

Argus White Paper:

Europe's AdBlue buyers and sellers could break ties with a legacy pricing mechanism. What would this mean for the future of this maturing market?



European AdBlue market participants have faced volatile costs in the last six months that the industry's legacy pricing mechanism, based on Baltic prilled urea, could not adequately capture, leaving some at a loss in turbulent times. This has spurred renewed interest in decoupling wholesale AdBlue prices from urea prices, and AdBlue suppliers are looking to scrap quarterly or annual pricing. To respond to the maturing market, Argus is preparing to launch spot AdBlue prices in February that will be suitable for indexing purchasing agreements and term contracts.

AdBlue's pricing relationship with the price of urea — its primary raw material — has been largely untested since the last period of severe urea volatility in 2008. That year, urea prices hit \$800/t, prompting the restructuring and even the closure of several key suppliers in the emerging AdBlue market. The latest surge in urea values has not had the same effect, but it has highlighted flaws in current pricing structures. The chosen reference in Europe has been the Baltic fob prilled urea price, but this increasingly refers to business conducted outside Europe because of changes in buyer interest and EU trade policy.

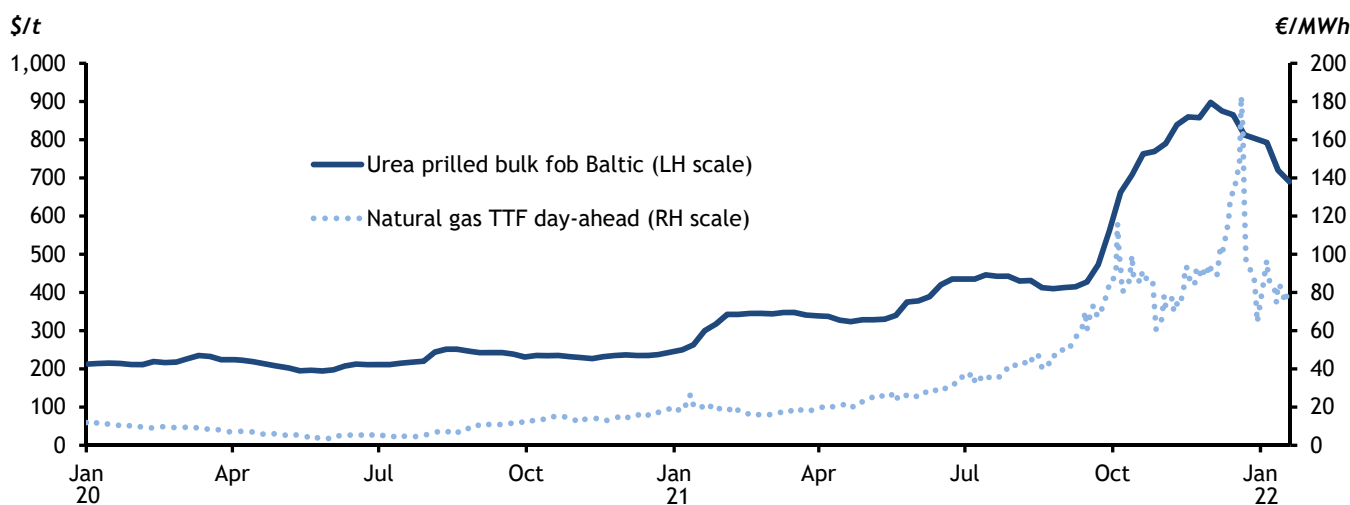
The Baltic urea price was stress-tested during the course of 2021, especially as a reference for European fertilizer and AdBlue markets. European natural gas prices spiked, driving urea production costs in the region to record highs and

prompting curtailments at many plants. As a result of this, European urea supply and demand was not adequately reflected in the Baltic fob urea price.

Argus' benchmark TTF natural gas price peaked in 2021 at €182.50/MWh (\$60/mn Btu) on 21 December, capping off prices that had surged across the year (see chart). European gas prices increased by some 450pc between January 2021 and December 2021. This compares with a 205pc increase in the price of urea over the same period — as measured by the Argus Baltic prilled urea reference.

In contrast, urea prices were largely stable during 2020, with Baltic prilled urea values 11pc higher on average in December than they were in January. This compares with a 47pc rise in European natural gas prices over the same period.

Baltic urea vs natural gas



Out with the old, in with the new

European natural gas prices were more stable in the 10 years before 2020-21, generally keeping within a €10-30/MWh range, compared with €16-183/MWh in 2021. By comparison, fob Baltic prilled urea prices were in a \$200-400/t range between 2010 and 2020, and a \$250-900/t range in 2021.

This decade of relative stability saw many European urea producers offering AdBlue at fixed quarterly prices, which distributors passed on to customers. Some even offered fixed annual prices. Fluctuations in AdBlue values were often short term and could be recouped at other points in the year. Equally, when the market was still at an early stage, AdBlue was sold in smaller volumes, and suppliers were sometimes prepared to sacrifice margin to gain or retain market share.

Argus estimates that the European AdBlue market totalled 4.25bn litres in 2021, more than doubling from 2014. This strong growth has made AdBlue an important revenue component for many businesses that have been in the market since the early years, so any losses from old pricing practices have been scaled up over this period and might no longer be acceptable, given the product's importance to these companies.

A common theme last year was European urea producers moving customers from quarterly to monthly adjustments — and even bi-weekly adjustments, as seen in October.

In contrast, fuel and lubricant distributors that set fixed annual prices for AdBlue, often for their largest customers, incurred heavy losses in 2021 as spot AdBlue prices were consistently higher across the year than in January.

AdBlue buyer demand is uniquely inelastic

European AdBlue consumers operate more like those in the fuels market than the fertilizer market — despite AdBlue's inherent connection to urea — as the product is required for modern diesel vehicles and has no substitute. This makes AdBlue demand uniquely inelastic in the derivative market for nitrogen fertilizer.

This was evident when bulk AdBlue prices rose to €38-42/100l in January 2022 in Germany and the Benelux countries, up by 140pc from September 2021, driven by high natural gas prices and tight availability as several plants curtailed production in September-November 2021. This compares with a 65pc increase in Baltic prilled urea prices over the same period.

New problems need new solutions

It has become clear that the European AdBlue market is governed by a different set of dynamics to the urea market, and that European urea producers require more pricing independence in the face of tight supply and near-term cost volatility.

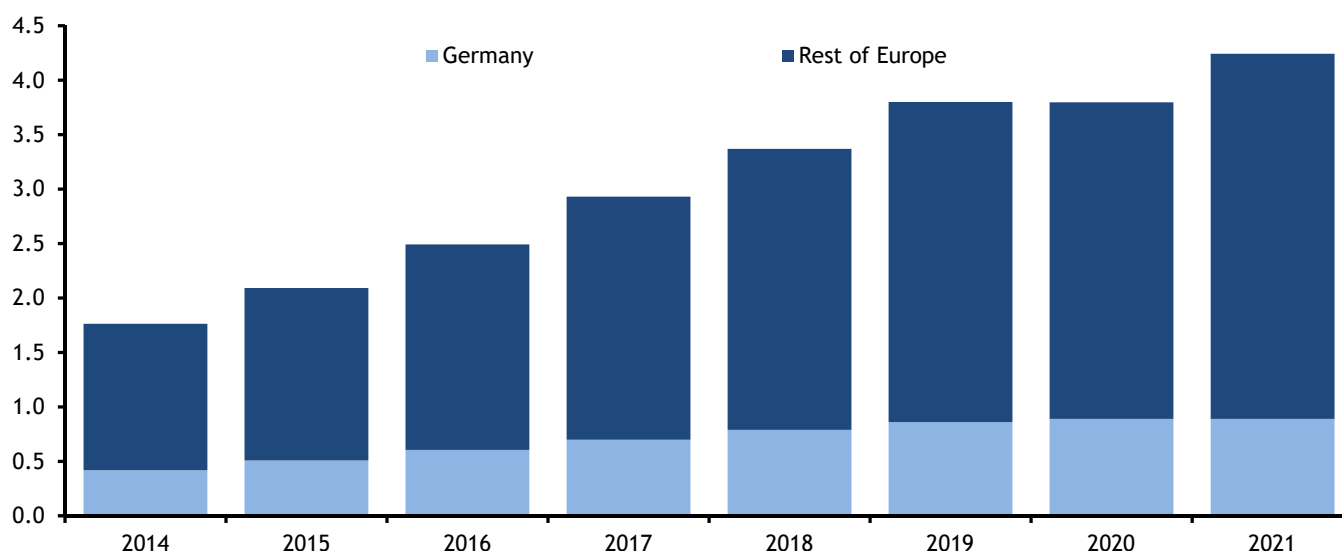
High and volatile natural gas prices are likely to be sustained in Europe this year, reflecting tensions with Russia, low gas inventories and stronger gas-fired power generation because of nuclear and coal phase-outs.

This will make 2022 a good test case for new pricing practices as the AdBlue market transitions to a dynamic, high-volume spot market.

Argus plans to launch a spot price assessment for the German bulk AdBlue market in February 2022. Germany is the largest

European AdBlue demand (EU 27 + EFTA + UK)

bn litres



AdBlue market in Europe, with the highest liquidity and several urea plants serving customers. Consumption in 2022 is forecast to exceed 1bn litres. *Argus* will assess AdBlue trade conducted each week on a free-on-truck basis in the north, south, east and west of Germany, as defined in its methodology.

Argus' new references will offer visibility to all market participants on bulk AdBlue spot prices in Germany and will be a useful tool for price negotiations and term contracts in Germany and neighbouring countries.

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Please find *Argus'* methodology for its German bulk AdBlue price assessments [here](#).

To access Argus' new German AdBlue price assessments, subscribe to:

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The Argus AdBlue® and DEF Monitor service tracks the AUS 32 (AdBlue, DEF, ARLA) markets in Europe, North America and Brazil. Argus' new German AdBlue price assessment is published in the DEF Weekly, issued each Friday, featuring market commentary and industry news from the week. The Monitor service includes a supplementary report with short-term intelligence on regional market dynamics on supply, demand and trade. For Europe, this includes data analysis by country (EU-27, UK and EFTA) for AdBlue demand in the current and previous year, as well as SCR fleet and diesel vehicle sales trends by segment.

Argus O.M.R. Fuels

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The Argus O.M.R. Fuels service is Germany's most robust, comprehensible basis for supply contracts – and the service now includes Argus' new German AdBlue price assessment. Argus O.M.R. Fuels' based supply contracts offer price and planning security, precisely reflecting wholesale prices for heating oil, diesel and gasoline at eleven price centers in Germany. Our price assessments are used throughout the retail chain, from the refinery or storage facility to the petrol station or truck operator. The service offers essential analysis of market moving news and price developments, with key insights into the biofuels market, new legislation, changes in the flow of goods, refinery failures and megatrends.

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