The Farm Crisis According to Agrium and AAFC: A Report on Farm Input Costs

Prepared by the National Farmers Union (NFU) for the House of Commons Standing Committee on Agriculture

March 6, 2008 Ottawa, Ontario

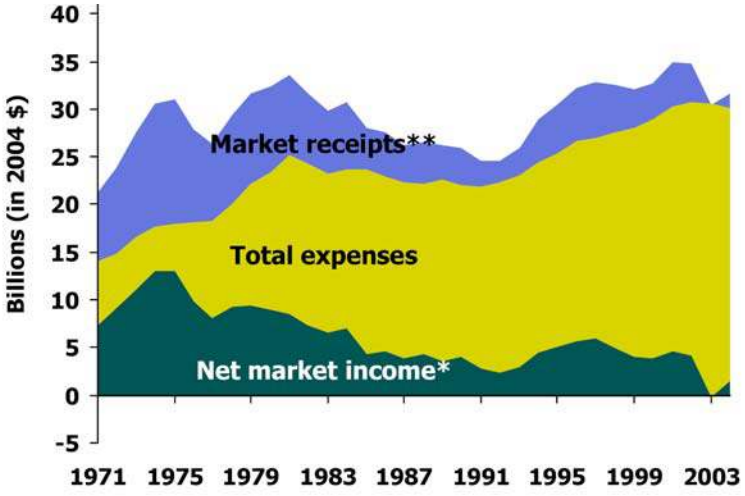
Until recently, a brief description of the farm income crisis went like this: A mother goes to a supermarket to buy a loaf of bread. She puts $1.35 on the counter. The grocery chain, baking company, flour-milling corporation, and grain company together take $1.30. The farmer gets the remaining nickel. Then fertilizer, seed, chemical, fuel, and machinery companies take 6¢ from the farmer's pocket. Taxpayers make up the missing penny, in the form of subsidies. The farmer's spouse gets a job in town, to pay for groceries.

Rising grain prices have changed the narrative, slightly. Now, the mother will be made to pay $1.60 for the bread, and the farmer will get a *dime*. What will be instructive to watch, however, is how those fertilizer, seed, chemical, fuel, and machinery companies position themselves to take *11¢* from the farmer's pocket—thereby continuing, uninterrupted, the farm income crisis, despite rising grain prices.

Beginning in the 1980s, powerful energy, fertility, genetics, chemical, and technology companies positioned themselves as the primary beneficiaries of the vast wealth farmers produce from the land. As grain prices rise sharply, these companies are using their market power to capture the lion's share of that windfall. This report examines the recent past, and a probable future.

Note: With one exception, the graphs in this report were not created by the NFU. All but Graph 6 were created either by Agriculture and Agri-Food Canada (AAFC) or by the agricultural input supply corporations that dominate the Canadian market. Also, though many of AAFC's graphs cover the period ending in 2004, this report's conclusions are equally valid when the analysis is extended to 2008.

Graph 1: AAFC's Realized Net Market Incomes and Expenses: 1971-2004



*Net market income is before depreciation
**Market receipts are farm cash receipts minus program payments
Source: Statistics Canada and AAFC calculations

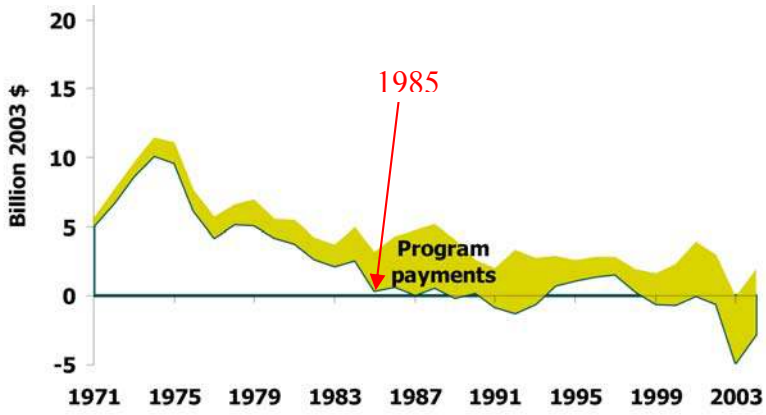
Excerpted from a February 2006 AAFC briefing paper for Canada's Assistant Deputy Minister of Agriculture, entitled "Long Term Challenges and Opportunities: Future Competitiveness and Prosperity of the Agriculture and Agri-Food Industry"

The graph above is AAFC's. Its dollar figures are adjusted for inflation. Note how the top line trends upward. Observe how the bottom line trends downward. Most important, notice the middle wedge; note how it expands. This middle wedge represents the money that farm input manufacturers extract from farmers.

Note also how this middle wedge swells to consume virtually all market receipts, squeezing net farm income—the bottom line—down to zero.

Let's look again at that bottom line—farmers' bottom-line. Graph 1, above, shows farmers' realized net incomes from the markets (with subsidy payments factored out), but it does so *without* taking into account a major farm expense: depreciation. Depreciation is the way in which farmers and other businesspeople account for the cost of equipment and other medium-term assets. Graph 2, below, is another of AAFC's. The bottom line on Graph 2 shows farmers' realized net incomes, adjusted for inflation, with subsidies factored out, and, this time, with depreciation taken into account.

Graph 2: AAFC's Realized Net Market Incomes: 1971-2004



Excerpted from an October 5, 2006, AAFC publication entitled "Report on Long Term Challenges and Opportunities for Future Competitiveness and Prosperity of the Agriculture and Agri-Food Industry. Chapter 1: Primary Agriculture"

Notice how the bottom line in Graph 2 falls nearly to zero in 1985, never gets far above zero in later years, and often drops *below* zero. If we total up realized net market income since 1985— if we add up the positive values and the negative—we arrive at a figure of almost exactly *zero*. Farmers' aggregate net income from the markets over the past 20+ years adds to zero.

But if we add up the value of farmers' gross revenues (the value of the products they produced and sold) over the same period, the result is $689 billion (adjusted for inflation). According to AAFC, over the past two decades farm families have produced and sold more than two-thirds of a **trillion** dollars worth of farm goods, and the markets have rewarded them with not one penny of net income. 100% of farm families' net incomes have come from some combination of taxpayer support programs, off-farm work, and borrowed money.

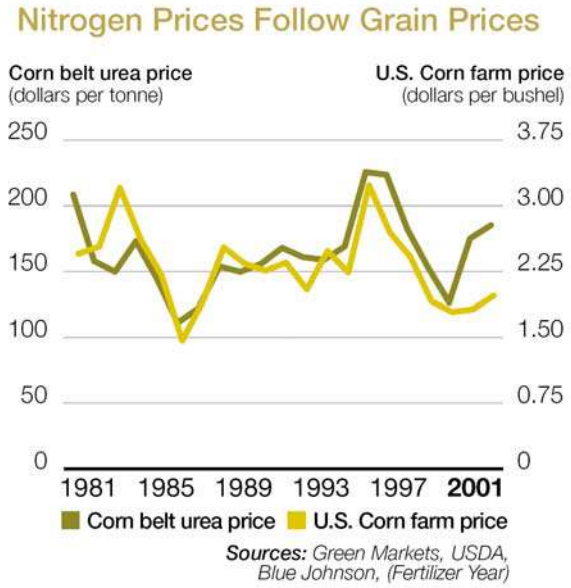
But if farmers didn't keep a penny of that two-thirds of a trillion dollars, where did it go? It went to input supply corporations. Over the past 20+ years, Monsanto, Agrium, Cargill, Deere, Royal Bank, and their like hoovered up 100% of the $689 billion originally paid to farm families. In rural Canada, there is a sucking sound.

Over that same 20+ year period, taxpayers contributed $68 billion (adjusted for inflation) in order to help keep farmers on the land—about $9,000 per Canadian family. Considered from some angles, that $9,000 per taxpaying family appears to be more a subsidy to the largest agribusiness companies than a subsidy to farmers. This extraction of wealth by input supply corporations is a crucial issue for *all* Canadians.

How did this happen? How did agriculture become so profitable for fertilizer, chemical, seed, and fuel companies; so unprofitable for farmers; and so expensive for taxpayers? The following looks at the tactics of powerful input makers—how they've made themselves the primary beneficiaries of Canadian food production revenues and of taxpayer subsidies; how they capture farmer and citizen wealth.

Graph 3, below, is produced by Agrium Inc., one of North America's major fertilizer makers and farm input retailers.

Graph 3: Corn and Fertilizer Prices According to Agrium: 1981-2001

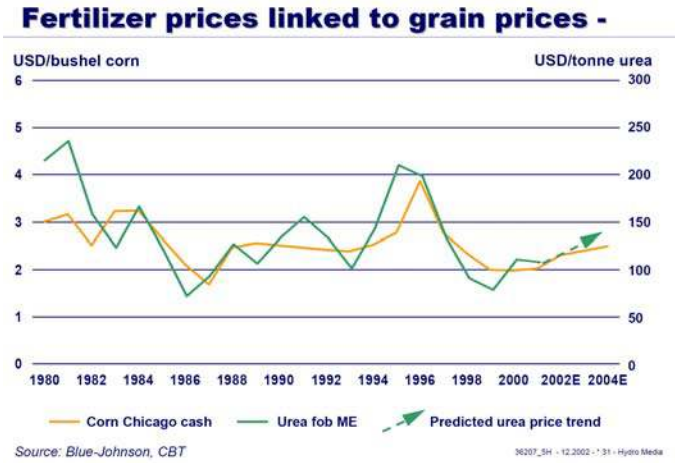


Excerpted from Agrium's 2001 Annual Report, p. 15

The tagline on Agrium's graph confirms what farmers suspect: "Nitrogen prices follow grain prices." Agrium graphs that relation for us, showing clearly that fertilizer companies raise their prices when grain prices rise.

Yara International describes itself as "the world's largest fertilizer company" (by revenues). In Graph 4, below, Yara (updating Agrium's numbers, drawing on similar sources, and possibly cribbing from Agrium's notes) echoes Agrium's conclusion: "Fertilizer prices [are] linked to grain prices."

Graph 4: Corn and Fertilizer Prices According to Yara

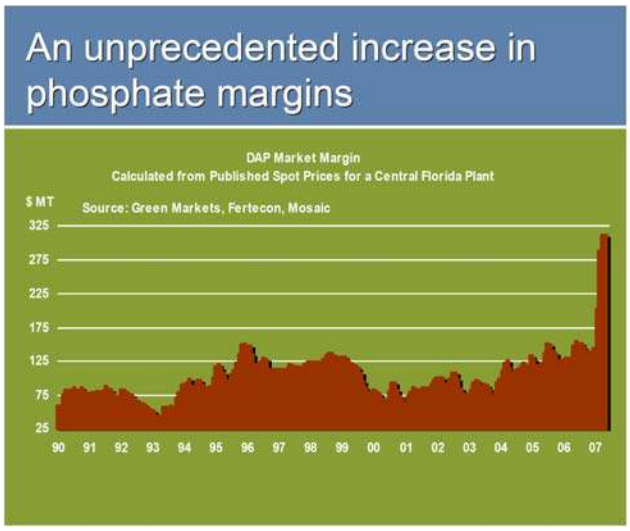


Excerpted from "Capital Markets Day," a PowerPoint presentation by Hydro Agri, December 9, 2002 (Hydro Agri has since changed its name to Yara International)

Graphs 3 and 4 would lead us to predict that today's sharply higher grain prices will lead fertilizer companies to sharply increase the prices they charge farmers. That is exactly what is occurring. Nitrogen fertilizer (granular urea) prices are 39% higher than a year ago (Dec. 2007 vs. Dec.; 2006, Alberta Agriculture). Phosphate prices are up 42% (Alberta Agriculture).

Not only are prices up sharply; margins are also up. Graph 5, next page, is created by Mosaic. It shows that fertilizer company margins on phosphate fertilizers have spiked to levels 3 times higher than those of a few years ago. Even Mosaic seems impressed; its graph is headlined: "An unprecedented increase in phosphate margins." Margins on potassium (potash) and nitrogen are up similarly. "The combination of record nitrogen prices and only a slight increase in costs due to higher gas prices resulted in record total nitrogen margins of $151 per tonne . . . for the fourth quarter of 2007," reports Agrium in a February 13, 2008, news release.

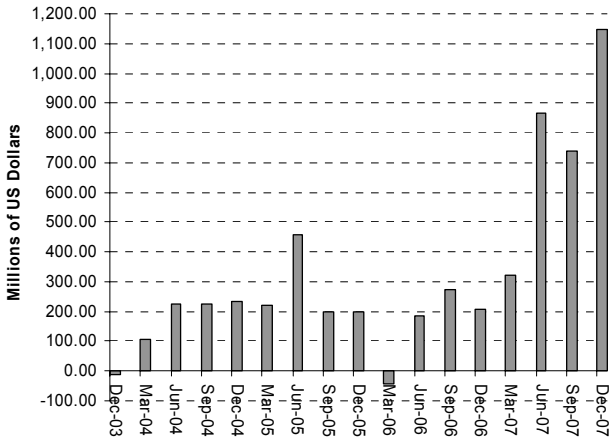
Graph 5: Phosphate Margins According to Mosaic



Excerpted from "Analyst Day 2007," a PowerPoint presentation by Mosaic, May 10, 2007

High prices plus high margins equal high profits. Graph 6 shows fertilizer company profits. The graph lines are cumulative; i.e., the nearly $1.2 billion in quarterly profits shown for the quarter ending December 31, 2007, is the sum of the profits of five companies: Agrium, Mosaic, Terra, Potash Corp., and CF Industries.

Graph 6: Fertilizer Company Cumulative Profits: Dec. 2003-Dec. 2007



Produced by the NFU from data from corporate quarterly and annual reports

Fertilizer corporations are earning unprecedented profits—5 to 6 times higher than levels earlier in this decade. And for these companies, the good times have just begun. Spring 2008 grain prices may be twice as high as prices in Spring 2007. Fertilizer companies will respond by continuing to raise prices; remember Graphs 3 and 4? As farmers' prices and revenues rise, input makers raise their prices, in effect capturing 100%+ of farmers' added returns. Companies have done so since at least 1985. Graph 2, by AAFC, tells that story.

Supply and demand do play a part. Rising grain prices will spur more fertilizer use, putting upward pressure on prices. Pundits will claim that fertilizer use in India or China is pushing up prices. This will form part of the truth, but a minor part. In the absence of adequate competition, the primary factor behind rising fertilizer prices (and other input costs) is this: opportunity. Powerful corporations, given opportunity to profit, and without the disciplines of competition, will act predictably. While the preceding pages use fertilizer to illustrate this point, other input makers are using their market power to profiteer in ways that parallel the tactics of fertilizer makers.

In conclusion, the NFU calls on democratically elected representatives in Ottawa and in provincial capitals to speak honestly about the farm-profit-draining tactics of major input suppliers; to undertake bold studies into the market power of these companies and the inadequate competition in these sectors; and to act to rebalance market power and profits between farmers and agribusiness corporations.