

**CFI SUBMISSION
TO
THE HOUSE OF COMMONS STANDING COMMITTEE ON FINANCE**
(November 23, 2004)



INTRODUCTION

- Good morning. **The Canadian Fertilizer Institute** (CFI) is an industry association representing manufacturers, wholesale and retail distributors of nitrogen, phosphate, potash and sulphur fertilizers.
- Our member companies currently employ 12,000 Canadians, mainly in rural communities.
- The total economic contribution to the Canadian economy is over \$6 billion. Canadian fertilizer manufacturers produce 24 million tonnes annually. Of this, we export 18 million tonnes to over 70 countries.
- Canada's fertilizer industry competes successfully for markets around the world. Increasingly, our industry is facing new challenges from foreign competitors.
- We believe that there are number of things that the federal government can do to keep Canada's fertilizer industry competitive – particularly in the areas of taxation, natural gas supply, energy and environmental policies.

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- The fertilizer industry supports the goal of greenhouse emission reductions under the Kyoto Accord, but we believe it must be done in a way that protects the international competitiveness of our industry.
- We appreciate that the government is taking a more positive approach to environmental sustainability and wants to work with industry.
- This October's Throne Speech contains a commitment to respect the Kyoto Accord by "refining and implementing an equitable national plan, in partnership with provincial and territorial governments and other stakeholders."
- And the Minister of the Environment said in a speech in September that the model of sector permanent sustainability tables "would help to identify government policy and program choices, including the use of market-based incentives that will encourage the right kind of investments and support corporate leaders in their efforts to build a strong, innovative economy."
- We believe that a key component of that approach is providing incentives for business to meet realistic environmental targets.
- Reduction targets for the industry must be reasonable, cost effective and achievable in practice.

- Governments in Canada need to adopt policies that will enable our industry to make the investments necessary to continue reducing greenhouse gas emissions and to contribute to other environmental objectives.
- Governments should facilitate investment by eliminating barriers to trade, continuing to move to a more competitive corporate tax system and providing new investment incentives to accelerate technology change, modernize facilities and upgrade skills.
- Measures like the accelerated tax allowance could be an important part of the market-based incentives approach.

NATURAL GAS

- Another important economic issue for our industry is the high cost of natural gas. North American gas prices are putting our industry at a global competitive disadvantage.
- Natural gas is essential in the production of nitrogen fertilizer products - both as a raw material and as an energy source.
- This essential feedstock typically accounts for 70- 90 per cent of cash production costs. When natural gas prices increase, production costs increase and reductions in plant capacity can result, impacting the supply of fertilizer.
- Other fertilizer production is also affected. For example, potash is the most significant user of natural gas in the non-metals mining sector.
- The natural gas used by the Canadian fertilizer industry represents approximately nine per cent of the total Canadian gas consumption. Nitrogen fertilizer is a significant value-added product that generates \$4 to \$5 more for the economy than exporting \$1 of natural gas.
- Federal and provincial governments should recognize that, unlike oil, there is currently no global market for natural gas.
- An increase in gas costs that is an isolated phenomenon to North America impacts Canada's fertilizer production costs and ability to compete on the world market.
- A growing demand for natural gas in North America has been a trend for a number of years. The increase is primarily due to the rise in gas-fired electrical power generation.
- Canada must support natural gas exploration and development. We need a streamlined regulatory approval process for energy and pipeline projects, while continuing to achieve social and environmental objectives.
- Royalties and taxes on natural gas are a particular burden on the fertilizer industry, which uses natural gas as both a fuel and a feedstock. Governments should look at options for reducing this burden and study the downstream impact on Canadian industry and agriculture.

- Our industry also supports the vision and principles for a Smart Regulation Strategy for Canada. We have written to the President of the Treasury Board stating as much. This commitment may help improve the regulatory process for the MacKenzie Valley natural gas pipeline.

While we agree with many of the recommendations and observations in the Smart Regulation final report, the federal government needs to provide a plan to implement Smart Regulation.

TAXATION

- An internationally competitive tax regime is critical for the fertilizer industry given our dependence on exports and intense competition in our global markets.
- The fertilizer industry supports and appreciates the policy direction for resource taxation set out in the 2003 federal budget and Bill C-48 in the last session of the previous Parliament.
- This is a good news story for our industry.
- These measures will bring the corporate tax rate for potash into line with other industries will help restore a competitive tax regime once they are fully implemented.
- Our concern is the five-year phase-in period. Five years is still too long to end the double taxation the potash industry has suffered. CFI also believes the government should accelerate the phase-in of the corporate tax rate reduction to 21%. Even under the C-48 formula, our tax disadvantage with other sectors actually widened this year.
- The federal government should reassess this timetable and look for every opportunity to accelerate it.
- We agree with many other industries that the general income tax burden on corporations will still be too high, despite planned reductions. We support calls for a move to a 17-percent rate.
- In addition to these measures, CFI believes that the federal government could further improve the investment climate in Canada to meet new demands for capital. Depreciation and inventory deductions that are less generous than in many other countries create a burden on the fertilizer industry.
- This is particularly worrisome at a time when the federal government is requiring major new investments to achieve greenhouse gas emission reduction targets under the Kyoto Protocol.
- As mentioned earlier, the federal government should also consider measures such as accelerated elimination of capital taxes and accelerated capital cost allowances to ease this burden and help keep our industry competitive.

- Industries such as fertilizer that have already acted to reduce emissions should not be penalized. Measures such as capital cost allowances and other credits related to Kyoto should be retroactive.

CONCLUSION

In conclusion, there are steps the federal government can take to improve the competitiveness of the fertilizer industry including:

- Accelerating phase-in of the resource tax measures in Bill C-48, especially full royalty deductibility.
 - Encouraging capital investments to reduce greenhouse gas emissions through accelerated capital cost allowances and other tax measures.
 - Providing tax credits and other measures to assist farmers in managing nutrients.
 - Studying the royalty and tax system and environmental policies affecting natural gas and other energy sources.
- The fertilizer industry has seen many positive signs that federal economic policies are recognizing the importance of safeguarding and enhancing the competitiveness of our industry. We firmly believe that competitiveness can be compatible with environmental and other important public priorities.