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AGRICULTURAL INPUTS AND PRODUCTIVITY

OUTLOOK FOR FERTILIZER

[By Joseph P. Sullivan *]

Good afternoon. It is a pleasure to be here and I hope what I have to offer will be helpful.

However, as I am sure everyone in this room today already knows, there have been no sudden or dramatic breakthroughs in the fertilizer supply situation.

Simply put, there is still more demand than supply, and it appears this imbalance will continue in the 1974–75 crop year.

Consider this general industry situation:

1. The 1974 harvested acreage and crop yields in the United States will not be as large as forecast in early Government estimates. Accordingly, pressures for increased planting and crop production will continue through the spring of 1975 as demand for food and feed grains accelerates.

2. World demand also continues to exceed supply, as the recent meetings in Rome emphasized. And fertilizers, as a world commodity, continue to be competitively sought in a global auction market.

3. New fertilizer plants are under construction—with the industry estimated to be spending $5 billion over the next 5 years—but "on stream" production is still some 18 months to 3 years away.

And finally, there are the very low inventories. This year, for the second year in a row, fertilizer inventories fell to rock bottom levels by June—the end of the 1973–74 fertilizer year.

Accordingly, the U.S. fertilizer markets are now being served straight from production. If production units fail or are shut down for maintenance, market flow virtually stops.

I plan to detail the current industry inventory position in a few minutes, using the latest statistics from The Fertilizer Institute. This is one of the known factors in the supply equation.

But first, I want to discuss the unknown factors in the equation.

And there is no more fitting location to bring this subject up than right here in Washington, for the unknown factors are government policy, and just what it is the government plans to do regarding the fertilizer industry.

In these times even the veteran Washington watchers are fuzzy about the future—given the marked change in personnel in the new Congress.

So, here are the basic unknowns, as I see them:

Will there be an embargo on grain and fertilizer or, will there be a major effort by the United States to help reduce the actuality of starvation in the many less-developed countries?

If so, what form will this program take?

What are the probabilities of price controls?

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Also, is it likely that we will see some governmental diversion of non-farm fertilizers to the export market?

Now, having asked the questions, and implied they are near impossible to answer—I'll attempt to answer them, or at least narrow-down the possibilities.

In looking at embargo versus increased exports to the less developed countries, we face the basic dilemma of government policy on fertilizer. There are numerous pressures to increase our food and fertilizer exports, and at the same time Congress is understandably anxious to insure that American farmers have adequate fertilizer supplies.

My own feeling is that we will emphasize grain shipments rather than fertilizer shipments as part of over-all policy.

We are already a major importer of fertilizer, with the single exception of phosphate rock, and a major exporter to developing countries.

It must also be considered that the root cause of fertilizer shortages in many of these less developed countries is the inabiltiy to produce at anywhere near capacity.

India is a classic example, where it is our belief that nitrogen production did not exceed 55 percent of capacity in the last year.

If the less developed countries could move their present operating rates up to even 80 percent of capacity, there would be an additional million nutrient tons of nitrogen, and between $700 and $800 million worth of balance of payment problems could be avoided by these countries.

In addition, transporting fertilizer within these countries so that it can be utilized by farmers is a logistics nightmare. These bottlenecks begin at the ports and become more complex as the fertilizer trickles inland.

And then there is the overriding problem of lack of money within the developing countries to buy fertilizer. They just do not have the dollars.

Taking these facts together, I feel it highly unlikely that Congress will substantially increase fertilizer shipments abroad. There is a U.S. shortage—there is questionable ability to utilize exported fertilizer properly—and there is no money to purchase this U.S. product prior to the spring planting season.

Based largely on the Government's last abortive fling at price controls. I am also discounting the repetition of this move by the administration.

I believe that once again almost everyone is convinced that price controls do more harm than good—especially in a free enterprise economy.

I also believe there will be little, if any, diversion of non-farm fertilizers to the export market.

The amount of non-farm fertilizers used in the United States has been greatly overestimated, with some projections ranging up to 15 percent of total production.

This is not so. A careful analysis of fertilizer usage in 36 States, where reasonably accurate figures are available, indicated about 3.5 percent of our fertilizer production is used in these applications.

These are also specialized fertilizers which, in many cases, are not efficient feed grain producers. The hungry nations need crops—not

green lawns. And finally, there is the basic problem of all developing countries—the lack of funds to buy fertilizer for any need.

Thus, the diversion of non-farm fertilizers to the export market is not a realistic Government move.

So much for one man's opinion on the unknowns in the equation.

Statistics compiled by the U.S. fertilizer industry for the first 4 months of the 1974–75 year indicate the continuation of tight supplies. However, producer stocks or inventories are only part of the supply picture. There is also evidence that supplies at the dealer level have increased slightly.

Sales to farmers have drifted downward in some areas, and current production in some key products is now outpacing domestic disappearance. It would be prudent to pay close attention to the marketing trends in forthcoming months, for there are some developments that could signal significant consumption changes. I speak specifically of the cow-calf prospects in the face of high feed grain prices, and of course of the weather-reduced yields of cotton and other crops across rural America.

It would also be wise for those deeply concerned with the potential fertilizer markets to monitor closely the demand in the wheat growing States.

The latest fertilizer supply survey showed both nitrogen and phosphate inventories continuing an upward trend through October. Potash inventories remained at low levels with no improvement over last year.

Here is a detailed look at the fertilizer supply situation, as calculated by The Fertilizer Institute, the industry trade association:

	July–October 1974 versus July–October 1973	
	Production	Domestic disappearance
Nitrogen products:		
Anhydrous ammonia	2	4
N Sol—over 32 percent N	4	2
N Sol—32 percent N or less	3	7
Ammonium nitrate	4	4
Ammonium sulfate	7	11
Urea	8	12
Total	3	2

This is the nitrogen production and domestic disappearance situation for the first 4 months of the fertilizer year, compared with the first 4 months of the prior year. The survey covers the six basic nitrogen products.

The slight gain of 2 percent in anhydrous ammonia production has been the limiting factor for downstream products such as urea.

	October 1974 versus October 1973		
	Production	Ending inventory	Domestic disappearance
Nitrogen products:			
Anhydrous ammonia	3	15—	9
N Sol—over 32 percent N	2—	14—	3
N Sol—32 percent N or less	18	25	10
Ammonium nitrate	6	22	16
Ammonium sulfate	22	14	3
Urea	16	22	7
Total	8	5	10

This is an October 1974—October 1973 comparison for the nitrogen products.

All nitrogen products had an average October ending inventory equivalent to 26 days of production, and this was the highest level since March 1974.

	July–October 1974 versus July–October 1973	
	Production	Domestic disappearance
Phosphate products:		
Phosphate rock	9	29
Phos acid, super	13	12
Phos acid, wet process	3	2
Normal superphosphate	25	19
Conc superphosphate	1—	2—
Diammonium phosphate	2—	0
Total (ex phos rock)	3	2

As you can see, phosphate rock production in the four-months was up 9 percent, while domestic disappearance jumped 29 percent. This placed increased pressure on already low inventories. In phosphates, a very low rock inventory—equivalent to only 53 days of production—penalized finished product production.

The totals shown on this slide exclude phosphate rock.

Wet process acid production for the July–October period was 3 percent higher, and normal superphosphate continued its gain. Both concentrated and diammonium phosphate were trailing 1974 production.

	October 1974 versus October 1973		
	Production	Ending inventory	Domestic disappearance
Phosphate products:			
Phosphate rock	3—	31—	15
Phos acid, super	13	86	6
Phos acid, wet process	3	27	1
Normal superphosphate	5	5	11
Conc superphosphate	8—	21	13—
Diammonium phosphate	7	40	3
Total (ex phos rock)	3	23	0

This is the October 1974-versus-October 1973 phosphate situation. Considered significant are the ending inventory figures for concentrated (21 percent) and diammonium phosphates (40 percent), which had shown a production dip in the 4-month comparisons.

	July–October 1974 versus July–October 1973	
	Production	Domestic disappearance
Potash products:		
Muriate standard	20	5
Muriate coarse	13	4
Muriate granular	9	17
Muriate soluble	7—	7
Sulfates of potash	10—	18
Potassium mag. sulfate	9	4—
Total	13	9

Combined totals for North America showed potash production 13 percent higher for the 4-month period. United States potash production continued to lag behind 1973 levels, while production rose in Canada.

Production, however, for soluable muriate and sulfates of potash was down 7 and 10 percent for the 4-month period.

The two potash products showing the highest percentage increases in disappearance for the 4 months over 1973 were granular muriate and sulfates of potash, with 17 and 18 percent. Only potassium magnesium sulphate trailed last year's disappearance level.

	October 1974 versus October 1973		
	Production	Ending inventory	Domestic disappearance
Potash products:			
Miriate standard	14	64—	19—
Muriate coarse	7	64—	11—
Muriate granular	5	82—	4
Muriate soluble	9—	68—	9—
Sulfates of potash	13—	34—	35
Potassium mag. sulfate	18	25	53—
Total	7	62—	10

In an October-versus-October comparison, here is the potash situation. Ending inventories were down 62 percent, and domestic disappearance was down 10 percent from a year-earlier. Production was up 7 percent.

	July–October 1974 versus July–October 1973	
	Production	Domestic disappearance
Multi-nutrient products:		
Nitrogen base solutions	16	12—
Other mixed fluids	13	6
Other mixed solids	2	7—
Total	5	7—

In multi-nutrient products, the industry survey for the first 4 months of the year showed production 5 percent ahead of last year, and domestic disappearance down 7 percent. This disappearance decline is indicative of the sales slowdown at the farm level, compared to the experience during the fall of 1973.

	October 1974 versus October 1973		
	Production	Ending inventory	Domestic disappearance
Multi-nutrient products:			
Nitrogen base solutions	3	8	16
Other mixed fluids	2	53	0
Other mixed solids	17—	14	13—
Total	14—	14	10

October figures also reflect this sales decline at the farm level. Production of multi-nutrients was down 14 percent in the month, and domestic disappearance down 10 percent. Inventories were up 14 percent.

On balance, despite a relatively flat demand picture this fall due to the cow/calf situation, the statistics point to a continued tight fertilizer supply this Spring. I do not, however, want to be a crepe hanger for my industry. All problems have solutions, and the fertilizer industry and the Government are working closely to ease the current difficulties.

Much has been accomplished by hard working Congressmen and Senators, and through a government interagency committee. The USDA has been exceedingly helpful, and in many cases its people have carried the day-in-day-out work load.

The companies in the industry have been helped considerably in obtaining needed rail cars—particularly last spring—to move phosphate from Florida to the Midwest, and in getting emergency relief when natural gas supplies were cut off.

This is the kind of cooperation between industry and government that helped increase fertilizer supplies to the American farmer by 7 percent in 1974.

This is the kind of continuing cooperation that will help maximize supplies in 1975.

Natural gas is the only feed stock for nitrogen fertilizer production, and its shortage is still a critical problem to the fertilizer producer.

It is now estimated that approximately 500,000 tons of nitrogen will be lost in the current crop year because of the natural gas shortage. Most nitrogen plants have interruptable supply contracts with suppliers, and unless priorities are changed, the result will be the nitrogen loss.

Compounding the problem is the estimated 600,000 tons of new nitrogen capacity that the fertilizer producers across the country will place on-stream in the 1974–75 year. There will be more industry capacity, but little increased production, unless the Government continues to act swiftly and equitably when allocating natural gas.

I am sure, however, the fine industry-Government cooperation will continue.