EU, we also should take into account, that not all industries are prepared for the very fast reduction of current duties. Clear example is the fertilizers industry - in connection to significant discrepancy in access costs to raw materials, such as gas in US and EU markets. Reduction of duties to *zero* in short time means clear risk of fertilizers from US flooding WE and, as result, possible closure of European factories. Recommended solution: longer time period (ie: 10 years; example from the past – FTA with Korea) for gradual duties reduction over the time, under FTA US/EU.

We need our politicians to now recognise that EU based energy intensive industries bear the extra or marginal costs associated with EU energy taxation, renewable levies and ETS. There must now be a fundamental re-engineering exercise towards pro industry and pro-competitive regimes.

If the Internal Market developments are about levelling prices downwards, then the external challenges are about levelling prices upwards.

The EU fertilizer industry has consistently been challenged by the prevalence of artificially low subsidised gas costs in competitor countries, particularly in Russia and neighbouring countries as well as OPEC.

The EU industry suffers from the gas dual pricing practices of Gazprom in three distinct ways.

(Slide 6)

First, our Russian competitors use local gas, set by the government at prices artificially low. Even below costs levels, to conduct dumping / subsidized marketing campaigns on the EU market. This is “a beggar thy neighbor” policy.

Second, in Russia, domestic gas prices are set below costs without a profit, whilst Russian export prices to Europe are priced at premium even monopolistic type levels to make up for the loss of profit on domestic gas.

Thirdly, from the high profits gained from local subsidized gas, Russian fertilizer companies are able to re-invest more in their plants and make significant acquisition bids in Europe and around the world.

Fortunately, the European Commission and member states have conducted corrective actions with regard to this issue.

On the trade defence side, the EU – like many countries around the world such as the USA & Australia – has applied anti-dumping duties.

On the trade offensive side, the EU succeeded in Russia's WTO Accession Treaty to acquire a commitment from Russia to price domestic gas on a "full cost of production plus profit plus future investment" basis. Russia so far is not fulfilling this commitment.

This evening is just one more attempt by the EU fertilizer industry to mobilise MEPs support for gas pricing reforms in Russia – both domestic and export prices.

The graph (again Slide 6) illustrates that the problem of dual pricing and the "gas cost gap" between the EU and Russia has actually progressively increased - and not decreased.

The challenge we face is very real. The Russian government just last week on 6th January commenced the necessary formalities at the WTO to challenge the use of "energy adjustments" in steel and fertilizer cases.

This complaint was expected particularly as February 2013, the Russian government lost in a complaint on the "market energy adjustment" in our fertilizer anti-dumping proceedings at the General Court in Luxembourg.

We feel confident that we can win both WTO legal gas cases in Geneva.

Both the EU and WTO are liberal economic institutions founded on the basis of promoting a liberalized market economy model.

On the political side, we need the Commission, the Council and the Parliament to show solidarity in their support for energy intensive industries in Europe at the WTO.

I would like to ask the MEPs, who are also members of the European Energy Forum that they, along with other colleagues in INTA, support the Commission's new trade modernization proposal. In particular, we ask for your support of a legal clause that permits the removal of the lesser duty rule in anti-dumping and anti-subsidy proceedings - when there is a proven case of structural distorted raw materials costs (ie: gas dual-pricing).

The introduction of such a clause would allow for the strongest WTO correction of damaging trade campaigns. We have worked with colleagues in the Parliament, Mr Glatfelder from Hungary and Mrs Andriekennie from Lithuania, and an amendment has been proposed in this area which clarifies the issue and which we encourage you to support. If this proposal is not approved we propose to keep the Commissions original text. The removal of the lesser duty is still very important for us.

(Slide 7)

This brings me back to **the link to Agriculture** and you can see some of the key points here on the slide, to highlight few of them :

- 1) Half of the world is fed thanks to fertilizers
- 2) European farmers produce more crop with less fertilizers than they did 20 y. AGO

3) Nitrogen fertilizers create 6x more energy that it takes to produce, distribute and apply them

European farmers are amongst the most productive farmers in the world. They have to be, because like in every sector Europe is a high-cost production area.

The most competitive aspect of the sector are the close links that have been formed in the food supply chain from seed, fertilizer and feed producers, with farmers and the food processing industry.

Agricultural productivity will be fundamental for the sustainability of farming in economic and environmental terms. High productivity combined with good agricultural practice results in the smallest environmental footprint.

The EU is a net importer of fertilizers, and the market is currently sourced by over 15 exporter countries. These exporters enjoy the EU's fundamental liberal and open trade regime. EU fertilizer prices are thus competitive and largely follow global prices.

Which brings me back to the question of **competitive gas**.

The European fertilizer industry is one of many industries which need competitive gas. It is the local industry that ensures that fertilizer is produced according to EU standards. It is the local industry that provides competition and prevents more dominant oligopolistic pricing on the European market.

We are therefore convinced that we have much to offer European agriculture and the European farmer.

However, we recognise that we must continue to strive for better competitive conditions and prices on gas supply.

This will strongly encourage – as I hope I have explained this evening – a robust and definite construction of the fully functioning Single Energy Market – and a robust and strong trade defence and offensive trade policy.

We hope and trust that the members of the European Parliament will join us in these challenges and support us in our mission to continue to supply the very best fertilizers – thus contributing to a vibrant and healthy European agriculture.

(Slide 8)

Bill Gates in a recent interview with CBS News said that he has to remind himself not to talk too much about fertilizers at cocktail parties, since most people don't find it as interesting as he does. Well I find the fertilizers industry as fascinating as Bill Gates does and I hope I have contributed to your interest tonight.

Questions...

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