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U.S. Fertilizer Makers Gain Ground

By Lucy Craymer in Hong Kong and Rhiannon Hoyle in Sydney

While President Donald Trump vows to reinvigorate struggling American industries and regain ground lost to rivals like China, the process is already under way in the U.S.'s booming fertilizer industry.

U.S. output of urea, a key nitrogen-based fertilizer, surged by around 10% last year, boosted by a number of new and expanded plants in states from Iowa to Louisiana that helped increase total capacity by 24%. Meanwhile, output in China, the world's No. 1 fertilizer producer, slumped by 7% in 2016, and its exports dropped by more than a third.

These shifting fortunes aren't due to government intervention such as higher import tariffs or entreaties to "buy American." Instead, they are largely due to trends in global energy markets.

U.S. fertilizer producers are benefiting from the long-brewing shale revolution. The combination of hydraulic fracturing and horizontal drilling has significantly boosted production, bringing down the cost of gas.

And in the U.S., gas is the key ingredient of nitrogen-based fertilizers like urea—which is mainly applied directly to soils—and ammonia, which is typically mixed with other products, or further refined to make urea.

Meanwhile, their rivals in China have suffered from a sharp rise in the price of coal following Beijing's decision to limit producti-

on last year, restricting normally ample supplies of the fuel. Roughly three-quarters of China's urea is produced by first turning coal into gas.

“Low-cost shale gas in the U.S. has transformed the competitiveness of a number of industries for which energy accounts for a high share of input costs,” said Rajiv Biswas, Asia-Pacific chief economist at IHS Global Insight. “One of the biggest winners has been the U.S. chemicals industry.”

The surge in U.S. fertilizer production will likely continue this year, as a number of long-planned new plants—which typically take around four years to build—come online. U.S. ammonia production capacity could jump by 2 million metric tons this year to around 11.4 million metric tons, Rajesh Singla, head of agriculture research at Société Générale, estimates.

Urea production capacity could also rise by 4.1 million metric tons this year, with at least five massive new plants or expansions due to start operating, according to ICIS, a market-information provider, putting the U.S. on track to have 50% more capacity by 2020 from 2015.

Illinois-based fertilizer manufacturer CF Industries has just finished one of these projects, an expansion of its Port Neal nitrogen plant in Sioux City, Iowa, the heart of the U.S. corn belt.

“Given where we viewed the long-term cost of gas in the U.S., we thought this is the right place to invest,” said Chief Executive Tony Will. The plant is expected to produce 816,466 metric tons of ammonia and 1.27 million metric tons of urea annually, employing around 100 people.

As more fertilizer output moved to the U.S., urea imports in 2016 slumped, dropping by 34% last year. Although China remains the largest exporter, its share of global urea production fell to 39% in 2016 from 43% a year earlier, according to CRU Group, a commodities consultancy.

The U.S.'s cost advantage is crucial. Producing a metric ton of urea using gas in the U.S. costs \$130 on average, CRU estimates. That same trailer load costs between \$180 and \$210 a metric ton

using anthracite coal in China. Gas makes up about 60% to 80% of production costs, depending on the efficiency of a plant and the price of gas, according to producer OCI Americas Inc.

“Many inefficient [Chinese] plants have quit from the industry... 12.6 million [metric] tons of urea capacity have been closed from the industry from 2013 through to 2016,” said Gavin Ju, a senior consultant for CRU in Beijing.

Cheap energy costs have enticed foreign companies like Australia’s Incitec Pivot Ltd., which decided in 2013 to set up an \$850 million ammonia plant in Waggaman, La. The plant, which has a capacity of 800,000 metric tons, started operating in October and will ramp up this year.

“Because of the energy advantage through the shale gas revolution, U.S. fertilizer producers are globally among the most competitive,” said Incitec Pivot Chief Executive James Fazzino, who said the Waggaman investment now stacks up even better than when it was approved.

“If the current [Trump] administration delivers on the commitments around energy advantage, cutting unnecessary red tape and developing an attractive taxation environment, that advantage will become even more pronounced,” he said.

Dutch-owned OCI Americas is meantime near completion on a 1.5-million-to-2-million-metric-ton nitrogen fertilizer plant in Wever, Iowa, that alone will increase U.S. urea capacity by more than 10%. Proximity to U.S. customers, primarily the country’s 2.1 million farmers, is another important factor.

“Foreign producers have significant logistical costs to deliver product to the U.S., including ocean and land freight, storage and throughput fees, which can amount to over \$100 a [metric] ton depending on the product,” said Ahmed El-Hoshy, chief executive of OCI Americas.