



## Nitrogen in '08 – tight supplies or shortages?

By Jonathan Harsch, Contributing Editor, Agri-Pulse

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When it comes to nitrogen fertilizer this year: **“The question is to what extent are higher prices going to ration use,”** says American Farm Bureau Senior Economist Terry Francl. He’s not as worried as some since he says weather problems could stretch out the season as happened last year. **With anhydrous prices topping \$700 a ton currently compared with an average \$575 last year,** he expects growers will make adjustments, with some cutting application rates and others trimming corn or cotton acreage in favor of soybeans or wheat.

But Francl concludes that the problem isn’t an ag problem with an ag solution – it’s “higher energy prices, higher crude oil prices, higher natural gas prices, all affecting nitrogen. It all centers around the increased demand for energy worldwide.” He points out that American farmers are competing against fast-growing economies like China and India, not just for nitrogen fertilizer but for tight energy supplies.

USDA’s Economic Research Service warned in an Aug. ’07 report that: “The volatile and upward trend in U.S. natural gas prices from 2000-06 has led to a 17% decline in the Nation’s annual aggregate supply of ammonia. During the period, U.S. ammonia production declined 44%, while U.S. ammonia imports increased 115%. Also, the share of U.S.-produced ammonia in the U.S. aggregate supply of ammonia dropped from 80 to 55%, while the share from imports increased from 15% to 42%. Meanwhile, ammonia prices paid by farmers increased from \$227 per ton in 2000 to \$521 per ton in 2006, an increase of 130%. Natural gas is the main input used to produce ammonia. Additional increases in U.S. natural gas prices could lead to a further decline in domestic ammonia production and an even greater rise in ammonia imports.” (Full ERS report at: <http://www.ers.usda.gov/publications/WRS0702/wrs0702.pdf>)

ERS calculated the impact of ammonia price increases on 2005 crop net returns: a 22% drop in net returns for corn, 32% for wheat. The ERS report added that “Further increases in natural gas prices in the United States could lead to a continuous decline in U.S. ammonia production and an increase in U.S. ammonia imports. . . An increase in the share of U.S. ammonia imports could make the U.S. aggregate supply of ammonia more susceptible to global competition for nitrogen fertilizers.”

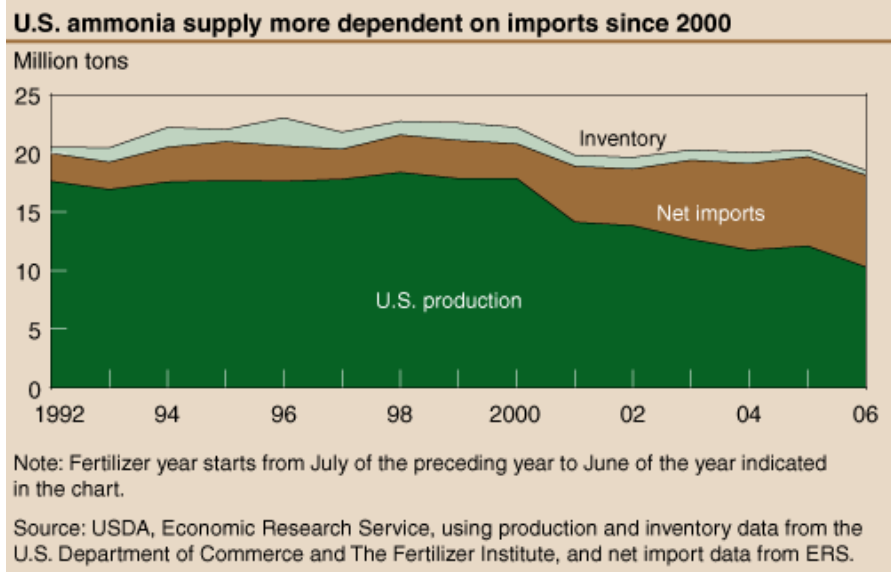
To increase supply, the Agricultural Retailers Association led 30 other farm organizations including the National Association of Wheat Growers and USA Rice Federation in urging

the U.S. International Trade Commission **to revoke the existing antidumping duty orders on solid urea fertilizer from Russia and the Ukraine.** But those duties have little or no effect in today's world-wide tight supply situation say USDA and other sources.

National Corn Growers VP Jon Doggett agrees there's a nitrogen problem: "Growers need to be prepared, because they may not be able to get all the nitrogen they need this year." But he says the root cause is **"this huge demand for natural gas in this country."** He says part of any solution must be to work with industry and government to boost domestic natural gas production.

More immediately, Fertilizer Institute VP Harry Vroomen says, **"Given the tight world supply-demand situation for all nutrients - nitrogen, phosphate and potash - farmers should attempt to lock in their supply and price as early as possible for the coming spring season."**

But locking in may be even tougher this year than last. Farm Bureau's Terry Francil points out that "Last year, dealers for the most part were basing their prices and margins on what it cost them for inventory, rather than for replacement. Then what happened is that they ran their inventories down and they found out that their replacement costs were significantly higher. So I think a lot of them have become leery as a result of that experience last year. That may be affecting their pricing policies for this year."



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