

ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

AGENDA

8:30 a.m.

Roosevelt Room

December 29, 1975

1. Report on Conference on International Economic Cooperation Robinson
2. Report of Interagency Fertilizer Task Force Ahalt



12/23/75

ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE

Proposed Agenda

Monday, December 29, 1975

1. Report on Conference on International Economic Cooperation Robinson
2. Report of Interagency Fertilizer Task Force Ahalt

Tuesday, December 30, 1975 (Principals only)

1. Tax policy Treasury

Special Session on Tax Policy (Principals only) Treasury
Roosevelt Room 5:45 p.m.

Wednesday, December 31, 1975

No EPB Executive Committee meeting

Thursday, January 1, 1976

No EPB Executive Committee meeting

Friday, January 2, 1976

1. Tax policy Treasury





DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

December 23, 1975

MEMORANDUM FOR: EXECUTIVE COMMITTEE -- EPB

SUBJECT: Fertilizer Report

Attached is a status report from the Interagency Fertilizer Task Force.

The current fertilizer situation remains basically unchanged from that reported in November. Inventories continue to build up and prices are falling further. The mild winter has substantially reduced natural gas curtailments from earlier expectations. One large ammonia plant has contracted additional gas through the new FPC procedures.

TAB A - Fertilizer Statistics

The attached tentative report summarizes findings of the Subcommittee on Statistics. Principal problem areas identified include lack of complete coverage on inventories, the need to adjust data collection procedures consistent with present industry practices, and the lack of sufficient coordination in the collection and dissemination of information. Further review and evaluation are underway. A set of recommendations will be forthcoming at the end of March.

TAB B - Saskatchewan Potash Situation

The threat of nationalization of the potash industry by the Saskatchewan Province continues. The U.S. Embassy in Ottawa has laid hard questions on the Canadian Federal government regarding its posture on this problem. The Canadian government has not yet responded.

J. Dawson Ahalt

J. DAWSON AHALT
Chairman, Interagency
Fertilizer Task Force

TAB A

TAB A

Fertilizer Statistics--Status Report

A subgroup of the Interagency Task Force on Fertilizer has been formed to evaluate the present information system on fertilizer and where feasible make recommendations for improvement. Below is a tentative summary of some of the major problem areas.

Background

The existing fertilizer information system has evolved over a number of years. Presently, the collection and reporting of statistics on capacity, production, inventories, use, trade and prices of fertilizer are fragmented among 10 Federal departments and agencies. Two private trade associations also gather various data on fertilizer. The collection and dissemination of fertilizer statistics are not unlike that for other commodities and for the most part the system compares reasonably well with that for other industries. However, fertilizer is an important input produced in the industrial sector primarily for agricultural use (figure 1). Hence, there is a wide diversity of interests among users regarding various aspects of the supply-demand and pricing of fertilizer.

The present system appears to have developed largely over time in response to problems and constituency needs placed on various Federal agencies, rather than for appraising the overall fertilizer situation. Accordingly, there are problems of incomplete coverage in some important areas, timing problems in the collection and dissemination of other statistics and obsolete procedures in some segments of the system.

Specific Problem Areas

Inventory Statistics

A major limitation of the information system springs from the incomplete coverage of inventory data. Currently, the only measure of inventories is at the producer level (even so because urea statistics are collected by a separate agency, producer inventories for this important source of nitrogen are unavailable). During normal periods, the volume of fertilizer stored at various points in distribution channels is not a major problem. However, where sudden shifts in supply or demand occur, this lack of information becomes a major shortcoming in the ability to appraise the supply picture. Some experts believe that the volume of inventories at wholesale and retail levels at times may exceed that held at producer levels. Moreover, the variation in stocks in the entire production and distribution system is believed to range from as little as a fifth to as much as 100 percent of annual sales at any given point in time. Under the present system, nonproducer held inventories are shown as a residual along with other miscellaneous categories in the supply and distribution balance sheet (table 1). At this stage in the review, it appears that the one feasible approach would be to sample retailers on the inventories possibly at the time prices of fertilizers are collected.

Production Data

Production data are collected regularly on raw materials such as phosphate rock, sulfur, potassium chloride as well as manufactured products such as anhydrous ammonia and various phosphatic fertilizers (Raw materials and manufactured products are collected by separate agencies.). Parts of this program, however, have become obsolete over time. For example, within the past 5 years, wet-process phosphoric acid used in making fertilizer by intermediate producers and retail dealers has accelerated sharply. Unfortunately, this information is not presently collected. This system needs further review in order to broaden coverage consistent with current day needs and to consider other changes where appropriate.

End Use

USDA currently collects data on total fertilizer consumption. The amount of fertilizer used on four major crops--corn, wheat, soybeans, and cotton--is reported separately. These four crops account for 50-55 percent of total fertilizer use in the U.S. However, virtually no information exists to accurately estimate the amount of fertilizer used off the farm. Moreover, since the Tariff Commission's responsibility on collecting urea statistics predated this material's important use as a fertilizer, the amount of urea used as plant food is not collected. The feasibility of obtaining data for this purpose is under review.

Prices

Statistics on fertilizer prices are collected by the U.S. Departments of Labor and Agriculture. The Labor Department series collected by BLS measures prices monthly at wholesale levels. Recently, this series altered collection points from secondary to primary sources. Still these prices remain basically list quotes rather than actual transaction prices. In USDA, the Statistical Reporting Service semiannually collects retail prices for fertilizer (prices paid by farmers.) Generally, these are "listed" retail prices and may not reflect special deals, etc. Efforts are underway to try to adjust collection from a semiannual to a quarterly basis.

Coordination

With many agencies involved in collecting and disseminating statistics, it is difficult to coordinate and pull the information together regularly in a meaningful fashion. Several reports are issued periodically that attempt to summarize the overall situation, but because of the sharp swings in fertilizer markets in recent years the existing system does not adequately pull together timely information on major developments.

There is widespread support for a document that would summarize the principal statistics and provide some analysis on a periodic basis.

Other Activities

Several activities are already underway that should facilitate the improvement of the fertilizer information system. First, the various interagency participants are aware of the need to upgrade the present system and some steps are underway to improve the quality of the data and analyses. Some specific examples include the 1977 Annual Economic Survey to be conducted by the Economic Research Service (ERS). This survey will be devoted partly to obtaining fertilizer use by type of crop, storage of material on farms, and fertilizer expenditures by class of farms. In addition, ERS has underway a detailed study of the anhydrous ammonia industry which should support a better understanding of the complexities of the industry as well as provide certain much needed benchmarks for analytical purposes.

Work Plan

The subcommittee plans to complete its review and to propose a set of specific recommendations for consideration by the end of March 1976.

SIMPLIFIED FLOW OF U.S. FERTILIZER PRODUCTION AND DISTRIBUTION

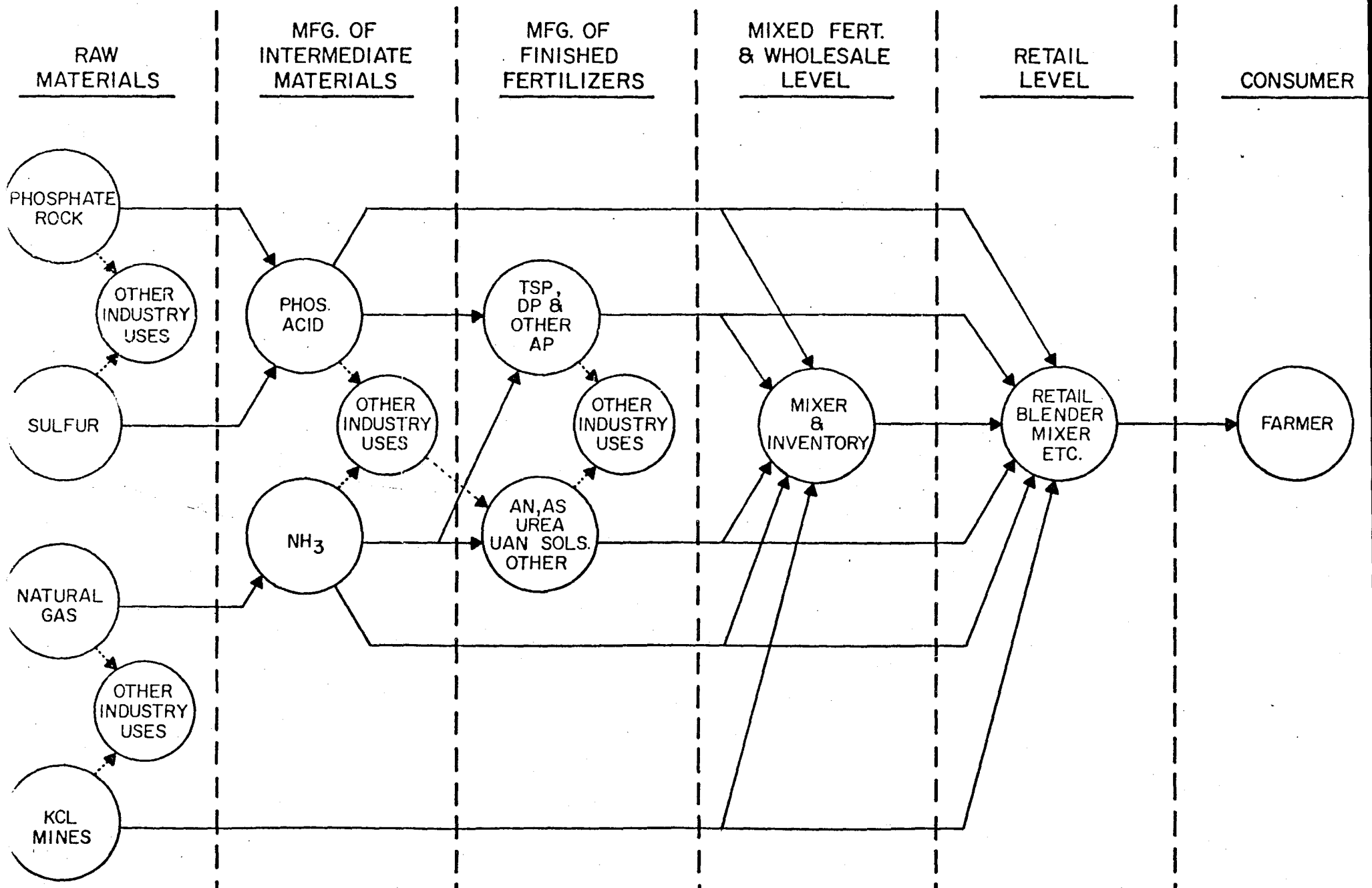


Table 1.--Fertilizer Summary, United States

	1971-72	1972-73	1973-74	1974-75
Nitrogen				
Domestic Supply <u>2/</u>	8,971	9,447	10,252	10,033
Imports	843	882	1,068	1,198
Exports	1,032	1,508	1,270	1,119
Net Supply	8,782	8,821	10,050	10,112
Consumption	8,022	8,295	9,157	8,593
Unexplained Disappearance <u>3/</u>	760	526	893	1,519
Phosphate (P₂O₅)				
Domestic Supply <u>2/</u>	6,150	6,387	6,786	6,940
Imports	326	312	314	275
Exports	1,102	1,424	1,582	1,888
Net Supply	5,374	5,275	5,518	5,327
Consumption	4,684	5,085	5,099	4,494
Unexplained Disappearance <u>3/</u>	510	190	419	833
Potash				
Domestic Supply <u>2/</u>	2,432	2,680	2,605	2,304
Imports	3,088	3,117	4,212	3,944
Exports	657	922	947	848
Net Supply	4,863	4,875	5,870	5,400
Consumption	4,327	4,649	5,083	4,415
Unexplained Disappearance <u>3/</u>	536	226	787	985

1/ Preliminary. 2/ Adjusted for Producer Inventory Change. 3/ Material produced that is not accounted for in manufactured inventories or recorded as consumption.

TAB B

TAB B

Saskatchewan Potash Problem

Allan Blakeney, Premier of the Saskatchewan provincial legislature, claims that the provincial government will buy 51 percent interest in the Saskatchewan potash industry. If the owners refuse to sell, the Saskatchewan government will resort to expropriation "at fair market value" with compensation in refined potash or in a combination of cash (at least 30 percent) and negotiable bonds.

The 14 firms involved have a rated annual production capacity of 8.3 million tons of K_2O and last year produced 6.2 million tons, about 1/3 of the world production.

Canadian potash deposits are estimated at 20 billion tons of K_2O equivalent. At present production rates the deposits could last 2,000 years.

The U.S. depends on the Saskatchewan industry for roughly 60 percent (2.6 million tons in 1974-75) of our domestic use of 4.5 - 5.0 million tons per year.

Producers estimate that the replacement value of the assets is \$2.5 billion. "Fair market value" would likely be somewhat lower.

While the impact of a government takeover would be substantial on the 14 firms involved, there would be probably little or no impact on the U.S.'s ability to secure potash. The government is planning to continue operation of the mines and plants and it would expand production beyond the present level. However, the question remains as to what would happen to prices.

The major point of contention between the firms and the Saskatchewan government is over the present tax structure and the refusal of the firms to expand their operations under this structure. They content that the present system lowers returns to the point where expansion is unprofitable.

The U.S. Embassy in Ottawa has discussed this problem at a high level within the Canadian government. Among other questions, we have asked what actions the Federal government of Canada plans to take regarding Saskatchewan's proposed actions. The Canadian government has not yet replied to the questions.