



CANADIAN FERTILIZER INSTITUTE  
INSTITUT CANADIEN DES ENGRAIS

## **Submission to Pre-Budget Consultation 2011**

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**Canadian Fertilizer Institute**

## **Executive Summary**

The Canadian Fertilizer Institute is an industry association representing manufacturers, wholesale and retail distributors of nitrogen, phosphate and potash fertilizer. This brief reflects the economic realities of an industry recovering from a recession and a Government who is looking for ways to cut costs. CFI believes our asks will help sustain the ongoing recovery and strengthen our industry going forward.

CFI feels the Government can aid the Canadian fertilizer industry in our efforts by following these low cost practical solutions:

- Continue with the scheduled reduction in Corporate Tax Rates and scheduled extension on the Accelerated Capital Cost Allowance
- Encourage industry-government partnerships to help fund the innovative research that is needed to keep Canadian industry competitive.
- Immediately proceed with legislative and operational improvements that will increase rail service for freight rail shippers as recommended by the Rail Freight Service Review Panel.

The industry is globally competitive and it is paramount that the Federal Government continue to make good business decisions to ensure this success is sustained in the long term.

## INTRODUCTION

The Canadian Fertilizer Institute (CFI) is an industry association representing manufacturers, wholesale and retail distributors of nitrogen, phosphate and potash fertilizer. With facilities located across Canada, our members produce over 25 million metric tonnes of fertilizer annually and export more than 20 million tonnes to over 70 countries worldwide. This growing industry contributes over \$12 billion annually to Canada's GDP and employs over 12 000 Canadians. This strong and competitive sector is widely viewed as a world leader.

The Canadian Fertilizer Institute understands the financial constraints the Global economy has delivered to the Canadian Government. CFI is aware of the Governments intentions to reduce spending and the desire to find practical cost effective solutions that help Canadian industry grow and increase Canada's competitiveness. This submission has been written with these same goals in mind. Our cost effective suggestions have been underlined throughout the document.

## THE MARKET

Since the Global Recession in 2008, the Canadian fertilizer industry has been on a steady recovery. Potash production in 2010 went up over fifty percent to 15.6 million tonnes and the industry manufactured about \$4.5 billion worth of nitrogen and phosphorous.

The Global recession also had a significant impact on exports. Canadian total potash sales in 2007 were 17.9 million tonnes and 16.5 million tonnes in 2008. In 2009 total potash exports fell to mere 7 million tonnes. In 2010 exports increased to 15.5 million tonnes and this number is expected to climb above 17 million tonnes this calendar year. The International Fertilizer Association (IFA) estimates that world fertilizer consumption will increase by approximately 4 percent in 2011 as farmers begin to replenish their soils. Furthermore, IFA estimates that ammonia capacity will increase between 2010 and 2015 at an annual growth rate of 3.8 percent. CFI feels the Canadian fertilizer industry is well placed to capitalize on this potential growth.

## TAXATION:

This positive market outlook has been coupled with significant tax and royalty relief at both the federal and provincial levels with such things as the scheduled corporate tax rate reduction and the extension of the Accelerated Cost of Capital Allowance at the federal level.

The result is that fertilizer companies are all undertaking major expansions. The potash industry for example has invested or announced close to \$10 billion in major capital projects since 2003.

The Federal Government must continue to make good business decisions to ensure this success is sustained in the long term.

## INNOVATION:

CFI views innovation as a way of investing in the future competitiveness of Canadian industry. With that in mind, CFI also recognizes that these investments are often expensive and we believe this cost can be lowered by developing programs that encourage industry-government partnerships.

CFI and its members created the Science Cluster in 2010 to help farmers reduce GHG emissions caused when they apply fertilizer, in addition to improving manufacturing efficiency where possible. The Canadian fertilizer industry has committed to provide \$400,000 over two years for

partnership research with federal and provincial governments. These joint industry projects provide crop producers across Canada with science-based information and advice on how the use of best management practices can reduce the emission of greenhouse gases when they apply fertilizer or other crop nutrients on their fields. We encourage the Government to continue to support this collaborative research.

CFI and Canada's fertilizer industry has also developed a joint working relationship with Statistics Canada and depends on the excellent work being done by employees in their Agriculture Division. Statistics Canada prepares quarterly statistics on fertilizer, production, exports, inventories and shipments to Canadian farmers. This quality data is being produced in an extremely professional and timely manner. CFI believes this important statistical program should continue to be a high priority despite the government's desire to restrain spending. We believe that any decisions that would negatively impact the quality or timeliness of the fertilizer data would be a false economy.

In addition, CFI, in conjunction with the Canadian Food Inspection Agency (CFIA) created the Canadian Fertilizer Products Forum (CFPF) in 2006. This is a voluntary stakeholder led initiative designed to provide a framework for consultation to facilitate consensus-based advice to government on the modernization of fertilizer and supplement regulations. CFIA and CFI recognized that the entire agriculture and agri-food sector depends on a modern regulatory system that ensures timely access to safe and effective fertilizers and supplements and teamed up in a joint industry-government partnership. The Government needs to continue to find more ways in which industry and Government can team up for the betterment of all Canadians. It is cost effective for both players and often results in greater efficiency.

## **COMPETITIVENESS**

Canadian fertilizer companies compete globally on a daily basis and keeping them competitive is paramount to the success of the industry. Government policy that reflects this reality is important. In this brief we focus on the two competitive issues the industry is facing today: transportation and natural gas.

Transportation concerns for fertilizer shippers will continue to revolve primarily around railway service. Finding affordable and dependable transportation is important in allowing producers to supply customers close to their operating facilities and customers around the world. Whether this is grain, potash or coal, the shipping community as a whole agrees that change is needed.

On March 18, 2011 the Government released the Final Report for the Rail Freight Service Review. The Report and the Government's immediate response to its contents mirror many of the changes the shipping community, including the fertilizer industry has been lobbying for:

- initiate a six-month facilitation process with shippers, railways and other stakeholders to negotiate a template service agreement and streamlined Commercial Dispute Resolution (CDR) process
- table a Bill to give shippers the right to a service agreement to support the commercial measures
- establish a Commodity Supply Chain Table, involving supply chain partners that ship commodities by rail, to address logistical concerns and develop performance metrics to improve competitiveness

This needs to be a top priority for the federal government going forward and CFI would like to highly recommend that the Federal government immediately proceed with these legislative and operational improvements. This initiative will actually save the Federal Government money as it shifts the responsibility from the Canadian Transportation Agency and Transport Canada to commercial shippers and the railways to handle the costs associated with resolving disputes.

In addition, Canadian fertilizer manufacturers are very concerned with the long term natural gas market. Natural gas is an important component when producing potash, as it represents approximately 20 to 25 percent of the total input cost. In the production of nitrogen, it represents 70-90 percent of the total input cost and is critical as a feedstock as well as an energy source. On June 23, 2010, the federal Environment Minister announced the Canadian Government would be developing greenhouse gas regulations for the electricity sector based on a performance standard of natural gas. This will force many coal-fired electricity generators to switch to cleaner burning natural gas at their end of life expectancy. This policy announcement was made without rigorous study of the economic costs of creating a new, regulated demand for natural gas. As a result, CFI commissioned a third party report to conduct analysis of what this may do to the natural gas market in Canada and in North America. The study by Ziff Energy found that the impact would be minor if Canada acted alone, but would be alarming if the United States followed. Ziff Energy concluded:

*The Performance Standard, if adopted continentally, would have an alarming impact on North American natural gas markets and prices, and on electricity prices. Unintended consequences of such a Standard would include demand destruction in the industrial sector and a decline in GDP growth.*

While CFI supports the Federal Government's desire to reduce Canada's GHG emissions, such a strong economic measure which would have negative consequences on our industry is not a practical solution. The fertilizer industry wants to be able to compete globally without the government working against it by artificially increasing the demand for natural gas. The Government needs to properly assess the economic impact of a natural gas performance standard on natural gas markets throughout North America and the impact it would have on industries dependent on natural gas. Furthermore, the Government needs to develop a comprehensive National Energy Strategy that encourages the use of clean fuel alternatives to natural gas such as nuclear, clean coal, solar and wind and strive to ensure national government policy does not occur at the detriment of one sector of Canadian industry.

## **WHAT GOVERNMENT CAN DO TO FOR THE INDUSTRY**

To summarize, CFI feels the Government can afford to meet the needs of the Canadian fertilizer industry by following these low cost practical solutions:

- Continue with the scheduled reduction in Corporate Tax Rates and scheduled extension on the Accelerated Capital Cost Allowance
- Encourage industry-government partnerships to help fund the innovative research that is needed to keep Canadian industry competitive.
- Immediately proceed with legislative and operational improvements that will increase rail service for freight rail shippers as recommended by the Rail Freight Service Review Panel.

## **CONCLUSION**

Canada's fertilizer industry remains internationally competitive despite recent market turmoil since 2008. However, we cannot afford to be complacent. The Federal Government must continue to strive to provide an operating environment that will allow our industry to seize new global opportunities and continue to grow in capturing the rising demand.