

## **Canadian Fertilizer Institute**

### **Responses**

#### **1. Economic Recovery and Growth**

*Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?*

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 60 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 continues to deliver to the Canadian treasury. CFI is aware of the Government's intentions to continue to reduce spending and the desire to find cost effective solutions. Fiscal responsibility should be viewed by all Canadians as a competitive advantage. Given the global challenges faced by the Canadian resource-based manufacturing and exporting sectors, CFI believes that the Government of Canada should continue to focus on policy measures that will ensure that Canadian industry is equipped to take on what will surely be tougher competition in uncertain economic conditions.

**THE MARKET** The Canadian fertilizer industry has been recovering from the recession in the last few years. Potash production in 2010-11 went up over 46 per cent to 17 million tonnes valued at \$8 billion and the industry manufactured about \$4.5 billion worth of nitrogen and phosphorus fertilizers. In 2011-12 the industry is on pace to match these record highs. A recent report conducted by Natural Resources Canada cited potash as the number one valued mineral in Canada. Fertilizer exports have also rebounded. Canadian total potash sales in 2008-09 were 16.5 million tonnes. In 2009-10 total potash exports fell to a mere 7 million tonnes. In 2010-11 exports rebounded to 15.5 million tonnes and 2011-12 numbers are on pace to match this impressive amount of exports. According to the June 2012 forecast of the International Fertilizer Association Agriculture Committee, global fertilizer consumption on a calendar year basis is projected to grow at an annual rate of 1.7 percent through to 2016 for all major fertilizers. The Canadian fertilizer industry is well placed to capitalize on this potential growth.

**Accelerated Cost of Capital Allowance** This encouraging market outlook has been coupled with significant tax and royalty relief at the federal and provincial levels, particularly the 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 Canadian potash industry has committed over \$15 billion in announced major capital projects since 2003. The Canadian nitrogen industry has just recently announced nearly \$3 billion worth of new investment with significant further investment still pending. These investments are capital intensive ventures. The Accelerated Cost of Capital Allowance (ACCA) on a 50 percent straight line basis (subject to the application of the "half-year rule") has been helpful but is due to expire on December 31, 2013. To continue to help the Canadian economy grow and enhance productivity the federal government needs to continue with the scheduled extension of the ACCA and consider making this a permanent policy in Canada. Future Canadian employment growth depends on these investments. **Recommendation:** Continue with the scheduled extension of the Accelerated Capital Cost Allowance and move to make this a permanent policy in Canada.

**Scientific Research and Experimental Development Tax Credit** The recent changes announced in Budget 2012 regarding the Scientific Research & Experimental Development (SR&ED) tax credit

system concern the fertilizer industry. CFI estimates that the proposed reduction of the tax rate from 20 per cent to 15 per cent will reduce business research and development (R&D) expenditures by an estimated \$663 million a year once fully implemented in 2017. These proposed changes will also impact provincial R&D tax credits. Combined changes will increase the cost of doing R&D in Canada for large multinationals by almost 13 per cent. Most countries in the OECD provide greater tax incentives for capital expenditures related to R&D than in Canada. The majority of countries either include capital in the R&D tax credit or allow companies to fully deduct capital the same year the expense was incurred. Recommendation: The Government reinstate the SR&ED tax rate to 20 per cent to help foster innovative R&D in Canada to improve the competitiveness and economic output of Canadian industry.

## **2. Job Creation**

*As Canadian companies face pressures resulting from such factors as uncertainty about the U.S. economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada, including that which occurs as a result of enhanced internal and international trade?*

Globalization has allowed the Canadian fertilizer industry to capitalize on international market growth. This continues to allow the industry to grow, producing more jobs and investment in Canada. Four of the five largest offshore importers of Canadian potash are located in Asia (China, India, Indonesia and Malaysia), accounting for 50 per cent of Canadian potash exports outside of North America. The United States is a significant importer of Canadian nitrogen fertilizers and a large purchaser of potash as well. International trade agreements such as the Trans-Pacific Partnership (TPP), which Canada will be negotiating this fall, represent strong opportunities for Canadian fertilizer companies to expand and grow their outreach into international markets. CFI and its members believe expanded trade will give rise to new opportunities and enhance our competitiveness as an industry. Jobs will grow and tax revenue in Canada will increase if companies are able to build on their existing networks and international supply chains. When negotiating trade agreements, CFI recommends the Government keep these key principles in mind:

- Ensure Canadian interests within the North American Free Trade Agreement (NAFTA) and other trade agreements are protected and we do not end up negotiating away concessions already achieved.
- Negotiate a comprehensive trade agreement which would incorporate core elements such as industrial goods, agriculture, rules on intellectual property, rules of origin, technical barriers to trade, and labour, investment and environment.
- Reciprocal elimination of all tariffs on all fertilizer products exchanged between Canada and TPP countries.
- Negotiate a consistent science-based approach to regulatory harmonization policy which would prevent the use of environmental issues, health issues and other phytosanitary policies as a trade barrier.
- Exempt fertilizer from economic trade sanctions on the basis of humanitarian grounds.
- Consolidate principles established in past consultations – NAFTA, Chile, MERCOSUR, APEC, DOHA – WTO, South Korea, China & Russian Accession to the WTO, and Libya Most Favoured Nation (MFN): free trade, tariff elimination, elimination of trade sanctions, domestic treatment for Canadian foreign investment, and commitment to market-based economic systems.

Recommendation: Continue to aggressively pursue international trade agreements while ensuring the outcome maximizes the long term competitiveness of Canadian industry.

### **3. Demographic Change**

*What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging of the Canadian population and of skills shortages?*

With the expansion of Canadian fertilizer production, the industry is acutely aware of the need for skilled workers. As the industry looks to the future, labour skills and a capable workforce are critical if we wish to build on our strengths. Our industry provides high-paying and rewarding jobs. But competition from mega-projects in other regions combined with an aging workforce is making it harder to retain skilled trades-people. Our industry is concerned that industries based largely in rural regions of Canada will face even greater challenges than other sectors of the economy, which may be able to count on increasing populations in urban centres. Recommendation: The Government needs to focus on developing inclusive policies that foster better educational outcomes and greater participation in the labour force for all Canadians and in particular Aboriginal Canadians.

### **4. Productivity**

*With labour market challenges arising in part as a result of the aging of Canada's population and an ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?*

CFI views innovation as a way of enhancing productivity and 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 has entered into negotiations with the three provinces to negotiate Memorandum's of Understanding that helps farmers and the public understand how right management practices for fertilizer improve farm profitability while reducing losses of nutrients to the environment. CFI has committed to providing \$50,000 a year over the next three years for each agreement. The Provinces are encouraged to match this contribution. The result of each agreement will be the reduction of losses of crop nutrients to lakes and rivers, groundwater and the air. CFI and Canada's fertilizer industry has 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 partner for the betterment of all Canadians. It is cost effective for both players and often results in greater efficiency. Recommendation: Encourage industry-government partnerships to help fund the innovative research that is needed to keep Canadian industry competitive.

## **5. Other Challenges**

*With some Canadian individuals, businesses and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges that are being faced and what specific federal actions are needed to address these challenges?*

Canadian fertilizer companies compete globally and staying competitive is paramount to the success of the industry. Government policy that reflects this reality is important. In this brief, CFI will focus on transportation and the environment from a global competitiveness perspective. **TRANSPORTATION:** The fertilizer sector is a resource-based industry heavily dependent on the railways to move goods to domestic, offshore and U.S. markets. Delivering products in a timely and effective manner is critical to the industry's global competitiveness. Effective rail service is import to the Canadian economy in general and the Canadian export industry in particular. If this system fails there can be serious repercussions on the Canadian economy and on the reputation of our exporters in foreign markets as buyers move to other sources of supply. 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. The fertilizer industry has been actively involved in the Government commissioned Rail Freight Service Review. The industry has been encouraged recently by the Government's commitment to tabling a bill this coming Fall to give shippers the right to a Service Level Agreement (SLA) that supports commercial measures. Furthermore, the Government has committed to also include in this bill a dispute resolution mechanism that will help negotiate the SLA and enforce the SLA once it is signed. This needs to be a top priority for the Federal Government. CFI highly recommends 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. Recommendation: Immediately proceed with legislative and regulatory improvements that will increase rail service for freight rail shippers as recommended by the Rail Freight Service Review Panel. **ENVIRONMENT:** The Canadian fertilizer industry is investing \$35,000 this year on Base Level Industrial Emissions Requirements (BLIERS) which is a part of the federal government's Comprehensive Air Management (CAMS) initiative. As a part of this consensus process which involves the provinces and other stakeholders, CFI is working to find innovative ways to cut its air pollutant emissions. In addition, the Canadian fertilizer sector has recently entered into negotiations with Environment Canada on reducing overall Greenhouse Gas (GHG) emissions as a part of the federal government's sector-by-sector approach. The negotiations are focusing on the production of potash and nitrogen fertilizer. CFI members understand the need for a federal GHG reduction strategy that allows for the Canadian fertilizer industry to participate in this effort, while continually supporting economical and sustainable food production within Canada and around the globe. Based on the challenges faced by the industry, the development of a federal GHG reduction strategy must be supported by compliance mechanisms that are economically feasible and provide flexibility in achieving the Government's reduction goals. This must include equivalency between federal and provincial jurisdictions, between sectors and within the sector. The Government should allow this system to meet current and potential future compliance requirements. Recommendation: The federal and provincial governments should work with industries and individual sectors to find innovative ways of reducing Greenhouse Gas and Air Pollutant emissions.

