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2018 FEDERAL BUDGET

Recommendations to the House of Commons Standing Committee on Finance

Submission by Fertilizer Canada

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Productive and healthy soils sustainably drive a country's economy. Fertilizer improves both the quantity and quality of food, fibre and fuel. To feed a projected world population of more than nine billion by 2050 crop production must increase its per acre intensity by 70 per cent.

Canada's fertilizer industry stands ready to meet this challenge. Saskatchewan is the world's largest supplier of potash, accounting for 46 per cent of global trade. Additionally, Canada is home to the world's largest fertilizer company and the world's largest agri-retailer. These and all of our members' contributions are vital to increasing crop production sustainably.

As the government considers measures to enable areas of Canada's economy, Fertilizer Canada submits the following recommendations which will aid our industry's growth and allow us to continue to help farmers feed the world:

- 1) Reduce barriers to trade and investment, by:**
 - a. Improving Canada's competitiveness to encourage investment, innovation, and expansion;**
 - b. Ensuring that environmental regulations on manufacturers are science-based and recognize the competitiveness of Energy-Intensive, Trade-Exposed (EITE) industries;**
 - c. Advancing trade-enabling transportation infrastructure; and,**
 - d. Investing in the Canadian Food Inspection Agency to catalyze new product development.**
- 2) Invest in climate-smart agricultural practices, such as 4R Nutrient Stewardship (Right Source @ Right Rate, Right Time, Right Place®).**

Fertilizer Facts

- Canada is the largest exporter of potash, accounting for 46% of global trade.
- In 2016, exports of fertilizer reached 77 countries and were worth \$5.7-billion.
- The United States is Canada's largest export market for fertilizers, followed by Brazil, China, Indonesia and India.
- Annual exports of fertilizer to the United States range from \$3.2-billion to 4.5 billion.
- Canada's potash industry exports nearly all product, while nitrogen manufacturers export approximately 40%.
- About 6% of all natural gas consumed in Canada is used to make fertilizer.



The Case for Investment

Dominic Barton and the Finance Minister’s Advisory Council on Economic Growth have identified agri-food as a sector with enormous growth and export potential. Canada’s fertilizer industry is well placed to play a major role to address this innovation-based economic agenda, by promoting science-based agricultural systems which will build economies in developing countries while growing or creating new markets for our Canadian-made products.

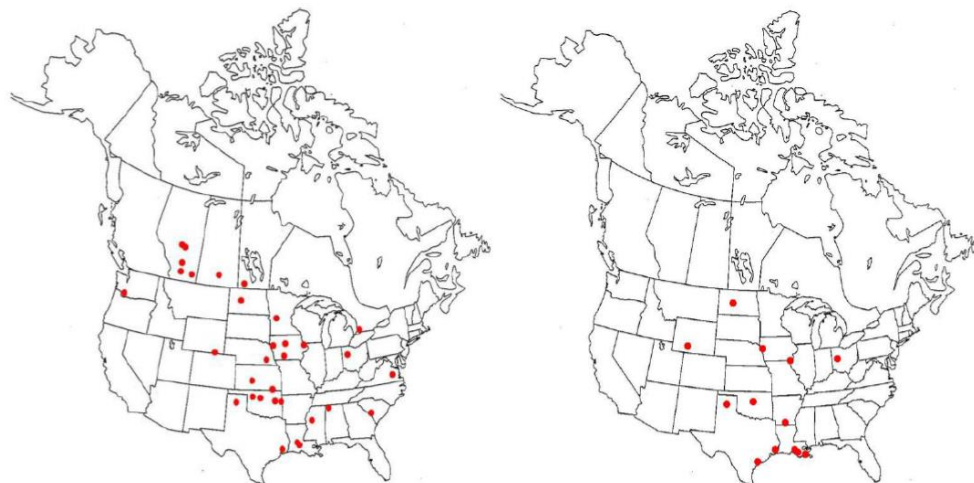
Recommendations:

1) Reduce barriers to trade and investment.

Improve Canada’s competitiveness to encourage investment, innovation and expansion

The government must focus on Canada’s competitiveness to incent investment and growth. In Canada, \$17-billion has been invested by fertilizer manufacturers since 2007 with a 50 per cent increase in employment in that period, primarily in potash mining in Saskatchewan. However, no investments have been made in expansions or new facilities in nitrogen manufacturing in Canada since 2012. In the United States, billions have been invested in major brownfield and greenfield projects during this period, even though some of these companies also have manufacturing facilities in Canada. Canada must ensure its share of the global investment in the future.

Figure 1 (left): Existing ammonia plants in North America; Figure 2 (right): Major capacity ammonia projects (restarts, expansions, new facilities) since 2012





Return on Invested Capital (ROIC) is the primary metric used by many capital-intensive commodity manufacturing industries, including the nitrogen industry, to determine investment allocation decisions. This metric focuses on how well a company is using its money to generate returns. Typically, a company compares its ROIC with its weighted average cost of capital (WACC) to determine if its invested capital is being used effectively. As ROIC is pushed down by lower profit margins towards the WACC then the investment in existing facilities, and the potential investment in new facilities is at risk of not going forward. Existing facilities are also at risk of shutdowns or closures when they are seen as eroding profit margins such that a company's ROIC falls close to or below its WACC.

These multi-million dollar investments decisions are determined over a five to ten year period. It is essential that Canada creates a stable regulatory and tax environment to give fertilizer industry leaders confidence that their investments will meet the ROIC over the long term.

The government, in consultation with Fertilizer Canada's members, should establish a public/private sector advisory committee to develop an action plan to encourage investment, innovation, and expansion. The committee should focus on regulatory impediments and tax measures - for example, enhancing the Accelerated Capital Cost Allowance, manufacturing and processing tax relief - to encourage growing this and other important industries.

Ensuring that environmental regulations on manufacturers are science-based and recognize the competitiveness of Energy-Intensive, Trade-Exposed (EITE) industries

Sustainability is a pillar of Canada's fertilizer industry as we seek to feed a growing world population. Our nitrogen and potash manufacturing and mining processes are highly efficient, performing in the top quartile globally for energy efficiency and greenhouse gas emissions. This conclusion has been validated by extensive government and third party benchmarking evaluating literature and facility visits.

Economically or scientifically unattainable greenhouse gas reduction targets negatively impact our industry's competitiveness and increase the risk of economic displacement and emissions leakage. A report by the EcoFiscal Commission shows that the nitrogen fertilizer manufacturing sector in Alberta – where the vast majority of this product is manufactured in Canada – is one of the most energy-intensive, trade-exposed (EITE) industries, thereby the most vulnerable to costly policies. The potash industry's primary competitors are in Russia and Belarus, who are without equivalent environmental standards.



Any regulation of our industry by the federal government should balance environmental goals with the realities of our industry. The government must also fully consider the short- and long-term impacts of cumulative federal and provincial environmental policies, such as provincial greenhouse gas reduction systems, the Clean Fuel Standard or changes to the *Canadian Environmental Assessment Act*.

Further, the government should recognize the efforts taken by our sector to produce real agricultural emissions reductions through the 4R Nutrient Stewardship system, which if implemented on farms across Canada would offset the emissions from nitrogen manufacturing facilities.

Advancing trade-related transportation infrastructure

The Finance Minister’s Advisory Council on Economic Growth also identified Canada’s trade-related infrastructure as lacking compared to international competitors. Efficient infrastructure is vital to enabling industries such as fertilizer, which exports the vast majority of product manufactured or mined in Canada.

Most fertilizer products in Canada are produced in land-locked provinces, such as potash mining in Saskatchewan or nitrogen manufacturing in Alberta, necessitating long hauls by rail to reach customers in the United States or internationally. Particular focus should be paid to infrastructure easing access to Port of Vancouver and other key marine hubs, enabling our industry to further capitalize on market opportunities overseas.

The government’s recent announcement of a Trade and Transportation Corridors Initiative is vital to this objective. Fertilizer Canada encourages the federal government to strategically target these investments to where they will have the greatest impact on Canada’s economy, enabling the movement of our members’ products to international markets.

Investing in the Canadian Food Inspection Agency to catalyze new product development

The prosperity of the agriculture and agri-food industry in Canada is dependent on timely access to safe and effective fertilizer and supplement products. This has significant and direct benefits to the public, providing food for the growing population and being a major contributor to the growth and competitiveness of the Canadian economy.



The Canadian Food Inspection Agency (CFIA) regulates all fertilizers and supplements imported and sold in Canada to ensure their safe and appropriate use. However, significant modernization, strategic initiatives, and regulatory changes – including the CFIA Plant and Animal Health Strategy, the *Cannabis Act*, and the Modernization of the *Fertilizers Regulations* – indicate that increased resources are needed at the CFIA Fertilizers Section. Historically, mandate changes at the CFIA resulted in a resource deficit and significant submission backlogs for fertilizer and supplement registration reviews, delaying market access for products. Additional resources are also required to ensure the CFIA can meet the growing demands for the development and evaluation of innovative enhanced efficiency products such as nitrification and urease inhibitors.

This year's federal budget should increase financial resources to the CFIA Fertilizers Section to reduce regulatory burden through registration backlogs, delays to market, and division of regulation with other Agencies to ensure Canadian product innovation is competitive in the global marketplace.

2) Invest in climate-smart agricultural practices, such as 4R Nutrient Stewardship (Right Source @ Right Rate, Right Time, Right Place®).

To feed the world's growing population more crops must be produced while available arable land is shrinking. Climate change makes this challenge all the more significant, as it requires adaptation in farming systems. Canada's fertilizer industry has prioritized Climate-Smart Agriculture as a way to sustainably ensure food security while minimizing the impact on the environment.

4R Nutrient Stewardship is an innovative, science-based approach to sustainable fertilizer application:

- The **Right Source** means ensuring a balanced supply of essential plant nutrients including granular or liquid fertilizers or manures.
- The **Right Rate** is applying just enough fertilizer to meet the needs of the plant while accounting for nutrients already in the soil.
- The **Right Time** means applying fertilizer when the plant will get the most benefit and avoiding times when fertilizer can be lost to the environment.
- The **Right Place** is applying fertilizer where the plants can easily access fertilizer and where it is less likely to be lost to the water or air.

At the United Nations Conference on Climate Change (COP22), we shared how our industry can help the government achieve reductions in greenhouse gas emissions from agricultural sources by implementing 4R Nutrient Stewardship (Right Source @ Right Rate, Right Time, Right Place®). Research demonstrates that 4R practices can reduce nitrous oxide emissions released during fertilizer application by 15 to 25 per cent.



Fertilizer Canada has worked with governments to promote 4R Nutrient Stewardship to farmers and homeowners through Memorandums of Understanding. With shared support from farm groups and environmental stakeholders, 4R Nutrient Stewardship is practiced through agreements in Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick and Prince Edward Island. While the federal government has endorsed 4R Nutrient Stewardship through the *Agricultural Greenhouse Gases Program* and under *Growing Forward II*, there are additional opportunities for partnership resulting in tangible reductions in greenhouse gas emissions.

To that end, our industry has also developed the Nitrous Oxide Emissions Reduction Protocol (NERP). The NERP develops saleable carbon credits for farmers who reduce on-farm greenhouse gas emissions using 4R Nutrient Stewardship practices. Currently used under Alberta's *Specified Gas Emitters Regulation* and being developed under Ontario and Quebec's cap-and-trade system, we recommend that the NERP be used as an offset in any greenhouse gas reduction regime developed by the federal government or encouraged in provinces where regulation is pursued.

Similar to nitrogen management, we recognize and encourage government support for sustainable phosphorus management to preserve our country's water. Fertilizer Canada is committed to working with stakeholders in Canada and the United States to reduce losses to Lake Erie and other vulnerable bodies. Protection of these water systems is the subject of our agreements on 4R Nutrient Stewardship with the governments of Ontario and Manitoba; an approach which has been endorsed by the International Joint Commission.

The principles underpinning 4R Nutrient Stewardship can be applied in any geographical location or farming system. Cost-effective and environmentally responsible soil management is critical to increasing food production for smallholder and large-scale farmers. Fertilizer Canada, working with the Canadian Co-operative Association, has developed the Canadian Climate-Smart Fertilizer Solutions ("4R Solution"); a proposal to Global Affairs Canada to implement 4R practices in developing countries, run primarily by women. This project will be to the benefit of these countries' economies and the environment.

The federal budget should announce measures to encourage farmers to implement 4R Nutrient Stewardship and the NERP to reduce negative environmental impacts and increase farm productivity.

About Fertilizer Canada

Fertilizer Canada is an industry association representing manufacturers, wholesale and retail distributors of nitrogen, phosphate, potash and sulphur fertilizers used in the production of agricultural crops, residential lawns and gardens and recreational parklands.

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