(U.S. D.A.)

OUTLOOK FOR FERTILIZER

REMARKS BY JOSEPH P. SULLIVAN, PRESIDENT, ESTECH, INC., DECEMBER 18, 1973

Good morning. It is a pleasure to be with you today, and I hope the information I have will be useful.

I know you will be somewhat pleased with what I have to say, for there has been a significant change for the better in the domestic fertilizer supply situation. Now, for perhaps the first time in 2 years, there is relief in sight for the American farmer.

Supply shortages are not licked. In fact, we will be extremely lucky to get proper balances in the industry within another two years. However, the bottleneck has been opened, and the orderly flow of fertilizer product to domestic marketing channels has begun again.

The signal for a turn-around came on October 25, when the Cost of Living Council ruled to exempt fertilizers from the economic stabilization controls, a move that allowed U.S. prices to rise to meet the competition of world prices.

Inequities in the fertilizer industry had originated under Phase I of price controls and had been perpetuated through phase IV.

Controls were removed only after a most serious and detailed study of the problem by the Cost of Living Council, and a 2-year effort on the part of the Fertilizer Institute, the industry trade association.

Now, as the fertilizer industry promised the Cost of Living Council, all stops will be pulled out in supplying needed nutrients to American farmers. And I speak of this promise from first hand knowledge, for I served as chairman of the industry committee that made the pledge.

Major U.S. producers have agreed to produce and deliver the greatest possible tonnage to domestic dealers. In total, the fertilizer industry has indicated that at least 3 million tons of material will move on to the domestic market over the next 12 months, rather than go in to export.

I can speak specifically on my company's share in this pledge.

Swift Chemical Co., the agricultural chemical operation owned by Estech, had planned to ship 9 percent of its production of finished mixed fertilizers to foreign markets.

We have now cut that export total to 2 percent of production, just enough to honor contracts and supply our historic, long-term overseas customers.

This means that Swift Chemical will make available to its U.S. outlets far in excess of 100,000 tons of fertilizer that had been earmarked for export. That is enough product to grow 800,000 tons of feed stock. Any candid discussion of the current supply situation, however, must contain the truth that price de-regulation probably did come too late to affect fall wheat production in the Plains States.

However, the expanding supply did reach the Midwest States in time to have a good impact on fall plowdown in November.

The most significant yield improvements directly attributable to the deregulation should be felt this spring.

U.S. Department of Agriculture projections for a shortage of 4 million tons of fertilizer in 1974, plus the increasingly heavy export drain on U.S. production, were said to be the principal factors in the Cost of Living Council decision to de-regulate the industry.

Or, put another way, I believe the government recognized that the ability of the American farmer to produce adequate food and fiber was in serious jeopardy, and that inadequate fertilizer supply was a key part of the problem.

Since last January, the fertilizer industry has been drawing from its inventories, and even though production is up we have consistently failed to fill the demand. We are now at record lows on available fertilizer materials, according to the Fertilizer Institute.

An industry survey just completed points up graphically this inventory shrinkage.

The report shows October ending inventories down 39 percent for 20 major products from October 1972. Nitrogen products were down 45 percent, phosphates down 23, potash products down 44 and multinutrient products down 29 percent.

However, the same industry survey showed supplies for domestic use during the quarter were up 12 percent for the products as a group (excluding phosphate rock).

It also is worth noting that this 12 percent increase was made over an excellent year-ago period—and in the face of tremendous demands for exports—and despite mounting production and transportation problems.

Here are the specifics on the major fertilizer products:

In nitrogen, there was a drop of 45 percent in October inventory from a year ago. This figure, however, does not appear too far out of line when production increases and domestic disappearance of the products as a group are considered.

In October, production of nitrogen products was up 6 percent from October a year ago, and for the 4-month period, July–October, up 8 percent.

Disappearance for the period, including sales and downstream product utilization, for the nitrogen group was up 12 percent for the month of October and 17 percent for the 4-month period.

Production of urea, one of the major nitrogen products, continued to lag through October. During the month, it was 17 percent less than a year ago, and for the period it was 7 percent less. This cutback is not only affecting domestic supplies, but is sharply reducing exports.

For example, the Department of Commerce reported urea exports were only 6,400 tons in October, compared with 63,000 tons in October a year ago.

Ammonia production for the period was 3 percent above 1972. Disappearance was up 8 percent, and ammonia ending inventory, only about 740,000 tons for reporting companies, was 48 percent less than October 1972.

Phosphates were the only group of products showing a decline in disappearance for the July–October period—down 5 percent. Production of the 5-product group, excluding phosphate rock, was down 3 percent for October.

Phosphate rock supplies continue to be tight. Production for the 4-month period was down 6 percent, and October ending inventories showed no improvement over the unusually low stocks of only about 8.4 million tons, representing less than 3 months of production.

Related directly to the phosphate rock situation is that of wet process phosphoric acid. Its production was down 2 percent for the period, which in turn contributed to the 11 and 2 percent reductions in concentrated superphosphate and diammonium phosphate production for the period from last year.

Among the phosphate products, production of superphosphoric acid registered a relatively large gain of 14 percent over the 4-month period of 1972.

Although its tonnage is only about one-tenth that of wet process phosphoric acid, it is a critical product for nitrogen base solutions and for the fluids fertilizer segment of the industry. Production in October was 18 percent over activity a year earlier.

A survey group of 5 potash products scored a gain of 10 percent in production over the four-month period of 1972.

The large disappearance increase of 21 percent, however, kept inventories 44 percent below those at the end of October, 1972. Movement of potash during October was particularly heavy, up 32 percent from last year, despite problems of rail car shortages.

Granular muriate, a major material for bulk blends, was the only potash product with an ending inventory in October higher than that of a year ago. It was up 5 percent, and balances fairly well with production increase of 8 percent for the 4-month period and a disappearance down 2 percent.

Granular muriate was the only potash product that showed a decrease—13 percent—in disappearance during October compared with October a year ago.

Potash figures in the Fertilizer Institute survey are heavily weighted with production and inventory figures of U.S.-owned mines in Canada. Exports from these mines have increased sharply in recent months, and production—for the first time in several years—may soon be limited by mine capacity.

A shortage of rail cars out of Canada has been the real bottleneck in the delivery of potash products to the Midwest. Canadian work stoppages resulted in a backlog of orders for rail cars, and heavy U.S. demand hampered rail car returns to Canada. Fertilizer cars are the same ones used for grain shipments, and since early Fall, grain shipments have been receiving top priority.

Very favorable weather and the unprecedented plowdown activity by farmers have been strong factors in the large increases in domestic disappearance of both mixed fluids and mixed solids, up 56 and 40 percent respectively, over the 1972 period.

Production of these two products for the period also has been up significantly—42 and 35 percent.

Nitrogen base solutions (10–34–0 and 11–37–0) used primarily in mixed fluids, showed a 13 percent increase in production for the period over 1972. This increase related closely to the increased production of superphosphoric acid cited a moment ago.

Disappearance during October of mixed fertilizers likely set a record. It was up 24 and 58 percent for mixed fluids and mixed solids over October of 1972.

The sum of what I have just recited from the fertilizer survey is shown here.

During October, production of the major nutrients by U.S. producers was up 13 percent from a year ago, with by far the largest gains (49 percent) in multinutrients.

Industry inventories of all products were down 39 percent, and domestic disappearance was up 18 percent.

In summary, what these figures say is that production and supplies for domestic use are both increasing, but fertilizer demand is still far ahead of supply.

Here is a comparison of production and disappearance in the 4-month period and a year ago. Again, it shows use has surpassed production.

Production is at capacity, and there is no immediate ability to increase the tonnage due to the long lead time required to design, finance, and construct commercial fertilizer producing facilities.

And it is imperative that industry production be increased if agricultural output is to be increased.

During the present year, an additional 29,000,000 acres were placed in agricultural production—an increase of 20 percent in total farm acreage. In addition, another 19,000,000 acres were freed for full scale production.

Thus, in two years the fertilizer industry must now provide nutrients for 48,000,000 additional acres—much of which has been considered to be marginal land.

In the year just completed the industry delivered 43 million tons of fertilizer in the United States.

Beginning at once, this tonnage must be increased to at least 45 million tons, and by 1980 it is likely that 60,000,000 tons will be required.

And the USDA and the Cost of Living Council also, I believe, realized that there would be insufficient expansion of fertilizer production capacity as long as the price for fertilizer remained frozen.

Phase IV price restraints had held the price of fertilizer at a level lower than that which will justify the construction of new fertilizer production plants.

Only the world prices—or export prices—justified new investment in plant expansion.

With deregulation, and industry has now pushed the "start" button on new capacity, but it will not materialize for almost 2 years.

I believe that our domestic producers of fertilizer have a traditional preference for meeting the requirements of the U.S. market as opposed to the export market. It was only the degree of disparity between export and domestic prices which caused the dislocation in this traditional preference.

It was simple arithmetic. If customer A offers you $70 a ton for ammonia fertilizer and customer B, by government decree, can offer only $40 a ton for the same product, customer A gets the shipment.

I firmly believe the American farmer is both willing and able to pay world prices for his fertilizer. He is primarily interested in increasing production, and fertilizer is but one cost to be considered.

The immediate farm, and fertilizer industry problem, is now the shortage of natural gas that is slowing the production of nitrogen.

The fertilizer industry currently uses 450 billion cubic feet of gas annually, with a forecasted demand of 600 billion cubic feet by 1980.

By far the largest industry use of gas is as feedstock in making anhydrous ammonia, a product whose use constitutes the source of U.S. nitrogen.

The importance of nitrogen cannot be underestimated.

For example, a ton of nitrogen in fertilizer produces about 10 tons of grain. Or, stated another way, it can be said that 31 standard cubic feet of natural gas can produce one bushel of corn, or 39 cubic feet a bushel of wheat.

Accordingly, the fertilizer industry supports the current proposal to deregulate the well-head price of newly discovered gas. The financial incentives under this plan would be great enough to cause an all-out drilling effort. Short-term, it will be critical to put a very high priority on natural gas used in ammonia production so that farmers' needs can be met this spring.

Other energy needs of the fertilizer industry are equally important—and in equal short supply.

The industry last year used 40.8 million gallons of No. 2 diesel fuel. In 1974, we will require 45.8 million gallons. The industry fuel oil requirement last year was 137 million gallons of No. 2 oil. In the coming year we will need 155 million gallons.

In summary, I believe the fertilizer industry is dedicated to the effort of closing the supply-demand lag. I believe that the 3 million tons of product estimated to be moved from the export to the domestic market will be achieved.

If we can get: (1) adequate natural gas and fuel oil to keep our ammonia and mixing plants operational, (2) freight cars in reasonable supply, and (3) continued cooperation from farmers in fertilizing early—and farmers have already done a tremendous job on this in October and November—we will narrow the fertilizer gap substantially in 1974.

A total solution to the problem, however, will probably take two years. By working with the government on solving these problems, and with a little luck, the American farmer will be well-served on a long term basis by the fertilizer industry.

Thank you.