Analyses OSW

CENTRE FOR EASTERN STUDIES 7.02.2022 www.osw.waw.pl

Russian expansion onto the nitrogen market

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On 3 February, the chemical concern EuroChem Group AG, based in Switzerland and owned by the Russian billionaire Andrei Melnichenko, informed that it was holding talks regarding the acquisition of the nitrogen assets of the Borealis Group, controlled by the Austrian OMV (which owns 75% of its shares). The transaction, whose value is estimated at €455 million, should be completed in the second half of 2022, once it has been approved by European antitrust authorities. The Borealis Group operates fertilizer production plants in Austria, Germany and France and elsewhere, as well as a sales and distribution network. In 2020, the concern sold 3.9 million tonnes of production, and its revenues amounted to €908 million. Borealis is an important producer not only of nitrogen fertilisers, but also of *polyolefins* used in many sectors of the economy.

EuroChem is one of the world's largest producers of mineral fertilisers (nitrogen, phosphates and potash). The company has plants in Russia, Kazakhstan, Belgium, Lithuania and elsewhere. In 2020, it sold over 25 million tonnes of products, including 8.9 million tonnes of nitrogen fertilisers, and its total revenues amounted to US$6.2 billion.

Commentary

- By acquiring Borealis, EuroChem has taken advantage of the difficult situation on the gas market in Europe, related to the record high prices for natural gas (the main raw material used in the production of nitrogen fertilisers). Most of EuroChem's production is concentrated in Russia, and benefits from the low, regulated gas prices available there (the current average rate per 1000 m³ on the local wholesale market is around US$60, while on the European spot market it amounts to around US$1000). In September 2021, like most European chemical companies, Borealis was forced to reduce production due to its low profitability. As a result, EuroChem may now be able to acquire European nitrogen assets at attractive prices.

- However, EuroChem's investment in Europe carries a serious economic risk connected to the uncertainty as to when gas prices on the European market will fall, which would make the production of nitrogen fertiliser more profitable. At the same time, the transaction is burdened with dangers linked to the tense international situation and the Russian military activity on the Ukrainian border. The owner of the company is one of the richest men in Russia (his assets are valued at US$17.9 billion, placing him 8th on the local Forbes list). In the event of aggression against Ukraine, Melnichenko, like other Russian oligarchs, may face Western sanctions in line with Western warnings (for more details, see *Report to Congress to section 241 of the CAATSA* or *UK Russian sanctions legislation*).

- In recent months, EuroChem has been intensively boosting its presence on the global mineral fertiliser market, especially in the important crop-producing regions. In December 2021, it bought a majority stake (51.48%) in the Brazilian Fertilizantes Heringer company, which deals in the distribution of mineral fertilisers. Earlier, in August 2021, EuroChem took control of another company from the same country: Serra do Salitre, a producer of phosphates (about 1 million tonnes per year).