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Current assessment of the impact of sanctions on Russia and damage potential in the potash fertiliser sector

- **Background**

In view of the Russian war of aggression and developments in Belarus, the EU completely sanctioned the import of potash fertilizers from Belarus as well as the Belarusian potash producer Belaruskali and the export company Belarusian Potash Company (BPC) in 2022.

As a result, the EU has also capped potash imports from Russia to the EU at an annual import quota of 837,570 tons, which corresponds to the previous year's import volumes from Russia to the EU. In 2022/23, 14.1% (117,742 tons) of this import quota was exhausted.

Despite the complete elimination of Belarusian potash imports and the cap on Russian potash imports, the EU's potash supply was secured at all times. This was achieved through domestic potash production (Germany and Spain) and imports from Canada, the world's largest supplier of potash, as well as Israel and Jordan, among others. Following a temporary rise, potash prices worldwide and in Europe are now well below the level before the start of the Russian war of aggression.[1]

- **Current and future developments**

It can currently be observed that potash imports from Russia to the EU are rising sharply. The current import quota is already 44.6% exhausted (373,366 tons). It can be assumed that Russian potash deliveries to the EU will continue to increase – also due to the geographical proximity and thus low freight costs – and will soon reach the upper limit of the import quota. This development also shows that **sanctions against Russian owners of potash companies and the sanctioning of financial transactions will not have a direct negative impact on Russian potash deliveries to the EU** in the medium term.

This means that with the **expected future potash import volume from Russia to the EU** of 837,570 tons, **Russia should generate cash flows from the EU of around EUR 287 million per year**. This calculation is based on the assumption of a potash price of EUR 342.50/tonne for MOP in Europe

[1] CRU Fertilizer Week, Historical Prices, as of May 25, 2023

(source: Argus Potash, 09.05.2024; the assumed price represents the average of the current prices for MOP cfr Europe standard (EUR 330/ton) and granulated (EUR 355/ton)).

Due to the high net income and the proximity of Russian potash production to the Russian government, it can be assumed that **a considerable portion of these revenues will contribute to strengthening Russian state finances**.

- **Potential for sanctions**

The expected Russian revenue of an estimated EUR 287 million per year from the sale of potash fertilizers in the EU is not yet subject to any direct sanctions. A **complete sanctioning of Russian potash imports into the EU** (analogous to Belarus) would therefore be a potential and **easy-to-implement option to reduce significant European cash flows to Russia and weaken the revenue situation of the Russian state**.

The shortfall of Russian and loss of Belarusian potash imports to the EU has been fully compensated in recent years and can also be fully compensated for in the future by other potash suppliers within and outside Europe. **Damage or significant disadvantages for the European economy as a result of the sanctioning of Russian potash imports are therefore not to be expected.**

In particular, **a disruption of the European potash market a result of an embargo is not to be expected**.

1. The current import quota for Russian potash of 837,570 tons corresponds to a share of around 12.4% of the EU potash market (EU potash market 2021: 6-7 million tons)[2] and a share of 1.1% of the global potash market. As the potash market is a global market in which all major producers are represented in all relevant markets, a shortfall of Russian supply in the EU could easily be compensated by other suppliers. The turbulence on the potash market in recent years has already led to a diversification of trade flows to the EU, with the result that, in addition to domestic production in Germany and Spain, intensified deliveries are now also coming from England, Israel, Canada and, more recently, in smaller quantities from Laos.

2. Even outside the EU, an increase in the price of potash, as in 2022, is unlikely to occur due to the sanctioning of Russian potash. On the one hand, the sanctioned volume only accounts for a small share of the global potash market (approx. 1.1%) and could also flow into other markets without major logistical adjustments. Alternative export routes and sales regions for

[2] IFA, K+S, available at: https://www.kpluss.com/.downloads/ir/2024/kpluss-company-presentation-march-2024.pdf

Russian potash have already been established as a result of the EU embargo on Belarusian potash and further sanctions due to the war in Ukraine in 2022. In addition, the price increase at the time most likely occurred due to the denial of Belarus' port access in Klaipeda (Lithuania), which led to a short-term loss of an immense share of potash on the world market (around 8%). Now, however, in the event of a complete embargo on Russian potash by the EU, there should be no disruption to the market, as Russian potash deliveries destined for the European market would nevertheless be available to the world market. In particular, Russia has already established export routes to other regions by intensifying alternative trade relations with countries such as China, Brazil and India since 2022. It can be assumed that these regions would be able to absorb the affected volumes in the short term.

While an EU embargo on Russian potash is therefore unlikely to have any noticeable impact on consumers and the market, it is nevertheless likely to be effective and weaken the Russian state, in line with the EU's measures against the country. Shifting European volumes to other sales regions would significantly increase the freight costs of Russian potash exports in particular, as well as the pressure to reduce prices in these sales markets, and lead to a corresponding **additional loss of revenue for the Russian potash industry and Russian state budget** (indirect weakening of the Russian state). A complete detour of Russian potash trade flows (which previously went to the EU) to non-EU countries would result in an estimated **reduction in revenue of at least around EUR 80 million per year for Russia**.

Alternatively, the **introduction of punitive customs tariffs of around 30% on Russian potash would probably have a similar effect**, as the costs would be shifted unilaterally to the Russian side. Importers of Russian potash would nevertheless retain their volume flexibility, as they could reorder – albeit at high cost and within the quota.

- **Conclusion**

If the EU intends to weaken the revenue situation of the Russian Federation through further sanctions or to reduce further payment flows from the EU to Russia, a suitable and easy-to-implement measure is the **complete sanctioning of Russian potash deliveries to the EU**. This could **prevent future payment flows from the EU to Russia amounting to around 287 million euros per year** and **cause revenue losses for Russia estimated at least at 80 million euros per year, without any significant negative impact on the European economy.** Alternatively, punitive customs tariffs are an option.