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OCP, Russian Producers, Others Weigh in on Mosaic Countervailing Duty Petition

Morocco's OCP SA, Casablanca, along with Russian producers PhosAgro and EuroChem, as well as several other industry players, have weighed in on The Mosaic Co.'s countervailing duty petition against phosphate imports from Morocco and Russia (*GM* June 26, p. 1).

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OCP told the U.S. International Trade Commission that its supplies to the U.S. market have been evolutionary, responding to supply shortfalls. The company said it had been shipping phosphate rock to the U.S. for over three decades, and then about ten years ago, U.S. fertilizer distributors began asking for phosphate fertilizers on an as-needed basis. It noted that over this time period, U.S. producers had undergone major consolidation, leaving very few options on the domestic market.

Even with the added interest from the U.S., OCP said its two largest sources of revenue are India and Europe, followed by Brazil, with Africa seen as a growth market. By comparison, the U.S. is a mature market.

OCP Executive Vice President of Sales, Marketing, and Raw Material Procurement Mohamed Belhoussain said U.S. supplies in Louisiana and Florida were prone to hurricane-based disruptions, and up to the present time even Mosaic has sought phosphate rock and fertilizer from OCP. And more recently, Nutrien Ltd., Saskatoon, idled its Redwater, Alta., phosphate plant in 2019, and imports have entered the U.S. at NOLA and gone on up the river system to the Canadian market. As a result, import numbers into the U.S. also reflect product going to Canada.

OCP, along with several other players, noted the importance of the historically bad weather conditions that occurred between fall of 2018 to the fall of 2019, which led to drops in U.S. planting and phosphate use. OCP said this situation was completely unrelated to imports.

OCP takes issue with Mosaic's claim that it eventually had to permanently close its Plant City, Fla., phosphate plant in 2019 due to imports. It noted that when Mosaic initially took the plant down in 2017 it cited its high cost of operations and global optimization of fertilizer flows at Mosaic's international production capacity in Saudi Arabia and Brazil.

OCP argues that the Plant City went down due to Mosaic's own inefficiencies. "In one notable example, Mosaic has acknowledged that its multi-year contract to purchase ammonia – a critical input for many phosphate fertilizers – locked in prices that ended up being higher than what Mosaic could have found (and what other producers did find) on the spot market," said Bellhoussain. "Additionally, some of Mosaic's investments abroad have adversely affected Mosaic's operations in the United States. Again, Mosaic's situation had nothing to do with imports."

Russian producer PhosAgro, Moscow, responded to the petition, saying that phosphate imports into the U.S. from Russia have been on the decline for the relevant review period (Jan. 1, 2017, through March 2020), and that from 2018 to 2019, imports significantly decreased. It argued that the ITC should not cumulatively add the imports of Morocco and Russia together.

Like OCP, PhosAgro cited the weather woes of 2019. "The phosphate fertilizer industry crashed in 2019 due to adverse weather conditions, which made demand and prices fall," said PhosAgro's statement. "PhosAgro temporarily stopped selling to the U.S. in March 2019 due to the decline in demand.

"Therefore, it was clearly not import competition responsible for the price depression in 2019, but rather adverse weather conditions which made demand shrink and full inventories from high 2018 demand projected into 2019 season," added PhosAgro, noting that financial records show that Mosaic recorded an increase in gross profit during 2018.

Also, like OCP, PhosAgro emphasizes that the U.S. is not a priority market for its production. PhosAgro said the Russian market is its number one priority, with the European Union also a major export market.

"Depressed prices in the United States actively work against our interest and incentivize us to export elsewhere," said PhosAgro. With the exception of 2018, PhosAgro said ITC data shows that the U.S. has declined as an export market for Russia since 2015, with the U.S. representing 13 percent of Russian phosphate fertilizer exports in 2015 and only 8 percent in 2019.

PhosAgro said it will always sell into a high-premium market – contrary to Mosaic, which tends to sell under long-term contracts in highly volatile markets.

Mosaic argues that phosphate fertilizers are sold as a commodity with no significant price differential due to quality, saying that imports often underbid Mosaic for business in the NOLA market. By comparison, both OCP and PhosAgro disparaged Mosaic's product quality, with OCP touting its own product as having higher water solubility than Mosaic's and PhosAgro arguing that its own product with low cadmium levels is far superior.

EuroChem North America Corp., Tulsa, responded on behalf of Russian producer EuroChem, saying phosphate fertilizer prices are determined by what farmers can afford to pay based on crop prices and acreage/ fertilizer application, not imports – i.e., phosphate fertilizers are a demand driven, not supply driven, market. EuroChem went on to hammer the same point, submitting several quotes from Mosaic over the years attesting to the same contention.

EuroChem said for both phosphate and non-phosphate fertilizers, both before and after the period of investigation, the conditions were the same, and that historically phosphate fertilizers are low-cost.

American Plant Food Corp., Galena Park, Texas, which does business with EuroChem, also spoke out against the Mosaic petition, saying U.S. phosphate producers lack the capacity to supply the U.S. fertilizer market.

APF President and CEO Toby Hlavinka said Mosaic USA stands to run out of phosphate rock feedstock rapidly in proportion to its domestic production. "Mosaic's phosphate rock deposits are depleting and becoming more expensive to mine on a per-ton basis, including relative to countries other than Russia and Morocco," he said.

"U.S. phosphate plant closures have been followed by imports, not preceded by imports, again indicating that factors other than imports are the problem, if there is a problem," added Hlavinka.

Gavilon Fertilizer LLC, Savannah, said Mosaic's closure of the Plant City facility in late 2017 left a massive gap in the market. "Gavilon Fertilizer was in the middle of a three-year supply contract with Mosaic to purchase phosphate fertilizer from this facility when Mosaic closed it, reducing our supply," said Gavilon President Brian Harlander.

"Gavilon Fertilizer had to replace that previously assured supply with purchases from other suppliers, including imports," he continued. "In fact, Mosaic cut our supply by 100,000 tons and encouraged us to buy from elsewhere, including from foreign suppliers. Mosaic's decision to close this large U.S. plant caused increased imports to close the supply gap, not the other way around."

Harlander said that over the period of investigation, and very recently in 2020, Mosaic has refused to supply Gavilon due to a lack of supply.

Scott McGinn, Koch Fertilizer LLC Executive Vice President, also weighed in, saying Koch cannot obtain meaningful phosphate supplies domestically. He said from time to time, Mosaic has declined to sell phosphates to Koch, declined to respond to requests for quotes, and has declined to enter into any kind of commercial arrangement that would support Koch's demand network.

Noting the limited number of U.S. phosphate producers, McGinn said in some instances, imports are the only source of phosphates. He said Koch has had a 10-year commercial phosphate and feedstock input relationship with OCP.

McGinn added that phosphates are a globally traded commodity, and any import restrictions imposed by the U.S. will likely result in a reallocation of supply and likely increase phosphate prices to the U.S. farmer at a time of near-decade lows of farm income.

McGinn estimates that the U.S. will export some 1.8 million st of DAP/ MAP to Canada this year after the Nutrien Redwater shutdown, and that a significant portion of that will be supplied by the NOLA import-export value chain.

Koch touted the higher quality OCP product and said it is in demand. And as others noted, McGinn noted that Mosaic no longer produces TSP; he said this was due to ore quality.

William O'Neill Jr., President of International Raw Materials (IRM), Philadelphia, said Mosaic has been known to short the domestic market in favor of higher-priced sales opportunities in export markets such as India and Brazil.

O'Neill said the company has tried to turn domestic lemons into lemonade by creating a product to distinguish itself in the U.S. market by formulating its proprietary MicroEssentials product, and taking a significant percentage of its U.S. fertilizer production out of the commodity phosphate market. He termed this a unique end-use patented product, which in many respects does not compete against DAP/MAP.

O'Neill added that Mosaic's investment in Saudi Arabian phosphate production puts Mosaic in an awkward position with its countervailing duty petitions against imports from Russia and Morocco, while being a key participant in, and beneficiary of, arguably the world's most subsidized economy.

Gavilon had also noted that during the period of the investigation, imports from Saudi Arabia to the U.S. increased nearly ten-fold as Plant City was idled and then closed.

Major associations have filed in the case, arguing against Mosaic's petition, including the Agricultural Retailers Association, the American Farm Bureau Federation, and the National Association of Landscape Professionals.

Mosaic has had some support. J.R. Simplot Co., Boise, said it is concerned that the U.S. phosphate fertilizer market has been greatly distorted by subsidized imports from Morocco and Russia. "During the period of investigation, those imports surged, making it impossible for us to obtain a fair price for our products," said Douglas Stone, President of Simplot's AgriBusiness Division.

"These unfairly traded imports have caused a significant deterioration in our U.S. market share, pricing levels, and profitability. We are not petitioners in this matter, but we support the petition put forth by The Mosaic Co. In our opinion, the U.S. market for phosphate fertilizers will continue to deteriorate in the absence of meaningful action to restore free and fair trade," he added.

Stone said that between 2012-2016, Simplot had invested some \$700 million to increase phosphate production capabilities and reliability, all aimed at delivering to the American farmer, and doing so at a significantly reduced environmental impact. However, he said since 2017, the company has reduced its investment due to poor economics with current pricing levels.

He said the company plans further investments if market conditions improve. "Unfortunately, if injury from unfair trade continues, the future of our phosphate fertilizer operations – and more than 900 jobs associated with those operations – will be at risk."