

# **Yara International ASA (YARIY) Q2 2024 Earnings Call Transcript**

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**Body**

Yara International ASA (YARIY)

Q2 2024 Earnings Conference Call

July 19, 2024 07:00 AM ET

Company Participants

Maria Gabrielsen - Head of Investor Relations

Svein Tore Holsether - President and Chief Executive Officer

Thor Giaever - Executive Vice President and Chief Financial Officer

Magnus Ankarstrand - Executive Vice President, Corporate Development and Chief Executive Officer, Clean Ammonia

Conference Call Participants

Christian Faitz - Kepler Cheuvreux

Alex Jones - BofA

Rikin Patel - BNPP Exane

Chetan Udeshi - JPMorgan

Bengt Jonassen - ABG Sundal Collier

Aron Ceccarelli - Berenberg

Lisa De Neve - Morgan Stanley

Tristan Lamotte - Deutsche Bank

Charles Bentley – Jefferies

Presentation

Operator

Hello, and welcome to Yara's Second Quarter Results 2024 Conference Call. Please note that this call is being recorded. Everyone is on listen-only mode to avoid any background noise. You'll have an opportunity to ask a question to our speakers later in the Q&A session. [Operator Instructions]

I'd now like to hand over the call to Maria Gabrielsen, Head of Investor Relations in Yara. Please go ahead.

Maria Gabrielsen

Thank you, operator, and welcome to everyone to this Conference Call for our Yara Second Quarter Results. I am here together with our CEO, Svein Tore Holsether; our CFO, Thor Giaever; our Head of Marketing Intelligence [indiscernible] our Head of EVP Corporate Development, Magnus Krogh Ankarstrand, as well as other representatives. We hope you have all watched the presentation today and also read through the report. So we plan on going straight into Q&A.

So, operator, may you please open the first line?

Question-and-Answer Session

Operator

We are now opening the floor for question-and-answer session. Our first question comes from Christian Faitz from Kepler Cheuvreux. Your line is now open.

Christian Faitz

Yes, thank you. Good afternoon. Good morning, everybody. Two questions from my side, please. First of all, is the aftermath of the unfortunate flooding in Brazil still impacting your operations, for example, in terms of logistics? And would you see a catch-up effect at some point during Q3?

My second question is around the Sluiskil CCS project. What is the current -- Shall I wait for the second question? All right, I'll just go ahead.

Svein Tore Holsether

No, just go ahead, Christian.

Christian Faitz

Yes. So on the CCS project in Sluiskil, what is the current situation in terms of potential EU/Dutch subsidies for CCS? And any idea what a price premium could be inferring from, for example, the PepsiCo contracts? Thank you.

Svein Tore Holsether

Yes, hi, Christian. This is Tore. I can maybe start with the Brazil question. I think the -- I mean, we are still in process, you could say, with some of the aftermath of the flooding. Also, the impacts that we post in the second quarter are -- our gross, I think it's certainly possible that some of this can be recoverable on insurance. So I think the headline here is that the main effects are probably what we saw in the second quarter, but we can't rule out having some in the third, but also may have more clarity on insurance compensation in the third quarter.

Yes. Then there was a question on Sluiskil CCS. Maybe [Andres] (ph), if you want to comment.

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Unidentified Company Representative

Yes, no, the situation there is that the project is under construction. With regards to subsidies, it was announced last year that the project, which is part of the bespoke agreement that we have with the Dutch government for Sluiskil, does receive a subsidy. So that's the same as previously announced.

And with regards to PepsiCo, and this is a part of the portfolio that will be included in the PepsiCo product portfolio. So we will -- when the project completes in 2026, have a significant amount of nitrates that will have be significantly decarbonized as a part of the project.

Christian Faitz

Okay, can I just follow up, please, on the CCS subsidies in Sluiskil? Because my understanding from the Capital Markets Day in March, which was great, by the way, was that the exact amount of subsidies, whether per tonne or absolute amount given by the -- or granted by the Dutch government, is not exactly clear. Is that correct? Or so -- yes.

Unidentified Company Representative

Yes, no, it is clear. It has been publicly announced as well. I think we just need to get back to you with the exact number that was announced, but there's no -- there is nothing -- no changes there.

Christian Faitz

Okay, great. Thank you.

Svein Tore Holsether

So, Christian, we'll, of course be -- this is a major project for us. We will revert as we near completion on that with the sort of full roundup on returns, including subsidies and so on.

Operator

Thank you. Our next question comes from Alex Jones of BofA. Your line is now open.

Alex Jones

Thank you. If I can ask a couple on the fixed cost saving program, I guess the first one you talked about reducing costs in low return activities where you haven't got the results you perhaps expected. Can you give us a sense if there's any loss of current EBITDA associated with that as a partial offset to the cost cutting or whether there really was no earnings associated with them so far?

Second one is a bit of a clarification just that that target is a constant scope basis for the business. It doesn't anticipate any divestments that you may make or closures. And then the final one, I guess just reflecting on sort of some of the historical targets you've set around fixed costs, I think in 2019 you talked about them being flat by 2023 and missed that partly due to inflation. But does that mean you're incentivizing the business in a different way this time than then to ensure that you get a different result this time around? Thank you.

Svein Tore Holsether

Yes. Hi, Alex. This is Tore. I mean, to touch on the first questions, we -- what we've communicated today is the overall target level that we've set ourselves. And this is -- although we have implemented the company-wide measures primarily on external costs already, we've seen some of those effects already in the second quarter. The main source of savings here will be through structural changes which we will be scoping and concluding on most likely during the second half of this year. So it's -- I would say the start point is that this is to be a cost saving that's not going to reduce our EBITDA and certainly that will increase our returns. But we'll be keeping you all updated on this as we progress in the program.

I would say that the start point is closer to what you describe as constant scope. But as we outlined in the presentation today, we're also looking at the portfolio. So this is what we've announced today is you can think of as the minimum level we want to achieve. But we are also hopeful that we can achieve even more through portfolio, including potential divestments.

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In terms of the history, I mean, the program that we're initiating now is different from past efforts in many ways. Maybe first of all, it's Yara-wide. It's -- we've talked a bit about the focus areas today, but we've also made clear that this is -- we are going to take action across all of Yara. And it has the full focus of management and will also be the top priority for business planning purposes and so on. So there is a -- yes, a top priority for the company. And of course it's -- it is a significant target and we expect to encounter challenges along the way. But we do see significant scope and that's what we intended to communicate today.

Alex Jones

Thank you.

Operator

Our next question comes from Rikin Patel from BNPP Exane. Your line is now open.

Rikin Patel

Hi, good afternoon. Thanks for taking my questions. I had one on the CapEx reductions. So, you pointed towards a decline in maintenance CapEx next year. I'm just curious how that plays into maintaining production efficiency, considering, I suppose one of your goals is to improve ammonia production towards 8.5 million tonnes, I think by 2026. Does the reduction in maintenance CapEx put that target at risk at all?

And secondly, I had a question more on the market. I think it's on Slide 16, you have the [Technical Difficulty] next few years lined out and this year we'll see a peak in additions ex-China. But if I listen to what some of the consultants are forecasting, it seems as though China will add capacity over the next three or four years. I appreciate some of that is replacement capacity for what's been taken offline maybe over the past five years. But how do you see export availability from China evolving maybe over the next three years? Thank you.

Svein Tore Holsether

Yes, hi Rikin, thanks for the questions. I can take the first one and we have Thor Giaever here to comment on the second one. As mentioned in the presentation today, I mean, a key part of the reduction on maintenance -- if somebody can press mute that would be helpful. This involves a clearer prioritization towards the higher return plant. Once again there's some noise on the line. So if whoever concerns could press mute, that would be appreciated.

Yes. So we are prioritizing more clearly towards the higher returning assets. And as we touched on earlier, this also involves reviewing the portfolio of plants. So -- and I mentioned briefly in the presentation earlier today that the actions we're heading into now could involve adjusting some of the KPIs. So to answer your question, this could impact some of our previous KPIs that we've set for production and in other areas. And this involves a sharpening of focus towards the higher returning in the asset. So in a way value over volume will be one of the principles here.

Thor, do you want to comment on....

Thor Giaever

Yes. So as you know, there is so much politics involved with the Chinese situation as clearly demonstrated by the lack of exports this year so far, with a desire to boost agricultural production domestically in China and make sure that plentiful supply of nutrients are available to farmers. We have now and before like to look at the balance ex-China. So the slide that you mentioned, I assume it's the one on page 13 that is taken from actually the CRU's latest view. That is a capacitation ex-China that is slowing down after the peak in 2022.

So, as you mentioned, we also observe that there are some plants under construction in China. Unclear, as you say, to what extent is replacement of older, more efficient plants or capacity additions. But then also you have the political situation that is unclear when it comes to how much exports will be allowed. So I think we just have to live with the uncertainty and the fact that the Chinese export availability is one of the important uncertainties also going forward as it has been in the past. I don't think we can offer much more information than that from our side.

Rikin Patel

Okay, thank you very much. That's helpful.

Operator

Next question comes from Chetan Udeshi from J.P. Morgan. Your line is now open.

Chetan Udeshi

Yes, hi all. Thanks for taking my question. I was just wanting to come back and talk about your competitive advantages in your ammonia network. I mean, we all know today you have 20% market share, give or take, and the biggest player. But I'm just curious because we've seen in the last, just in last six to nine months, a number of announcements just not on a blue and green ammonia production, but now also on the terminals and network to ship ammonia globally, including in Europe, but also in the US.

And some of these investments look so teeny-tiny. I mean, I remembered OCI doubled their Rotterdam capacity with just $20 million or $30 million of investment. So can you remind us how sort of sustainable your current strength in ammonia network is? Just looking at some of these CapEx requirements for building ammonia network doesn't seem that high. Thank you.

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Magnus Krogh Ankarstrand

Yes, thank you, Chetan, Magnus Ankarstrand here. I think. I mean, I think you're right when it comes to the ammonia system itself, I think -- and obviously also, we're not without competitors in that space. But I think the key differentiator is that we have the whole value chain. And particularly, of course, that we have own production also makes -- puts us in a very competitive situation on third party sourcing, but also our own consumption provides us significant opportunities to balance and handle fluctuations in the markets and so on.

And I think the same goes for our mainstream system and with mainstream, I mean vessels and particularly sort of tanks and infrastructure. And we have by far the largest import capacity in Europe and that is highly scalable, particularly combined with the situation of increased demand as well, because it's essentially about increasing the throughput on existing assets. So take for instance our terminal in Rostock can handle a lot more ammonia through there without doing any investment simply or if demand increases, we seem to have more throughput on the same capacity.

And then of course on the vessel side, that's also scalable, obviously to ship more ammonia you need more vessels. But that also has a significant scale and also, we think with larger volumes in the future, that also opens up for significant synergies by larger vessels and so on.

So all in all, I would say our system is very scalable. And of course, we are also looking at what are the areas where we would need additional capacity or new capacity. And that's a bit early to say at this stage. I mean, what we have certainly services very well now and also compared to where we need the import, but also in that space, we're certainly looking towards partnerships and finding good ways of solving that.

Chetan Udeshi

Thank you.

Operator

Our next question comes from Bengt Jonassen from ABG Sundal Collier. Your line is now open.

Bengt Jonassen

Yes, thank you for taking my question. I just wanted to touch base on Slide 17, the FID plan for second half of 2025 on blue ammonia in the US, highlighting strong double-digit returns. Is those returns on a standalone basis for a plant or does it include any synergies within your ammonia sourcing system or upgrading blue ammonia to nitrates in Europe?

Magnus Krogh Ankarstrand

No, I think we are talking standalone project when we talk about the returns. So not including, like you mentioned, your example, upgrades, nitrates and so on, that's not being included. But of course, our ability to achieve that -- those returns are of course largely given our system and the significant synergies that we have, for instance, from the fact that we are able to secure off stake for significant amounts, which in turn enables us to lower CapEx per tonne and so on. But the return per se is specific to the project.

Bengt Jonassen

Good. Thank you.

Operator

Our next question comes from [Pavel] (ph) from Cor Condonia. Your line is now open.

Unidentified Analyst

Hello. I have a question about regulatory changes in Europe. So, as you know the renewable energy directive fee requires 42% of hydrogen used in ammonia production to be green by 2030. And you have a significant ammonia capacity in Europe. I think today you addressed that somehow you could potentially address that with imports of green ammonia. Can you elaborate on that? Or -- and also, if you have any plans of building green ammonia capacity in Europe, we understand that capital expenditure for that could be quite substantial.

Magnus Krogh Ankarstrand

Yes. No, I think, first of all, I think that's a target that we perceive not to be realistic and achievable for the European Union or any single country, for that matter. I think that was very much confirmed by the EU Court of Auditors report that came this week which essentially says the same. That's the target. That's simply not technically or economically achievable, at least not in the timeframe initiated.

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It's also important to remember that that target is a target set per member state, so it's not a target per company or per -- or even industry as such. However, we are, of course, taking that into account as well. I think we have given our system, we have quite a lot of flexibility, and as we have announced, we are -- we have entered into one sourcing contract for green ammonia from Oman. I think our strategy in that space is to look for similar offtake arrangements, albeit smaller volumes for green ammonia as well.

So we will have that capacity into our system, although we believe that we're probably upgrading, or whether that goes for other sources or to fertilizer remains to be seen. But we do have, I think, the best sourcing position than anyone in terms of actually attracting those tons if they're needed and if there is a market for it. But again, I think, realistically speaking, those targets will be very, very hard for the EU to achieve, and particularly since blue ammonia as well achieves more or less -- almost the same decarbonization, but -- at a level where you can actually make profitable investments and make this work from a business perspective as well.

Svein Tore Holsether

Yes, it's something I just add to what Magnus said. When it comes to renewable energy production and launching new products in Europe, it's taking much more time than expected, and there is a significant energy gap. Everyone wants more renewable energy, but no one wants it in their own backyard. And these products have to go through the democratic processes. It will take time, and we have to be aware of that.

And the green hydrogen going into green ammonia is energy intensive. It needs large amounts of renewable electricity. It will be an important part of the solution in the future. But we also have to be aware of what needs to be done in the short term. And here, as Magnus just highlighted, blue ammonia will play an important role. And that's possible to be done at scale within very short timeframes.

And then we have a significant carbon or emission reductions, and -- at the lower cost level than green. And through that we can do scale and create demand. And then that's enabling for phasing in green as it becomes available.

And here -- Magnus also touched on that is our global infrastructure, and our ability to source from across the world also into Europe will be helpful. But of course, the target here in the renewable energy directive is very high, and I don't see how that is going to be bid on currently.

Unidentified Analyst

Okay, thank you. And could you kindly a small follow-up comment, maybe there's recent reports of contracts signed for green ammonia between Fertiglobe and Germany at EUR1000 a tonne. And if there's a lot more demand for green ammonia, and for example, if you would require, what sort of prices do you think you can source?

Magnus Krogh Ankarstrand

Yes, I don't think we can comment on prices. I mean, the tender you mentioned is for, I think, about 400,000 tons. So, I mean, we for sure think that there will be demand for green ammonia. I mean, that's also why we have entered into sourcing contracts ourselves. I think what we're saying is that we don't believe that that will be the basis of decarbonization of the industry in Europe.

I think that -- for that, we need significant scale, and obviously, as well, there's a limit for how far the public subsidy can extend. So that's why we believe that blue ammonia will sort of create the foundation for our decarbonization and the industry's decarbonization as well. But for sure, we also see a demand for green ammonia, and we're participating there as well through contracts using our system.

Unidentified Analyst

Thank you.

Operator

Our next question comes from Aron Ceccarelli from Berenberg. Your line is now open.

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Aron Ceccarelli

Hello. Good morning. Thanks for taking my questions. My first one is about supply and demand. Maybe what's your degree of confidence about the nitrogen market tightening from here in the second half considering that Egypt should possibly resolve its gas crisis in the next month? Russia is still pushing some product into the market, while at the same time marginal producers are still able to generate positive margins. And would you envision another opportunity for a new price increase in your nitrates business?

My second question is about your cost cutting plan. It seems you already kicked off already in Q2. So I would like to understand a little bit more about the phasing of this cost savings in the second half going into the 2025.

My third question is more mid to long term, and I'd like to understand what kind of direction Yara is taking from a strategic point of view, as you get rid of some of your tail return assets, and it looks like you are focusing more on distribution. So how is the model going to look like in a few years? Are you expecting to reduce some of your manufacturing position and increase your distribution capabilities? Is that correct? Thank you.

Svein Tore Holsether

Hi, Aron. Thanks for the questions. Maybe start with the supply-demand part [indiscernible]

Unidentified Company Representative

I think our comments and operations are not kind of exclusively targeting the second half of the year. I mean, on the short term, it's a bit hard to say. It's very volatile about the demand and supply side, what we see now with the China situation, with Egypt gas supply and other things.

So we've -- our observation is more that there is now, for the next three to four years, very limited new capacity in the pipeline. So that should be a good basis for solid market fundamentals on the nitrogen market. So we are not trying to give any precise predictions on the third and the fourth quarter. That was not the intention.

Unidentified Company Representative

I mean, I can comment also on the nitrate part. I mean, we always need to relate to what's going on in the rest of the market. But I would say all other things equal, we are normally looking to raise the premium, if not the price, for nitrates, the closer we get to the application season. But this is always an evaluation of the market environment, including other nitrogen prices, crop prices, et cetera.

In terms of the phasing of cost savings, as mentioned, we will be spending most of the second half in a way preparing for launch of action. So on the other hand, we mentioned that we already have some early effects in terms of the quick win type actions we've implemented. So without providing any sort of numerical guidance, I think it's fair to assume that most of the significant savings come during next year. But we intend to update on this minimum quarterly as we move forward.

In terms on your last question, which is others can chip in here as well. What is Yara going to look like in a few years? I mean, I can maybe start with referring to Svein Tore's comments in the presentation that we've defined a key principle here is to prioritize core business where we describe that as ammonia straight and based premium product operations with competitive scale and feedstock. So I think that's part of the evaluation when we look at our portfolio.

And if you look at our list of plants, of course, there are some that are very large scale and some that have a better feedstock position than others. So that can already give you an idea of what we're looking at. And in addition, on the feedstock part, the blue ammonia part, and the potential to have production in the US, which can increase -- improve the feedstock position effectively also in Europe is a key element of that.

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Lastly, maybe just comment. I don't think there's anything in this to sort of say that we're moving more towards distribution versus production, but we need to strengthen returns across Yara. And that involves looking at the portfolio both in terms of production and distribution.

Svein Tore Holsether

It's Svein Tore. I could just add, and I think you've seen an excellent example of this in -- during this week with the agreement with PepsiCo Europe to work together with them and their farmers to reduce their carbon footprint. And that's not only a fertilizer cooperation, it's the combination of fertilizer, it's digital tools and agronomic advice as well, in one package.

And keep in mind that for the potatoes, that PepsiCo Europe sources half of the carbon footprint of these potatoes. They are from either fertilizer production or in-field use of fertilizer. And we can help them to address most of that working together with the farmer. And it's part of the work that PepsiCo is doing to reduce their emission to reach their target of 40% reduction in greenhouse gas emissions by 2030.

So it's an example of a full value chain collaboration, but also one that highlights what we can do today with existing nitrates in Europe that have about half the carbon footprint of imported material, we can get started today helping to reduce emissions both on the product, but also in field. And you will see products in the supermarket shelves from PepsiCo utilizing this already this fall since we already got started on it.

And then with that as a basis, we'll also phase in products from the CCS project and also with solutions with green hydrogen, green ammonia as well. And I do think that we have a very strong position here with our decades of knowledge, understanding of soil, and the agronomic competence that we have out there. And it's about putting this together. And we see that a number of players in the food sector are now working hard to deliver on their targets as well. And common to many of these products is that a significant part of the reduction will happen in the field of the farmer. And that's straight to the core of Yara strategy.

Aron Ceccarelli

That's very useful. Thank you very much.

Operator

Our next question comes from Lisa De Neve from Morgan Stanley. Your line is now open.

Lisa De Neve

Yes, thank you for taking my questions. I have four questions, of which three small follow-ups. My first question is, can you please share what you're seeing in Europe nitrates environment? I know that the volumes you're selling are much better year-on-year, but still well below 2021 and 2022 first-half levels. So any color on the dynamics here in the market would be very helpful.

And then, in terms of follow-ups, in terms of the cost optimization program, can I just double check whether one of these -- whether there's any one-off costs to deliver the $150 million of fixed cost savings?

Then secondly, on the CapEx program, how should we think about your maintenance CapEx on a midterm basis and on a constant scope basis? Or should I actually understand that next year's maintenance CapEx reduction already assumes some potential closures in the guidance that you're providing?

And then lastly, a small follow-up on Aron's strategic question. I mean, how do you think about your regional asset presence over the midterm and the weighting between owning production assets in Europe and anywhere outside Europe? Thank you.

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Svein Tore Holsether

Hi, Lisa. Thanks for a nice bouquet of questions. We'll start, I think, now as well with [indiscernible] comments on the nitrate.

Unidentified Company Representative

Yes, it's -- following the curtailments due to the high gas price environment in 2022 and into 2023, or even started in 2021, there has been a return of nitrates again in the market with a higher share. So that has happened. As to the total nitrogen market in Europe, if I guess that's what we also kind of alluded to in the question, the consumption has not returned back to where the pre-2022 levels. So there looks to have been another kind of structural decline in nitrogen consumption in Europe with an increased nutrient use efficiency as a result, probably becoming even better at getting crop output based on their inputs, with oil seeds or other means. I think it's a little bit hard to judge how much that structural decline is because there's still also this year been a lot of weather problems, other problems, liquidity issues, volatility, et cetera, et cetera, financing. So -- but I think that -- I think there's been a drop in the nitrogen use level in Europe following this, the level with -- compared to what we had in 2021.

Svein Tore Holsether

I can carry on the next couple of questions. In terms of the cost program, will there be one-offs? Possibly, it's a bit too early to say. We need to go through the evaluations this autumn how we will implement, but of course, it's not unlikely that there will be in some areas necessary to have one-off costs to implement. But we'll come back on that topic.

In terms of CapEx, we've communicated today that this $800 million to $900 million level is roughly where we need to be with the existing asset base. So there's nothing in there that assumes closures. But having said that, we are looking at the portfolio. So depending on what decisions we make and where our portfolio is longer term, we will update this guidance.

Then the final question was in terms of our regional footprint. I mean, others may want to comment on this as well, but I would say that excluding US ammonia that we're evaluating now overall, and even as part of that case, we see a high value in the existing assets, as mentioned, provided they have scale and competitive feedstock, whether that's gas or ammonia, and relatively high cost of construction, if you like, if you want to build something, especially on finished fertilizer and complex fertilizers. So, as we've communicated, a key part of our strategy now is what we call future proofing existing assets again provided scale and feedstock by -- most likely partly by improving our ammonia availability and especially on low carbon ammonia.

Operator

We have no response from Lisa as of right now. We're going to move on. Our next question comes from Tristan Lamotte from Deutsche Bank. Your line is now open.

Tristan Lamotte

Hi. Thanks for taking my questions. Two questions, please. The first is on the environmental credentials of urea versus calcium ammonium nitrate. I was wondering if you could give a broad indication of the relative greenhouse gas emissions of the two across the whole cycle. And does -- how that's calculated matter and is CAN always the preferred product from an environmental perspective?

And then the second question is on working capital. How much of the working capital inflow for Q2 is temporary and likely to reverse in the rest of the year based on normal seasonality? And is it fair to say there should be a working capital inflow anyway for full year 2024 given that prices are likely to be down overall year-on-year? Thanks.

Svein Tore Holsether

Hi Tristan, thanks for the questions. I can maybe start on the first question, others may chip in. I mean, it's complicated, I guess, is the start point. And there is quite some variation in terms of what crops, what climate, soil types and so on, how urea performs versus nitrates.

One, it's clear that the, shall we say, the upstream ability to decarbonize is very strong on nitrates because you -- basically you can -- you're flexible on feedstock. You don't need to have integrated ammonia production with nitrate production so that you can have gray, blue and ultimately green ammonia into nitrate production which basically decarbonizes also the nitrates. But then when you use this on the fields, there are different scenarios and different emission profiles. So that -- it's quite clear to us that there are -- both these products have their uses in different areas.

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Magnus Krogh Ankarstrand

Maybe just to add there. I mean, how you apply the products also matters quite significantly in terms of the infield emissions. And that's also part of our value creation -- sorry, value proposition towards farmers is to also combine our product deliveries with recommendations traditionally for yield and quality, but now more and more also in terms of how using our products -- using combination of our products will reduce infield carbon emissions as well.

And then Obviously from a CBAM perspective, where the main -- or CBAM and ETS, where the major financial impact of this now takes -- I mean, will take place in Europe, then of course, the difference, as Tore points out, there is a significant -- I mean, on nitrates and nitrate production, you have the ability to import low carbon ammonia and that way reduce or almost remove the CBAM effect, or in the case of our CCS project Sluiskil, remove the CO2 tax, whereas urea will inherently or inherently chemically contains CO2, and consequently a significant CO2 footprint as well. So it's kind of the value difference there between the carbon nitrates versus urea into Europe will, of course, be significant.

Thor Giaever

Yes. And then the second question was on working capital. Temporary seasonal. As we commented in the presentation that, yes, it is a seasonal -- seasonally normal operating capital release, roughly $0.5 billion in the quarter. It was a couple of 100 higher than that last year, mainly because the -- that was an environment where prices were falling quite heavily from the peak levels at the end of 2022.

And, yes, I mean, it's -- this is always exposed a bit to demand patterns and weather and so on, but most of the time, the second half is where we have a seasonal buildup, the first half where we have a release, and then the phasing between quarters in particular, is sensitive to early late spring and harvest and demand patterns.

Tristan Lamotte

Thanks a lot.

Operator

The next question comes from Charles Bentley from Jefferies. Your line is now open.

Charles Bentley

Thanks for taking my questions. Can I just ask a few? There's one on cost savings. So you've had over $50 million of incremental fixed cost inflation years. So is that run rate by the end of 2025, you need something like $300 million of gross cost savings to get back to $2.4 billion. Is that fair? Is that kind of the level of fixed cost inflation you see in the first half, unrepresentative of what we should expect? So just kind of the gross versus national $150 million would be helpful.

And secondly, just the return on capital implications of the ammonia project, I mean that's gone into the outlook statement to specifically say it needs to be needed 10% greater return. If I look at Slide 17 in the deck and just consider the kind of the returns implications. When you're thinking about your returns, are you using CapEx for like partial ownership of an asset? Are you considering like a structure? Like, I mean, I know there's going to be partnership-owned, so just thoughts around what's included. Isn't -- is it going to be kind of over the fence like Freeport? Just trying to think about the structure there.

And then finally just one kind of second-half demand. So, I mean, former profitability is pretty terrible like soft commodity prices have remained very, very weak and sentiment is not so great. So just thinking about applications demand as we go through into the second half, into [Technical Difficulty] in Europe and US and your expectations, how that should evolve. Thank you.

Svein Tore Holsether

Hi, Charlie. Thanks for the questions. Your line is not fully hi-fi quality but we'll do our best to see if we heard your questions right.

I think the first one was on the fixed cost target and inflation effects. So I'll -- assuming I'm on the right track. We've said that the -- yes, okay, good. And yes indeed, it is a nominal target. And then as -- so we have compared to the last 12 months. Last 12 months we have $2.55 billion. And the target is then to be at a run rate of 2.4 at the end of 2025. And that, depending on the assumptions you use, means that sort of, if you wanted to do this in real terms, it would look like something more like between $200 million and $300 million.

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Then the second one, I think was sort of about the returns on potential blue ammonia in the US and how we define that. Maybe a bit similar to the earlier question on whether that sort of included integrated returns in Europe and so on. But you mentioned partnerships and over the fence model.

Magnus Krogh Ankarstrand

Yes, no, maybe I didn't hear the question fully either. But I think as mentioned earlier, when we talk return, we talk about return on the project in itself. So we don't include sort of upgrading into nitrates or anything like that -- what happens outside the project. The project -- so it is truly sort of a project measured on the ammonia market, et cetera. We typically do for a project like this.

It's a bit early to sort of share the exact structure of the project. I mean, I think you referenced Freeport and hydrogen over the fence. I think we are certainly looking at and have evaluated all options to make a project that is as good as it can possibly be, including partnerships, and also really trying to leverage all the competitive edges that we have with our system, but also what potential partners can contribute with their capabilities as well to make something that we believe is truly competitive also relative to others. So that's -- I think that's as much as we can share at this stage around the structure. But we're certainly talking return on the project itself.

Svein Tore Holsether

And today's update was sort of trying to fill in some of the blanks in terms of the concept and thinking around this. And of course, we'll get much more specific on the profitability and other terms of the setup that we're looking at as we mature the project and well ahead of decision.

Unidentified Company Representative

On the crop price development and impact. I guess it's -- we haven't seen any kind of massive movements, I would say. It seems like demand is still strong in places like China, and India has been tendering. It's solid in Asia. Latin America is approaching the peak season. So there is quite healthy demand out there.

I mean, as you were indicating on the Northern Hemisphere, there is, of course, a little bit different dynamic. In the US, you may have seen that, let's say urea prices in the US Gulf are well below import parity and nothing going on there. So there's no kind of spot tonnage that finds its ways to the US market. Now, it's clearly off season and that -- but that's not -- that's quite normal. That is the situation in the third quarter.

But I can also mention that, let's say in Northern Hemisphere regions where farmers are sitting on quite some inventories normally, and let's say retailers and so on, like in the US, including in Europe and Canada, there is a normal kind of early season demand from the farmer segment of those markets as also normal, probably partly due to some hedging and risk spreading among the farmers.

So we have -- we do not have any problems selling our product, neither in Canada nor Europe at this stage, to put it that way. So I guess it's a little bit early to say. But of course, lower crop prices is potentially one negative factor compared to the situation where they would have been stronger.

Unidentified Analyst

Thanks very much. And thanks for bearing with us, gray line.

Operator

That concludes our question-and-answer session for today. I'd now like to hand back over to Maria Gabrielsen, Head of Investor Relations, for final remarks.

Maria Gabrielsen

Thank you. Sherry, please. Thank you for dialing in and for your good questions. Goodbye.

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Operator

Thank you for everyone for attending today's call. Have a wonderful day. You may now all disconnect.

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