CHAPTER FIVE

> We think fertilizer companies of Canada dump their excess production into the United States at reduced prices, and the farmers who are fortunate enough to live along the American border are usually able to access cheaper fertilizer prices from their American friends than from Canadian sources. We hope that can be addressed and corrected (Jack Penner, President, Keystone Agricultural Producers, Inc., Issue 17:7, 31-3-87).

FERTILIZER PRICING

A. Canadian Price Competitiveness

During the Committee's hearings a number of questions were raised about the various factors which bear on prices and price-setting of fertilizer in Canada. Fertilizer prices doubled between 1974 and 1981, during the period of the two oil price shocks, but since 1981 they have generally declined except for a brief upsurge in 1984 (Figure 5.1), and they are currently 16% below their 1981 peak. Evidence was presented to the effect that taxes on energy sources used in the production of fertilizer represented a production cost component to grain producers. Removal or rebates of all energy taxes were remedies suggested. There also exists the perception that deregulation of natural gas should bring about appreciable reductions in the price of fertilizer.

The price of fertilizer as a commodity is established by supply and demand relationships at the international level. Like any other commodity, it sells at whatever price it can command in a market, given the competitive forces at work. The hearings confirmed that this country is a small player in the fertilizer market except as a producer of potash, of which Canada produces about 30% of world supplies. As a major producer of a high quality product, this country is able to be a price setter for potash. From Saskatchewan, the location of the potash ore, production is dispersed to Canadian, U.S. and offshore markets. The Canadian share of the U.S. potash market, with a lower unit cost than U.S. competitors, is currently 85%. Canada's strong competitive position has ramifications for potash entering the U.S.; this issue is discussed under Section C. There is presently a surplus of potash in world markets.

Canada has no indigenous economic supplies of phosphate rock, the second major fertilizer commodity. Canadian phosphate producers now find it cheaper to bring in the finished product from Florida and North Carolina, the source of North American phosphate rock, than process it here. Times have been difficult for this portion of the fertilizer industry which has seen three phosphate plants in the east and two in the west close over the past three years. According to a Canadian Fertilizer Institute spokesperson, this is because, based on current transportation costs, the small Canadian sector is unable to compete against the large integrated producers in Florida and North Carolina.