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Chair

Mr. Larry Miller

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● (1105)

[*English*]

The Chair (Mr. Larry Miller (Bruce—Grey—Owen Sound, CPC)): I call the meeting to order.

We have the continuation of our competitiveness study.

Mr. Easter.

Hon. Wayne Easter (Malpeque, Lib.): I've just given notice of a motion, Mr. Chair. The clerk has it. I'll just read it into the record so that it can be debated at the next meeting. The motion reads thus: “That forthwith all witnesses to be scheduled to appear before this Committee will only be determined by the Subcommittee on Agenda and Procedure.”

I'll be putting that motion at the next meeting. The reason is simple, Mr. Chair. We're doing a study in competitiveness. We've already had a number of witnesses. We asked that the Canadian Wheat Board be one of those witnesses. I now know that at that meeting, the Western Canadian Wheat Growers have been asked to appear at the same time. They were already before the committee on competitiveness on March 31.

The Grain Growers of Canada have been invited as well. They're really one and the same to a certain extent. They appeared on March 24. I don't know why we would be having two sets of witnesses twice. The Alberta Barley Commission and Grain Vision are also on at the same time. That's fine, but clearly the pressure's coming from the other side, Mr. Chair. I understand that the Wheat Board has been informed as well that the committee will most likely ask questions about their latest financial reports.

People are open to ask what they like. Their reason for being here, however, is to discuss the competitiveness issue. The slate of witnesses that I see on the agenda now are clearly set up to do a concentrated attack on the Wheat Board. That's not the hearing that we're supposed to be having.

Henceforth, the purpose of the motion is that the subcommittee on agenda and procedure—

The Chair: You've read the motion, and that's fair enough.

In response to that, Mr. Easter, any side of the table or any party or any member of the committee has the right to ask for witnesses one or more times, if they so feel. I am privy to the list, but I haven't seen it recently to know who's on it. I can tell you that we're doing our best to get everybody here.

Hon. Wayne Easter: Some are even on here twice, Mr. Chair.

The Chair: Is that right? I think I've heard from you, Mr. Easter, that there are some witnesses you want twice as well, so it's the same.

Hon. Wayne Easter: I don't want to have them in the same hearing, Mr. Chair.

The Chair: As I said, every member has that right.

We'll go to our witnesses.

Mr. Hoback.

Mr. Randy Hoback (Prince Albert, CPC): I'd just point something out for the information of our members, if I could have two seconds.

There is the H1N1 SCAAF briefing at 11:30 in Minister Aglukkaq's office at room 450, Confederation Building. PHAC and Dr. Evans from CFIA will be giving a briefing.

I'm saying that just so you are aware that the meeting is going on at 11:30 today.

The Chair: It's taking place at 11:30 today?

Mr. Randy Hoback: That's correct. Your office should have been notified about it.

The Chair: Okay, thank you. Very good.

We have, from the Canadian Fertilizer Institute, Mr. Roger Larson and Mr. Clyde Graham.

You have ten minutes, gentlemen. Please go ahead.

● (1110)

Mr. Roger Larson (President, Canadian Fertilizer Institute): Thank you, Mr. Chair and members of the committee. We'd like to thank all of you for the opportunity to appear before this important committee. We are an agricultural industry, and a healthy and vibrant agricultural industry is essential to the Canadian economy.

The CFI is a not-for-profit industry association. We represent manufacturers, wholesalers, importers, and retail distributors of nitrogen, phosphate, potash, and sulphur fertilizers. With facilities located across Canada, our members produce over 25 million metric tonnes of fertilizer annually. We export more than 20 million tonnes of fertilizer to over 70 countries worldwide. Our members also import over one million tonnes of fertilizer annually.

Our mission is to be the unified voice of the Canadian fertilizer industry by promoting the responsible, sustainable, and safe production, distribution, and use of fertilizers. Today, we are here to discuss how, by delivering on this mission, the fertilizer industry can help promote the competitiveness of Canadian farmers and help them remain competitive in today's global agricultural markets.

I'd like to turn over to Clyde Graham, our vice-president of strategy and alliances. He will go through some of the key points in our brief.

Mr. Clyde Graham (Vice-President, Strategy and Alliances, Canadian Fertilizer Institute): Good morning.

Fertilizer is a globally traded group of commodity products. Production locations are based on proximity to raw materials such as natural gas and mineral deposits, access to water and rail transportation and to markets. Fertilizer is the most important crop input. Canadian farmers have access to abundant quality fertilizer made in Canada or imported through many of our 43 member companies. Annually, Canadian farmers spend about $3.2 billion on fertilizer.

Today, global economic growth in the developing countries is driving increased global demand for grains. It is not rising world populations so much as it is the rising expectation for a better diet from an expanding middle class. It takes three to seven pounds of grain to produce a pound of chicken, pork, and/or beef. Alternative uses for grains, such as biofuels, have been given a lot of attention recently, but the real driver in the market is demand for better food diets in developing countries. That in turn is increasing demand for fertilizer to produce that grain. The result is competition among farmers globally for the current supplies of farmers. China and India consume about half of the total global demand for fertilizers. Decisions by farmers in China and India will drive global markets for fertilizer into the future.

The CFI slide presentation that we distributed to the committee is an example of the information that our industry has presented to hundreds of farmers, farm leaders, and government officials over the last year to provide information about global fertilizer markets. This past winter CFI and industry representatives spoke to farmers and farm groups from Wolfville, Nova Scotia, to Edmonton, Alberta. An article from the farm magazine *Top Crop Manager* featuring one of our industry company's business analysts is an incisive look at how the markets work.

We have had some dislocation in the markets over the last year, as you all know. In spite of current difficult general economic conditions, the outlook for agriculture remains among the most positive of all the industries in Canada.

The Canadian fertilizer industry contributes to the competitiveness of crop producers in a number of ways. It ensures that farmers have reliable access to high-quality fertilizer products. It delivers fertilizer on time from the Peace River district to the Annapolis Valley. It provides the latest scientific advice to allow farmers to get the most from every dollar spent on fertilizer. It manages stewardship programs to protect the environment and to protect the public from accidents or criminal misuse. It improves farmer access to the latest fertilizer and supplements technology through the Canadian Fertilizer Products Forum. It educates the public about the critical role that plant nutrients play in feeding the world.

Fertilizer is the foundation of Canadian agriculture. By applying fertilizer, farmers increase their crop yields and make additional profits that they would not receive had fertilizer not been applied. Throughout this winter it has been clear that some difficult decisions were going to have to be made. The economic meltdown last fall has left higher-cost fertilizer in storage across all of North America. Many farmers delayed making fertilizer purchases, hoping for price reductions. That has put pressure on the fertilizer and the transportation pipeline as inventories continue to back up. Fertilizer remains an essential investment each year. There is no substitute for adequate crop nutrition. That is as true this year as it has been in every year in the past.

CFI would like to draw the committee's attention to an April 17 statement issued by the Canola Council of Canada, which was endorsed by groups representing canola farmers:

> Some canola growers may be tempted to cut back on fertilizer rates this spring, but they might want to think twice.
>
> “With canola prices having backed off of last spring’s highs and fertilizer prices remaining relatively high, growers might be tempted to shave fertilizer rates in order to reduce costs,” says Canola Council of Canada senior agronomy specialist John Mayko, “But canola growers who cut fertilizer rates may end up cutting their profits.”
>
> With higher than average canola prices, the opportunity for good returns is solid; however, growers will need to use generous rates of nitrogen to achieve optimum net returns. Nutrients such as phosphorus and sulphur will also need to be at adequate levels to optimize yields.
>
> “Today’s hybrids need adequate nitrogen to optimize the yield potential of the hybrid genetics,” says Mayko. “Although it is important to pencil out the potential profit situation for each farm, consider this: With canola at $9/bu and nitrogen costing approximately sixty cents per pound, for every 10 lbs of nitrogen applied, it will only take a three-quarter bushel gain per acre to recover that cost. Any yield above this gain is profit.”

● (1115)

Canadian farmers are fortunate to have access to not only Canadian fertilizer products but also internationally produced sources of fertilizer. Canada is a free trade nation, and the Canadian fertilizer industry continues to push for more open markets.

For example, in January 2009 the Canadian government made a decision to reduce Libya’s punitive custom tariff of 35%. The Canadian Fertilizer Institute, along with the Government of Alberta, supported this initiative. With the newly amended tariff, the cost of importing urea fertilizer from Libya significantly decreases, providing Canadian farmers with an additional new source of imported fertilizer.

I'd like to note that for farmers, agri-retailers are the best source of information on the fertilizer market, but they need good, timely information from their customers so that they can plan supplies. There is an advantage to both agri-retailers and to farmers to establish a partnership that allows for the effective sourcing and distribution of fertilizer.

I'll skip through a number of the sections because of the time. I would like to highlight a few points, though.

The Canadian fertilizer industry has played a leadership role in developing and promoting the “Right Product @ Right Rate, Right Time, Right Place” nutrient stewardship system. This system is important not only in Canada but around the world in terms of ensuring that there is proper stewardship of fertilizer products and that farmers get the best economic return from their fertilizer dollar.

In terms of the economic impact of fertilizer in Canada, our industry is expected to help lead the economic recovery. The potash industry alone contributes approximately 20% of Saskatchewan’s provincial government revenue. These companies have announced $10 billion in Canadian investment.

In terms of the environment, one of the issues facing our industry, like all industries, is that there are pressures—in many cases justified—for improvements in environmental performance. The federal government needs to remember that the Canadian fertilizer industry faces unique challenges in reducing greenhouse gas emissions.

Environment Canada has stated the following:

> The fertilizer sector faces particular challenges related to dependence on natural gas feedstock, considerable international trade competition, limited ability to pass on costs, and high potential for relocation outside of Canada.

In terms of reducing nitrous oxide, or greenhouse gases, our industry has taken a leadership role in developing a nitrous oxide emission reduction protocol to compensate Canadian farmers with GHG offsets for reducing their on-farm nitrous oxide emissions. If farmers meet the criteria outlined in the protocol, which is nearing completion, they should qualify for an offset credit that could lead to a payment of $5 to $10 per acre.

In terms of the safety and security of our products, our industry has also been playing a leadership role. The initiatives that the Fertilizer Safety and Security Council has recently adopted—for Canadians who handle ammonia, one of the major nitrogen fertilizer products—provide uniform safety and security standards for the handling and storage of anhydrous ammonia at agri-retail facilities in Canada.

CFI believes the Canadian government has an obligation to participate in the cost of this upgrade in security measures, as it has in sharing the cost of the implementation of tougher security measures at Canadian seaports. I think the Canadian Association of Agri-Retailers has been before this committee in the past on this point, and we'd just like to emphasize our support.

I'm going to skip to the conclusion.

Our industry generally expects that the strength in agricultural markets will lead to recovering global demand for fertilizers in 2009 in spite of the current global economic uncertainty. Our members are turning that belief into investment decisions, creating skilled high-paying jobs in rural Canada that will ensure a stable supply of fertilizers for the future.

● (1120)

Of course, we're open to your questions.

The Chair: Thank you very much. We'll move into questions.

Mr. Valeriote, for seven minutes.

Mr. Francis Valeriote (Guelph, Lib.): Thank you both, gentlemen, for appearing before the committee today.

I'm curious about a couple of things you've said. I'm referring directly to your report, at page 7. You say that you have a limited ability to pass on costs when you're talking about environmental regulations. Could you expand on that for me, please?

Mr. Clyde Graham: The fertilizer industry is highly dependent on natural gas. It's a high-cost input. The price has moderated recently.

There is a very effective market mechanism for setting prices of fertilizer. It's a global price. Prices are not established in Canada; they reflect global trends in pricing. Fertilizer companies take the highs and lows in fertilizer prices as they move up and down in the global markets.

Mr. Francis Valeriote: If I hear you, what you're saying is that unless the providers of fertilizers outside of Canada are subject to the same environmental constraints that would drive up their costs, you would not be able to be competitive.

Mr. Clyde Graham: This has been a critical issue in discussions about implementing a global greenhouse gas system. Obviously, parts of the developing world have been more forward in taking on the challenge of reducing greenhouse gas. For industries like fertilizer—and there are many other industries that face this issue as well—everyone has to compete in the same global marketplace. If certain parts of the world have more costly environmental measures and others don't, that creates a competitive imbalance. Certainly I think if you look at what is being discussed in the United States under their cap and trade system—for example, the Waxman bill—you will note that this is recognized by the United States. Part of the bill includes trade measures that would impact on countries that aren't reducing greenhouse gases.

Mr. Francis Valeriote: I think what you're suggesting is, to the extent possible, we have a continental response to our environmental GHG emissions, so that with the integration, essentially, of our industries, you continue to have access to American markets. Is that fair to say?

Mr. Clyde Graham: I think that our industry is a global industry. Fertilizer moves around the world. It's produced from India to China to Australia, Europe, and Russia. There is a whole host of countries involved in production of fertilizer. Over the long term, any solution for greenhouse gas has to be a global solution. I think limiting that solution just to North America is not sustainable.

Mr. Francis Valeriote: Can you identify any particular regulations that exist now that you feel are making your industry less competitive?

● (1125)

Mr. Clyde Graham: I would say that our industry is doing very well globally. We are probably one of the world's more competitive fertilizer industries in the world. We're number one in potash, for example.

I think that in the past, taxation has been a major issue limiting growth of the industry. The changes in the federal resource allowance were positive and I think corrected a historical wrong on our industry in terms of the tax burden. I think Saskatchewan, where a lot of our industry has been based, has reduced royalties for new potash production coming on stream. These have been very helpful in encouraging some of the incredible investment that is going on in western Canada in fertilizer.

Mr. Roger Larson: I was just going to add that there's $10 billion of capital investment in new mines in Saskatchewan. That investment taking place right now has been stimulated by some of the royalty and tax changes that the federal government and the Province of Saskatchewan have made over the last five years. It's not that our tax has been eliminated. The Saskatchewan potash industry is still contributing something in the order of $1 in $5 of the Saskatchewan government's revenues, so it's still a very high contributor to the public. But these tax changes make us more competitive.

Other issues: transportation, infrastructure, calm labour relations at the ports—particularly the Port of Vancouver. Our industry is making a major investment in Prince Rupert, something in the order of a $500 million or $600 million investment in a new terminal there. If we don't have the railway infrastructure and competitiveness to move that product from Saskatchewan to the port, then we can't compete in offshore markets.

Mr. Francis Valeriote: Is it adequate now or does it need improvement?

Mr. Roger Larson: It needs improvement. We are looking at doubling our exports out of the west coast. There's a new potash mine in New Brunswick that will add another million tonnes of exports out of Saint John. We need increased port and railway infrastructure to meet that volume. We're competing with container traffic coming inland and with other exports. It's not just our growth; it's the growth of exports generally.

Mr. Francis Valeriote: Part of being innovative means research and development, better products. I haven't seen anything in your report about research, either your companies' investment in research or your involvement in university research. There doesn't seem to be anything about the use of public funds for research. Can you tell me whether you believe research, and the government commitment to it, is adequate?

Mr. Clyde Graham: One of our industry's long-term concerns has been the lack of new soil scientists coming into the academic community. There has been a decline in the number of PhD soil scientists available to do research on issues like reducing on-farm N_2O.

Much of our industry's focus on research has been on providing science to farmers. We assist them in using fertilizer products in the most efficient way. The efficient use of fertilizer helps farmers to save money and get the best profit possible, while helping to protect the environment. The more efficiently you use fertilizer, the less you lose to the air and water. This is in keeping with our stewardship system—right product, right rate, right time, right place. I think there's a lot more work to be done in this area.

As to new products coming on, we're engaged with some other industry associations in a partnership dedicated to optimizing the regulation of new fertilizer products. We have a project we call the Canadian Fertilizer Products Forum, which was greatly assisted by the ACA program at Agriculture Canada. It allowed for a consensus to be built among farmers and the fertilizer industry on changes to the regulatory system. We want to protect our high standards of product safety and efficacy, ensure that the products do what they say they're going to do, and streamline the entry of innovative products, particularly micronutrients and inoculants.

● (1130)

The Chair: Thank you.

Mr. Bellavance, seven minutes.

[*Translation*]

Mr. André Bellavance (Richmond—Arthabaska, BQ): Thank you for your testimony.

North America used to be self-sufficient with respect to fertilizer production, but that is not the case today. Recently I read that, in the United States, the price of natural gas largely determines whether or not fertilizer will be produced.

Will we one day be able to be self-sufficient in terms of fertilizer production, or are we clearly going to always have to rely on foreign markets?

[*English*]

Mr. Clyde Graham: Canadian farmers have always used natural or organic fertilizer. The foundation of those products is manure. Nothing has changed. There aren't any major new sources of so-called organic fertilizers.

The truth is, though, that there is simply not enough organic material to support the level of industrial agriculture that we have in Canada. In fact, it's estimated that about 60% of the agricultural crop production in Canada is due to the products that our companies make—nitrogen, phosphorus, and potash fertilizers. There are limited sources of organic material. Organic material is important to mix with the soil, but to have a modern, internationally competitive agricultural industry, you have to use fertilizer.

Mr. Roger Larson: Perhaps I could add to that.

The structure of the industry has certainly changed over time. If you look at the plants we have in Canada, those are world-scale manufacturing facilities. They have the efficiencies, the economies of scale, to lower the cost of production and the cost of fertilizer to farmers.

For example, if we were completely reliant just on the Canadian market for potash, we could not justify even half of one single mine and the cost of potash production would probably be uncompetitive. So we are reliant on global markets to create the manufacturing capacities we have.

In terms of the rest of the world, sometimes the flip side is the case. The largest phosphate mines and supply in the world are in Florida, North Carolina, Morocco, and a new mine going into Saudi Arabia. Those are much larger than the phosphate fertilizer plants we would have seen in Canada 20 years ago. They have the economies of scale and they deliver lower-cost products. Farmers around the world benefit from this global marketplace and the free trade in fertilizers, and we're strongly supportive of that.

Nitrogen fertilizers—major producers and exporters in western Canada. The supplies that farmers would buy in eastern Canada are probably brought in by boat from the Arab gulf.

[*Translation*]

Mr. André Bellavance: Have you read the study undertaken by the Federation of Quebec Producers of Cash Crops?

Moreover, this federation was not the first to do this: the committee also undertook a study comparing fertilizer prices in the United States with ours, particularly at the border. The study showed that some fertilizers were much less expensive in the United States, but did not draw a similar conclusion for all products used by farmers.

The Federation of Quebec Producers of Cash Crops recently published—the comparisons were made on March 13, 2009—figures showing that producers in at least four American states pay significantly less for fertilizer than their counterparts in Quebec.

I will give you an example. Urea 4600, which sells on average for \$563 per tonne in Kansas, \$599 in Ohio and \$614 in Minnesota, costs about \$900 in Quebec.

Are you aware of the study? Can we attribute the fluctuation in price to the time period when the study was done? Would you agree that, in many cases and for many products, costs are lower in the United States?

● (1135)

[*English*]

Mr. Clyde Graham: There are ups and downs in fertilizer markets. I haven't seen the March 13 study you were referring to, but over a number of years Agriculture and Agri-Food Canada has done an annual report on Canada-U.S. price differentials on fertilizers. And the conclusion in that report has traditionally been that there are no significant differences between the price of fertilizer in Canada and the United States.

Mr. Roger Larson: To add to Clyde's comments, one of the things you have to remember when you're looking at U.S. prices is that they're in U.S. dollars and in short tons. That would account for about a 35% difference in the number you're looking at. We have not seen the study, and we'd certainly refer it to the co-op federation for their comments.

We have seen tremendous, probably the most dramatic changes in market conditions in the last 12 months that we have seen in living memory, not just in fertilizer markets but in the energy markets, in the grain markets. A lot of it, I would say, would depend on the timing of when that product was purchased and put into inventory and the cost it came in at.

[*Translation*]

Mr. André Bellavance: I would simply like to point out that the prices I gave you earlier have been converted into Canadian dollars. The \$900 paid in Quebec and the \$563 paid in Kansas are in Canadian dollars.

When producers see this, it matters little to them if they are told the price does not fluctuate all that much. More and more often, they are trying to purchase products directly from the United States. It is your industry that is going to pay the price directly if ever the producers find a channel and decide massively to get their supplies in the United States. This is not the first time that you have heard about this situation. You have appeared regularly before this committee. Before I was given responsibility for this file, other individuals looked after the matter. This is an argument that crops up time and again.

Farmers will continue to have such studies done and they will always be concerned about the price they pay compared to the prices charged in the United States. It is obvious that you have not managed to convince them that there really is no fluctuation in price, because the studies show that there are.

[*English*]

The Chair: Very briefly.

Mr. Roger Larson: We have seen different spot observations like this in the past. Keystone Agricultural Producers did one a year ago, and it wasn't borne out when you actually did an analysis of same time, same place.

It's an open border. We support an open border—all of our members, our manufacturers, our retailers, our importers. If a farmer can find a better product and service package, then he should use that as part of his negotiations or make that decision to purchase.

But as I said, this year you will find that.... For example, if a retailer brought in fertilizer last July, August, or September, their cost would be dramatically higher than what it would be had they been able to go to the market, let's say, last December and purchase product. As a result, we're hearing comments in the industry that huge writedowns in costs have been taken by some retail members. We've heard of some situations where there may be a lack of support from the banks for some retail companies because of the inventory writedowns. I was told of one company in Alberta, one retailer, that has gone out of business since January, and it was indicated that the inventory situation probably was one of the causes.

● (1140)

The Chair: Thank you.

We'll move on to Mr. Allen, for seven minutes.

Mr. Malcolm Allen (Welland, NDP): Thank you, Mr. Chair.

Thank you, gentlemen, for your presentations.

I'd like to turn your attention to your statements around carbon charges and cap and trade, and how you see those effects delineating themselves across the price points for fertilizer.

You talk about both carbon charges, it seems to me, in the text on page 7, where you say that any carbon charge would be hurtful as far as competitiveness is concerned. I would take that to mean a more direct carbon charge. That's my emphasis, reading into that. At the bottom of page 7, you go on to say that the U.S. cap and trade proposals would hurt farmers due to increased price volatility. I assume—and I hate to use that word, because we know what it means if we break it up into three components—that you're seeing that as an added cost as well, which is a bit of a carbon charge, if you will, depending on how folks look at it.

Perhaps you could briefly let me know what your sense around that is. It seems to me there's a cap and trade system coming in the United States; I think the President has been pretty clear about that. So saying that it'll cost us more is just stating the obvious. What is the plan to actually deal with the situation? This affects Canadian farmers and American farmers in a global marketplace where others may not be involved in a cap and trade system.

How do you see that impact, whether or not we were to be involved in it? It seems as though it's going to happen in the United States.

Mr. Clyde Graham: Ultimately, there isn't a no-cost way to reduce greenhouse gases, so an economic burden will have to be borne. Our industry supports reductions in greenhouse gas emissions. We have been undertaking a lot of efforts over the years to increase our energy efficiency because of the high cost of natural gas in the past.

Regardless of what kind of regime is imposed, whether it's the emission intensity system that had been proposed by the Conservative government in the past or a shift to a cap and trade system, or even a pure carbon tax, I think there has to be a way in that system to allow flexibility for industries that are strategic, energy intensive, and also trade dependent, in order for them to remain internationally competitive, particularly during the period of transition when some countries are going to have more aggressive programs than others.

The Europeans have certainly taken steps to reduce the impact of their systems on fertilizer in Europe. As for the Americans, certainly in the United States there's a lot of consideration being given to this. They view fertilizer and the food supply to be a very strategic commodity and almost a national security issue.

Certainly this government, in the “Turning the Corner” document, indicated that there would have to be some special consideration for the fertilizer industry because of its situation in terms of high use of natural gas and also the intense global competition.

Mr. Malcolm Allen: From that perspective, then, you've outlined a couple of places that have potentially thought through what they might be doing, the European model and the U.S. model. They see it as a strategic product, if you will, because it's integrated into the agricultural component, which is really the development of food and making sure we all can eat. That makes perfect sense to me.

Do you have a sense of where you'd like to see this Canadian government go? Do you have a plan you would like to propose, or are you at that stage yet where you really have any sense of what steps you'd like to see? You've indicated that there are perhaps steps in place now where you kind of like what you see. Is there anything else that may be more specific around what you'd actually like to see happen?

● (1145)

Mr. Clyde Graham: As you know, we've been in discussions with the government on an intense basis for many years now. We've talked about special reduced targets for fertilizer and exemptions for things like the process emissions. We've also suggested innovative ways in which we might be able to secure credits, such as providing research for N_2O reductions on farms, and things like that.

But the bottom line is that there has to be a unique solution for fertilizer. The federal government has recognized that. I don't think we've yet determined how it might be prepared to proceed down that way.

Mr. Malcolm Allen: In reading through this, I note that you have a 4R stewardship model: right product, right rate, right time, and right place. From your perspective, are you seeing that being taken up by farmers? Across the board, are farmers saying that's right? For those who may not be saying that, are you engaging with them?

Farmers usually are ahead of the curve when it comes to their own farms and making sure that things work well, that they understand the prices, and that they understand the need to be efficient and do all the right things. I don't think anybody disputes that. The issue becomes, for those who may not be leading—because there are always those who are leading and those who lag—are there opportunities for them? Is there a way for your industry to help them get to that sense, and is it being done by your industry?

In a sense, what do you see as the impact of the four Rs? Clearly, if you talk about the right product, it's obvious, but when you start talking about the right rate, the right time, and the right place, it really is about reducing the amount you use, reducing the amount you put on the field if you don't need it, and it's about doing the right amount at the right time. Do you see that as having an impact on your industry?

Mr. Clyde Graham: To your point about the right rate, you wouldn't reduce your fertilizer application in all circumstances if you're following that system. There are parts of Saskatchewan, and other provinces as well, where farmers are not applying sufficient fertilizer to meet the needs of the crop. It is based on scientific recommendations. We quoted the Canola Council, and for years the Canola Council has had a concern about under-fertilization of canola in that province, because there are limited acres that can go to canola every year due to the rotation requirements. The canola industry has to supply the crushing plants in foreign markets like Japan. Certainly there's lots of scientific evidence that shows it's not reducing fertilizer that's important; it's getting the right amount of fertilizer to meet the replacement needs of the plant.

In certain cases, yes, there may be too much fertilizer being applied, but in other cases, farmers have not been applying enough. I think that goes for other nutrients as well. For example, with potash, you don't get the immediate reward from applying potash, but over time, if you don't have a proper balance of nutrients, including potash, you don't get the yields you want. So there's probably an under-utilization of potash in certain areas of Canada as well.

Right now, we have a good general level of fertility in Canada. But if you go back to the Dirty Thirties, one of the major contributing causes of the dust bowl was the fact that we had been mining the soil for decades in Canada. When you had a dry spell, there was not the carbon in the soil to hold the dirt, and it all went up into the sky. We're not at that point—far from it—but over time, you can't mine the soil. It's a zero-sum game. You can't just harvest crops without putting back what you've taken out.

The Chair: Thank you.

Mr. Lemieux, you have seven minutes.

Mr. Pierre Lemieux (Glengarry—Prescott—Russell, CPC): Thank you very much, Chair.

Thank you to the witnesses for being here today.

There are definitely many challenges facing farmers today, as we all openly acknowledge, and certainly facing your sector as well, as was clear in your presentation to us this morning. Many of these factors are out of government control, but there certainly are some things in which the government definitely has a role to play.

I live in a rural riding, right beside Ottawa. Agriculture is core to the economy of the riding. The people, long-time farmers, are very dedicated to continuing to farm and wanting youth to come into farming as well. They're very worried about input costs, every single input cost, because that is what has an impact on their bottom line.

The matter that concerns me is what I would call an input cost multiplier. I call it a multiplier because it will affect every single input cost—not just one, but all of them. What I'm talking about, of course, is a carbon tax. I just want to put some facts on the table. These are facts regarding a carbon tax.

The first thing is that the carbon tax is the invention of Mr. Ignatieff, who's the leader of the Liberal Party. He is the one who came up with the carbon tax, and if people think I am overplaying my hand, they should just go back and watch the 2006 leadership race. They will see it is Mr. Ignatieff who is pushing forward the carbon tax. It's basically his baby. He's the strongest advocate for it.

The second thing is that we just had the Liberal convention. This is the fact. They just passed a motion of strong support for a carbon tax. This should be a warning bell to all farmers and to industries such as yours.

The third thing is that Mr. Ignatieff said less than a month ago that the Liberals will raise taxes. It wasn't “we may” or “we're considering”, or “it might be necessary in the future”; it was “we will have to raise taxes”.

We have these three things coming together at this point in time. It's a multiplier of input costs because it's going to affect every single input cost going.

I remember reading in the paper a few days ago, when Mr. Ignatieff made his comment about having to raise taxes. The actual headline of the article was “Are Canadians ready for the truth?” The article was not saying Mr. Ignatieff was joking, that he was misquoted, that he really didn't mean what he said. The article was saying he meant exactly what he said: are we, as Canadians, ready to hear this?

One of the points I want to underline is that it doesn't have to be that way. As the Conservative government, we lower taxes. We have lowered taxes, and this approach is helping farmers and helping your industry.

The question I want to ask is this. What would be the impact of a carbon tax on your industry?

● (1150)

Mr. Clyde Graham: A number of different regimes for reducing greenhouse gas have been discussed in Canada and throughout the world. Liberal and Conservative governments were looking at an emissions intensity system, and that's where we were at in terms of the proposed regulation in “Turning the Corner”. In Europe they've really gone more to cap and trade. The United States is pushing for cap and trade. I think Minister Prentice is now saying that Canada would like to align with the United States with a cap and trade system. Ontario is proposing a cap and trade system.

In the end, all these systems are designed to economically penalize companies and individuals who don't reduce their carbon footprint, and they're also designed in some way to reward people who reduce their carbon footprint.

Mr. Pierre Lemieux: I would just say that the carbon tax does not reward anybody. The carbon tax is a straight tax. Everybody gets taxed, and there's no revenue to be gained in offsetting that tax; it's just a straight tax. And that's why I'm asking about the carbon tax and what that tax would do to your industry.

Mr. Clyde Graham: I must say we haven't really looked very closely at various models for carbon taxes that are out there. I haven't really looked at what the most recent Liberal proposals would be. Taxes are redistribution systems as well, and the Government of Canada's income tax is redistribution, so we've spent our time closely analyzing the policies that have been put forward by the government because those are the ones that are imperative to it. So we've spent a lot of time looking at “Turning the Corner”, and we're now starting to spend a lot of time on cap and trade.

● (1155)

Mr. Pierre Lemieux: I'm just wondering how it would affect your industry.

Mr. Clyde Graham: Any measure that would be an unreasonable cost to our industry, like any industry, would be difficult for industry and would affect our competitiveness.

Mr. Pierre Lemieux: How would a carbon tax impact your ability to compete internationally?

Mr. Clyde Graham: I'd have to look at the level of the tax. We'd have to do that analysis to compare it against other regimes.

Mr. Pierre Lemieux: It would be detrimental, though.

Mr. Clyde Graham: I think any system that put an undue cost on our industry and was unrealistic in terms of our ability to produce reductions would be a detriment to our industry.

Mr. Roger Larson: I think it's important to note, when you're looking at carbon, that the issue of global warming or greenhouse gas emissions is global, and our global competitiveness is not based vis-à-vis the U.S.; it's based on what happens in the Middle East, in Russia, in China. And if you dramatically increased our costs in Canada with some kind of carbon charge, whether it's cap and trade, whether it's tax, whatever, you would end up pushing manufacturing production offshore. We've done some benchmarking work with Natural Resources Canada on our energy efficiency. We are number one in the world and we don't have any room to improve.

If there is a charge, it's simply a cost, and you would end up increasing global GHG emissions because we're more efficient than other parts of the world. Our manufacturing plants in Alberta, which were built in the mid-1980s—and the last one was built in the mid-1990s—are still more energy efficient than the new plants being built in the Arab gulf right now because our industry invested in the best technology, in the highest level of energy efficiency.

So any cost would affect our global competitiveness, yes, absolutely, and in our view, it would be unfair and unreasonable.

The Chair: Thank you very much.

Gentlemen, I have to go in a few minutes and I have a couple of things to mention.

As you know, the study we're doing right now is about competitiveness, or the lack thereof in a lot of cases. Industry always has an opportunity—and most of the time it capitalizes on that and then some—to recover their costs. We're here to try to help the grassroots producers and make sure they are viable, that we have a good quantity of good-quality, safe food here in Canada.

I know that up until 2007 the grains industry, which is a large user of fertilizer, had about four or five very bad years in a row where they made no money, and in fact, in some years they lost money. They're very dependent on fertilizer. As I said, I know that finally in 2007 they basically had some record prices, which was good. It was about time. The unfortunate part about that was that fertilizer prices went up probably the same amount as those large increases in commodity prices, maybe even higher. We had some witnesses last year who basically admitted that there was some extra price-taking. Larry Miller calls it price gouging.

I think there's no doubt that went on. What would the figure be, in your estimation, of that price gouging? Was it 10%, 25%?

Mr. Clyde Graham: I don't agree with your premise at all, Mr. Miller. Our member companies operate in a free market, and like everyone in the market, their job for their shareholders is to do the best they can to run profitable businesses, just as farmers do.

I would say that if you looked at the farm income for crop producers, setting aside livestock, which has had some tough years, even going forward, the net farm income for crop producers in Canada has gone up dramatically in the last few years, and frankly, a large part of that increase in their profitability has been due to the use of fertilizer products.

Historically, fertilizer prices tend to track fairly closely with grain prices, and the reason is simple. When prices of grains are high and there's good demand for grains, farmers around the world tend to use a lot of fertilizer, or they go back to the correct amount of fertilizer, in order to try to take advantage of that market uptick. As more farmers demand the fertilizer, the price of fertilizer tends to go up because production can't react that quickly. It takes about five years to open up a new potash mine, and that's just from when you have the approvals. It takes three to five years to establish a new nitrogen plant. You can't bring new fertilizer production in overnight. So when grain farmers decide that the prices are outstanding for their products and they need to maximize their yields, they're going to put on the recommended rates of fertilizer around the world, and then there will be increased demand for fertilizer and the market will respond.

• (1200)

The Chair: Mr. Graham, I know all about supply and demand and what have you, and as I said, we had witnesses who basically admitted that there was certainly some extra price-taking in the industry. I know that, because while the grains industry was having a couple of good years, as you mentioned, the livestock industry certainly was not, and there was a significant extra cost burden to them. My riding is the second largest producer of beef in the country. Of course there's a lot of pasture and hay, and I know many of my farmers, a large percentage, just basically cut back or didn't put any fertilizer on in that time. That is not sustainable. You know that can't continue.

But you just talked about opening a new mine and the time it takes, and that leads me to another question. There was some pretty clear evidence pointed out—it was in print—that fertilizer companies, certainly here in Canada and maybe in other places around the world, were basically scaling back production in order to keep those elevated prices. So what was the scale-back in production? Was it 10%, 20%? Do you have a number for that?

Mr. Clyde Graham: What happened this winter was that because of the meltdown in the markets last year, there was a lot of uncertainty in the marketplace in North America. And as well, there were a lot of inventories in place that had been purchased—

The Chair: What was the scale-back percentage in overall production?

Mr. Clyde Graham: It would vary, depending on the commodity. I think probably the bigger reductions would have been in potash.

The Chair: Could you supply those numbers to the committee? I know you can't today, but could we get them?

Mr. Clyde Graham: Certainly. I think they are probably on our website, in fact.

Mr. Roger Larson: In the case of potash, you have PotashCorp, Mosaic, and Agrium. They're all publicly traded companies, and I think they've all made announcements of temporary mine production and cutbacks.

The Chair: I'm quite aware of that, yes.

Mr. Roger Larson: So that information is out there in the public marketplace.

The Chair: That would be good. I would appreciate those things.

Mr. Easter, for five minutes.

Mr. Bellavance, would you take the chair, please.

Hon. Wayne Easter: Thank you, Mr. Chair.

I do want to get to the same line of questioning as you were on.

First, I do want to welcome the guests and thank you for not falling into the trap that the parliamentary secretary is trying to lead you down, into a campaign of fear, because that's all they seem to know on the government side—a campaign of fear. Again, I want to put on the record that what Mr. Lemieux was doing was clearly, as is typical from the Conservative government, misrepresenting the facts. So that's on the record.

Seeing as we're in the fertilizer business, basically what they said was a lot of BS. Whether it's organic or chemical, it's still BS.

Mr. Pierre Lemieux: On a point of order, Chair, I want to point out that those are unparliamentary remarks, to say that another member of the government is talking BS, to say that I've been untruthful.

• (1205)

Hon. Wayne Easter: I didn't say you were untruthful. I said you're misrepresenting the facts, which is true.

Mr. Chair, I have one point first in terms of business costs. I'm getting a lot of calls from fertilizer retailers who are talking about the costs of having to put up security fences, etc. I think you're aware of that issue. The Government of Canada seems to be leaving agri-retail businesses, smaller fertilizer companies, in the lurch as compared to what they're doing under the United States Farm Bill relative to the same security issues. Do you have a comparison there?

Mr. Roger Larson: We don't have the comparison with us right now. Certainly, the Canadian Association of Agri-Retailers has pulled out examples of what is being provided in terms of assistance for investment in security at agriculture retail locations in the U.S. and they have asked for similar parameters or measures in Canada.

There are new regulatory requirements coming into place in Canada. The House recently passed TDG amendments that would require agri-retailers to increase their regulatory compliance for some of our products that are “transport of dangerous goods” classified.

So there is an increase in custody requirements and security requirements for fertilizers and other agri-retail supplies.

Hon. Wayne Easter: Okay, thank you.

So what it's really doing at the end of the day, because of the lack of government assistance in Canada, is making our fertilizer sales at the retail sector level uncompetitive.

Now, Clyde, when you first started off, you talked about the drive in market demand, that consumption in China and India is really driving up fertilizer prices. That argument held water a year ago, but I don't think it holds water longer than a year ago, I guess. I don't think it holds water today. In response to a question from the chair, the potash companies said they have in fact been cutting back production. That's even though they're still making profit, as I gather, from the raw potash price coming out of the mines. So we would appreciate getting how much that scale-back to production was.

I think you're probably aware as well of letters that came in from the former Minister of Agriculture, Eugene Whelan, who is basically accusing the three—I think there are three potash companies in the world now—of fostering starvation. The reason I think he's saying that is that there's a great attack on supply management. If we've ever seen supply management, we're seeing it at the potash level, because they're cutting back production because their profits are not huge enough.

As a result, my question is why Canadian producers are paying so much. Right now, in my riding, I have potato producers importing fertilizer, 16-16-16, from Russia. They're bringing it in in containers because of the overpriced fertilizer within Canada. They can save $60,000 on 400 acres of potatoes by importing from Russia.

Do you have any idea why those prices are so high here at the sale point? Was it the speculation in the market previously or what?

[*Translation*]

The Vice-Chair (Mr. André Bellavance): I would ask you to please provide a brief response, because Mr. Easter's time is almost up.

[*English*]

Mr. Roger Larson: I'll try to give a quick answer.

If I were to talk to the retail companies that imported product and supplied those farmers in eastern Canada, whether it's in P.E.I. or in Quebec, what they would say is, in order to secure supplies for their farmers last year—in July, August, and September—they bought fertilizer from around the world at globally high prices compared to where they are today. That has caused the market dislocation that you're seeing.

In terms of profitability, publicly traded companies like Viterra and Agrium have announced that they have made writedowns in the value of their fertilizer inventories. Yesterday, Agrium came out with a $60 million first quarter loss as a company. So the upheavals in the marketplace are definitely affecting fertilizer companies.

Bill Doyle made a statement to stock analysts last week on the demand for potash and cutbacks in production to meet the demand that was in the marketplace today. He also talked about the need to make something like $10 billion to $12 billion of investment in new mines. He said they needed those prices in order to sustain that investment.

● (1210)

[*Translation*]

The Vice-Chair (Mr. André Bellavance): Thank you.

Mr. Hoback, you have five minutes.

[*English*]

Mr. Randy Hoback: Thank you, gentlemen, for coming out again.

Actually, I'm going to continue along the same line as Wayne, because Wayne started some things here that I think really need some answers.

Being a farmer coming from Saskatchewan, I have a love-hate relationship with potash. As a taxpayer, I love the fact that 20% of our revenue is coming from potash. It has paid off a big chunk of our deficit this last year. And I have to give the Saskatchewan Party compliments for creating an environment for the expansion of these new mines. I know the previous government would never allow that environment to happen, and it shows you what happens when you let free enterprise reign.

One concern I really have—and it showed up last spring, and it's going to show up again this spring—is logistics. It's getting the product to the farmer. We had scenarios last spring where farmers were waiting for anhydrous, they were waiting for fertilizer, sulphur, and it seemed like the industry did not anticipate that. That surprised me, because they knew that the previous year's fall usage was down. So they know that there's going to be *x* amount of product going on, yet you were unable to supply the product in a timely manner.

Can you guarantee to me this year that you're actually going to make sure that all of this fertilizer is delivered and that farmers are going to get the product when they need it?

Mr. Clyde Graham: I want to go back and relate to the pipeline statement that Mr. Miller made and Wayne alluded to about production shutdowns.

Part of the reason that companies were forced to shut down, not only in Canada but in many parts of the world, is that farmers were not coming forward with their orders. There is a limited amount—

Mr. Randy Hoback: Is it fair to say, then, that the mechanism you use for pricing fertilizer is not reactive or quick enough to respond to the demand in the marketplace?

Last September and October we saw that guys were not putting it on. You knew that, but you kept the price up. You kept it up until December 31 because you knew guys had to do a year-end buy. You actually went to your fertilizer agents and said, “You'd better book your stocks now or you won't have them this spring.” You guys pushed it right to the chain. You knew what was going on in Europe and everywhere else in the world. You also know now, this spring, that all of a sudden we're going to have a huge logistics battle. Who's to blame for that? It's not the farmer.

Mr. Clyde Graham: One thing you have to remember is that there is no “you guys”. The fertilizer industry, in terms of our member companies, is made up of 43 companies that operate in Canada, plus there are many other smaller companies that are important players in the market as well. Everybody in the market, because it is a free market, operates and makes their own decisions.

We knew last fall that there was a significant change in the marketplace. Certainly some people in the retail industry were caught on the wrong side of the market with higher-priced inventories. That leaves retail companies in a difficult position. They either have to hold on to the price, or they have to mark it down. Over the last year, companies have been making decisions related to that.

Farmers have been making difficult decisions as well. Farmers have been saying they may want to hold on and see if the price comes down. But if farmers delay booking their orders, the risk is that there's a chance they may not have supply. Those are the kinds of tough decisions that occur in a marketplace, when you have a shock that occurs to it like it did last summer.

Mr. Randy Hoback: Earlier you referred to the market meltdown and the issues around the market meltdown. The market meltdown started in September or October of last year. In November we were in the heart of it. If we're going to have a market meltdown, your prices should have started melting down then, not in January-February.

Another reason I say I have this love-hate relationship with potash.... I think potash right now is about $950 a tonne. We're shutting down mines. I've talked to a few agents—who asked that I not pass their name forward, so I won't—who are very concerned about whether they're actually going to get physical supplies, yet you're saying there's a surplus of potash. Well, not in Canada then, if they're concerned that they're not going to get supplies.

Another issue now is that if we're going to see barley go into the ground without potash, it means we'll probably have a reduction in yield, more disease, and other pressures. Mr. Whalen might be correct; you're generating a self-fulfilling prophecy of reduction in food.

● (1215)

Mr. Clyde Graham: I would go back to the statement put forward by the Canola Council. The Canola Council is one of the most science-based organizations out there, and canola farmers are part of the Canola Council. They've looked at the fertilizer prices as well, and they're saying that at today's prices for canola it makes sense to fertilize to the recommended rates in terms of their net profit. I think that all farmers have to make tough decisions this year, as do retailers.

[*Translation*]

The Vice-Chair (Mr. André Bellavance): Your time is up, Mr. Hoback.

I had just sat down in the chair's seat when Mr. Lemieux made a point of order. I was in the process of adjusting my earset and, unfortunately, I did not hear the comments made by Mr. Easter. You were under the impression that I did not say anything, and that was the case. I would like to tell you that here, in committee, the rules are less strict than they are at the House of Commons.

However, I would like to point out that in the vast majority of cases, we have always been respectful of one another and I would like this to continue. So I would like us to agree that our comments will be as respectful as possible.

Ms. Bonsant.

Ms. France Bonsant (Compton—Stanstead, BQ): Thank you, Mr. Chairman.

Earlier, if I understood correctly, you said that your companies reduced greenhouse gas emissions as a result of investments they made in their industries. Is that accurate?

A voice: Yes.

Ms. France Bonsant: If the government—and I'm going to be polite—showed some backbone and implemented the carbon market, would that enable you to be more competitive with respect to other countries? Indeed, according to the Kyoto Agreement, you could get credits for reducing your greenhouse gas emissions.

[*English*]

Mr. Clyde Graham: I think one of the issues you're talking about is early action. That's an issue that was addressed in "Turning the Corner" and will probably have to be addressed in a cap and trade system. At this point in the regulatory regimes we have seen, we would not get adequate compensation for the early action our industry has taken. In any of these regimes, I think you tend to look for a starting point and then you reduce from that. A lot of our reductions in emissions occurred in the 1990s, I guess, and that was through engineering.

What happened, of course, is that we were dealing with high natural gas prices, and of course, any plant manager says that if they're purchasing natural gas at a very high price, they want to be as efficient as they can. So you take down what you call the low-hanging fruit; you do the easy things that make you more efficient. But now we're at the point where we've done all of that stuff and anything further is either extremely expensive or just isn't available.

[*Translation*]

Ms. France Bonsant: I understand what you are saying with respect to the carbon market, because the Bloc Québécois has been fighting to have 1990 be the reference year. Quebec has done a lot of work on this as well. Despite this, the federal government has decided that the reference year will be 2006. As a result, we have lost 16 years.

> I would like to ask you something else. You stated that the government is currently studying alternate solutions, such as a cap and trade system, in order to harmonize its approach with that of the United States. You also added that the fertilizer industry sensed that the American cap and trade proposals would hurt farmers because of the tremendous price volatility.

I don't know what you mean exactly. Could you please provide further explanation?

● (1220)

[*English*]

Mr. Clyde Graham: I'm not as familiar with the U.S. system as ours, but one of the concerns in the United States is that their system as its being developed—and it's a very fluid situation down there, with the Congress and what's being proposed—would increase the price of fuels such as natural gas, which would flow to energy intensive industries. That's one of the issues.

As well, there's the same issue that there are very limited opportunities for further efficiencies in the fertilizer industry, because our chemistry is very simple and the engineering is well developed. There are not a lot of magic bullets out there for our industry.

[*Translation*]

Ms. France Bonsant: Would you like to add anything? I have another question.

You mentioned the train. I know that the railways have been neglected somewhat, and I am well aware of the fact that railways were the cornerstone for Canada's development.

Is this a means of transport that could help you broaden your borders for delivering goods, or is this just another way of saving on transportation costs?

[*English*]

Mr. Roger Larson: We are probably the third largest user of Canada's railways in terms of the tonnage we ship and the dollars we pay to the railways. So we're a huge customer. You have grain, coal, fertilizer, and forest products; those would be the four big users of the railways.

Our companies have developed close partnerships with the railways as part of their business, because in the fertilizer industry, you have to have that kind of partner relationship to keep your costs down and to deliver the product to the farmers.

And there are innovative things being done. For example, if you look at Canpotex, they've invested in a special railcar that is sized just to carry potash. It allows, I think, a 160-car unit train to expand to 210 cars. That's done to reduce the cost of transportation to get the product to Vancouver.

So our member companies are doing that. And yes, railway is the most important mode of transportation for us.

[*Translation*]

Ms. France Bonsant: All right.

The Vice-Chair (Mr. André Bellavance): Ms. Bonsant, your time is up. Mr. Storseth, for five minutes.

Mr. Storseth, if you want to let your colleague have your five minutes, you are entitled to do so.

[*English*]

Mr. Brian Storseth (Westlock—St. Paul, CPC): Thank you, gentlemen, for coming today. I know you sometimes have a difficult task when you come to this committee.

I would first like to set the record straight about some of Mr. Easter's comments on the U.S. Farm Bill. It was actually a Liberal government that signed the WTO agreement that allowed massive U. S. subsidies in their farm bills—as well as European subsidies—while at the same time selling out our farmers by not allowing us to do the same thing.

But there really must be a problem here when I actually agree with Mr. Easter on a topic. There has to be something going on with you guys. I say “you guys” because when the markets are up farmers lose out, and when the markets are down farmers lose out. You came here last year and testified, and every time it was about increased prices—this is why it has always been driven this way, and farmers know that; they put more on when they're making more money.

Today you're talking about current canola prices and saying they should be putting more product on, but the fact is that farm income is simply not a free market justification. I cannot stress enough how tired am of hearing that as a justification for why prices rise and stay that way. Then you start decreasing the amount of commodity your organizations are putting out.

My farmers in particular have been hit hard by this. Some ships have come over, and Mr. Easter talked about that. A lot of my producers in the Westlock, Bon Accord, and Gibbons areas don't want to go to Russia; they don't want to go overseas. They want to deal with their local guy.

You came to us last year and recommended we give farmers access to credit year round so they can buy in the low points. But there were no low points last year. Some people here have said they've been kept artificially high. Whatever you want to say, the fact is they were kept ridiculously high throughout the entire buying season and only got higher when farmers had no choice but to buy. So access to credit really was not a determining factor in my area, and I can speak only for my area.

My first question is, when are my farmers going to see a reduction in their rates due to the lower natural gas prices we've been experiencing and that you talked about last year?

● (1225)

Mr. Roger Larson: I agree that farm income is not a free market explanation. When you look at it on a global basis, it is an indication of why farmers around the world increase their demand for fertilizer, creating competition for the available supplies. That's what, in equilibrium, delivers the prices.

To your question on natural gas, when the price of natural gas in North America has gone down, it has lowered the cost of production in manufacturing in North America. The cost of natural gas in North America is still dramatically higher than in other parts of the world, such as the Middle East. So you have to keep things in perspective. But if you were to look at the quarterly results published by publicly traded companies, such as Agrium and CF Industries, and the prices at which they are selling their products, you would find that in the last five months their prices have come down. That is a big part of the reason why, two days ago, Agrium announced a $60 million loss in their first quarter.

Mr. Brian Storseth: You talked about an increased demand for fertilizer and then said you have to shut down some of these things because of the economic meltdown. There really seem to be some contradictory statements.

I don't want to put words in your mouth, but at the end of the day, I do know one thing for sure. I do know that you're starting to say that our plants are better environmentally, so we need to make sure that.... You're setting it up so that we look after our industry here, and from what I'm hearing, we need to put some tariffs on anybody who may want to import into this country, because you know, they're not competitive environmentally and their natural gas prices are so much lower. But at the end of the day, until you give our farmers a break, I don't know why we should use their taxpayers' dollars to give your industry a break.

Mr. Roger Larson: We're not asking for tariffs on imported fertilizer. Half our member companies are importers of fertilizer, and they'd probably be very supportive of that point of view. We have warned that if the U.S. cap and trade system comes in and imposes border adjustments, it could have a dramatic effect on the 60% of the fertilizer that's produced in Alberta and exported to the United States.

[*Translation*]

The Vice-Chair (Mr. André Bellavance): I would like to follow up on a comment made by Mr. Storseth about the price of natural gas. The price has gone down quite considerably, but that is not the case for fertilizer. You can understand that if the price of fertilizer remains high compared to the price of natural gas, this may obviously result in lower demand, and producers may also decide to grow a crop requiring less fertilizer. I know that in Quebec, for example, the Federation of Quebec Producers of Cash Crops has noted that many producers have decided to grow soy, which requires less nitrogen.

I would like you to provide me with a brief explanation of why this is happening. In all economic sectors, when we see a drop in inputs, we would, at the very least, expect there also to be a drop in the product required for these inputs. That is the case with natural gas. So I'm asking myself a lot of questions.

[*English*]

Mr. Roger Larson: Coop fédérée would likely sit down with you and say that they bought their fertilizers for Quebec last year in the fall, and that they paid a price that was in effect before the global economy collapsed. They have the cost of their inventory, and they would say that when they buy and the price goes up, they supply their farmers according to the lower cost of their inventory. This year they got caught with very high-cost inventory, and they would be looking at a dramatic writedown in their costs.

This is a matter of debate. Some farmers are looking at bringing in containers and bypassing the retail system. The retail system, though, operates with a view to long-term service to their farmers. They have made investments in the ports. They've made investments in retail facilities. They've made investments in providing expertise to their agricultural producers. They buy their product throughout the year. This year they would probably say they got nailed by the global economic chaos.

The marketplace will need to sort it out. Difficult decisions will need to be made by both buyers and sellers.

● (1230)

[*Translation*]

The Vice-Chair (Mr. André Bellavance): Mr. Murphy, you have five minutes.

Mr. Brian Murphy (Moncton—Riverview—Dieppe, Lib.): Thank you, Mr. Chairman.

[*English*]

In my province of New Brunswick, there is a substantial potash producer. You commented about the need for infrastructure. I presume you were talking about the Port of Saint John and the rail links to it. Would there be a benefit to having a special economic fund set aside for infrastructure in the Port of Saint John and other ports that would help the potash plant in Sussex?

Mr. Roger Larson: I'm not sure, but I would be happy to get back to you on what they're looking at.

Mr. Brian Murphy: Sure. That's a wonderful answer, and a brief one too.

As I'm here at this committee as a visitor, I want to thank you all for letting me be here and have a lunch and everything.

I was wondering if there would be any legal angles at all to this thing, and it strikes me that there's a huge one.

When I was going through law school, we were just going through the era of enacting the Combines Investigation Act, as it was called then. Lawson Hunter, who was from the University of New Brunswick Law School, was the first commissar of the CIA, which has now turned into the Competition Act.

I know a little bit about the Competition Act's not having enough teeth or claws, whatever you want to call it, to intercede in anything that doesn't relate to the price to the end consumer. I know there's been some litigation up the chain with some of your clients or representative companies. It seems to be woefully inadequate in this case. What I'm hearing...and it almost unites the parties, which we shouldn't let out of this room; people might think we're not at loggerheads, the way we see every day. It seems there is a feeling in this room, without any real proof, that there is price fixing or supply restriction with respect to potash worldwide and in Canada, and it affects Canadian farmers. I don't know how you can deny that, when first of all you say that production has been cut back, jobs have been lost, yet you talk about—maybe worldwide—a lack of demand.

Let's put the cards on the table here. I'm not a farming guy and I don't know much about fertilizer, but the free market, which we've talked about here.... Mr. Hoback said it was great that in Saskatchewan the free market reigned and there was more potash mining coming online. Yet he launched into a whole aspect of it that, to me, cries out for at least an investigation into how the free market is working with respect to the price of potash, which I understand is hurting Canadian farmers.

Is there price fixing? Is there supply restriction being mandated by the three or four companies that control this commodity? Yes or no?

Mr. Roger Larson: No. I have never seen any evidence of any illegal activity by any of our member companies.

Mr. Brian Murphy: I didn't say it was illegal. I told you that the Competition Act doesn't touch this aspect. I'd never say it's illegal, but I would say that it's a demonstration of the free market for sure, because if you can make a higher buck by restricting production—supply, that is—and wait for the day when you'll be getting that dollar, that is the free market.

So are you restricting supply? Are your clients restricting the supply of potash—it seems to me a very simple question—thereby driving up the price?

• (1235)

Mr. Roger Larson: In his comments to stock analysts maybe a week and a half ago, Bill Doyle stated that his company's approach—which is only his company's approach—is to look at the demand for potash and ensure that they have production to match that demand. He made a comment to the effect that the demand for potash was not going to dramatically change, whether the price was *x* or *y*. He also indicated that if the major customers around the world, China and India, did not want to support investments in the potash industry and those investments didn't take place because there wasn't sufficient price to generate them, five years from now the price of potash would be $1,500 or higher. His view, as a company, was that he was working in his customers' interests by ensuring the demand and supply of potash would not get so tight that the price of potash would go to those levels. That would require investment today, and in order to make that investment, his company needed to have a certain return.

[*Translation*]

The Vice-Chair (Mr. André Bellavance): Your time is up.

Mr. Shipley, please.

[*English*]

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): Thank you, Mr. Chair. And I thank the witnesses for coming.

The farmers I'm dealing with almost on a daily basis, particularly in my riding.... I have a diverse riding that has not only cash crop, grain, and oilseeds people but a lot of livestock people as well.

When our chair, Mr. Miller, brought the issue up, you said that fertilizer prices tend to follow commodity prices. I don't know how that works, because you didn't explain what the commodities were. Even though there was a small rise in the price of commodities—basically for grains and oilseeds—there was also a tanking of commodities in terms of the livestock industry. The livestock industry also relies on the use of crops to feed the animals.

Saying that it follows the price of commodities actually has no justification in terms of what the need is and in terms of the operational costs of producing. When I look at some prices here from 2004, when corn was a little over two dollars, and from 2005 you see, particularly in ammonia, those prices increasing while commodity prices were decreasing.

Then in 2006, all of a sudden, when everybody was telling us.... Quite honestly, I didn't talk to a marketer who was able to tell me that commodity prices were going to increase. In 2006, when they took off, there was a stabilizing and then there was this escalation, because, holy smokes, look at what the farmers are making; we have to get in on the game.

Now, we have farmers in my area who are actually good farmers, but they cannot afford to be paying the prices because, through your organization, these retailers did bad buying.

Now, there's always the concept within agriculture that the primary producer pays. That has not gone away. You talk about a reduction in profits. I can take you to farm after farm and show you the sheets. Not only in the first quarter did they lose money, but they've lost money for three or four years. There was not the sympathy, quite honestly, for your industry. I say “you” because you're the ones who are here today and you represent the industry. There was not the consideration of that industry for the farmers when the prices were low.

I need to have answers as to why there is still the consideration that it follows the commodity prices. That's not a valid reason.

Second, you talked about educating the public on the benefits of using fertilizer. I didn't hear anything in your presentation, quite honestly, about helping and working with the farmers, who are your customers. They're the ones who write your retailers the cheques. We haven't heard anything about how we should be concerned and working with the farmers in terms of their being profitable so that your end of the equation and your representatives can be profitable. You're spending money on public education to tell us, the consumers, that if the farmers use fertilizer, this is going to be good for us. But I didn't hear anything about what you've done, and I'm looking forward to that, to actually help the farmers in terms of their education. What they've had to do was on their own.

I think the quote is something like the right place, the right time, the right amount. They worked through the industry with that, and it has driven the technology in agriculture to a great extent, not only for the organic use of fertilizer but certainly for the manufactured fertilizer. I need to understand that part of it also in terms of what you are putting in to help the farmers in terms of the benefits to the fertilizer industry in terms of education.

• (1240)

Mr. Clyde Graham: In terms of the commodities that drive fertilizer prices, the grains and oilseeds complexes—corn, soybeans, wheat, rice, and canola—are the major commodities in Canada. Certainly it has been a difficult time for livestock producers, but the markets are being driven primarily by the demand for grains and oilseeds. There is an increase in animal husbandry in Asia. People are eating more meat in Asia. There's more feed grain demand in Asia than there ever has been before, because people in those areas have higher incomes and want to have better diets with better animal protein. That has been a major driver in the marketplace for fertilizer to meet that demand.

In terms of education, our industry helped establish and bring to Canada the certified crop adviser program, which sets high standards for agronomic advice for farmers. Most of the certified crop advisers in Canada are employed by agri-retail companies. They pay their salaries and make their advice available to farmers. In many cases, it's part of the service they provide when they purchase their farm inputs, their pesticides, and their fertilizers.

The reason our industry did this was to fill a gap. Most provincial governments have been systematically exiting from the extension services that used to be provided routinely for farmers. I'd say Manitoba is one of the few that have maintained a very effective extension program. Our industry filled that gap.

The science that drives that advice is done by the International Plant Nutrition Institute. It's based in Atlanta, but there are three PhD scientists in Canada who help provide that support.

We would say our industry has made a real commitment to providing advice for farmers. It's not just advice to buy more fertilizer; it's advice on how to get the maximum economic yield from crops. It's rigorous and it's peer-reviewed information. A lot of the provincial governments depend on that information as well.

[*Translation*]

The Vice-Chair (Mr. André Bellavance): Mr. Richards.

[*English*]

Mr. Blake Richards (Wild Rose, CPC): Thank you for being here today.

I apologize if you feel a bit like a punching bag. I think the fact that you're hearing these concerns from both sides of the table certainly indicates to me this is clearly an issue across this country for our farmers. I hope you're listening and taking those concerns under advisement and will do what you can to do something about them.

Let me back up really quickly. I don't want to spend a lot of time on this. You mentioned in response to a question a few minutes ago that half your members are importers. Who are your members? What percentage of them are retailers? Can you give me a really quick rundown of that?

● (1245)

Mr. Roger Larson: Our members would include about a dozen companies that are manufacturers in Canada, virtually every large retail group in Canada: Cavendish Farms, McCain, La Coop fédérée, Synagri, Sylvite, Agrico, Agromart, Viterra, Richardson, Cargill, Thompson, all the retail companies, and the big importers, trading companies like Ameropa, Yara—which is also a manufacturer in Canada now—and International Raw Materials, etc.

Mr. Blake Richards: It's across the spectrum, then.

I hate to add another lecture to the pile of lectures you've received today, but I think I'm going to have to, because certainly when I talk to farmers in my riding, it's much the same as what you've heard many times today.

One of the biggest issues that come up all the time is their input costs and how the price they receive for their grain or the product they produce certainly hasn't increased at anything near the level that input costs have increased over the last number of years. Their input costs in many cases have increased exponentially, and fertilizer is high on the list amongst those.

I have to add my voice on behalf of my farmers, that there's a serious concern here from our farmers. I would tell you that I don't think very many farmers would believe that when prices increase—as an example, when you see increases in the crop prices and then see the corresponding price increases in fertilizer—it's a coincidence or that some outside force is leading the way, or some global force is leading it to happen.

This is something that needs to be addressed for our farmers. I know you've mentioned global forces as an issue, but I'll tell you that a lot of farmers say to me, and I think they're right, that what they're seeing is that prices are often far lower in other countries than they are here in Canada, or that changes come faster in other countries than they do here in Canada.

Mr. Miller's comment earlier that it was his belief there's some gouging going on is exactly what I hear from my farmers. I want you to be aware of that and to know that this is what my farmers are saying. I think you're hearing it from both sides of the room today. You're hearing it from farmers all across the country, through us, and I think it's something you need to address.

Mr. Roger Larson: We hear you. Clyde and I have personally spoken to a large number of farmers at farm groups and farm meetings across the country, from Nova Scotia to Edmonton. We gave you a copy of the slide deck we presented to these farmers. I would say that in my experience, of the people who came up to me after the presentation, 90% said, “Thank you for presenting the facts; I may not like them, but I understand what you're saying.” Probably one or two would say they don't believe it; they don't buy it. That's fair. They're entitled to form their opinions.

The information we provided is the best information we have on what's happening in global markets. It has certainly been sustained by independent bodies that have looked at it, such as Purdue University, which did another study that we provided to this committee, saying that this is how the global market forces work.

It may be apparent to all of us in 20:20 hindsight that the prices of fertilizer you saw last summer were unsustainable, but the price of wheat last summer, I think, hit a high of $20 a bushel.

● (1250)

Mr. Randy Hoback: Did it really? I'd forgotten that.

Mr. Roger Larson: I saw that posted at Thunder Bay for CWB hard red spring wheat number one, and I was floored by it. These have been the most extraordinary times we've seen, and you're right that there is a huge array of situations out there. To suggest that the retailers are not also facing severe financial impacts because of this upheaval would, I think, be unfair to the businessmen and businesswomen in our rural communities across Canada.

[*Translation*]

The Vice-Chair (Mr. André Bellavance): Thank you, Mr. Richards. Your time is up.

We have 10 minutes left and all members have had a chance to speak. Instead of starting another round, I will allow those members who so choose to ask a few brief questions.

Ms. Bonsant, the floor is yours for a few minutes.

Ms. France Bonsant: Thank you very much.

In Quebec more and more farms and municipalities are going green. In certain municipalities, there is a ban on all pesticides and chemical fertilizers. In Estrie, there are many valleys, and when it rains, the chemicals—if there are any—wind up in the water and lead to the proliferation of blue algae.

Have Quebec's environmental standards had an impact on fertilizer sales in the province?

[*English*]

Mr. Clyde Graham: Our industry is largely an agricultural industry. Our members are primarily focused on providing farmers with the fertilizer they need, but we have strong links with the urban fertilizer industry, companies like Scotts and Sure-Gro, which provide fertilizer to homeowners. It is a small part of the total market in overall terms, but fertilizer is very important in our cities and towns to maintain proper green spaces. There are a lot of benefits to having good, healthy turf. It holds the soil and prevents erosion. There are many studies that show you actually have a better retention of the nutrients that exist in the soil anyway when you have a healthy cover of turf, which protects the soil from the loss of those nutrients into the soil.

One of the initiatives we've taken with the Canadian Food Inspection Agency is to develop a low “P” standard; these would be fertilizer products that show a phosphorus level of 1% to 3% on the bag, which would be recommended for mature lawns in urban areas. A new lawn in the first couple of years needs a higher level of phosphorus, but after a lawn has been growing for a few years, it needs a lower level of phosphorus to maintain its root system and develop properly. We're providing some education on this, and we're hoping that the standard of 1% to 3% will be adopted across Canada.

[*Translation*]

The Vice-Chair (Mr. André Bellavance): Mr. Hoback.

[*English*]

Mr. Randy Hoback: Thank you, Mr. Bellavance.

This is something you touched on a little bit. It has to do with the level of rail service, and I have two questions for you. One, how is the level of service you're receiving now for getting product to market? Then, with the expansion that's going to happen by 2012, how are we going to handle the extra capacity? We're also going to see grains expanding and more value-added industries. I'm curious to know what your vision is of that area in rail service.

Mr. Roger Larson: We've been asking the railways to increase their investment in infrastructure. In the port facilities, right now in Vancouver we have a major infrastructure project under way to expand the trackage at Port Metro Vancouver, at Neptune and a couple of other terminals and at the grain terminals as well, so that we can increase the handling capacity. It's a commercial negotiation and discussion between our member companies and the railways.

In terms of level of service, we are participating in the rail service review. We have some issues with the railways in terms of service. We have proposed, I would say, a very innovative reciprocal rewards and penalties or commercial dispute resolution system to help address this issue and ensure that shippers of all industries are able to enjoy a better and improved service level from the railways. It's something that's very important to us.

● (1255)

[*Translation*]

The Vice-Chair (Mr. André Bellavance): Thank you. That is all the time that we have.

I would like to remind committee members that there will be a briefing session on Bill C-29 right here. Committee members who wish to participate in this session are invited to remain seated.

Mr. Graham, Mr. Larson, thank you very much for participating in our study.

I would like to tell everybody to drive carefully on the highways so that we will be all back here and in good shape next week.

The meeting is adjourned.

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