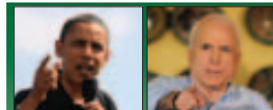


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FARMER



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IN THE PIPE: Jeff Christian, CF Industries' Cowden terminal superintendent, gets anhydrous via pipeline from Louisiana. Jean Payne of IFCA estimates half the nitrogen in Illinois is applied as anhydrous.



Out of control

By **JOSH FLINT**

SINCE 2005, worldwide fertilizer demand has increased astronomically. In fact, Jean Payne says it is the acreage equivalent of adding another U.S.

This is just one of the facts she uses to demonstrate how quickly demand has grown. Payne, president of the Illinois Fertilizer and Chemical Association, goes on to mention the U.S. is now third, behind China and India, in fertilizer use.

As if this situation weren't bleak enough, fertilizer manufacturers have an easier time supplying China and India, Payne adds. "In those countries, the government is the one writing checks to the manufacturer for the fertilizer bill," she explains. "As a manufacturer, you can sell millions of tons to someone who will write you one check."

Plus, these two governments

Key Points

- The U.S. is now the third largest nitrogen consumer.
- China and India are driving prices skyward.
- For now, Illinois farmers will have to rely on imports.

will pay whatever it takes, she adds. As a result, Illinois farmers are getting hit hard with increasing fertilizer costs.

According to Payne, if an ag retailer wanted to buy anhydrous ammonia in September, the wholesale price was flirting with \$1,200 per ton (dealer cost), not counting storage, transportation and the regulatory compliance costs for handling the product.

A new horizon

Growmark's nitrogen market manager, Michael Elliott, agrees. He says Illinois farmers need to realize they are competing in a

global marketplace for nitrogen, phosphorus and potassium.

"The U.S. is still a very important piece of the global market, but it's not the only piece," Elliott notes. "Our importance has declined a bit in the past few years."

With many farmers paying around \$1,000 per ton for N, Elliott says the situation doesn't look like it will turn around anytime soon.

"We don't think we'll see another large price increase like we just went through, but we see it maintaining itself at this plateau," Elliott says. In other words, the days of \$350 per ton are over.

Dan Froehlich, Mosaic Crop Nutrition's U.S. agronomy manager, has heard many farmers say increased fertilizer prices are a result of manufacturers trying to get their hands on a bigger slice of the pie. He says that doesn't make much sense.

"We need the farmers and

the dealers to stay intact," Froehlich notes.

According to Payne, the U.S. currently imports approximately 60% of its N. With such dependence on foreign markets, she's constantly asked, "Why don't we start making anhydrous ammonia in the U.S.?"

The biggest reason is the cost of natural gas. After Congress and the U.S. EPA implemented the Clean Air Act in 1963, Payne says utility companies began relying heavily on natural gas for producing electricity, because it is cleaner-burning than coal. That drove the price of natural gas through the roof.

Payne notes Russia and South American countries can purchase natural gas for around \$2 per British thermal unit. In the U.S., it's around \$10 per Btu.

"Why would anyone manufacture anhydrous ammonia here at a net loss, when it can be imported much cheaper?" Payne asks.

The price of natural gas led to the shutdown of many U.S. anhydrous production facilities. Still, if manufacturers wanted to resurrect domestic anhydrous production, Payne says it would take close to a miracle.

"It's inherently difficult, if not impossible, to get the permits to site an anhydrous ammonia facility," she adds. If the stars did align and permits were signed, Payne estimates it would still take five to seven years to bring a plant on line.

With demand through the roof, Elliott says companies are expanding N production, just not in the U.S. He expects a factory in Egypt to come on line by the end of the year. On top of that, facilities are planned for 2009 in Trinidad and Oman.

■ To learn how to keep fertilizer costs down, see Pages 16 and 24. Plus, read about Illinois' aging infrastructure for moving N on Page 6.

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