2. Taxes as a Cost Component of Natural Gas

Farm inputs, such as fertilizer, are generally exempt from sales taxes and import duties except for provincial royalties and federal fuel taxes, including those on the wellhead price of crude oil and natural gas. (Fuel taxes and fuel tax rebates are dealt with under a separate heading.)

Under the 1980 National Energy Program (NEP) a number of taxes had different effects on natural gas prices, depending on the region and the ability of gas producers to pass taxes on to their customers.

Since deregulation of natural gas in November 1986, however, Canadian prices are now determined in the marketplace and domestic market buyers of natural gas are free to negotiate prices. The only levies left on natural gas are the provincial royalties. In Alberta, the current provincial share of revenue at the wellhead is about 20% which translates to approximately 4% to 6% at the retail level. The Canadian Fertilizer Institute estimated for the Committee that the Alberta royalty on natural gas probably adds $10 per tonne to the cost of ammonia (the current price of ammonia in Alberta is $400 per tonne). There is a perception that complete removal of all Alberta Government royalties could save farmers about 2.5% of their nitrogen fertilizer costs. With competitively determined prices, however, sellers are more likely to absorb these costs in order to stay competitive so that they are no longer passed on to consumers through a price increase and must come out of profits.

Since the small Canadian industry is struggling to survive against increasing external competition, the Committee supports measures to help keep it healthy. A domestic industry helps ensure security of supply and furtherance of domestic technology. A heavy tax burden would further erode the industry's already deteriorating position.

5.1 The Committee therefore recommends that no new taxes be imposed on the raw materials or energy components used in the manufacture of fertilizer.

C. Fertilizer Trade

There are basically no protective tariffs or trade restrictions on fertilizer. The Canadian fertilizer industry is international in scope and subject to global supply and demand factors which govern year-to-year prices and performance.

In 1986, exports accounted for 40% of nitrogen sales and 92% of potash sales. Exports include both the U.S. and offshore and have become important in Canada's trade balance, contributing $2.4 billion in that year.

World demand for fertilizer products is tied closely to the prosperity of the agricultural sector and so the present depressed situation is also one of oversupply. The European Economic Community, Australia and the U.S. have charged the East Bloc countries with dumping urea at less than fair market value. One of Canada's largest fertilizer producers is also launching an anti-dumping action against East European and Soviet urea imports into Canada. For the fertilizer year ending June 1986, total Canadian imports of urea were 204,244 tonnes, down from the 1985 level of 219,396 tonnes.

At the same time, some U.S. potash companies are seeking a 43% tariff on Canadian potash on the grounds that the Canadian product is being dumped on the U.S. market at well below the cost of production. The Canadian potash companies claim that the supply situation is accounting for their increased market share and price advantage rather than any conscious attempt to squeeze out an unprofitable segment of the U.S. potash industry situated in New Mexico. In 1984 the U.S. potash industry lost anti-dumping cases it had filed against Israel and the Soviet Union.