

The Fertilizer Industry in the European Union after Enlargement



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Good morning/afternoon ladies and gentlemen,

Firstly I would like to thank you for the kind invitation to participate in such a prestigious event jointly organized by the Fertilizer Roundtable and the Fertilizer Institute. I am very happy to be here and it is my pleasure to share with you today some first thoughts and analysis of major challenges and opportunities for the European Fertilizer Industry after the Enlargement of the European Union.

Before I begin, allow me to show you how my presentation is structured:



Structure of Presentation

- **A different union**
- **A new Commission and Parliament with a changed agenda**
- **A different EFMA**
- **Fertilizer supply and demand in the EU 25**
- **Changes on the demand side – the EFMA Forecast 2004 - 2014**
 - as a result of the CAP
 - as a result of the single European market

Changes on the supply side

- restructuring
- trade measures
- gas prices

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Structure of Presentation

- **“Soft” changes through enlargement**
- **Shared knowledge on**
 - Markets
 - Performance
- **“Europeanisation” of**
 - Values
 - Regulatory agendas
- **A more transparent market place and a levelled competitive playing field will create a stronger, more efficient industry**
- **EFMA’s role**

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A different Union

How has Enlargement changed the European Union? This past Enlargement resulted in the most dramatic change of the Union. Never has the European Union added so many new Member States and never have those been so different from the existing ones. It will therefore bring totally new political challenges and, alike, enormous new challenges for the European Fertilizer Industry, as you will see with my presentation.

At the outset, I would like to make a brief parenthesis to make clear that I will not be making an overly detailed analysis for each Member State. I will rather give you general trends on developments in the EU-15, EU-10 and, where appropriate, in the EU-25 combined. Of course the situation is much more complicated. But focusing on general trends is the only way to define overall challenges.

Let us first look at some facts and figures.



Main Economic Indicators

	EU – 15	EU – 10	EU – 25	% Increase
Area ('000km ²)	3 235	739	3 974	+23%
Population (Million)	379	75	454	+20%
GDP (Million €)	8 524	340	8 864	+4%
GDP in Agriculture (Billion €)	151	12	180	+8%
Labour Force in Agriculture (Million)	7.1	3.7	10.8	+52%

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The new union today presents a totally new picture. The total land area has increased by 23 percent, the population by 20 percent. The gross domestic product overall, however, only increases by about 4 percent. By contrast, agriculture's share of the gross domestic product is expected to increase by 8 percent, though the labor force employed in agriculture increases by a full 52 percent.

Agriculture: basic indicators

	EU-15	EU-10	EU-25	change
Total Agricultural Area (Million ha)	130	39	169	+ 30%
Average size of farm (ha)	18.7	9.0	15.5	-3.2 ha
Agriculture: share in GDP (%)	1.77	3.5	2.0	
Agriculture: share in labour force (%)	4.3	14.3	5.7	

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There is a 30 percent increase in the total agricultural area. The average size of a farm in the EU-15 is 18.7 ha, whereas in the new Member States the average size is less than half of it, namely 9 ha. In the EU-15 the share of agriculture's in the gross domestic product is of 1.8 percent, whereas in the EU-10 it amounts to 3.5 percent. In the new Member States 14.3 percent of the total labor force is employed in agriculture, though in the EU-15 this figure is 4.3 percent.

As a conclusion, we can appreciate that the agricultural sector is much more important in the accession countries. In general terms, it appears, however, to be less competitive, more small scale and less intensive.

Agriculture: EU Funding 2006

	EU – 15	EU – 10
Total EU Funding 2006 (Billion €)	41.8	2.6
Total agricultural land (Million ha)	130	39
EU Funding per hectare (€/ha)	321.5	68.6
EU Funding per hectare adjusted (PPS/ha) for purchasing power standards	321.5	153.1

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EU funding under the Common Agricultural Policy alone will not bring about major structural changes. In absolute figures, it is still substantially lower than in the EU-15: 68.6 € per ha in the new Member States versus 321.5 € per ha in the EU-15 for the year 2006. Parity will only come in 2010.

Adjusted for purchasing power standards, the disparity seems to shrink a little bit. However, in the EU-15 support is still twice the amount of new Member States.

Most of the new Member States have made impressive progress in many areas on their way to accession.

In October 2002, the European Commission published a strategy paper, *Towards the Enlarged Union*, an attempt at taking stock where the accession countries stood, which progress they have made in meeting the *acquis communautaire* - meaning the entire body of laws, rules, regulations and standards which constitute the European Union – and which further efforts are still needed. The report was very complementary about the achievements with two main reservations:



As to industrial policy, the report stated that *“privatization of the economy has made impressive progress since 1997 reaching levels comparable to the EU, but efforts are required to complete the restructuring of a number of sectors”*... and let me add as an example the Polish fertilizer industry.

Addressing competition, the strategy paper criticized that *“as regards state aid... incompatible existing aid schemes should be brought into line with the acquis and the enforcement track record needs to be developed. A number of countries still need to improve state aid control in certain sectors where restructuring plans needs to be implemented”*. Again, part of the Polish fertilizer sector would be an example.

Not much progress has been made on those two points since 2002. Thus these challenges continue as very direct challenges for some of the fertilizer players in the EU-10, as well as for the EU-15 which will feel the effects.

First thoughts about the new Commission

Coinciding with Enlargement we will have a new Commission and a new Parliament.


Key Members of the new Commission

- **José Manuel Barroso, Portugal, President**
- **Günter Verheugen, Germany, Vice President**
- **Stavros Dimas, Greece, Commissioner for Environment**
- **Danuta Hübner, Poland, Commissioner for Regional Policy**
- **László Kovács, Hungary, Commissioner for Energy**
- **Mariann Fischer Boel, Denmark, Commissioner for Agriculture and Rural Development**
- **Peter Mandelson, Great Britain, Commissioner for Trade**

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José Manuel Barroso, the former Portuguese Prime Minister will be the new President of the new Commission. He also has already named his team of Commissioners which will, after confirmation by the Parliament take up their responsibilities on 1 November 2004.

What will be the priorities of the new Commission and how will this affect our industry? Various interviews and the parliamentary confirmation hearings might shed some light on the future Commission's agenda. Barroso has already been rather explicit about where his top priorities will lie. He will continue the Prodi Commission's first overall priority namely, to achieve the Lisbon goals by "making Europe the world's most competitive economy by 2010". As Europeans are increasingly ready to embrace economic reforms Barroso will have broad support when he puts competitiveness of the European Union's economy at the heart of his tenure. To this end he will personally chair a group of Commissioners including Peter Mandelson who will meet once a month seeking to boost the reform process and give new impetus to Europe's economy. To obtain the necessary funds he probably will continue to reduce the share of the overall budget consumed by agriculture and make regional spending now the most expensive policy. This approach and his choice of strong minded, free market Commissioners to head the crucial economics jobs met with strong approval from business and industry.

Mariann Fischer Boel will head the Agricultural portfolio which of course is one of the most important to the fertilizer industry. Mariann Fischer Boel has been the Danish farm Minister from 2001 onwards. She has also a farming background. Her family owns a country estate on the island of Funen where her father Marius Boel a pioneer in Danish cheese industry invented Danish blue. Mariann Fischer Boel is an economic liberal and northerner and is expected to continue the reformist policy direction established already by Fischler. In first statements she explicitly confirmed that she shares Fischler's vision of a greatly enhanced role for rural development in the CAP and that implementing the changes initiated by her predecessor would constitute her greatest challenge. Where she stands on agriculture and environment is less clear. However, Danish agriculture as a whole has been leaning in the past very much towards giving environmental considerations very high priorities even at the expense of competitiveness of the sector. Mr Fischler had a solid understanding of the role of mineral fertilizers in agriculture. With the new Commissioner we probably will have to more strongly communicate the benefits of mineral fertilizers.

The new Commissioner for Environment will be **Stavros Dimas**, a lawyer and economist from Greece and presently the Commissioner for Employment and Social Affairs. Given this

background he is expected to have a more balanced view and in his judgment also give the second pillar in the European sustainability debate namely economic sustainability appropriate consideration.

Günter Verheugen from Germany the present Commissioner for Enlargement will be the new Commissioner for Industry. He is very supportive to industry has been very outspoken that increasing competitiveness and cutting back on overly burdensome regulation is one of the main keys to achieve the Lisbon goals.

Lázló Kovács from Hungary will be the new Commissioner for Energy. A level playing field in Europe and also in Russia when it comes to gas is of utmost importance for all the European fertilizer manufacturers. Particularly for some of the new members the gas cost situation is extremely unsatisfactory. We hope that we will be able to make Mr Kovács but also the other Commissioners from the new Member States strong allies for the industry's position on gas.

Danuta Hübner from Poland will be Commissioner for Regional Policy. In the Enlarged Union her main responsibility will be to help to bring about structural change in the coming years in the new Member States and to support this change with financial aid.

A big unknown finally is the new trade Commissioner **Peter Mandelson** from the United Kingdom. Will he fundamentally change Lamy's conservative approach? Lamy personally understood very well fertilizer and gas issues and was prepared to fully use the trade instruments which European laws and international agreements provide whenever these rules were obviously not respected by unfair trade practices. Will Peter Mandelson in case of doubt make judgments more based on the free trading tradition of an Englishman? But again it is our role to convince him about our justified cause.

In June the European Union also elected a **new Parliament**. Not much has become known where they see their priorities for the coming 5 years. Under the new draft constitution adopted by the European Council in June 2004 different from the past the new European Parliament will have for the first time a co decision right when it comes to agricultural policy and particularly agricultural spending. Representatives from the farming community in the new Parliament are an extremely small minority. As a result the lobby for agricultural spending speaks with an ever decreasing voice.

Equally, not much support for agricultural spending finally will come from the **Member States**. At the latest Budget Council meeting in Brussels Member States voted to reduce expenditure continuously on the CAPs first pillar namely market support and direct aids. This is in line with the financial discipline provisions agreed under the Fischler reform package which foresees automatic reductions in single farm payment cheques whenever the budget ceilings are under threat. These automatic reductions are likely to become a regular feature of the Common Agricultural Policy in future years. Additional pressure will come from a group of 6 net contributor countries, Great Britain, France, Germany, Sweden, the Netherlands and Austria which are insisting that the EU must live with a more limited budget framework and tailors its activities to meet today's financial realities. Any spending increase would have to go towards increased structural and regional aid clearly focusing on the new Member States.

So much to the institutional scene of the post Enlargement phase. To sum it up, we probably will see a new political push towards policies which are based on economic realism. As to agriculture it will continue to be much more market oriented. Aid will increasingly go into rural development. On the environmental issues we probably also will see some more realism than in the past. European decision makers increasingly realise the need to balance economic benefits with environmental and health concerns. It does not make sense to have an agriculture which is fully market driven competing with their products on world markets and at the same time burden this sector with environmental initiatives which have no sound base in science nor bring overall environmental benefits.

A new EFMA

Enlargement also means a big change in EFMA. We now have 6 full new corporate members from the new Member States. Namely Anwil, Lovochemie, Nitrogénművek, Polish Chamber of Chemical Industry, SC Achema, Z.A. Pulawy, Z.C. Police. What this will mean not only for the association, but for the entire European industry, I will try to further comment on in a moment.

Offer and Demand in the Enlarged European Union

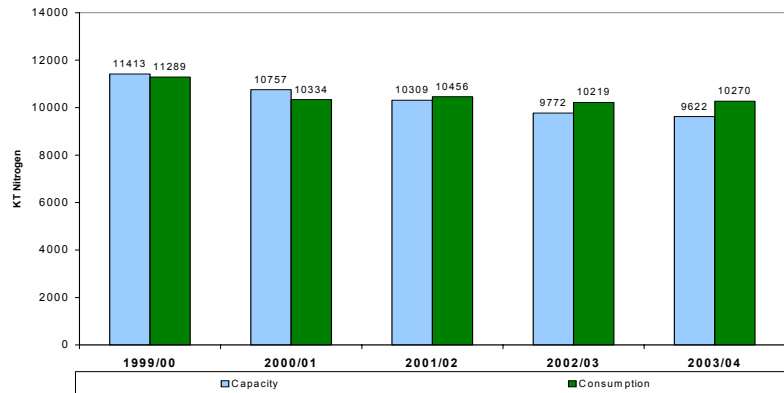
But let me first get to the offer and demand situation in the new European Union. Starting with supply, as this slide shows.

As this slide shows capacity and consumption in the EU-15 has been brought very much into balance over the last four years.



Capacity and Demand in the Enlarged EU

EU-15 Nitrogen Balance Excluding Trade (1999/00-2003/04 – kT N)

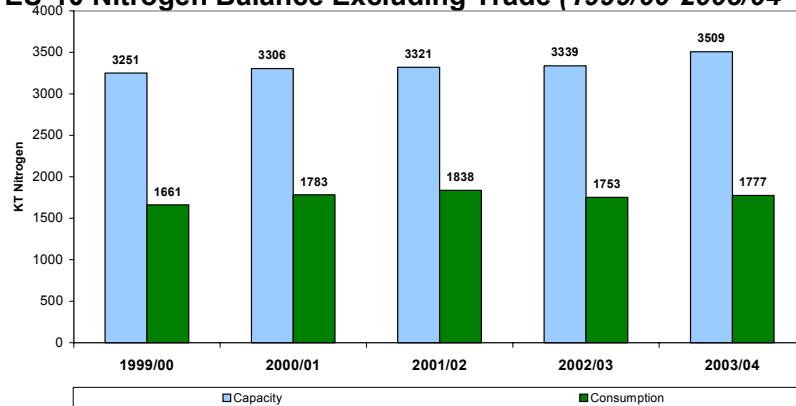


Source: Capacity: EFMA – Consumption (ag+tech estimated): EFMA

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For the EU-10 this is different. In all, there is a discrepancy of almost 1500 KT N. (But note: technical use still needs to be subtracted from the EU-10 figures).

EU-10 Nitrogen Balance Excluding Trade (1999/00-2003/04 – kT N)



Sources: Capacity: EFMA – Consumption ONLY AGRICULTURAL USE: EFMA, IFA

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As to the trade balance for the EU-15, it is still negative. In this context, however, it should be kept in mind that the trade balance in Europe, including new Member States, is heavily distorted in two ways: first, imports which do not meet the criteria of free and fair trade are still coming in, although the anti-dumping instrument tries to rectify some of it; and second, at the same time exports from the EU-15 or EU-10 are competing in the world markets with products which, again, have been imported into those foreign markets without respecting the rules of free and fair trade –although some of it is also corrected in those markets through the anti-dumping instrument.

The main problems are the gas distortions in Russia, namely the access of the Russian fertilizer industry to artificially government regulated low price gas with all the associated problems of unfair trade practices. On gas limited progress though has been made this year. At the 21st May EU-Russia Summit, EU Trade Commissioner Lamy agreed with the Russian Trade Minister Gref to a legally binding “WTO commitment” on Russian gas pricing to domestic industrial users. In short, the commitment is that the Russian government will ensure that gas prices to industrial users will always recover “total costs plus new investment costs plus a profit that can be normally expected”. This commitment will not end state intervention on gas pricing. It is likely to continue to 2010 and dual-pricing has not been removed, i.e. Russia will continue to sell gas to domestic users at lower prices than to customers outside Russia. Moreover, Gazprom also will

retain its export monopoly on gas sales to Europe. On the positive side with Russia joining the WTO by June 2006, gas will no longer be sold below cost and gas prices in Russia will increase. Most importantly if Russia does not respect the “commitment”, then the EU can contest the non-compliance in a WTO Dispute Settlement Panel.

In addition there is also a bi-lateral agreement - apparently personally backed by President Putin - stating that Russia will, at a minimum, move prices from US\$37 to US\$42 per thousand cubic metres in 2006 and to US\$49-57 by 2010. Presently gas prices in Russia are between US\$27 and 30 per thousand cubic metres. As you can see the gas agreements arising from the May Summit represent a positive step forward although very limited. Indeed, unlike European Union nitrogen producers who are presently being hit very hard by the rising energy costs, Russian producers will remain immune from market price fluctuations.

As a consequence the continued successful application of defence measures against unfair trade practices will be of paramount importance in for the new Enlarged Union. There, on 1 May 2004, all EU-15 trade defence measures were adopted in the EU-10, which at the same time dropped their own measures. By the same token, all EU-15 measures were dropped against EU-10 members. However, contrary to this normal situation and convey to our expectations, the Commission in early 2004 ex-officio initiated a partial interim review of anti-dumping measures on products where exporters or users, distributors and consumers in the new Member States might face “a sudden and excessively negative impact”. For fertilizers, the outcome was that ammonium nitrate and potash would be subject to special transitional measures under unique and “special undertaking arrangements”, the latter taking the form of quotas and a single Minimum Import Price (MIP) valid across all of EU-10. The Commission is expected to review these undertakings in November.

As to other anti-dumping news, by a formal Notice of Initiation published in the Official Journal of the European Communities, C 172/2 on 2nd July 2004, the European Commission at the request of EFMA has launched a product scope review on Ammonium nitrate with regard to imports from Russia and Ukraine. The Commission’s investigation will focus upon the arrival of “new product types” which have appeared on the EU ammonium nitrate market. Most obvious has been the arrival from January 2003 to April 2004 of up to 300,000 tonnes of 32.5.0, i.e. ammonium nitrate with 5% P added.

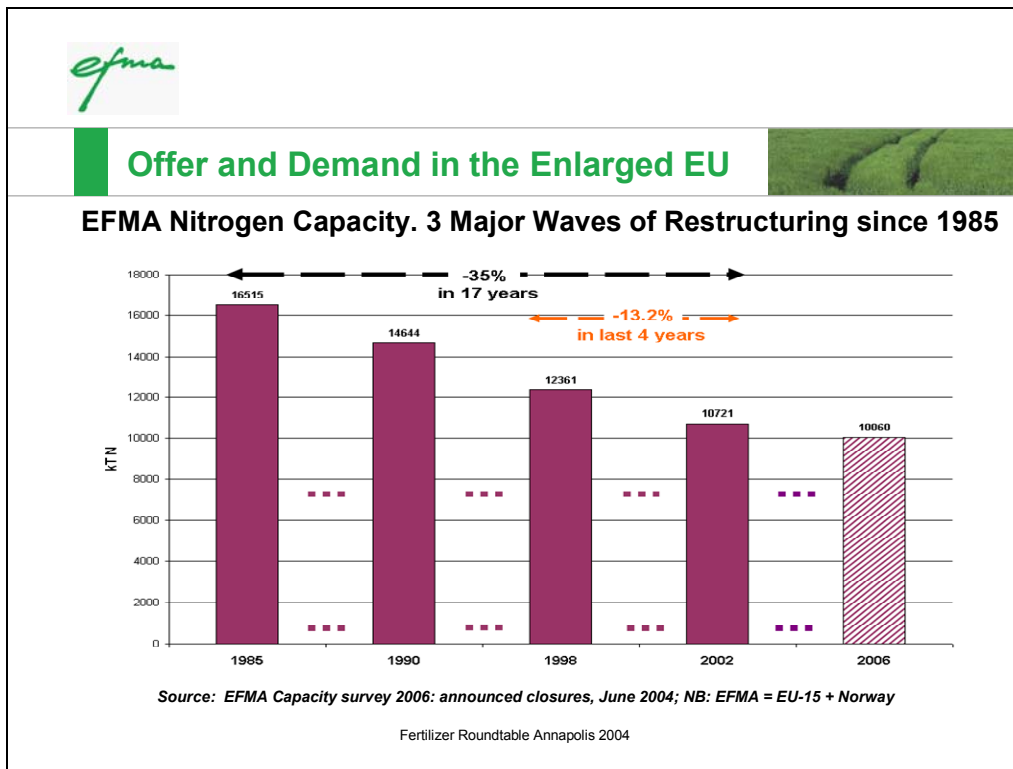
As to the overall outlook on trade even against improved market conditions in Europe and worldwide, the defence of the EU market against unfairly dumped or subsidized fertilizer will

continue to be a top priority. Experience has shown that an attractive market is equally attractive to the players readily prepared to employ unfair trade practices such as dumping and subsidisation.

The fundamental issue, namely gas cost competitiveness within a Pan –European energy market with Russia as Europe’s major supplier of gas will even after the WTO agreement continue to take center stage. There is no doubt that the EU-Russia Energy Partnership, the Energy Charter and the Single European Gas Market will feature high on the agendas of the forthcoming EU Council priorities. Indeed it is in these forums that future EFMA inputs and contributions will be made on fair gas pricing, transit rights and transportation terms and conditions.

Restructuring

Capacity and consumption are in balance in the EU-15 because of substantial restructuring efforts, which the EU-15 Fertilizer Industry has undertaken since 1985. In the last four years alone almost 13 percent of capacity,



more than 40 plants have been closed and future closures are already announced.

efma

Offer and Demand in the Enlarged EU

Capacity Closures in WE in 1999, 2000, 2001, 2002, 2003, 2004

Plant Capacity kt Product	AN	1999 & 2000 & 2001 & 2002 & 2003 & 2004						MAP	AS
		CAN	NPK	NP	Urea	UAN			
Aixles, France (F0)		570							
Avila, Spain (Fertiberia)		70							
Baillat, France (Ceres)				200					
Barral, Portugal (A. Dubois de P.)				225					
Belfast, UK (F0)				507					
Castigona, Spain (Fertiberia)				210					
Castigona, Spain (Fertiberia)				50					
Castigona, Spain (Fertiberia)				220					
Cobona, Italy (Kappa)				200					
Cork, Ireland (F0)						400			
Cosseron, France									45 + 12
Drapetona, Greece (Cooperative)				120		225			
Fredericia, Denmark (Kemira)				220					
Fredericia, Denmark (Kemira)				550					
Ferrouillet, France (G.P.)				160					
Huelva, Spain (Fertiberia)						70			
Huelva, Spain (EIA SA)									75
Huzelarc, France (Hydro)				215					
Immingham, UK (Hydro)	650								
Krefeld, Germany (C O M P O)				10					
Landskrona, Sweden (Hydro)			175						
Luchana, Spain (Sefanite)							41		
Ludwigshafen, Germany (BASF)				650					
Mazargues, France (G.P.)			250						
Montnoter, France (Ceres)								33	
Montot, France (Hydro)	200								
Nera Montoro, Italy (Hydro)						110			
Oslande, Belgium (CNO)			400		330				240
Paris, NL (Kemira)									
Perstorp, Norway (Hydro)	80								
Porto Marghera, Italy (Enichem)									200
Porto Marghera, Italy (Enichem)									190
Puerto Real, Spain (Fertiberia)								174	
Roskilde, Iceland	21			61					
Roskilde, NL (Kemira)			520				230		160
Schwedt, Germany (PCK)			150						
Schwedt, Germany (PCK)			350						
Sevilla-Talavera, Spain (Fertiberia)				220					
Sevilla-Talavera, Spain (Fertiberia)				140				110	
Torricosa, Italy (Chimica del Friuli)									80
Toulouse, France (G.P.)			320			300		30	
Valencia, Spain (Fertiberia)									340
TOTAL Kt M at		1'295	2'625	4'137	285	1'170	947	273	662

Source: EFMA Capacity survey, June 2004; NB: EFMA = EU-15 + Norway

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Restructuring efforts in the new Member States present a mixed picture.



Offer and Demand in the Enlarged EU

EU-10 Nitrogen Capacity. Disparate Restructuring Efforts between 1990 and 2004

	Capacities 1990 (kT N)	Capacities 2004 (kT N)	% Change 1990-2004
New Member States	3.883	3.542	-9%
Hungary	742	312	-58%
Czech Republic	422	286	-32 %
Poland	1.968	1.801	-8%
Slovakia	312	296	-5%
Slovenia	1	0	-100%
Estonia	83	83	0%
Latvia	44	44	0%
Cyprus	0	0	0%
Malta	0	0	0%
Lithuania	311	720	132%

Capacities reduced significantly

Little or no capacity reduction

Increased Capacities

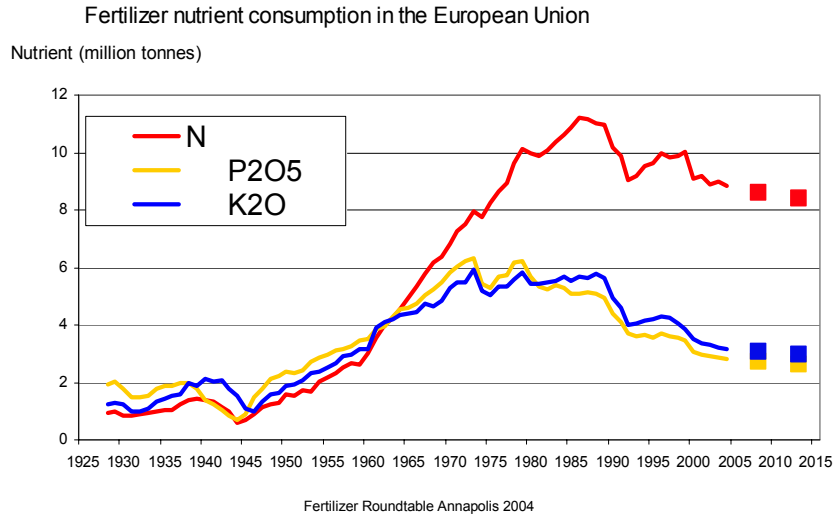
Source: EFMA Capacity survey , June 2003

Hungary and the Czech Republic have reduced capacity significantly. But there is a second group of countries starting with Poland with little or no capacity reduction. In contrast, Lithuania has increased capacity substantially.

Changes on the demand side

The capacity adjustment in the EU-15 Fertilizer Industry was also a response to consumption declining steadily after 1985, as the next slide shows:

Fertilizer nutrient consumption in the European Union

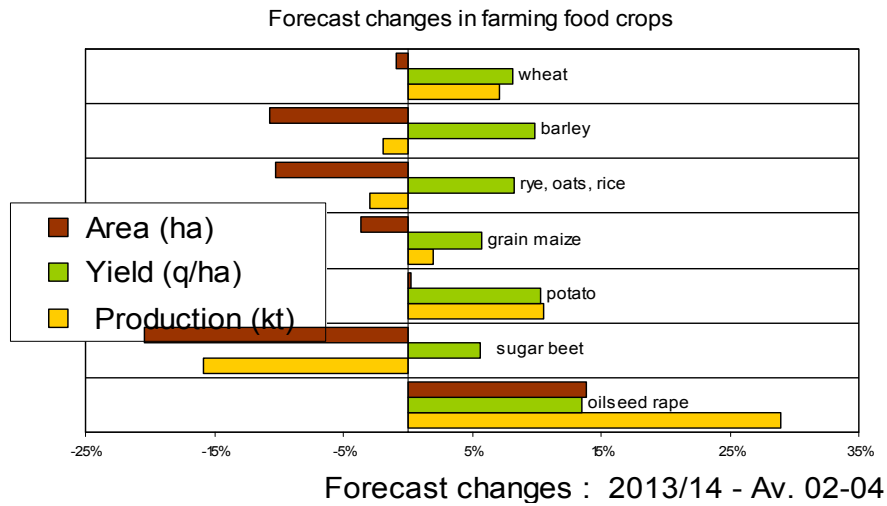


In the most recent EFMA Ten-year Fertilizer Consumption Forecast, by 2014, we anticipate a further decrease of NPK nutrient consumption of 1.2M tons.

This Forecast was presented by EFMA experts in October this year. Due to a partial lack of reliable data they, for the Enlarged Union, carried out a somewhat limited assessment. That is why these estimations do not yet allow a merging of the data with those of the “old” Union. Therefore, I will give you the results separately.

But also for the old Union, the analysis was difficult this year because of the Commission’s Agenda 2000 reform of CAP after 2007, a development which will have a substantial impact on mineral fertilizer consumption. Implementation of this reform is highly dependant on decisions still to be taken by the Member States, where many accompanying measures, particularly on the implementation of the single Farm Payment and in the Cross-Compliance sector remain unclear so far. With all these reservations, the main results of the study are as follows:

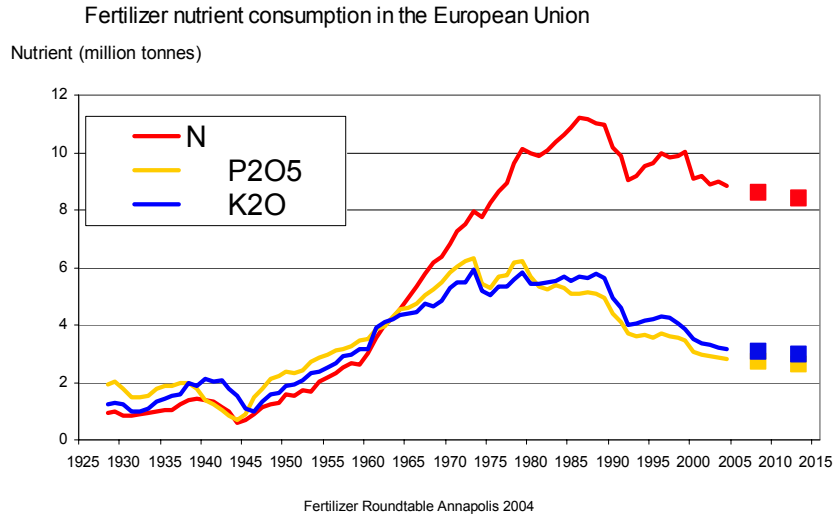
Forecast changes in farming food crops : 2013/2014 based on average 2001-2004



The area given over to wheat will slightly decrease by some 1 %. Likewise, sugar beet acreage will continue to decrease (production will decline by up to 20 %) taking account of the new sugar regime after 2009. New measures to promote energy crops will bring about significant changes in oil seed area in the different countries (14 % at the EU-15 level).

These change in cropping pattern together with better fertilizer use lead to a continuation in the downward trend in general fertilizer use:

Fertilizer nutrient consumption in the European Union



Consumption of the three major nutrients, nitrogen, phosphorus and potassium is expected to decline by 6.8 %, 11.1 % and 10.2 % respectively over the next ten years in the former EU-15. The reduction in fertilizer use is predicted in all EU-15 countries.

In absolute figures, on average over the last three seasons, fertilizers carrying 9.0 million tonnes of nitrogen, 2.9 Mt of phosphorus, and 3.3 Mt of potassium have been applied to 101 million hectares of farmland each season (49 million hectares are not fertilized). By 2014, the forecasters expect these figures to have dropped to 8.4, 2.6 and 3.0 million tonnes, respectively.

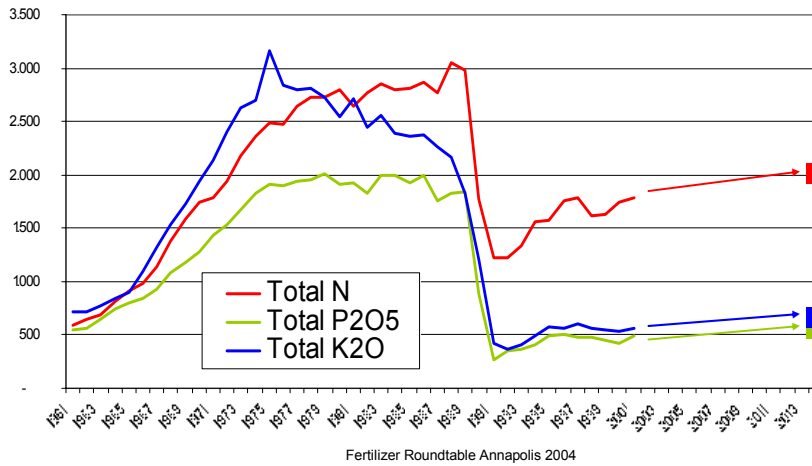
All in all, the downward trend will represent a reduction of 25 % nitrogen, 59 % phosphorus and 50 % potassium compared with the maxima of consumption in the 80's and the 70's respectively. However, this drop in consumption has not necessarily resulted in a corresponding drop in yield.

For the new Member States, the following applies:

Fertilizer use in the 10 new member states

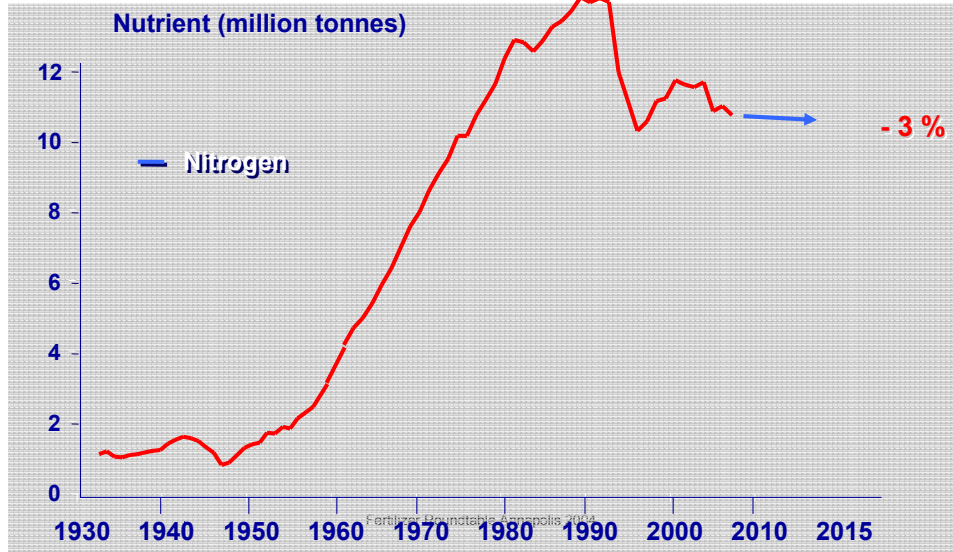


Consumption of mineral nutrients in the 10 New Member States

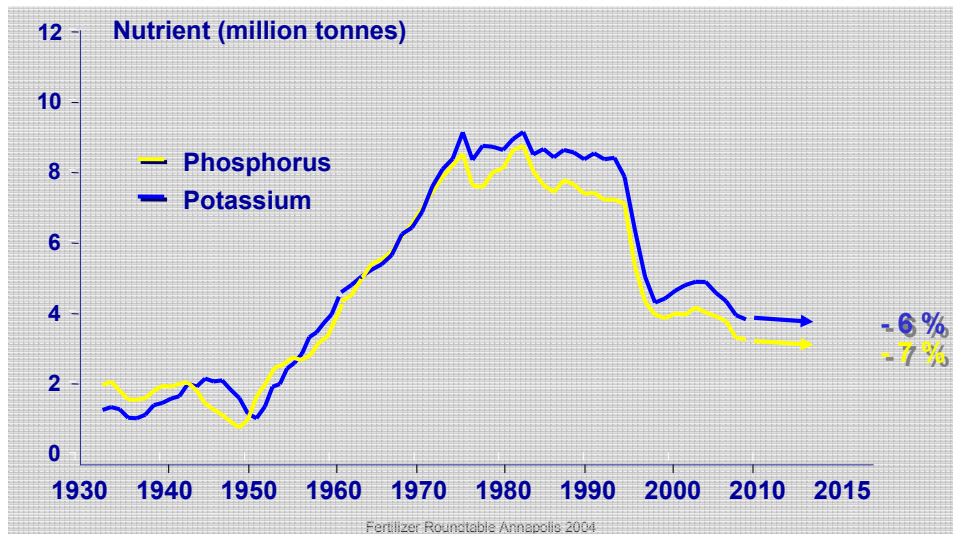


There will be a significant increase in consumption: 15% for nitrogen, 19% for phosphorus and also 19% for potassium. However, this overall increase in the new Member States, in absolute figures, is still smaller than the decrease in the EU-15 countries, and it is definitely not enough to fill the excess capacity existing today in the new Member States.

EU25 fertilizer nutrient consumption



EU25 fertilizer nutrient consumption



After only six months into Enlargement, again these consumption figures are based on probable scenarios. How much things, however, are in flux show recent reports indicating, that Enlargement has much more positive effects on agriculture in the new Member States, than originally anticipated. Here just some examples.

In the meat and livestock sector the first assessment of EU Enlargement is positive according to the European Livestock Meat Trading Union's statements and this already beginning of August less than a 100 days into Enlargement. Prices paid to producers in the new Member States have increased in some areas like in the beef sector substantially. Traditional trade pattern for agricultural products between the new Member States, but also with the old EU are undergoing rapid change.

From a new Member States perspective for example listen to the assessment of the President of the Czech national farmers association: "the first 100 days of the Czech republic's membership of the EU have brought more positive than negative effects". The agricultural sector is adapting fast to new foreign trade conditions.

The headline of a recent Financial Times article reads "Poland's suspicious farmers learn to love the European Union". It goes on "since Poland joined the EU on May 1 fears spread by anti EU parties have evaporated and the early effects of membership are overwhelmingly positive especially for farmers. Most of them have seen immediate benefits from EU entry especially those producing milk and meat. Wholesale milk prices have jumped. The Polish agricultural minister is being quoted "There are no negative consequences of EU entry in the Polish country side, farmers are now much more optimistic. Their attitude towards the Union is very different much better and their fortunes are rising even before the full EU subsidies under the CAP kick in". Also the small scale nature of Polish farming seems to be changing rapidly under the early retirement scheme supported by the European Union. Under this scheme every farmer who is older than 55, and has practised farming for more than 10 years is eligible for early retirement allowances. He must hand over his farm to a third party or to the state in order to receive a structural pension which will be paid until he reaches his formal retirement age and is illegible for a regular state pension. Already in the first two days of the scheme implementation almost 4000 farmers submitted the applications and some 50.000 picked up the forms. Analysts assessed that because of the earlier retirements scheme around 350.000 ha of arable land will come on the open market which will be picked up by larger farms to consolidate their holdings. Again these are developments which happened within the first 100 days of accession and are clearly leading to a stronger agricultural sector in the new Member States.

Equally upbeat for the future of agriculture in Europe is COPA's (Committee of Agricultural Organisations in the European Union) President Peter Gaemelke when he said in an interview early September that "Farming is still at the heart of Europe and this is not going to change to any time soon". "you will never move European soil; food production cannot be moved to India in the same way as factories". Although the number of European farms is still falling by 3% every year in the long term he went on, "world population growth will lead to greater demand for food. There will be more consumers, more rich consumers and again European soil will continue to be an important resource for world food production".

By the same tune the Commission's report on medium term prospects for agricultural markets sees rising demand for food by a higher population in better economic situation meaning that e.g. the EU's meat and dairy markets would enjoy relatively favourable prospects from 2004 to 2011.

There is no reason why the European fertilizer industry should have a different opinion.

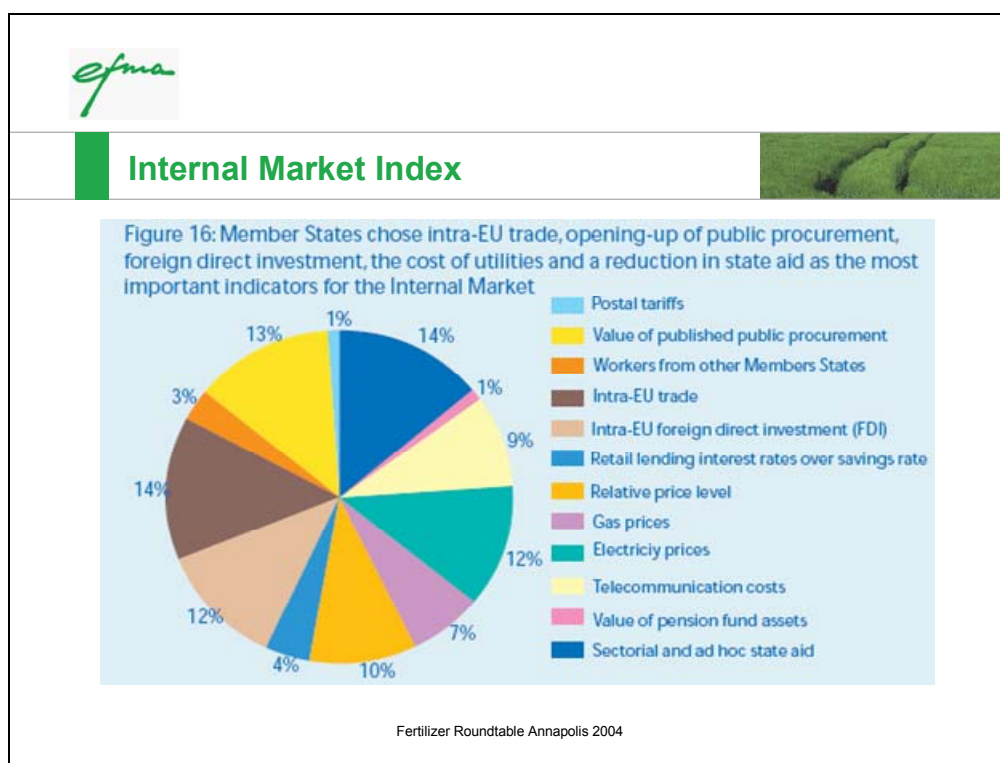
Soft changes through Enlargement

Up till now the conclusions I shared with you were mainly based on an analysis of facts and figures. However, there are also, what I would call, more soft drivers which are equally important and probably equally strong when it comes to change. What I will postulate here is that on the regulatory front there will be another push to optimise the single market. When we look at industry developments shared knowledge on markets, technologies and performance as well as what I would call Europeanization of values will create more transparency, which will result eventually in a stronger and more efficient industry.

Completion of the Single Market

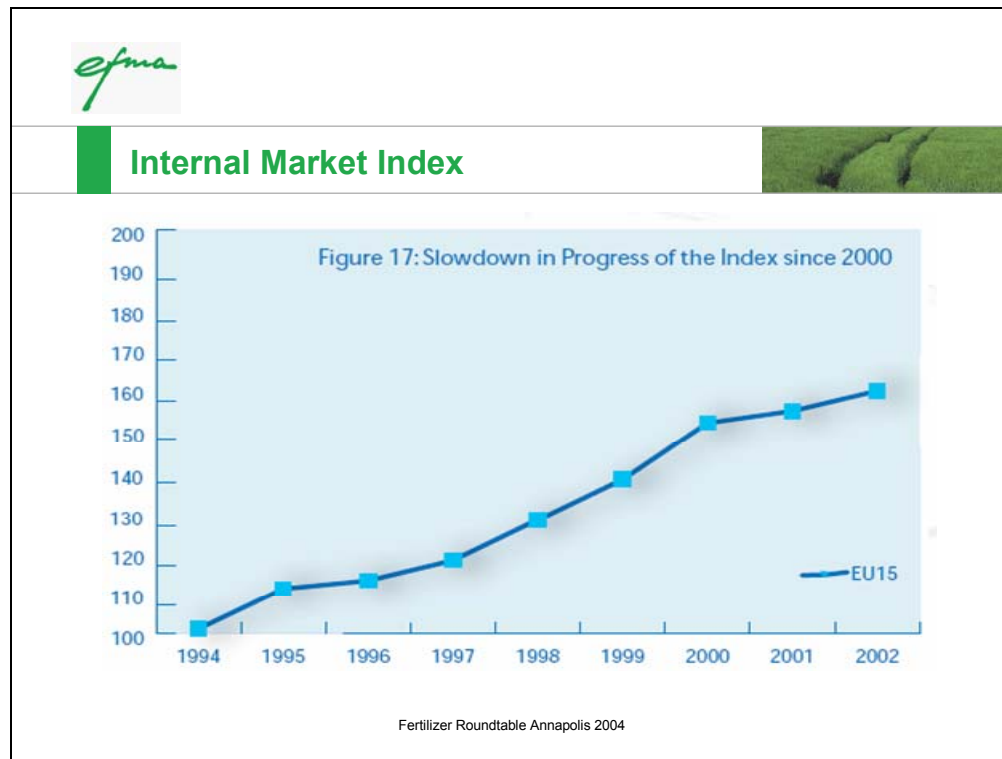
There still has to be much more progress made for in the EU's internal market to become a fully functioning single market. What is lacking is the full transposition in the Member States of all the internal market directives legislated at the EU level. This is true for both the EU-15 as well as the EU-10. For example France has the worst transposition record of EU-15 Member States, but followed by Greece, Germany, Italy and the Benelux. Among the EU-10 Member States there are big disparities Lithuania for example and Slovenia are model states whereas Malta, Slovakia and the Czech Republic still have much to do.

In a fully functioning single market there are certain things that one would expect to happen. Prices, for example should convert over time due to competitive pressures. Goods, services, workers and capitals should circulate freely. Once protected utilities sectors are liberalised, energy prices should convert and hopefully decrease over time due to the resulting increase in competition. What is the speed of progress Europe is making towards this goal? To measure this, the Commission in regular intervals publishes a report, the Internal Market Scoreboard. The score is based on a number of most important indicators for the internal market chosen by the Member States. Here is the prioritisation in this year's report



It is striking how much the most important indicators correlate to issues, which are important for the fertilizer industry's well being, issues like intra EU trade, intra EU foreign direct investment, gas prices or a reduction in state aid.

As the next slide shows there is a slowdown in progress of the internal market index.



In the accession negotiation the new Member States have been pushed very hard to implement the *acquis communautaire* in their national legislation with all necessary transposition of directives and standards. They have made strong efforts and commitments to do so. However, when pushed there certainly will be a day when they turn around and point to the bad implementation record of the old EU Member States. This push and counter push will be a very strong driver for change on both sides. Again the fertilizer sector clearly will benefit from a stronger single market.

Shared knowledge

Transparency reduces inefficiencies. For the EU-25 fertilizer sector after Enlargement there will be much better knowledge on the fertilizer markets in Europe. There will be a better appreciation of market size and structure, of market balances, of demand for specific products or specific solutions or logistics. All the players are expected to integrate this knowledge into their activities. The knowledge shared about technologies will equally increase by everybody's participation in the Product Stewardship Programme for Fertilizers, the industry's joint approach to master

safety and environmental challenges. Through benchmarking on costs as well as on production efficiencies or environmental performance indicators, standards are expected to continuously rise in the industry. Here also it is expected that the knowledge works both ways, not only will the standards for the industry in the new Member States rise, but also in the old ones. Again there are laggards and leaders in both parts of the European Union. All will come under more pressure. Condescending attitudes on the side of the old Member States towards the new Member States whenever they become manifest certainly will increase that push. Again there are laggards and leaders on both sides.

Europeanization of values

Before Enlargement all EFMA members agreed that respecting certain core values would be mandatory for membership. Consequently also the new EFMA members pledged to fully live by these values.

efma european fertilizer manufacturers association

RESPONSIBILITY AS PROVIDER OF A LIFE ESSENTIAL PRODUCT
As provider of a life essential product we recognize our responsibility towards all our stakeholders, customers, shareholders, employees, society at large and future generations. We are committed and act accordingly.

SUSTAINABLE DELIVERY OF VALUE
We deliver optimum value to our customers, suppliers, shareholders and employees in a sustainable manner.

SUSTAINABLE PERFORMANCE IN MATTERS OF HEALTH, SAFETY AND ENVIRONMENT
We strive for the highest safety, health and environmental standards. Subscribing to the principles of Responsible Care, we conduct all our activities in a manner which contributes to the goal of sustainable development.

Terra Nitrogen (UK) Ltd PLEDGES TO UPHOLD EFMA'S CORE VALUES

SCIENCE AND INNOVATION
We base our activities on sound science. We strive for innovation and continuous improvement.

FREE AND FAIR TRADE
We believe in, adhere to, protect and promote the concept of free and fair trade.

ETHICAL CONDUCT
Our conduct is ethical and honest, open and transparent.

Heinrich Altinger, Director General,
European Fertilizer Manufacturers Association

Paul Thompson, Managing Director
Terra Nitrogen (UK) Ltd

Brussels, 28 May 2003

David Claus, President,
European Fertilizer Manufacturers Association

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It is however in the nature of those values that they require an ongoing effort and one never could claim to always fully have achieved the highest standard in all one's activities. Here also it is true that nobody has a perfect past and present track record. Whereas the fertilizer industry from the EU-15 and EU-10 both have pledged to adhere to these values they still have different attitudes towards some of these values. Through contacts, through talks, through living together, through competing in one single market we all expect that these attitudes will converge. In other words, there are not only regulatory barriers to trade but there are also softer, although not less effective barriers to implement a single market. To help to remove these softer barriers certainly are also part of the mandate of a trade association in times of change.

There is not only a Europeanization of values, but there is also a new Europeanization of regulatory agendas. The EU-15 Member States have experienced a long time of relative prosperity which allowed them to forget, that economic sustainability is the basic pillar of all sustainability. The new Member States have not reached that level yet. Since nobody wants Enlargement to become a failure or in other words nobody wants the economic development of the new Member States to take a setback, it clearly can be expected that the new Commission's regulatory proposals will be more realistic. Early indications from President Barroso about his future priorities seem to go in that direction. His historic challenge will be to make Enlargement work.

As a result of all these developments the European Fertilizer Manufacturers believe that a more transparent market place and levelled competitive playing field through increased integration pressures of the single market will also create a stronger, more efficient industry. This will not happen overnight, but we observe that things clearly have started moving.

EFMA's role

Let me finish with a statement close to home: important part of and important tool for this convergence push is the joint membership in one European Fertilizer Manufacturers Association. There we try to tear down invisible barriers, share knowledge and expertise and increase our strength vis à vis the regulatory bodies. This openness, shared knowledge, transparency, benchmarking, and dialogue will eventually be for the benefit of us all.

Thank you.