



Department
for Environment
Food & Rural Affairs

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Sir Robert Goodwill MP
Chair, Environment, Food and Rural Affairs
Committee
House of Commons London,
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12 July 2022

Dear Robert,

Re: Fertiliser inflation and food security, and CF Fertilisers and CO₂

The previous chair wrote to me on 29 March 2022 about fertiliser inflation and food security. I also thank you for your letter on 21 June 2022 about CF Fertilisers and UK food security. I will respond to both letters here.

Fertilisers are vital for food production providing essential plant nutrients such as nitrogen. Due to the cost of natural gas the cost of production of inorganic nitrogen-based fertilisers has increased significantly.

You mention food security and the impact of fertiliser costs on rising food prices. Food prices are influenced by a range of factors - from currency fluctuations to commodity prices. Fertilisers are just one input into food production and any cost increase due to shortage may be absorbed at any part of the supply chain. While recent pressures have been sustained, we have a highly resilient food supply chain.

Defra works closely with the Department for International Trade and the Foreign, Commonwealth and Development Office to ensure that we maintain close ties internationally, and to monitor and anticipate any risks that may arise with regards to the food chain. We have well established ways of working with the industry and across Government to monitor risks that may arise. This includes extensive, regular and ongoing engagement in preparedness for, and response to, issues with the potential to cause disruption to food supply chains.

Defra continues to build a robust assessment of the critical inputs required for our food system so that government can be prepared to support and overcome future supply issues. This includes understanding the complex supply chain processes involved in the production of these inputs and the viability of alternatives and working closely with industry to prepare for and mitigate future risks.

Turning specifically to fertiliser supply, global gas prices have impacted production of fertilisers internationally and domestically. Some international companies halted or reduced production, and some countries such as China reduced the export of some fertiliser products to protect their domestic demands. However, supply of all fertilisers in the UK has remained available throughout the last 12 months although high prices reduced demand from farmers.

The impacts of increasing fuel and fertiliser prices on farmers and industry are being monitored closely, including through the UK Agriculture Market Monitoring Group. Defra is in regular contact with key industry figures including the National Farmers Union, the Agriculture and Horticulture Development Board and the Agricultural Industries Confederation.

We have recognised that increasing input costs, particularly fertiliser, feed, fuel and energy, are creating short term pressures on cash flow. On 6 May, the Government announced further steps to support farmers with cost pressures caused by demand and instability seen across the globe. Under the latest plans, Direct Payments in England will be paid in two instalments each year for the remainder of the agricultural transition period, to help farmers with their cashflow.

As with most agricultural commodities, fertiliser prices are dependent on global gas prices. The cost of production of inorganic nitrogen-based fertilisers has, as previously mentioned, therefore increased significantly. We have already set out measures to help farmers with the availability of fertilisers ahead of the coming growing season (details below) and announced that we will bring forward half of the BPS payment to this month to help ease cashflow issues.

On Wednesday 30th March 2022 Defra announced steps to assist farmers with the availability of fertilisers for the coming growing season, to help address uncertainty amongst growers and keep costs down for farmers. The package of support focuses on five key areas:

1) Changes to the use of urea fertiliser

An industry farm assurance scheme, originally planned to start this year in response to the Consultation to Reduce Ammonia Emissions from Urea Fertilisers, will now be delayed by at least a year. The delay has been made to help farmers manage their costs and give them more time to adapt in the light of a global rise in gas prices, leading to pressures on the supply of ammonium nitrate fertilisers. The [consultation on restrictions](#) was launched in November 2020. When the industry scheme's restrictions are introduced, they will be related to the use of ammonia inhibitors rather than a complete ban.

2) Farming Rules for Water clarification and slurry storage grants

[Statutory guidance](#) has been published on how the Environment Agency should apply the rules when it comes to spreading of slurry and other organic manures, particularly in the autumn and winter. This will provide clarity on how farmers can use slurry and other organic manures during autumn and winter to meet agronomic needs whilst minimising risks. It has been developed with farmers and farming bodies.

We will also be launching new slurry storage grants this year, helping meet the requirements of the Farming Rules for Water and reducing dependence on artificial fertilisers, by storing organic manures until needed or for onward processing. These grants will make a significant contribution towards the cost of covered slurry store construction projects, to enable farmers to get to six months storage capacity.

3) Fertiliser Industry Taskforce

We recognise that fertiliser pressures on the livestock and arable sectors may differ, particularly over the farming seasons. On the 31st March Minister Prentis hosted the first meeting of the Fertiliser Taskforce with key industry bodies to discuss potential mitigations to the challenges which global supply pressures are causing. A second Taskforce meeting was held on 18th May with Minister Churchill; we will continue to meet with key industry bodies for further Fertiliser Taskforce sessions in the coming months, to help identify and mitigate potential risks.

4) Sustainable Farming Incentive

Alongside these measures, further details of the Sustainable Farming Incentive have been [published](#). Given current fertiliser prices, the priority must be to pioneer new technologies to manufacture more organic-based fertiliser products, and rediscover techniques such as using nitrogen fixing legumes like clovers as an alternative to fertiliser.

The Sustainable Farming Incentive will support farmers to build the health and fertility of their soil and to reduce soil erosion. We will pay farmers to help with the costs of sowing nitrogen fixing plants and green manures in their crops (or in advance of their crops), to substitute some of their fertiliser requirements for the coming season and reduce their dependence on manufactured fertilisers linked to the price of gas. There will be no set application window so farmers will be able to apply at any time after June.

5) Farming Innovation Programme

The Farming Innovation Programme opened two new sources of funding: The [Large R&D Partnership Projects](#) worth £8m and the [Farming Futures R&D fund: Climate Smart Farming](#) worth £12.5m. These will help England's farmers and growers to use new, innovative methods and technologies to become more productive, environmentally sustainable, and more resilient to the global food security challenges of the future.

While global fertiliser prices have risen, the supply chain providing imports of fertiliser to the UK has remained resilient. CF Industries continues to produce ammonium nitrate fertiliser from its plant at Billingham. New season fertiliser prices since May have fallen from their peak caused by high global gas prices, allowing many farmers to purchase fertiliser and we understand that take-up has been extremely good.

I understand your concern over the proposed closure of the fertiliser plant in Cheshire at Ince, but this is a commercial decision for CF Industries. While it is well-established that the company is the dominant producer of CO₂ in the UK, historically supplying up to 80% of domestic need, we are confident that the closure of the Ince facility will not have a negative bearing on the domestic supply of CO₂. Indeed, supply of these chemicals has continued to meet demand without Ince's supply since autumn 2021, when CF Fertilisers

originally closed the plant temporarily. They have now proposed closing the site on a permanent basis. We source imports of fertiliser and carbon dioxide from a globalised market from a wide range of countries and continue to produce it domestically at Billingham.

The resilience of the CO₂ production has been further strengthened through a diversification of the UK market since the latter half of 2021. The UK's reliance on a single business for this product has now diminished. Currently, only 42% of supply comes from CF Fertilisers, with the rest of CO₂ supply met by other producers ranging from biofuel plants, anaerobic digestion plants (AD) and European imports. The Government continues to analyse the situation to ensure that UK businesses are able to secure fertilisers and carbon dioxide.

We have been working to ensure that CO₂ from AD plants meets food and beverage or industrial grade standards. On 26 April 2022, the Environment Agency published a Regulatory Position Statement (RPS) setting out the conditions under which AD plants can capture, treat, store, and use CO₂ that will meet food or industrial-grade standards without an environmental permit for a waste operation. This provides much-needed clarity for the sector on their ability to capture and sell CO₂, and supports efforts to diversify the supply of food- and industrial-grade CO₂.

I trust this assures you that action is being taken to address your concerns.



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