May 16, 2022

The Honorable Bruce Summers
Administrator, Agricultural Marketing Service
U.S. Department of Agriculture
1400 Independence Avenue SW
Washington, D.C. 20250

Re: Access to Fertilizer: Competition and Supply Chain Concerns

Introduction

On behalf of the Open Competition Center, I write to provide context on the market conditions that have driven up fertilizer prices in the United States. While increased costs are number of factors, levying additional duties on fertilizer imports would only exacerbate supply issues and raise fertilizer prices for American farmers.

The Open Competition Center (OCC) is a special project of Americans for Tax Reform, a taxpayer advocacy group that opposes all tax increases and supports limited government, free-market policies. OCC advocates for a rule-of-law, consumer-based approach to antitrust regulation.

Economy-wide tensions affect all industries

There are several overarching economic factors driving the current uncertainty and volatility in the agricultural market.

The COVID-19 pandemic took a sledgehammer to the American economy. The federal government exacerbated this economic damage with unemployment payment expansions that led to many Americans making more at home in the workplace, creating a labor shortage that persists to this day. The pandemic negatively impacted the supply chain, driving up shipping costs across every industry. The Biden Administration's reckless spending has caused inflation to reach a 40-year high of 8.5 percent, increasing the cost of every product and service.

Instead of looking for ways to alleviate the economic damage progressive policies have caused, the Biden Administration blames the malaise on "corporate greed" and market concentration. Every week, it seems like the Administration finds a new industry to blame for its economic woes. In reality, the Biden Administration's fiscal policies are creating volatility across industries and markets.

Economic factors driving up fertilizer prices

The fertilizer market is not immune to these economy-wide pressures. According to a recent study from the Texas A&M University Agricultural and Food Policy Center, the price of fertilizer is up as much as 200 percent year-over-year and only expected to rise into the 2022 planting season.

A main driver of this increase is that supply does not meet demand, and the U.S. relies on several foreign partners to meet domestic demand. Restricting access to these fertilizer sources, whether through domestic protectionist policies or foreign trade barriers, will naturally drive up fertilizer costs for American consumers.

There are three primary fertilizers used by American farmers: nitrogen (e.g. ammonia, urea, and liquid nitrogen), phosphorous (e.g. MAP and DAP), and potassium (potash). Since the U.S. imports large quantities of each type of fertilizer, the price of fertilizer in the U.S. is tied to global supply and demand.

Fertilizer production costs have increased in tandem with the rising cost of natural gas. While natural gas prices are up more than 150 percent in North America, Europe is seeing natural gas prices skyrocket by over 500 percent.[1] As a result of this increase, European fertilizer producers have likely seen their production costs increase by approximately $850/ton of urea, forcing them to either shut down entirely or significantly curtail their operations. Producers that remained open for business have had to sell fertilizer at a much higher cost to cover increased production expenses.

At the same time, China has dramatically reduced exports to conserve supply for its own economy.[2] With less Chinese and European fertilizer in the market, producers in other countries saw increased demand from growers who may have purchased fertilizer from China or Europe. This pushed global prices upwards, increasing the price of product imported into the U.S. The price of domestically produced fertilizer increased as well as local demand competed with foreign demand to keep product in the U.S.

Other factors have driven up fertilizer costs as well. Freight vessels are up 100 to 200 percent, making it much more expensive to import fertilizer into the U.S. [3] Despite the increased costs, fertilizer demand has not waned because crop values have also increased. Natural disasters and unusual weather, like the cold snap in February and Hurricane Ida, have disrupted domestic American fertilizer production.

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[1] Staczynski, S. (2021, September 27). *Europe's Energy Crisis Is About to Go Global as Gas Prices Soar*. bloomberg.com. Retrieved May 12, 2022, from https://www.bloomberg.com/news/articles/2021-09-27/europe-s-energy-crisis-is-about-to-go-global-as-gas-prices-soar

[2] Brown, C. P., & Wang, Y. (2022, April 25). https://www.piie.com/. Retrieved May 14, 2022, from https://www.piie.com/blogs/realtime-economic-issues-watch/chinas-recent-trade-moves-create-outsize-problems-everyone-else

[3] *Freight costs increase over 100%, exporters lose business*. Hellenic Shipping News. (2021, November 3). Retrieved May 12, 2022, from https://www.hellenicshippingnews.com/freight-costs-increase-over-100-exporters-lose-business/

Ultimately, there have been several domestic and international economic factors that have driven up fertilizer costs.

<u>Protectionism will exacerbate pressure on American farmers</u>

Instead of working to alleviate the pressure on American farmers, the Biden Administration has exacerbated the problem by imposing countervailing duties (CVD) of 20 percent on imports of phosphate fertilizer products from Morocco.[4] Additionally, the Administration has begun the process of imposing new tariffs on urea ammonium nitrate (UAN) fertilizer from Trinidad and Tobago.

As mentioned earlier, the U.S. depends on reliable foreign partners to meet domestic fertilizer demand – imports supply approximately one-third of U.S. domestic phosphate fertilizer. Morocco holds more than 70 percent of the world's phosphate reserves and has been a longstanding supplier to American farmers, accounting for approximately 60 percent of the imported supply of phosphate fertilizer. Since the Commerce Department imposed CVDs on Moroccan supply, the price of phosphate fertilizer has increased by 93 percent.[5]

Similarly, Trinidad and Tobago have long supplied American farmers with UAN. In 2021, Trinidad and Tobago exported 996,136 short tons of UAN to the U.S. totaling $99.7 million. If the Biden Administration moves forward with the CVDs on Trinidad and Tobago supply, expect similar price hikes on UAN.[6]

American farmers pay the price of tariffs and supply shortages. According to the Texas A&M report, the average feed grain operation will pay $128,000 more for fertilizer in 2022. The tariffs, which remain in effect for 5 years, will choke off fertilizer imports and prolong the economic pain farmers are feeling.[7]

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[4] *Market Impact Analysis: CVD Investigation on Fertilizer Causing Tight U.S. Supply is Costing U.S. Farmers*. promote-trade.org. (2021, January 21). Retrieved May 13, 2022, from https://www.promote-trade.org/issue-guides/2021/1/21/cvd-investigation-on-fertilizer-causing-tight-us-supply-is-costing-us-farmers

[5] Young, B. (2022, April 8). *Opinion: Protectionist policies are costing America's farmers*. agri-pulse.com. Retrieved May 12, 2022, from https://www.agri-pulse.com/articles/17506-opinion-protectionist-policies-are-costing-americas-farmers

[6] Clayton, C. (2021, December 2). *Duties Likely on Certain UAN Imports*. dtnpf.com. Retrieved May 14, 2022, from https://www.dtnpf.com/agriculture/web/ag/crops/article/2021/12/02/fertilizer-prices-soaring-ncga-move

[7] Outlaw, J. L. (2022, January). *Economic Impact of Higher Fertilizer Prices on AFPC's Representative Crop Farms*. Agricultural and Food Policy Center Texas A&M University. Retrieved May 11, 2022, from https://afpc.tamu.edu/research/publications/files/711/BP-22-01-Fertilizer.pdf

Lawmakers in both parties see the damage tariffs are wreaking on fertilizer prices – more than 80 Members of Congress sent a letter to the U.S. International Trade Commission requesting the elimination of duties on Moroccan phosphates and a suspension of the process of imposing tariffs on Trinidad and Tobago UAN supply.[8]

Conclusion

The agriculture market is extraordinarily volatile. The COVID-19 pandemic, an ongoing labor shortage, and inflationary pressures are causing uncertainty across all major industries. Fertilizer prices have risen due to a number of domestic and global factors, mainly because supply does not meet demand in the U.S.

In response, the Biden Administration has levied tariffs on Moroccan phosphate, sharply driving up phosphate prices. If the Administration proceeds with tariffs on UAN from Trinidad and Tobago, farmers will face similar price spikes.

While it may be convenient for the Biden Administration to blame rising fertilizer prices on corporate greed or market concentration, the real picture is significantly more complicated. If the Administration is truly serious about addressing rising fertilizer costs, it should abandon harmful protectionist policies and eliminate the tariffs on foreign fertilizer supply.

Sincerely,

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[8] Mann, R. T., Axne, R. C., & Moran, S. J. (2022, March 18). *Reps. Mann, Axne, Sen. Moran Lead Letter to Combat Fertilizer Import Prices*. mann.house.gov. Retrieved March 28, 2022, from https://mann.house.gov/media/press-releases/reps-mann-axne-sen-moran-lead-letter-combat-fertilizer-import-prices