



CANADA

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*[Recorded by Electronic Apparatus]*

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 [\(0905\)](#)

*[English]*



**The Chair (Mr. James Bezan (Selkirk—Interlake, CPC)):**

I call the meeting to order.

Good day, ladies and gentlemen. We are ready to go. We have a quorum.

I want to welcome to the table David MacKay, the executive director of the Canadian Association of Agri-Retailers. He's not a stranger to the committee. He has with him, from AgroCentre Belcan Inc., Greg Haney. From the Canadian Fertilizer Institute we have Roger Larson and Clyde Graham.

I want to welcome all of you to the committee and to our study on farm input costs and the rising crisis farmers are facing.

I invite Mr. MacKay to kick us off. Please keep your opening comments to 10 minutes or less.



**Mr. David MacKay (Executive Director, Canadian Association of Agri-Retailers):**

Thank you, Mr. Chair and members of the committee, for permitting us to share time with you this morning.

The Canadian Association of Agri-Retailers and its 1,000 members across the country service the nation's producers and are the front line of a fertilizer and chemical trade worth over \$3 billion. Our members work closely with grain and oilseed growers to maximize the return on their crop input investments.

Often underrated as a facilitator in the value chain, agri-retailers do not set the price of inputs or trigger market volatility, but they do have a price stabilizing effect that benefits producers. Constantly buying bulk quantities through volume-discounted contracts, dealers are able to lock in best pricing for their customers.

As a result of these pre-season agreements, growers rarely have to pay the open market price. These agreements also guarantee supply and just-in-time delivery to prevent growers from having to store inputs. In other words, dealer contracts serve as a hedge against market volatility, and the value-added services they bundle into the contracts help offset the sting of higher prices for growers.

Contrary to some opinions, crop input dealers do not benefit from high market prices of inputs. They, too, incur the high cost of goods sold, and they typically work within set margins that do not change, regardless of the price of the product. If anything, retailers often find their margins pinched because they wish to placate disgruntled customers and reward loyalty or because volatility often puts the cost of replacement product higher than the original selling price. So you could say that retailers are literally caught in the middle, and as such, they feel the squeeze from both ends.

Despite being disadvantaged by record high fertilizer costs as much as growers are, retailers do not perceive the market to be the result of any untoward business practices. Rather, it's a culmination of several economic factors, including unprecedented worldwide demand, a shift in North American crop allocation due to biofuel initiatives, lag time to increase manufacturing capacity, and an open global market.

The very same commodity-related supply and demand dynamics that are driving record grain prices are also driving fertilizer markets. It would seem somewhat exploitative to cry foul on one aspect of the commodity equation while embracing the other. Growers will have an opportunity to offset input costs with strong returns from the sale of future outputs. We are all praying for a bumper crop this year.

Retailers, on the other hand, do not see this market as an opportunity to widen margins. Instead, they are hoping for a greater volume of crop input orders from growers who want to invest to maximize their yields. But those hopes are being challenged by two unexpected obstacles: a tight supply line and lost sales because of global fertilizer suppliers.

CAAR believes that the supply shortfall will eventually be addressed as greater manufacturing capacity comes online. In the short term, growers may benefit from potential adjustments to the cash advance program or other credit initiatives that facilitate pre-purchasing of inputs from retailers on a contract basis. That will help to guarantee supply, lock in the best pricing, and avoid exposure to open market volatility.

If members of the committee are interested in tackling more immediate and tangible drivers of high input costs, CAAR urges you to consider helping retailers address obstacles that will necessitate incremental costs being passed on to growers. I'm referring

to the prohibitive cost of pending retail site security and safety regulations. CAAR has testified in front of this committee before regarding this issue and has briefed many of you personally. We thank you for that opportunity and would like to further update you on why this issue now takes on even more urgency.

The shipment of 9,000 tonnes of ammonium nitrate to Churchill last October from Russia has exposed a potentially serious security vulnerability. The new NRCan restricted components regulation, derived from the industry-created ammonium nitrate code of practice, stipulates rigorous security and safety practices and is awaiting publication in the *Canada Gazette Part II*.

Retailers support these codes because they set out the type of prudent stewardship under which we have always operated. In fact, we have worked with industry to help write stewardship codes, including the code of practice for anhydrous ammonia, which will be enforceable in varying degrees between now and 2011. This code will be particularly challenging for the retail sector in terms of implementation costs.

Interestingly, the ammonium nitrate code and all future codes will not have jurisdiction over end-users. So in a period when we are seeing more and more on-farm bulk storage of fertilizer, including ammonium nitrate, important security regulations will not apply there. That is a problem, perhaps, for a different committee, but it does highlight an inequitable playing field for agricultural retailers who must comply with these codes.

 [\(0910\)](#)

Some CAAR members have reported that growers who have taken delivery of the Russian ammonium nitrate are asking us to store the product for them. As you know, ammonium nitrate is a product that western growers and retailers have not handled for some time, so storage provisions tend to be challenging because of the inherent risk and liability associated with the product. As such, retailers are understandably declining these storage requests. However, with some financial assistance from the Government of Canada, dealers would be able to upgrade their facilities to store these products securely.

CAAR's concern is not the merit of the codes or the competition from global suppliers, but the fact that regardless of where growers choose to buy, retailers will be required to perform extremely expensive site upgrades, which will only add additional cost to the input value chain and drive our customers further away from us and into the hands of foreign suppliers. We refer to this scenario as compulsory economic suicide.

A number of government departments have reported that they have consulted with the industry and concluded that these initiatives would be cost-neutral or nominal. I can tell you they did not consult with agri-retailers. As the sector that has to incur these costs, we have done our research into the expenses, and they are anything but nominal.

Many of you have been presented with estimates based on actual government-approved expenses under a comparable security contribution program, the marine security contribution program. These costs extend into the multiple tens of thousands of dollars per site, a far cry from the government-estimated \$120,000 for the entire agricultural retail sector.

In summary, CAAR is not advocating that grower access to world fertilizer or chemical markets be restricted. We are prepared to compete as best we can and recognize that growers are simply seeking alternative market opportunities. Their message is clear:

crop input prices are becoming unbearable, so the last thing we as their suppliers want to do is introduce further cost into the system, only to see the customers who have sustained our livelihoods scatter for cheaper products.

The bottom line is that retailers want to continue to be responsible stewards of the products that are essential for sustaining crop production agriculture in Canada, but if the rules of engagement force retailers to economically alienate their own customers, then the system will inevitably break down. CAAR is respectfully asking for the government's help to neutralize this obstacle, uphold the practice of responsible stewardship, retain more trade within Canada, and prevent additional upward pressure on crop input prices.

Thank you.



**The Chair:**

Thank you, Mr. MacKay.

Mr. Larson, perhaps you'll kick us off for the Fertilizer Institute.



**Mr. Roger Larson (President, Canadian Fertilizer Institute):**

Thank you, Mr. Bezan and members of the committee, for this opportunity to present to you on farm input costs. I'm the president of the Canadian Fertilizer Institute. With me is Mr. Clyde Graham, vice-president of the CFI.

Fertilizer is the most important crop input. Canadian farmers spend about \$2.7 billion per year to purchase their needed fertilizer inputs. Today, global economic growth in developing countries is driving increased global demand for grains. It is not rising world population so much as it is the rising expectation for a better diet from a new, expanding middle class in developing countries. It takes three pounds of grain to produce a pound of chicken and five pounds for pork. Alternative uses for grains, such as biofuels, have been given a lot of attention recently, but the real driver in the market is the 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 around the world for the current supplies of fertilizer.

Fertilizer is a commodity that is produced, shipped, and used around the world. There are well over 250 companies internationally that produce fertilizer products. Canada's border is open to fertilizer imports. There are no tariffs, duties, or trade barriers. When we asked one of our members what was required to import urea fertilizer from the United States to Canada, the reply was simple: a customs broker and a truck.

Many of our 41 member companies are engaged in importing fertilizer into Canada. Within Canada, there are about a dozen companies that make various kinds of nitrogen fertilizers. There are three major firms that produce potash. We produce half of the phosphate that we use in Canada, and our industry imports the other half, mostly from the U.S.

Fertilizer prices paid by Canadian farmers continue to rise. However, commodity prices for wheat, barley, corn, soybeans, and canola are also at record-high levels. Who would have ever thought of wheat at over \$20 per bushel? As I hear more and more concerns from farmers about fertilizer prices, I note the price they are receiving for their grain. How many bushels of wheat does it take to pay for a fertilizer bill today versus in 2002? It's all about economics.

Since the beginning of 2008, we have met with farm groups and producer groups that are concerned about the fertilizer supply and prices. Farmers want to know why fertilizer is the most expensive on record and whether there will be enough this spring. One thing that has made farmers angry is reports that fertilizer prices are higher in western Canada than in neighbouring U.S. states. Those reports are often based on anecdotal evidence, or small samples taken before spring seeding, when supply-demand conditions can, frankly, be chaotic.

On any given day, there will be differences in the price or quotes of various agri-retailers within Canada or on either side of the border. Government studies have shown that over time prices are equivalent. In fact, Agriculture and Agri-Food Canada reported in March 2007 that there has been no significant difference in Canada-U.S. fertilizer prices in more than a decade. I'd like to quote from that report:

The fertilizer market is global in nature and the North American fertilizer market is completely open and integrated. As a result, Canadian fertilizer prices are linked to the U.S. market.

Statistical analysis has confirmed that average fertilizer prices in Canada and the U.S. border area were not statistically different for urea, mono-ammonium phosphate, and muriate of potash over the 1993-2006 period.

One of the things we distributed to members of Parliament was a deck of 10 slides that illustrated a *Green Markets* dealer report that features wholesale market coverage from 12 regions in North America. This report is updated every week, and it's commercially available. It shows a remarkable consistency in prices around different regions in North America.

  [\(0915\)](#)

Farmers around the world want more fertilizer. The increase in the international demand for fertilizers has been a factor in the rising cost of fertilizer. Global nitrogen fertilizer demand has increased 14%, phosphate demand has grown by 13%, and potash demand by 10% between 2001 and 2006.

There are three major drivers for the surge in world fertilizer demand. First, India, China, and Brazil are leading as the largest contributors to growth. Ninety per cent of the growth in global nutrient demand is from developing countries. Other factors are world cereal production and consumption, which is on the rise, and corn-based ethanol production in the U.S.

I want to close my comments by saying that the world fertilizer industry is responding to strong market prices. The International Fertilizer Industry Association forecasts significant increases in global fertilizer manufacturing capacity between now and 2011: a 22% increase in urea production, an 8% increase in phosphate production, and a 16% increase in potash production. Canadian fertilizer manufacturers are investing some \$3.5 billion in Canada on increased fertilizer manufacturing over the next few years.

With that, I'd like to turn it over to Mr. Graham, who is also executive director of the Crop Nutrients Council in Canada. Clyde works with producer groups across the country to build value for Canadian farmers.

Clyde.

  [\(0920\)](#)



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

Good morning.

At the Canadian Fertilizer Institute, we believe that farmers should work closely with their agri-retailers well in advance of seeding, to get the best value for their fertilizer dollar. Agri-retailers are the best source of information on the fertilizer market, but they need good, timely information from their farmer customers so that they can plan their purchase of fertilizer supplies.

What can governments do? There are some things governments should consider in order to help farmers in purchasing fertilizer.

Experience shows that waiting till the last minute to buy fertilizer puts supplies at risk and can lead to increased costs. Do farmers have the information they need to make informed decisions about the market? Well, that's a question for government. At the CFI, we have asked the George Morris Centre, an independent economic think tank, to look at some of these issues about the strategies farmers should be considering in purchasing their fertilizer inputs. These go to concepts such as hedging, long-term contracting and pre-purchasing of fertilizer, managing their interest rate risk, and negotiating with the dealers to get the best value they can from their agri-retailers. I think it's essentially the issue that an informed consumer is a smart consumer.

Does the federal spring cash advance program allow farmers to arrange for their fertilizer purchases when they and their suppliers can make the best plans for their overall product and service needs? I think that's an important question that needs to be looked at.

Do the lending programs offered by Farm Credit Canada provide farmers with the flexibility they need to take advantage of opportunities to buy fertilizer well in advance of spring seeding?

I want to echo what David MacKay has said, that the Canadian Association of Agri-Retailers has been asking the federal government to provide 75% funding for the capital costs of new safety and security measures for fertilizer outlets across Canada. Is the government prepared to assist in meeting this security challenge?

I think all these are questions this committee should consider.

Thank you very much. We would welcome your questions.



**The Chair:**

Thank you, gentlemen.

We're going to kick it off with a seven-minute round, and leading off is Mr. Easter.



**Hon. Wayne Easter (Malpeque, Lib.):**

Thanks, Mr. Chair.

I guess, going to Mr. MacKay, we have met on these security requirements before, and I certainly feel you have a legitimate complaint. There's no question in my mind that if you have additional costs imposed on you, those costs are going to be transferred down the line to farmers. Farmers are always the ones all the costs go back down to.

I don't believe you said it today, but am I right in the figure for your average local retailer outside Delisle, Saskatchewan, or someplace? Is the cost of the security fence, lighting, etc., about \$70,000? Is that the figure?



**Mr. David MacKay:**

It potentially could be \$70,000 per site, depending on the existing site infrastructure. The averages we've put forth range anywhere from about \$40,000 to \$70,000 per site, times 800 to 1,000 sites across Canada.



**Hon. Wayne Easter:**

So it's 800 to 1,000 sites, and \$40,000 to \$70,000 per site.



**Mr. David MacKay:**

It depends on the current infrastructure, but yes, that's correct.



**Hon. Wayne Easter:**

What's happening south of the border? You guys are in contact with your equivalent dealerships or agri-retailers south of the border. What are they doing?



**Mr. David MacKay:**

The United States, through the Department of Homeland Security, has a special registration for products of concern, and with that special plans where, in terms of security risks, each of these agri-retail sites will be placed in a registration process. They've all had to file a registration that identifies all the products of concern. Now they're in a process of having to implement site security upgrades to comply with new Department of Homeland Security regulations based on a tiered approach of threat assessment done by the department.

It's my understanding that there currently is a bill in front of the Senate in the United States that discusses the opportunity of providing enhanced and accelerated tax rebates to agri-retailers in order to compensate for some of these incremental security expenses. I'm not sure of the status of that bill currently. I think it's still being considered by the Senate.

 [\(0925\)](#)



**Hon. Wayne Easter:**

It's in the Senate.



**Mr. David MacKay:**

Yes. There's also a House bill that is, I believe, identical. My understanding of the U.S. system is that if two identical bills are processed, one through the House and one through the Senate, an intergovernmental committee would not be required. But I don't know the status of these bills.



**Hon. Wayne Easter:**

I wonder, Mr. Chair, if we could ask the Canadian embassy to look into those bills. If there's one thing the Americans do, it's that they follow everything we do. Our embassy is a little slack in that regard.

In relation to both fertilizer and all agricultural supplies, I hear what the Fertilizer Institute is saying: buy early, hedge, use advance payments, whatever. I guess my concern is with regard to what's really happening here. If it has to be paid for up front, if delivery has to be taken up front, then the farm community is providing the fertilizer companies with an interest-free cash advance on your costs of carrying fertilizer. So I guess I'd have to ask, what's in it for farmers?

Secondly, with regard to security concerns about small agri-retailers, we have farmers out there who are growing huge acreages. In my neck of the woods and elsewhere across the country, I know that you have to have pretty good facilities to put those chemicals in, but can we expect the security costs for on-farm as well? Does anybody know the answer to that? If I'm storing 200 tonnes of ammonium nitrate, am I as a farmer going to be required to meet these security requirements of the Government of Canada? And how does that put me at a disadvantage compared with my competitor south of the border?



**Mr. David MacKay:**

Mr. Easter, to my understanding, based on at least the latest code of practice, the restricted components regulations from Natural Resources Canada, the farmers will not be subjected to that regulation save for one aspect--namely, they cannot resell the ammonium nitrate. And that's it. That's what we refer to as a lack of a level playing field.

Now, it potentially opens up a bit of a security issue, but we also are not interested in restricting storage of our growers. We do know that there will be a lot more on-farm storage, but that aspect of the code does not apply to them in terms of the stewardship of the product.



**Hon. Wayne Easter:**

I find this remarkably strange. If the issue is security, then why is there a double standard?

I know there was 9/11, and that in Oklahoma fertilizer was used to blow up a building. I think central bureaucracies in both countries have gone substantially crazy on the security end. I was Solicitor General, I saw it up close. They've gone way overboard.

Where's the push for all this additional security coming from? Is it coming from the Canadian government? Is it being pushed by the Americans? Where's it coming from?



**Mr. David MacKay:**

It's general industry stewardship. You see a lot of it come from industry itself. There is a degree of self-regulation that's proactive ahead of the government, but it works in conjunction with the government. I don't want to speak to the ammonium nitrate code as much as CFI might, because they were more instrumental in making that code a component of regulation. We often work with departments to try to get out ahead of the curve and make sure industry standards are set that are reasonable, comprehensive, and not onerous on industry.

 [\(0930\)](#)



**The Chair:**

Mr. Larson, please keep your comments brief, because Mr. Easter's time has expired.



**Mr. Roger Larson:**

Part of it is liability management, where suppliers need to ensure that their customers are providing a certain level of security, whether that's an ag retailer for a manufacturer, or a farmer for the ag retailer. That's part of the driver.

Certainly security agencies around the world--European, North American, etc.--are driving the security regulations. The U.S. regulations require registration of farmers in order to purchase ammonium nitrate. So they've gone the full length in their security requirements.



**The Chair:**

Thank you.



**Mr. David MacKay:**

Mr. Chair, I think he answered only one of his questions.



**The Chair:**

Mr. Easter's time is up and we're moving on. Everybody get's a chance at this table.

[*Translation*]

Mr. Bellavance, you have seven minutes, please.



**Mr. André Bellavance (Richmond—Arthabaska, BQ):**

Good morning, gentlemen, and thank you for your testimony.

Mr. Larson, you seem to dismiss out of hand the studies concerning the differences between U.S. fertilizer prices and those of fertilizers sold in Canada. The KAP, Keystone Agricultural Producers study, conducted by Pricewaterhouse Coopers, has been cited extensively in committee. It seems very solid to me. In your presentation earlier, you talked about studies based on anecdotal evidence and you cited some government studies. In your brief, I see a short passage from Agriculture and Agri-Food Canada's Bi-weekly Bulletin stating that, between 1993 and 2006, prices for certain fertilizers only were equivalent to those of fertilizers sold in the United States.

I'd like to know what you think about the KAP study, which states that the price cap was only 1% in 2004. I agree with you that we can understand why prices were equivalent in that year. Starting in 2006, however, the gap was 10% and, in 2007, it was 33%. I understand that this is a comparative study of Manitoba, Saskatchewan and North Dakota, but it was very well done. You referred to a number of Canadian government studies, and you cited the Bi-weekly Bulletin of March 30, 2007 to us. Do you have any other studies showing that prices are equivalent? Since 2006, do you agree that the gap, as the KAP study showed, has been quite a bit bigger than what we experienced in previous years?

[*English*]



**Mr. Clyde Graham:**

We've reviewed the KAP study. It was a very short-term study taken right before spring seeding, which is a very volatile period in the market. Farmers are trying to secure the last bit of fertilizer to put in their crops, so it's not the ideal time to buy fertilizer in most cases.

Agriculture Canada does the most comprehensive review of this. They have two independent organizations that review the marketplaces of Manitoba, North Dakota, Minnesota, Ontario, and the border states in the United States. They take samples of prices throughout the year and do a very comprehensive study. It is far more comprehensive than the very narrow snapshot taken during the volatile period of the season that KAP did.

[*Translation*]



**Mr. André Bellavance:**

I'd like to compare those data. Mr. Chairman, I suppose we can get information from Agriculture and Agri-Food Canada in order to compare the same years. You didn't answer my question as to whether you agree that the price gap has increased since 2006. I'd like to know your opinion on that subject.

[*English*]



**Mr. Roger Larson:**

First of all, Clyde and I are not involved in the marketplace, so I can't tell you exactly what the different prices are at any particular time. Mr. Haney might be able to answer that more specifically.

But I did talk to some manufacturers and distributors last spring regarding the KAP study, and I asked whether it reflected the market conditions. The answer we got back from both a distributor and a manufacturer was that it did not reflect their perception of the marketplace during the last spring season.

If you look at the dealer report from *Green Markets* that I included in the package we sent to you, it identifies the prices of different fertilizer materials at the wholesale level. For example, in the northern plains, urea is between \$568 and \$579 U.S.; in western Canada it's between \$575 and \$600 Canadian. The prices are basically the same, so if the wholesale market is the same, why wouldn't the retail market be the same?

Those studies seem to be inconsistent with what you would logically assess and conclude from the marketplace. It's an open border, and both farmers and retailers can move urea back and forth and purchase it from the least expensive source. If there is a minor difference in the market, it will equalize very quickly in a short period of time. So it's inconsistent with how we understand the market to work.

 (0935)

[Translation]



**Mr. André Bellavance:**

Mr. Haney, you seem to want to react. Do you have a comment to make?



**Mr. Greg Haney (Manager, , AgroCentre Belcan inc.):**

Yes. My name is Greg Haney and I work at AgroCentre Belcan in Sainte-Marthe. I know customers who experienced a price gap that perhaps didn't reach 33% in 2006... I'm taking that example because I believe you were referring to 2006 or 2007.



**Mr. André Bellavance:**

The 33% gap was in 2007.



**Mr. Greg Haney:**

Yes, in 2007, it was possible that the gap was 30% or 33%, because I have customers who bought their fertilizer early, and the difference between the price they paid in November and that paid in May was 27.5% for the same customer, the same company, the same volume. It always depends on the year and the weather that year. You referred to the KAP study. I read it and I talked to Dave about it. Everything depends on when the producer buys the product. The study paints a very broad picture, but, if you ask who bought the product on November 10, 2006 for planting in 2007 and the price he paid in the United States for urea, for example, and you compare it to the price paid by Quebec producers or western Canadian producers, I believe that the difference won't be 33%.



**Mr. André Bellavance:**

I understand that the fluctuation really occurs during a very short period of time.

**Mr. Greg Haney:** That's it, precisely.

**Mr. André Bellavance:** What's the explanation? There's the cost of energy; there are all kinds of factors.



**Mr. Greg Haney:**

It's more a question of supply and demand, a supply question. I have a number of competitors; I'm an independent. Sometimes it's good to be independent in Quebec. In Quebec, we currently have a number of competitors who decide to sell their products at cost, whereas some sell on the basis of average cost and others decide to sell at replacement cost.

For example, David Downey, a professor at Purdue University in Illinois, has always said that the dealer who stays in business won't be the one who sells at cost. Sometimes it's hard to do, with the best customers, for example, faithful customers. It isn't always possible to charge replacement cost; you have to make a connection with the cost price. In the past five years, it's been very hard to farm in Quebec and in the rest of Canada. It's hard to find a way to pay hastily, as our minister from Prince Edward Island says.

Thank you.



**Mr. André Bellavance:**

Thank you very much.

[English]



**The Chair:**

Mr. Storseth, the floor is yours.



**Mr. Brian Storseth (Westlock—St. Paul, CPC):**

Thank you very much, Mr. Chair.

I want to thank the witnesses for coming today. The discussion with you and your industry is obviously critical to our look at rising input costs.

You talk about \$40,000 to \$70,000 per site and 800-plus sites. How many of these sites already have their security fences and everything in place due to the security regulations that were put in place?

 [\(0940\)](#)



**Mr. David MacKay:**

CAAR estimates that approximately 20% are ready for an audit at this point. They tend to be the larger line companies.



**Mr. Brian Storseth:**

So the other 80% haven't gone forward with it yet?



**Mr. David MacKay:**

No.



**Mr. Brian Storseth:**

Are you suggesting these security regulations have already impacted input costs?



**Mr. David MacKay:**

Yes, if you were to look at some of the higher-risk products, no question. I think certainly ammonium nitrate is an example out east. To store the product you need substantial security infrastructure in place to make sure you lock it down, secure it properly, transport it properly. In the pesticide area, we've already seen an incredible amount of infrastructure upgrade as a result of the Agrichemical Warehousing Standards Association guidelines.



**Mr. Brian Storseth:**

So in these situations out east, you're suggesting the cost is already being passed down to producers.



**Mr. David MacKay:**

I would not be surprised if that were the case.



**Mr. Brian Storseth:**

It seems, Mr. Larson and Mr. Graham, as though your story line, if I can call it that, is that as prices go up the demand for the commodity goes up, so the demand for your product goes up, so the best prices are going to rise. Is that correct?



**Mr. Roger Larson:**

As grain prices go up due to the demand for grain going up, the natural response of farmers is to increase acreage. In the case of the European Union, we've seen the 10% set-aside being set aside and they are now cropping all land. The U.S. has taken quite a bit of their land. I think 7% of their conservation reserve program is back into agricultural production.

All this increases the demand for fertilizer. As I mentioned, 90% of the demand growth is in developing countries. Brazil is forecasting an increase in fertilizer consumption of 25% by 2016 to 30 million tonnes of fertilizer. Now, that compares to Canada's total fertilizer consumption of five million tonnes. So Brazil's increase is going to be more than Canada's total fertilizer consumption.



**Mr. Brian Storseth:**

Going ahead.



**Mr. Roger Larson:**

Going ahead.



**Mr. Brian Storseth:**

So what you're saying is as the demand goes up...but how come in looking at all these numbers the reverse doesn't happen? How come when prices are down on the commodity, the fertilizer costs and the input costs don't go down with them?



**Mr. Roger Larson:**

I think when demand for fertilizers does drop or level off, we have seen significant softening in fertilizer prices.



**Mr. Brian Storseth:**

And one of the big questions here is the distortion between Canada and the United States. You suggest to this committee that the Keystone Agricultural Producers report was done in a short period of time, not necessarily a fair period because it was done in the spring. Is the spring not the time when most producers are purchasing this product to put into the field?



**Mr. Roger Larson:**

No. Obviously they're putting it in the fields at that time and they're taking delivery at that time in many cases, but I was talking to a major distributor and retailer in Canada at

the beginning of February at the CAAR annual meeting. I asked him to tell me what percentage of the business was done, and he said between 75% and 80% of the purchasing of fertilizer by farmers had been completed at that time, in his mind.



**Mr. Brian Storseth:**

So it was done at what time, are you suggesting?



**Mr. Roger Larson:**

The neighbour who farms our farmland in Saskatchewan bought his fertilizer last October.



**Mr. Brian Storseth:**

So then if you're suggesting most farmers already buy their fertilizer and their input costs happen in the fall, and indeed throughout the year, then some of your recommendations wouldn't seem necessarily to make sense, would they? To give farmers more cashflow throughout the year, is your recommendation--



**Mr. Roger Larson:**

Yes.



**Mr. Brian Storseth:**

But you're suggesting to me that farmers are already doing that.



**Mr. Roger Larson:**

As funds are available they are, if they have the cash to do it and can take advantage of it.

But if you look at the cash advance, it doesn't kick in until January 1. It's limited to \$100,000. With the price of fertilizer today, I asked a significant farmer with about 5,000 acres in Manitoba, "What do you need for fertilizer?" He said, "I can't do it for \$100,000." And that's just fertilizer. If we had a cash advance that was available, say, November 1, so that when you do your fall application of fertilizer and the bill comes at the end of October, you can pay for that—

 [\(0945\)](#)



**Mr. Brian Storseth:**

But, Mr. Larson, you've just suggested to me that farmers are already traditionally buying throughout the year.



**Mr. Roger Larson:**

Yes, those who have the cash are.



**Mr. Brian Storseth:**

Exactly, and that's the problem. Most farmers are forced to buy, and as your industry knows they're forced to buy at this time of year, prices always conspicuously spike at this time of year, and that's what's really driving the demand and the prices up.

I agree with you that we need to look at some ways to distribute the cashflow throughout the year, but your argument does not make logical sense to me.

The other thing I'd like to compare is anhydrous ammonia. I don't know if you have our document, but on page 5, it shows the difference between Minnesota/North Dakota and Manitoba at about \$240 per tonne.

In your report, on page 4, you're saying there's anywhere between \$150 and \$180 per tonne difference. This is substantial. Can you explain to me the difference between these? And please don't try to tell me that you can just go down and bring anhydrous ammonia back across the border with a truck. Security regulations won't let you do that.

So can you explain the differences to me, your logical reason for this difference in price, especially since a lot of this is manufactured right here in Canada? I have a plant in Redwater that manufactures this, and my guys are paying \$200 a tonne more for something that's just down the road, because they have to send it to the States and then bring it back.



**Mr. Roger Larson:**

First of all, I haven't seen what you have there, so I can't address it directly, but if we look at what we have in slide 4 on anhydrous ammonia, it refers to the U.S., in U.S. dollars, at \$705 to \$722. That is f.o.b., which means it's without freight.

If you look below, we've identified the cost of rail freight as typically being \$80 to \$90 per metric tonne. That would be to get it to a distribution terminal from a manufacturing plant, at which point it then has to be trucked to the retailer at an additional cost of probably \$25 to \$40 per tonne. And then you have the handling and distribution from the retailer to the farmer, at which point you might say it's comparable with the U.S. supply situation. You have to look at the context in which the price is being quoted.

I agree that with anhydrous ammonia it is not "easy" to move it across the border because of security regulations. In Canada, the manufacturers have a mutual aid emergency response program to address any truck rollovers, train derailments, and so on. This is something they've invested in for their marketplace, and this costs money. Those manufacturers have also told retailers that they will not supply retailers with anhydrous ammonia if they do not have a facility and the training standards for their employees that meet the ammonia code of practice, and this was set by the Fertilizer Safety & Security Council. These are safety and training requirements that must be met.



**The Chair:**

Thank you. The time has expired.

Just for witnesses' information, the data that Mr. Storseth was quoting from our briefing documents comes out of the *Farm Income, Financial Conditions and Government Assistance Data Book* of Agriculture Canada, September 2007, on page 26 of that document. It shows a 38.5% difference in prices, very similar to the KAP study report on anhydrous ammonia in western Canada versus the northern Great Plains.

Mr. Atamanenko, the floor is yours for seven minutes.



**Mr. Alex Atamanenko (British Columbia Southern Interior, NDP):**

Thank you.

First, I will apologize. In about five minutes I'll have to leave for about 15 minutes, so I'll work for five minutes, and somebody else can take my two minutes if they would like a freebie this morning.

I'm still not sure what's happening. I have the document that the chair quoted. We have price differences, for example, on anhydrous ammonia, which my colleague talked about. In Manitoba, it's \$864.92. In Minnesota/North Dakota, it's \$624.52. That's a difference of 38.5%. This was in the summer of 2007. For urea, it's \$590 versus \$525--a difference of 12.3%. For phosphate, it's \$616 as opposed to \$504--a difference of 21.1%. Potash, which is manufactured in Canada, is \$313 to \$302--a difference of \$3.8%. The difference in fuel...in Manitoba, \$76 and in Minnesota, \$75--a difference of just 1%; and gasoline, 91¢, and in the States, 75¢--or 3.8%.

I'm still trying to wrap my head around this. I don't understand why there is that difference, especially in light of the fact that our dollar is at par or worth more than the American dollar.

The question that's been researched, that we have suggested, is whether your organization conducted or sponsored any study on this topic. If so, would you accept to share the results of your study with the committee? What are the fundamental reasons explaining the difference in potash prices between Canada and the United States?

I'll just throw that open, if anybody would like to answer.

  [\(0950\)](#)

 

**Mr. Roger Larson:**

Does anybody want to answer? I'd try to answer.

 

**Mr. David MacKay:**

I'd like to share a point.

I live in Winnipeg. I recently made a trip to North Dakota, two weeks ago, and I made an interesting observation there. I realize this is anecdotal, but I spoke to a number of growers, and with regard to anhydrous ammonia, part of the reason for some of the market differential in pricing has to do with a unique situation that's unfolding in North Dakota and Minnesota right now. This is right from the mouths of a number of growers.

They're transitioning away from anhydrous ammonia as a product of choice. A lot of them are moving to soy crops because that doesn't require a lot of fertilizer, but they also are in fear of a number of regulations that are coming their way relating to anhydrous ammonia. Instead of doing virtually nothing in terms of safety regulations, they're now going to have to hydro test, do a pressure test of their nurse tank vessels, as well as do ultra-scans to check for cracks in those vessels. That's a huge undertaking, to go from virtually no safety requirements to very rigorous ones, and it's driving a lot of the growers and the retailers out of the anhydrous ammonia business.

So I believe you're seeing a fair amount of market dumping of anhydrous ammonia to the northern neighbours--i.e. Manitoba and Saskatchewan--because the product is no longer something they wish to deal with from a standpoint of security and safety

regulations. They also know there are potential criminal misuses for methamphetamine creation, not to mention just the safety elements.

I don't know how big this is. But there is a small element of dumping going on as a result of North Dakota and Minnesota growers getting out of anhydrous ammonia.

I'd like to point out, Mr. Storseth, that there is an open market right now as it relates to anhydrous ammonia. A grower can take a tank into the U.S. and come back with it filled. Last year there were a lot of growers who took what we call non-plated tanks, where there are no safety designations on them whatsoever. They did come back with tanks full of anhydrous ammonia. It is an open border. The only thing stopping them was the fact that their tanks were not in compliance. There are no security regulations in that case; there are simply safety regulations. And it's not a trade issue; it's a safety issue. They were stopped at the border because they did not have compliance on their tanks, but there is a completely open border as it relates to anhydrous ammonia for growers.



**Mr. Alex Atamanenko:**

Thank you.

You mentioned dumping. Normally when you talk about dumping it means prices should be lower. Dumping usually implies it's lower than the cost of production. So if they're dumping anhydrous ammonia in Manitoba, why is the cost in Manitoba \$864 when it's \$624 in Minnesota? I don't quite understand that.



**Mr. David MacKay:**

The North Dakota and Minnesota dealers are getting rid of their product at very low prices, so the differential between what we pay and they pay would be even wider, which would explain a lot of the gap in the caps.



**Mr. Alex Atamanenko:**

But you're saying that they're dumping north of the border, so why is our price still \$200 more?



**Mr. David MacKay:**

That's their pricing. They're dumping to both their customers and Canadian customers. They've lowered their price of anhydrous ammonia to sale level, if you will. When you acquire information from them on price, you're going to get an abnormally low price compared to what Canadian farmers pay locally. That would explain the gap.



**Mr. Roger Larson:**

I would like to touch on the question on potash, if I could.

Again anecdotally, last December I was talking to a retailer in Saskatchewan who was getting calls from U.S. fertilizer retailers desperately looking for potash. They were offering to send a truck and buy any potash he had because they were short. Last October,

Potash Corporation placed their customers on allocation because of a mine flooding in Russia.

The potash market globally is extremely tight. From what I have been told, I would be simply shocked to find there was the kind of price differences you saw in a survey, that those actually reflect what buying and selling is taking place in the marketplace. That's certainly not the conversations I've had with retailers.



**Mr. Alex Atamanenko:**

Thank you.

I can auction off my remaining minutes. I have to go, so if anybody would like to, please go ahead.



**The Chair:**

Just move on, Alex. When you get back, we'll try to work you into the schedule for a couple more minutes.

We have Mr. St. Amand.



**Mr. Lloyd St. Amand (Brant, Lib.):**

Thank you very much, Mr. Chair.



**The Chair:**

We're into five-minute rounds.



**Mr. Lloyd St. Amand:**

I have only five minutes, Mr. Haney, so I don't want you to consume it, but with respect to Mr. Easter's questions and what I assume was a desire on your part to flesh out an answer—I can't remember the context—did you want 30 seconds or so to expound on what you were going to say?



**Mr. Greg Haney:**

Yes. At the beginning Mr. Easter mentioned that it's not up to the agri-retailer to go to the farm to finance their operations. I take total offence to that.

We're in business too, as the farmer is. There are lots of programs for the farmer. We have to purchase and store the product, follow the regulations, and make sure it's on time for that short season in the spring that the farmer has to apply it. Mr. Easter knows well enough from his constituents on Prince Edward Island that patience is not necessarily a virtue with most of them.

That's all I have to say about that.



**Mr. Lloyd St. Amand:**

Well, that was enough.

To Mr. Graham or Mr. Larson, in your presentations, both verbal and written, you talked about Farm Credit and posed the suggestion that the current lending programs don't provide farmers with flexibility. The way it's phrased, you're certainly making it sound as if there should be something better or more flexible.

What specifically would you recommend in terms of Farm Credit lending programs?



**Mr. Clyde Graham:**

We're echoing what some of the farm groups said when they appeared before the committee earlier this year. In the years I've spent dealing with farmers, getting between farmers and their finances is a difficult thing. I think the arrangement they need is something that farmers should be sitting down and discussing with the government. I think the specifics of that is something the government would want to discuss with farmers.

What we're talking about with the general concept of flexibility is whether farmers have the flexibility they need to time their purchases, to take advantage of buying opportunities if they present themselves. That might be in October, in January, or it might be at the last minute. We don't know how the market is going to unfold in any given year, but I think having that flexibility to make purchases and commitments on supply throughout the year would be advantageous to farmers.

It's a complex question. It's part of the whole assistance package that the government has. There are many levers the government has with farmers. I think it's something that needs to be assessed carefully, and obviously there's a public purse to consider.

I would say the same thing related to Farm Credit Canada. There are excellent programs at Farm Credit Canada, but they need to be reviewed on a regular basis. Are they responding to very different market conditions?

There has been a change in agriculture internationally. This is fundamental. The world has changed. China and India are influencing agricultural markets in the way they never have before.

 [\(1000\)](#)



**Mr. Lloyd St. Amand:**

Maybe I'm yearning for something more precise and it's just not possible.

I know Mr. Storseth discussed with you, Mr. Larson, the cash advances made available to farmers. It seems to me that the problem's been identified: farmers are feeling the pinch, they need more flexibility, and they need more cashflow at certain times of the year. What, in a nutshell, should the government be doing to assist farmers?



**Mr. Greg Haney:**

If you don't mind, I'll take 30 seconds on that. Farm Credit Canada has a great program for helping out or providing assistance to farmers. They provide the loans to finance their input costs, and we administer the program for, basically, a very small percent of interest. This is in effect. Right now they offer prime plus 2%. They take the CIBC prime rate plus 2% and offer it to them. A majority of our farmers, when we go in there early to offer this money, will take it up, take that money and purchase their inputs early. It puts them in a position that is much more competitive.

If they were to wait, some—those who refuse it—go to their bank margin and pay. What we like about it is that they have no real excuse not to pay you on time either.

Thank you.



**The Chair:**

Time has expired.

Mrs. Skelton, you have the floor.



**Hon. Carol Skelton (Saskatoon—Rosetown—Biggar, CPC):**

Mr. MacKay, I find what you were talking about this morning, the dumping across the border, very interesting. I want to know if you agree with me that agriculture over the last five to six years has changed tremendously in Canada—and Mr. Haney will understand that very well.

When Mr. Easter talked about agri-retailers, I looked at the differences in the provinces. I know a lot of our agri-retailers do a lot of, shall we say, financing for a lot of our agriculturalists. In the province of Saskatchewan, we saw the change in the cropping patterns. I want to know if you're seeing this right across the country. Because of the cost of fertilizer, the changing of herbicides and pesticides, a lot of farmers in Saskatchewan have picked up on the pulses to put the nutrients back into the ground, so they can cut back a little bit on their fertilizer, etc.

Are you seeing that, and can you explain a bit more about the dumping? It is something I hadn't realized until you started talking about it. I think it's something we have to make known to Canadians.



**Mr. David MacKay:**

There's no question that there's a new dynamic at play. The rules have changed. I would maybe refer crop allocation to Mr. Haney, in terms of his customers and where the crop allocation is going. Of course, it is matching inputs. Adaptations are being made strategically to maximize yields and revenues.

However, on the dumping side it's a unique, one-time snapshot. Again, it's anecdotal. I don't know how we could measure it. It's interesting. North Dakota retailers know they have a very good market with Manitoba retailers and farmers, so they tend to take advantage of it. We often don't even see a border there. We're probably closer to North Dakota than we are to any other part of Canada, so there's a lot of active trade that goes across the border.

Dumping is not something that I think would go on for long. I think the markets have to reach equilibrium at some point. I would not be surprised if pricing has changed substantially in the last month or two—closer together, the gap has certainly narrowed—but I'm not sure how we might further study the dumping issue. Right now the only way I can relate it to you is anecdotally.



**Hon. Carol Skelton:**

Mr. Haney, did you want to comment on this?

The one thing I'll go on to is that it's interesting hearing you talk about the safety of the tanks. We have regulations in this country on slip tanks in the back of a half-ton. What are we doing allowing anhydrous tanks to go back and forth across the border? That's a grave concern to me.

Mr. Storseth talked about the Redwater plant. Who owns that? Does anyone know who owns that plant? Roger.



**Mr. Roger Larson:**

Yes, that would be Agrium.

 [\(1005\)](#)



**Hon. Carol Skelton:**

Agrium owns it. So we manufacture it in Redwater, it's shipped into the United States, and then we pay to have it shipped back up. Is that correct?



**Mr. Roger Larson:**

I don't know if very much of the Redwater product would actually go to the U.S. It would probably serve northern Alberta and northwestern Saskatchewan and maybe the eastern Saskatchewan market area. The product that would be moved into the U.S. probably comes from Canadian Fertilizers in Medicine Hat; from Joffre, which is another Agrium plant; from Saskferco; and from Koch Nitrogen in Brandon.



**Hon. Carol Skelton:**

So in northern Saskatchewan, let's say in Saskatchewan and Alberta, we shouldn't really have to pay that much freight on it. Right?



**Mr. Roger Larson:**

No, the freight is very substantial, very expensive. We've seen rail freight rates in the last two years for anhydrous ammonia increase by 100%. The railways are basically doubling the rail freight cost. They're introducing requirements for a complete change-out in the anhydrous ammonia railcar fleet.

We're probably going to have less than 10 years to replace tank cars that were originally designed to have a 40-year life. There is a huge depreciation cost, a writeoff cost, on those railcars. And as an industry, we've been making substantial investments in the anhydrous ammonia industry in western Canada.

Every one of those g-bullets that you see at retail locations across western Canada has been picked up, taken to Calgary, mag-particle inspected, which is a black light inspection, heated, and retempered and repaired to correct stress corrosion cracking. It's a hugely expensive undertaking that the industry in western Canada has undertaken for safety and to stay in business in the long term.

So the kind of transportation and distribution costs you're looking at are very high.



**Hon. Carol Skelton:**

Can I have a quick question?



**The Chair:**

I'm sorry, Ms. Skelton.

I wanted to say to Mr. MacKay that you used the term "dumping". I think it is the wrong term. It is competition you're seeing from the U.S. agri-retailers. Manufacturers

dump if they're dumping into a market to steal market share or to liquidate product below the cost of production. I think what retailers down there are doing is offering a sale, but it's not necessarily at dumping prices. I think they are just reducing prices.

Also, the comment you made in your anecdotal evidence is that soybean acreage is increasing. Actually, to the contrary, all the cropping reports I'm seeing out of the U.S. say that wheat and corn are stealing away soybean acres, including in Minnesota and North Dakota. So just for the members' sake, I don't think that type of information, because it is anecdotal, is useful.

With that, I give the floor to Madame Thi Lac, *s'il vous plaît*.

[Translation]



**Mrs. Ève-Mary Thäi Thi Lac (Saint-Hyacinthe—Bagot, BQ):**

Good morning. Thank you for being here this morning to testify before us regarding your concerns.

I have a few questions. We know there is greater competition among fertilizer suppliers in the United States than among suppliers here in Canada and Quebec. Could that explain the price difference to a large extent? Do you think that the competition among suppliers favours farmers?

[English]



**Mr. Clyde Graham:**

I would just say that Canada does have a very competitive fertilizer market. Not only do we have many large fertilizer companies in Canada, but there are many companies that are importing fertilizer products into Canada.

I would point out that when Keystone Agricultural Producers did their report on Canada-U.S. prices and submitted that to the Competition Bureau, it was Keystone Agricultural Producers that said that the Competition Bureau said there was no need to investigate.

So I think the assumption that there isn't competition in Canada is simply wrong.



**Mr. Roger Larson:**

I'd like to add to that. I don't necessarily agree that there is less competition in Canada in terms of the number of companies. There's quite a significant overlap in the companies that operate in Canada and the companies that operate in the U.S. Many of them are Canadian companies or Quebec companies. Many of them are U.S. companies, but there's a great correspondence.

When you consider that the Canadian market is five million tonnes and the U.S. market is about 40 million tonnes, certainly there are more companies in the U.S. per se. But in any particular market region I think you would find that with an open border, the competition is comparable.

 (1010)

[Translation]



**Mrs. Ève-Mary Thài Thi Lac:**

Some time ago, a number of associations came to meet with us. My colleague asked a question about the possibility of buying fertilizer earlier, before spring planting. The answer given to him was that that strategy had been considered by farmers, that it could work in the very short term and that suppliers would adjust quickly, as a result of which farmers would benefit from greater competition when they bought their products.

What do you think of that statement?

[English]



**Mr. Greg Haney:**

Mr. Chairman, may I answer that?

[Translation]

I agree with you. As I said earlier, in the past five years, farmers' incomes have been very low in Quebec and the rest of Canada. We can't earn enough money to live and operate the business. We're forced to borrow against invested capital. If, for example, we have a house and we have to pay taxes and credit cards, we can't do it. What do we do? We go to the bank and we borrow against invested capital in order to have cash. However, things will eventually settle down. Time works in our favour, given the price of goods. I'm also speaking as an agricultural producer, because I farm as well. It's hard.

[English]



**Mr. David MacKay:**

Let me add that I've spoken with a number of members within our association. It's a new dynamic insofar as we are becoming very strategic about how we buy. We now have to buy longer-term, in larger quantities. We know that we have to lock in pricing for our growers and we have to be able to educate our growers about how to buy as well.

Gone are the days when you buy as you're seeding. You don't do that. It may mean more storage of fertilizers in our location, and it may even mean more on-farm storage of fertilizer, but the growers are getting very attuned to adapting to the new system of pre-purchasing, and it is having a price-regulating effect. I think this is a very important dynamic that plays well in suppressing pricing.



**The Chair:**

*Merci.* Your time has expired.

Mr. Miller, you're up.



**Mr. Larry Miller (Bruce—Grey—Owen Sound, CPC):**

Thank you, Mr. Chairman.

And to our witnesses, thanks very much for coming today.

I don't usually sugar-coat things, and everybody's been skirting around the whole issue here. What's going on here, gentlemen--and nobody can deny it--is price gouging.

I'm not going to sit here and say that there isn't an increase in demand around the world. At the same time, I don't think any of you can expect me to believe that developing countries, which are usually poorer countries and quite often third world countries, can afford to pay the same prices as farmers are paying especially in North America and I presume Europe. It just doesn't hold water.

When prices are hot, companies or industries have a tendency to see the hot market, and up they go. There was a comment made by somebody here that when demand drops, the prices come down. I'm a farmer—I've been farming for over thirty years—and I can dang well tell you guys that doesn't happen. Or if and when it does happen in any way, it doesn't happen nearly as fast or dramatically on the down drop as it does when you're going up.

Some of the things here.... You seem to point out pre-purchasing as if it were the solve-all and end-all of this problem, and we all know that isn't true. Over the years when I purchased, sometimes it made sense to buy in the fall of the year; at other times it just plain didn't. At other times I didn't have the money to do it.

But that's one tool. It's only going to take care of a minor corner of this. Let's be realistic about the real problem and where these prices have gone.

There are some things that have bothered me that I'd like to hear some comments on.

There was a boatload from Russia that came into Churchill. I'm not sure of the timelines on it, but I presume it was some time last fall. It's hard for me to imagine how and why we would bring fertilizer in there, first of all, when we have such a supply in Saskatchewan—I know we have it in other places in Canada, but Saskatchewan is certainly the big one—and can do it with the kind of product we already have here, and further, do it cheaper.

Can anybody comment on that?

  [\(1015\)](#)

 

**Mr. Roger Larson:**

Mr. Miller, I think we'll have to wait to find out whether or not it was in fact cheaper, when you consider all the circumstances, including the quality of the product, the time of year it came in, whether the farmers had to store it all winter, what shape the product was in when it came to spring and they went to use that product, and all of the other factors.

As to the drop in prices, between 1985 and 2000 the price of fertilizer dropped 25%.

 

**Mr. Larry Miller:**

What years?

 

**Mr. Roger Larson:**

Between 1985 and 2000. So when the markets are soft the price does go down.

What we've seen since 2000 is that 40% of the production capacity of the U.S. nitrogen fertilizer industry was permanently closed because of high natural gas costs and the fact that those plants were not able to compete globally. The price of fertilizer was relatively flat around the world. Those plants closed and that production was lost to us.

I do remember coming before the committee and members of Parliament to say that we were very concerned about the cost of natural gas, which is a primary feedstock raw material for nitrogen fertilizers, and about the ability of our industry to compete and succeed in the future, given the high natural gas costs in North America compared with the rest of the world.

So the U.S. plants close, demand starts to go up, and you have this very tight supply-demand situation. I understand that farmers are not happy with the fact that prices have probably doubled in the last couple of years. It is a significant price increase.



**Mr. Larry Miller:**

They have more than doubled.



**Mr. Roger Larson:**

It is a significant price increase. The price of oil is over \$100 a barrel today, and it was less than \$40 a few years ago. That's the reality.



**Mr. Larry Miller:**

Mr. Larson, just because the time is running out.... I know all about the price of oil, and what have you, and I'm in no way saying that the fertilizer industry, or any industry, should absorb that. I'm simply saying, and I think we will find when the committee gets all the facts it needs, that there's a lot more to this price that's attributable to other things than just that. But I do fully recognize the price of that.

I believe Mr. Atamanenko touched on this when he listed some figures from the United States. I've heard many reports from some friends and relatives who are farming in western Canada about the product mined in Saskatchewan. That same product is trucked south of the border, and yet I'm hearing it's selling anywhere from \$60 to \$120 a tonne cheaper there than in Canada. I've heard this so often that I find it pretty hard to doubt it.

Can anybody speak to that?



**Mr. Greg Haney:**

Mr. Miller, first of all, speaking as a retailer and putting on my retailer's hat, we load at the port of Montreal, where our product is normally stored. And I've been in a situation where my truck is behind a truck of another retailer, and sometimes that of a farmer, who is paying \$120 a tonne less than I am, loading at the same supplier. Can you explain that?



**Mr. Larry Miller:**

Is my time up?



**The Chair:**

Your time is up.

I just have a quick question for Mr. Larson, because you mentioned natural gas prices and how they affect the nitrogen production, with 40% of the plants shutting down in the United States.

Natural gas prices over the last year or year and a half have been fairly flat, yet we saw nitrogen prices increase quite substantially over the last 12 months. What's going to happen now? In the last four weeks, natural gas prices on the futures market have escalated substantially. If I look at the data out of the U.S., it has moved somewhere from around \$8 up to \$10 in the last couple of days. So we're talking about an increase in price of over 25%.

Is that going to drive up anhydrous ammonia and nitrogen prices even further?

  (1020)

 

**Mr. Roger Larson:**

That's really difficult to say. A lot of people speculate on the direct correlation: how much the price of nitrogen fertilizer, for example, can be explained by natural gas costs. I think Ag Canada came up with a correlation of 80%. Somebody else—I think it was the George Morris Centre—did a correlation on the price in southern Manitoba and said it was something like 27%.

I've seen different numbers. What the cost of natural gas will do—and it's about 80% to 90% of the cash costs of producing nitrogen fertilizer, by the way—is set the floor, and if that level of price is not achieved by the fertilizer manufacturer, it will cease production. It will shut down the plant because it can't afford to buy the gas to convert it.

By way of comparison, the global prices of natural gas would range anywhere from about \$1 to \$2 in the Middle East to \$3 or \$4 in, for example, Trinidad, to the North American price, which is similar to the European price for natural gas, \$8 to \$10. It's hard to say whether or not there's going to be any change.

 

**The Chair:**

Mr. Easter.

 

**Hon. Wayne Easter:**

Thanks, Mr. Chair.

I have much the same question as you had on natural gas, and I was going to ask you, Roger, the various prices around the world. But what's the reason for natural gas being so much higher in North America and, to a great extent, Europe than it is elsewhere? Do you know?

 

**Mr. Roger Larson:**

Certainly the fact that we don't have a significant import capacity for natural gas is one of the things. We need liquefied natural gas facilities. Alan Greenspan said it much better than I can. I don't know if I can find his quote in time, but basically what he said was that you need an effective liquefied natural gas import capacity into North America in order to provide price stability.

The other thing that I would say is driving it is that every time we shut down a coal electricity generating plant without providing natural gas producers with the ability to increase supply, it's a zero sum game. If we shut down coal plants and we don't build the Mackenzie Valley pipeline, then we're not going to have enough natural gas to feed our industries in North America in the future.



**Hon. Wayne Easter:**

This is good to know. There are two LNG proposals on the east coast.

I want to come back to Greg's point from earlier about interest-free cash advances to the retailers from the farmers.

The problem we have here, Greg, is that interest-free cash advance programs for farmers' advance payments were originally established so that farmers wouldn't dump product on the market at harvest time. This has changed substantially, now that we have a spring cash advance as well.

The programs were designed for the farm community, but we seem to be consistently losing the benefits of those programs. We supported using the advance payment program to assist the hog and livestock industry. The problem is that it is borrowing against future income; that's all it really is.

Now we're finding, with the spring advance payment program, that there are requests for more money in that program so that farmers can pay you guys earlier and take advantage of early buy options. It's one of those situations wherein the benefits of programs designed to assist the farm community, who direly need it, are accruing elsewhere. When you guys don't have a farm community you don't have a business either. That's my point. I have no argument with you in terms of your having costs too.

Coming back to the point about China and India that Larry was on, number one....

I don't want to lose this point, but I think Roger mentioned going to the Competition Bureau, who said there's no need to investigate.

Roger, the Competition Bureau in this country isn't worth the paper it's written on when it comes to protecting farmers' interests; it just isn't. That's something we've made recommendations on before.

But concerning China and India, from your perspective as ag retailers—and as I said, you have to have the farm community to have a future too—we're up against countries whose labour and environmental standards are such that we really can't compete. What's your view on that? We have to have trade agreements that level this playing field. We're in a high cost environment in Canada on labour, our environmental regulations are higher, our food safety standards are higher, our chemical regulations are higher. We have to have trade agreements and we have to insert labour and environment into them or, quite honestly, we're not going to be in business.

What's your view on that?

 (1025)



**Mr. Clyde Graham:**

I would like to react, since you pointed to it, to the point Mr. Miller made. He was questioning the ability of farmers in some of these developing countries to purchase

fertilizer. They have the means to do it ,and increasingly they are very aggressive in the marketplace.

I was at an international conference last week where there was quite a bit of discussion about the way agriculture is working in some of these developing countries. In many of these places, farmers have holdings of less than one acre. They're buying their fertilizer by the bag, in quantities that a homeowner would buy to put on their lawn. They're putting three crops on that holding of less than an acre. For them, the cost of the fertilizer is not really that significant, but they're paying a lot per tonne for the product. This is the new reality.

In terms of international trade, Canadian farmers are very competitive internationally. I think there will be new opportunities to come out of the development of more prosperous agriculture in the third world. There will be opportunities to produce genetic material, breeding stock, seed, and value-added crops. We have to look at those opportunities as we move into the future. Continuing to do the same thing as we always do isn't necessarily a good idea.



**The Chair:**

Thank you.

Mr. Lauzon.

[*Translation*]



**Mr. Guy Lauzon (Stormont—Dundas—South Glengarry, CPC):**

Thank you, Mr. Chairman. I'd like to ask Mr. Haney a question.

You said that, if you bought a product three or four months ahead of time, you could save up to 27% on costs. Is that correct?



**Mr. Greg Haney:**

My reference period, Mr. Lauzon, was between, let's say, November 2006 and late April or early May 2007.



**Mr. Guy Lauzon:**

It was in fact 27%?



**Mr. Greg Haney:**

That's it.



**Mr. Guy Lauzon:**

Is that true for all products?



**Mr. Greg Haney:**

At that time, that was the cost of nitrogen.

[*English*]



**Mr. Guy Lauzon:**

*Merci.*

Mr. MacKay, I would like to get back to this business about the security and safety. First of all, you said there are approximately 800 ag retailers across Canada.



**Mr. David MacKay:**

There are actually 1,500 ag retailers, but about half of them would be in fertilizer to any major degree.



**Mr. Guy Lauzon:**

Okay, so that's 750 or 800.

In millions of dollars, what would the sales volume be in that?

 [\(1030\)](#)



**Mr. David MacKay:**

Well, crop inputs are in the \$3 billion range across Canada. Fertilizers comprise probably 50% of that.



**Mr. Guy Lauzon:**

So we're talking about \$1.5 billion in sales.



**Mr. David MacKay:**

For the total market, these gentlemen might actually have better figures than I would.



**Mr. Guy Lauzon:**

Where I'm going with this is that I find when you have those kinds of sales....

By the way, what kind of return on investment are you folks experiencing recently, in the last recorded year?



**Mr. David MacKay:**

Greg can probably give you some evidence. I'm hearing from our members that the market is brisk in terms of the amount of purchases this spring. However, margins are being pinched because sometimes, as Greg pointed out, we buy at certain prices but have replacement costs that are far higher.

How do we price our product? We tend to have a fixed margin on all our fertilizer, and unfortunately it does get pinched when the volatility affects it.



**Mr. Guy Lauzon:**

You still haven't answered the question. How much? What's the return on investment?



**Mr. David MacKay:**

Mr. Haney might give you a better response.



**Mr. Guy Lauzon:**

Just very quickly, because I'm really pressed for time.



**Mr. David MacKay:**

Twenty percent margins are probably extremely high. It's more like in the 10% or 15% range.



**Mr. Guy Lauzon:**

All this is to say, really, if each retailer were to make a \$40,000 investment in their security and safety, do you not think that could be financed over the next 10 years? Looking for 75% of that cost...isn't that a cost of doing business; you're investing?



**Mr. David MacKay:**

Retailers are not in the business of public safety per se. We've always taken security very seriously and comply with regulations. An example is the AWSA pesticide guidelines.

But at this point we're taking on more onerous regulations that don't directly relate to what we do as a sector. We're asking for government help to get over the hurdle. We're also asking to do it efficiently, one time, so we don't have to do it 10 times, once every time we do a product upgrade on a code. We'd like to do it efficiently and make sure we secure Canadian—



**Mr. Guy Lauzon:**

So you wouldn't see this as a cost of doing business?



**Mr. David MacKay:**

No. I don't think we're necessarily in the business of public safety.



**Mr. Guy Lauzon:**

My colleague needs a minute.



**Hon. Carol Skelton:**

I was just going to say that it's interesting to hear you talking about China, because China entered into the grain markets last week and caused huge problems for Canadian farmers.

Pesticides and herbicides haven't gone up. Statistics tell us they've lagged behind fertilizer and energy as input costs.

Mr. MacKay or Mr. Haney, can you tell me what your thoughts are on that? Are they going to come up, keep up with the increase in the fertilizer and energy?



**Mr. Greg Haney:**

My call, back in October, would have been chemicals down.... Well, I like to refer to them as crop protection products, because now they aren't even chemicals. We're selling enzymes and additives. My call would have been down, but it's not happening.

Again, I'm going to go back to Mr. Miller's comment about the third world. I think Asia and China would take total offence to that. They have 10 times the middle class we do here in Canada, and that's our competition. As to South America, I don't think there's any security down in South America.

Mr. Lauzon mentioned that it's a cost of doing business. I don't think so. I think the cost of doing business is looking after our customer, supplying good food, safe food, for the Canadian economy at a good, reasonable price, and being there to service them.

So we're sitting here microanalyzing the situation when it's a global problem.



**Mr. David MacKay:**

Can I add one thing about pesticides? There's an element of brand in pesticides that there isn't so much in fertilizer. Fertilizer is strictly commodity, almost generic, to make the comparison.

Although there are generic pesticides available that are more commodity-like, the brand element creates a whole different market element there. Growers may want to purchase, as do retailers, specifically for those brands, to have those products available, because new science and technology delivers new products that are branded.



**Hon. Carol Skelton:**

Thank you.



**The Chair:**

Mr. Boshcoff, you have five minutes, please.



**Mr. Ken Boshcoff (Thunder Bay—Rainy River, Lib.):**

Thank you very much, Mr. Chairman.

I apologize for having to go into the House, not necessarily to hear Mr. Atamanenko, but I have to say you were brilliant.

It seems that this issue, from what we've heard in previous testimony--in terms of farm input costs--is one of the sore spots. When we hear your case today, it comes more into balance. I'm wondering what the process is to get some kind of reconciliation on these perspectives towards a solution that is actually workable.

When I look at the presentation by the CFI, I see a graph of U.S. fertilizer prices on page 2. Then I see a different one on Canadian fertilizer prices. Then on the third page--which I would think would give me a better perspective between the northern plains and western and eastern Canada--it's in a chart form. You can see it leads to only more questions in terms of our being able to determine if each of these graphs would compare U.S. fertilizer prices and Canadian fertilizer prices for farmers.

When we say farmers, are we always talking Canadian farmers? That's the first question.

If we had to sell this, say, to the government or to this committee in terms of being able to say, you're right, there isn't any kind of huge price disparity, that it's localized or it's occasional as opposed to being the norm.... You can see where I'm coming from in terms of our trying to reconcile this, to be able to address it or report to the government so they can act in a positive way, without making it look like last week the numbers showed that

you guys could pay it off on Tuesday and it wouldn't be a financial cost to you because you're making so much money.

Please go ahead, panel.

  [\(1035\)](#)

 

**Mr. Roger Larson:**

Clyde, can you respond to the first one, on working with others?

 

**Mr. Clyde Graham:**

Yes. We have gone to the George Morris Centre to take a look at the market conditions and to make some recommendations about things that farmers can do in order to better ensure that they have value from their fertilizer dollar. There are management tools that farmers can take advantage of, such as some opportunities for hedging; there are better techniques for negotiating with dealers. Certainly in terms of their fertilizer use, they want to go to soil test; they want to make sure they're taking advantage of the best management practices so they're getting the maximum benefit from every tonne of fertilizer they're putting on their farm. We're going to be releasing this report, which is an independent report from the George Morris Centre, in the next few weeks. We think it could be very helpful.

In terms of better information, Agriculture Canada spends a considerable amount of resources looking at this issue every year, as they have over the years. Certainly I think provincial governments are looking at this issue. There is quite a bit of other information as well. There is market information through *Green Markets*, which looks at the North American market. I think farmers have to work to be informed consumers, as does anyone in the market. They're in business like our agri-retailers are and like our companies are.

 

**Mr. David MacKay:**

Mr. Boshcoff, something came up when we were at the ARA conference in Las Vegas--that's the retail association in the United States. I'm not extremely familiar with this, but I'm going to throw out this concept and see if it's a potential that may help.

It's called fertilizer swaps. I guess it's the equivalent of what futures trading is in grain to fertilizers. It appears it's an art down there, more than a science. It's something that perhaps, if we were able to master it, might help flatten the future cost of fertilizers so that people can lock in pricing and at least be more stable in terms of forecasting their incomes and projections.

I don't know a lot about it. Our association is endeavouring to find out more information about fertilizer swaps and how it could help retailers, at least, buy more predictably. I understand there's a major problem with market liquidity. But maybe it's a tool that we could look to, and if we mastered it, perhaps it could help.

 

**Mr. Ken Boshcoff:**

Thank you.



**The Chair:**

You mentioned you were releasing a study from the George Morris Centre. Would we be able to get an advance copy for the committee? We plan on having our report wrapped up in the next few weeks as well.

 [\(1040\)](#)



**Mr. Clyde Graham:**

If you just state when you would like to have it, we'll get it to you by that date.



**The Chair:**

We'd like to have it after we come back from the Easter break, if that's possible.



**Mr. Clyde Graham:**

Absolutely.



**The Chair:**

Thank you. We really appreciate it.

Mr. Miller.



**Mr. Larry Miller:**

I will share my time with Mr. Storseth.

Mr. Graham, you spoke just a minute ago about farmers being uninformed consumers, and I think most farmers would take offence to that. For the most part, particularly in the last 10 to 20 years, they've had to be informed. There's always room for improvement, and I'll take that note, but I think overall they're very informed.

Mr. Haney, back to your comments about supplying a quality product for safe food production, that's all admirable when you talk about a reasonable price. Well, that's the only part the industry has forgotten about. You talked earlier about your prices, how they dropped between 1985 and 2000, but in 2002 to 2005 we probably had some of the worst prices we've ever seen in grain and oilseeds, and the price of fertilizer was going up. So I don't think the level of support to the industry that they feed off is there when it should be. Now all of a sudden when the grain and oilseed guys hit pay dirt, there's extra gouging going on there. Whether you want to buy into it or not, it's there.

Back in the BSE crisis, I went off to the banks, because some of them were saying, "Oh, all of a sudden we've got good times and we want to kick the guy when he's down". To the banks' credit, after getting raked over the coals by more than just me, they actually backed off, and for the most part I give the banks credit for sticking with the farmers. I think your industry could learn something from that. I honestly believe that, and when somebody is down.... It isn't just the grains and oilseeds producers who use fertilizer. The livestock industry is heavy on it as well, and they're in the worst crisis they've had. BSE was nothing compared to what the livestock crisis is.

So you have to support the industry, and you have to be prepared to take some of the lumps along with them, and I'd just like to say that.

I'm going to turn it over to Mr. Storseth.



**Mr. Brian Storseth:**

Thank you very much, Mr. Chair.

In the short time I have left, we might as well be as frank as we can be. On the security regulations, I agree with you, this is borderline silly. It should be about safety and not security.

The four recommendations I see before us are basically these. We need to educate farmers better. As Mr. Miller says, I take offence to that. Allow them to buy throughout the year. That's basically two and three. Number four is essentially to give agri-retailers more money.

Mr. MacKay, you've said that some of the cost of the security regulation is already being passed down to farmers. If you were to get the money you're asking for, how much savings would this produce for our producers?



**Mr. David MacKay:**

That's a difficult question without analysis.



**Mr. Brian Storseth:**

I'll just ask one last question, and then I'll let you answer it. Otherwise, I'll get cut off.

We said that in 2007 there were 27% savings if you bought in the fall rather than the spring. Is it not also true that in the last 10 years that has become more of a prevalent thing for farmers to do, that those savings have tightened? So once farmers have the ability to flat-out buy throughout the year, those savings are going to continue to decrease, and the industry is going to continue to eliminate those savings and generate its profit throughout the year and maintain a steadier profit line.

I'll let you answer both those questions, and then I'm sure my time will be up.



**Mr. David MacKay:**

I'll start with the security regulations. All I can tell you is that we have estimated the costs to the industry to be in the neighbourhood of \$50 million to \$70 million. So there are the dollars, however you wish to apply them to the market. If we were to pass on our costs--and those are just our costs, never mind any up-charge--\$70 million would be stressed back into the market for growers.



**Mr. Brian Storseth:**

Yes, but I didn't ask how much your costs were; I asked how much of that you're willing to give back to the producers.



**Mr. David MacKay:**

That should all be passed on to the producers.



**Mr. Brian Storseth:**

So if you were given that money, all of it would be passed on.



**Mr. David MacKay:**

That's correct. Typically, 100% of that should be passed on to the producers.



**Mr. Greg Haney:**

Mr. Chairman, in answer to Mr. Miller's comments, I did not mention anything about prices going down in the 1980s. My only reference was to the fact that our group did, but I was on the receiving end too when corn prices were at \$100 a tonne--I go by metric tonne--and my input costs were going up.

When I came out of university, it was always the opposite. When the price of corn or wheat was going up, your fertilizer tended to do the same. That was just due to demand. Farmers have the ability to pay for the product when they're making money. That's my comment on that.

The other question was basically on how the prices are with the 27% increase. You will see less of a difference between early purchases and the spring. I say that now, but I don't have a crystal ball, because if we experience the same increase in demand for fertilizer and increase in prices on costs, we could see the same thing happen again, coming up, let's say, in the fall of--

 (1045)



**Mr. Brian Storseth:**

That has been the historical pattern.



**Mr. Greg Haney:**

It has that historical pattern. The difference between, let's say, a fall purchase and a spring purchase is minimal--minimal in a sense, but you've still got at least 5%. We've always given the farmer the benefit of the doubt. We've taken his cash, we've paid for it, and we've given him an interest return on it.



**Mr. Brian Storseth:**

I have one last comment. If indeed these--



**The Chair:**

Mr. Storseth, your time has expired. I have to cut you off there, just to be fair to all members on the committee. You were right, I do cut you off.

Monsieur Bellavance is next.

[*Translation*]



**Mr. André Bellavance:**

Thank you.

Mr. MacKay, earlier you startled me twice. In response to a question from Ms. Skelton, you said that your industry wasn't responsible for public safety. I take issue with that comment. There is a concept called social responsibility. So it's shared. Everyone, including you, must be concerned about public safety, particularly since we're talking about products that can... Earlier we had some examples of people who could even use fertilizer and products with bad intentions and improperly.

I don't know whether you want to explain that to us a little more, but you have a responsibility.

[*English*]



**Mr. David MacKay:**

Mr. Bellavance, I do agree with you, without question.

My comment was that we are not in the business of public safety per se. We have a shared responsibility in complying with the regulations because we helped write them, so we're aware of some of the most common sense ways to protect the public. We impart those recommendations to government, hopefully we agree on a way to proceed, and then away we go. Unfortunately, the cost of those recommendations can be prohibitive.

Under no circumstances are we shirking our responsibility in terms of compliance with public safety, but I'd like to say that I think the government has a responsibility for public safety as well. Here's a situation in which the industry will bear 100% of the cost of those security upgrades, while 0% will come from government, other than maybe a few tax rebates. That, to me, is imbalanced. The government should share in the cost of security for the public; they clearly are not.

[*Translation*]



**Mr. André Bellavance:**

We agree on that, and I think you've clarified the situation. Sometimes one remembers only a fragment of a sentence.

It does indeed go without saying that the government will be responsible for helping the industry when it imposes and raises its standards, particularly since everybody needs them these days and the federal government isn't short of surpluses. We've said that on numerous occasions.

Mr. MacKay, in the pile of documents you filed with us, there is—I don't know whether it's a study—a document from the Fertilizer Institute referring to factors contributing to an increase in retail fertilizer prices. One of those factors is the depreciation of the U.S. dollar, and thus the increase in the value of the Canadian dollar. That somewhat contradicts what we heard from the Canadian Federation of Agriculture and the UPA. They also came here and told us that the rise in the value of the Canadian dollar should increase our purchasing power, thus enabling us to pay less for our inputs, including fertilizer.

I would like you to explain to me where that statement comes from and to say a little more on how the depreciation of the U.S. dollar contributes to higher retail fertilizer prices.

[English]



**Mr. David MacKay:**

Because we don't set pricing, I'm going to refer that question to CFI in terms of how price is set for fertilizer.

I can just tell you that at a retail level, if the Canadian dollar is high, you've got purchasing power relative to the American dollar if you're purchasing American product. That's why we're seeing some of the cross-border activity in fertilizer and in pesticides. The OUI and GROU programs are examples of that.

We're also seeing global shopping taking place: growers groups are now scouring the globe for affordable fertilizer, because they have higher buying power in general. That element is potentially enhanced by the purchasing power of the Canadian dollar. Of course purchasing from the U.S. is taking place, and the differential is what we are talking about today, but I'll refer discussion of the actual setting of the price to the industry that manufactures.



**Mr. Roger Larson:**

Thank you, Dave.

The increase in the Canadian dollar increases Canadians' buying power around the world. Fertilizer is a globally priced commodity. The price is set by the worldwide market. When the Canadian dollar goes up, that increases the leverage of importers, retailers, and farmers combined who are working in Canadian dollars. So they do buy cheaper.

The two graphs we showed you demonstrate that up until 2006, the price index change in the U.S. was 83% and the price index change in Canada was 48%. The Canadian index has gone up less because of the strengthening Canadian dollar. It shows clearly that the Canadian farmer is benefiting from a stronger Canadian dollar in terms of their purchase price on inputs.

In terms of security and our public responsibility, CFI and its affiliates, including CAAR, came out with a program called "On Guard for Canada"--in French, *Protégera nos foyers*--in 1996, if I remember correctly. It talked about the importance of maintaining security in the supply of fertilizers to farmers: know your customer, report any suspicious activities to the police. We have been working on this, in conjunction with public officials, for a long time. We take our responsibility very seriously.



**The Chair:**

Thank you. The time has expired.



**Hon. Wayne Easter:**

On a point of information, Mr. Chair, are both of those charts in U.S. dollars?



**The Chair:**

You're referring to the slide deck they presented?



**Hon. Wayne Easter:**

Yes.



**Mr. Clyde Graham:**

They're indexes, based on the currency in each country.



**The Chair:**

Thank you.

Mr. Atamanenko, I'll let you wrap up.



**Mr. Alex Atamanenko:**

Thank you.

Mr. Larson, you mentioned that in the future we're not going to have enough natural gas, so we should be importing more LNG. But are we not a net exporter of natural gas? And if we're a net exporter of natural gas, why do we need to import more?



**Mr. Roger Larson:**

The natural gas supply is a continental supply in North America. Canada produces something less than half of the North American natural gas. I mean, given that we're a smaller country, that's still very substantial.

Canada is a net exporter of natural gas, but the problem we face as Canadian industry is that the natural gas producer has the right to sell to the customer who's willing to pay the highest amount for their product. If it's a choice between selling it to California for air conditioning or selling it to a fertilizer manufacturer in central Alberta or Ontario, the reality is that we're going to face those competitive challenges.

There is not enough natural gas in North America to meet all the potential new demands that can be placed on it, given environmental constraints and objectives for clean air, the objective to improve our electrical generation, the growth in population, and the growth in electricity demand for air conditioning.



**Mr. Alex Atamanenko:**

Let me ask you this, then. We've locked in our natural gas and our oil; we're selling it to our neighbours to the south under NAFTA at a reasonable price. Wouldn't it be logical at some point in time for us to relook at the situation and say that if they want more natural gas, let them import LNG, let them build those terminals? Why should we be doing it when we have as much natural gas as we do have--and as we would have if we cut back some of our exports?

That's a question for you.

  [\(1055\)](#)

 

**Mr. Roger Larson:**

As to where the terminals are built, I think there are something like 40 proposals, and there'll probably be about five or six of them going ahead, in the U.S. for LNG terminals. I think Mr. Easter mentioned that there were two projects going ahead in Atlantic Canada.

As natural gas suppliers, probably we're more comfortable with the idea of siting an LNG facility. We already have the pipelines moving south so that we can add that supply. In terms of why they would build in the U.S., they are looking at LNG facilities, and there are proposals in place.

What we're saying is that the natural gas market needs the same discipline of the potential for global supplies of natural gas to reach North America as we face in the fertilizer industry, where a producer in the Arab gulf, or Russia, or anyplace else in the world can bring fertilizer into North America and compete with our production.

 

**Mr. Alex Atamanenko:**

Would it not be worthwhile to pursue this more to have natural gas moving east and west so that you folks can keep your input costs down when you produce fertilizer and then pass that on to the Canadian producer?

 

**Mr. Roger Larson:**

We do have trans-Canada gas pipelines. I'd be happy to send the Canadian Gas Association in to talk to you about what they need for infrastructure. I'm not an expert on that.

 

**Mr. Alex Atamanenko:**

I have one last question, if I have a minute.

Potash is produced in Saskatchewan primarily. There's not a big difference in price, but it is still more in Canada. Should we have been talking to the previous Saskatchewan government, and this one, to ask what's going on here? Regardless of our political affiliations, there's something wrong. Should the government, if it's involved in potash production, be doing what it can to keep that cost down so our farmers can buy it, not only on par with, but for less than the farmers in the south?

Have we failed over the last few years at this level?

 

**Mr. Roger Larson:**

I don't believe the potash companies in Saskatchewan are selling their product in Canada at a higher price than in the U.S., or around the world.

 

**Mr. Alex Atamanenko:**

According to our statistics for 2007, the price difference was 3.8%. So it's slightly higher. The point is, if we're a producer of potash, why can't it be lower for our people?

 

**Mr. Roger Larson:**

I don't believe the potash producers are selling their product for a higher price to Canadian consumers. We can look at *Green Markets*, which is published every week. It'll tell you what the Saskatchewan producers are selling at. So f.o.b. Vancouver and f.o.b. the mine in Saskatchewan--it's the same price to a U.S. customer as to a Canadian customer, and you would have less freight to a customer in Saskatchewan because there's less distance. There would be more freight if you were going, say, to southern Ontario with that potash compared to just going across the border into North Dakota. But it's f.o.b. plus freight.



**The Chair:**

Just before we recess, I want to send the Canadian Fertilizer Institute home with some homework, if that's all right, Mr. Larson and Mr. Graham.

We talked about Canadian competition and Canadian manufacturing. Could you give us a list of who all those players are? It's not in the deck that you presented. What percentage of that fertilizer that's being produced, or the different fertilizer commodities, is being consumed domestically, and what percentage are we exporting? I'd like to get a picture of that.

I have just a comment for the Canadian agri-retailers. All witnesses talked about forward pricing, the ability for farmers to buy around the year. One of the complaints I got this past fall--and I'm a farmer--was that our local retailers couldn't forward price. Farmers were going in to buy nitrogen in the fall, and they couldn't get a price. They were trying to close up their books for the year-end, and they couldn't actually get in there and get a price and get product committed for the spring planting. It kind of flies in the face of being able to buy year-round when--and hopefully this isn't going to happen regularly--some of the manufacturers won't even supply agricultural retailers with pricing so that they can price it back to the farmer.

Mr. Haney.



**Mr. Greg Haney:**

Mr. Chairman, I'd like to answer that. The bottom line is that we've seen things we've never seen before. We've advanced money to fertilizer companies to receive product, only to be told afterward that we're only going to get 60% of our order because of lack of supply. This is probably where you're coming from. This has never happened before in our industry.

When that happens, sometimes you have to make some decisions, and without knowing what your final cost is going to be for that fertilizer, some might make the decision to back out of the market for a short period of time until it corrects itself.

 [\(1100\)](#)



**The Chair:**

Can you tell me, just briefly, is that also happening in the U.S.? Are agricultural retailers in the United States getting the same cutbacks?



**Mr. Greg Haney:**

I would say that's one of the reasons we're experiencing this. It only goes to show that when they start planting, it doesn't start in the north and go south; it starts in the south and comes north. So they're basically consuming whatever is being produced. I feel that eventually we're going to have what's required to put our crop in, but the issue is going to be how much, when, and at what price.



**The Chair:**

Thank you.

Time has expired. Another committee wants to come in.

This meeting is adjourned.