



The Fertilizer Institute

Nourish, Replenish, Grow

Testimony of Ford West

President, The Fertilizer Institute

Subcommittee on Energy and Air Quality

Committee on Energy and Commerce

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Good morning Chairman Boucher, Ranking Member Upton, and members of the Committee. I am Ford West, President of the Fertilizer Institute. The Fertilizer Institute is the leading voice for the nation's fertilizer industry and we are pleased and appreciative to be here today to provide our industry's perspective on climate change legislation.

The fertilizer industry encompasses the production of nitrogen, phosphate, and potash. Natural gas is the feedstock, or raw material for producing nitrogen fertilizer. Currently, there is no substitute for producing nitrogen fertilizer other than natural gas. This makes the nitrogen fertilizer industry uniquely sensitive to the price of natural gas. Phosphate and potash are minerals mined from the earth and this process also requires a great deal of energy.

Today as we discuss climate change legislation, I will focus my comments on our nitrogen production as it is most vulnerable to the impacts of a cap and trade system, however, phosphate and potash production will also be directly and indirectly affected.

Nitrogen fertilizer is essential to U.S. food production. A majority of the nitrogen products produced are sold for crop production, where, as fertilizer nutrients, they produce the food and feed that nourish the world. Fertilizers are also used on crops that produce the fibers that clothe the world. Another critical use of nitrogen products is to scrub harmful nitrous oxide emissions from coal-burning facilities, diesel engines, and natural gas fired turbines. In 2007 nitrogen products were used in this manner to remove 650,000 tons of NOx from the U.S. skies with no byproducts.

However, soaring natural gas prices are exacting a heavy toll on America's nitrogen fertilizer producers and the farmer customers they supply. Since 1999, the U.S. nitrogen industry has closed 26 nitrogen fertilizer production facilities, due primarily to high natural gas prices. Currently, only 30 nitrogen plants are operating in the U.S. and over half of the U.S. farmer's nitrogen fertilizer is imported. More than 50 percent of this imported fertilizer is from countries with weaker environmental standards, no climate change policies, and the majority of these countries are those from whom we are striving for energy independence.

The result is that U.S. farmers are becoming increasingly dependent on foreign sources for their fertilizers from places that charge very low or no cost for the natural gas used in nitrogen fertilizer production. Examples of these countries are the Middle East, China, Russia, and Venezuela. Last year, U.S. farmer's imported 314 thousand tons of nitrogen products from Libya, 477 thousand tons from Egypt, 1.8 million tons from the Middle East, and over 3 million tons from countries of the former Soviet Union. If these trends continue, America's food security, and by extension, our national security will be

jeopardized if action is not taken to address the impacts of our country's current natural gas crisis.

Within the climate change debate the fertilizer industry has grave concerns that our remaining domestic production will be severely impacted during any "transition period" where utilities will fuel switch to natural gas for generating electricity. Projected fuel switching will cause the price of gas to skyrocket even further causing additional U.S. production to shut in or move offshore. Moreover, with world demand for food at all time highs, any decline in our domestic production of fertilizer will further exacerbate the high production costs for farmers.

This year, The Fertilizer Institute commissioned a study of the impacts of high energy costs resulting from climate change legislation on American farmers. Using the Lieberman Warner bill, the Doane Advisory Service measured the production cost increases for eight commodities. Doane economists found that the Lieberman Warner legislation would add \$6 - \$12 billion to total crop production costs leading to a significant decline in farm income. These estimates are conservative since they are based on energy price forecasts from the Energy Information Administration of the Department of Energy, which have been roundly criticized for being too low.

The current record demand for food and fuel has resulted in record demand for fertilizer. This surge in world demand has meant that U.S. farmers and farmers around the world are paying the highest prices for their fertilizer inputs in history. With food demand levels predicted to stay high, Congress must tread cautiously and consider all ramifications and unintended consequences of such sweeping policies as climate change. Any climate change policy must take into account essential industries, such as fertilizer,

that could be severely challenged if this policy does not address our unique situation. It is frightening to imagine the uncertainties that could result if U.S. policy made us completely reliant upon foreign sources of fertilizer for our food production.

As natural gas prices have dramatically increased since early 2000, the U.S. nitrogen fertilizer industry has seen its natural gas costs account for over 90 percent of its total cost of production. This figure far exceeds that of any other American industry. Complicating the climate change debate, Congress has limited the ability to drill for natural gas in the Outer Continental Shelf and on federal lands where there are known supplies of natural gas. Increases in the U.S. supply of natural gas will put downward pressure on the market price and help keep the remaining nitrogen plants in the United States running. It is critical to our food production stability to maintain the current domestic production of all fertilizer: nitrogen, phosphate and potash.

I would like to thank you for the opportunity to present the fertilizer industry's concerns related to climate change legislation. I appreciate your interest in our industry's need and I am happy to answer questions at the appropriate time.