

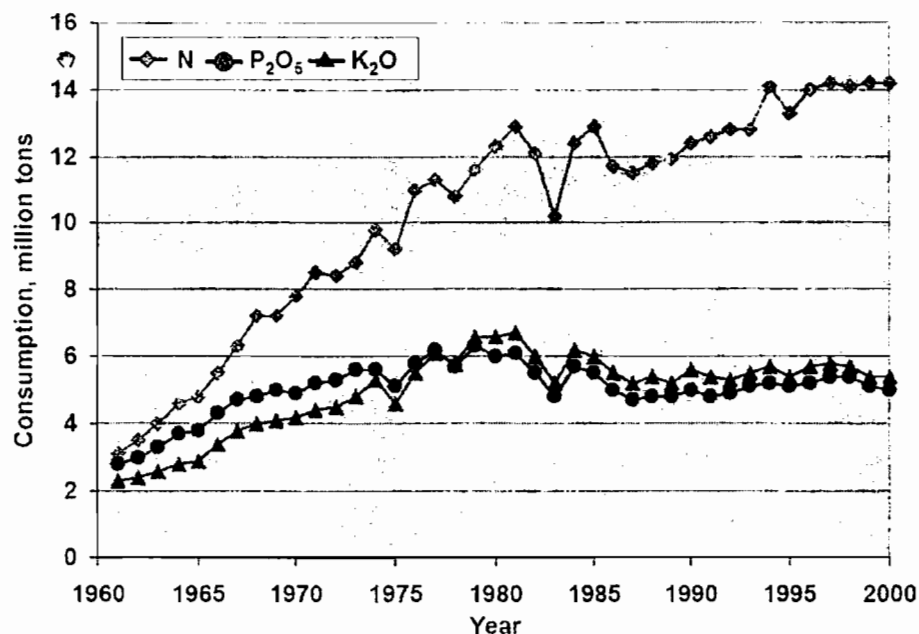
LONG TERM OUTLOOK ON NITROGEN AND POTASSIUM SUPPLY

Kim Polizotto, Ph.D.
Chief Agronomist
PotashCorp/PCS Sales

The North American fertilizer industry is operating in world market today. Worldwide fertilizer demand, competition for transportation, and natural gas prices are all putting pressure on North American fertilizer prices. The theme of this morning's session is on strategies the supply industry and farmers may adopt to manage these pressures. This talk is about the near future outlook nitrogen and potassium fertilizer.

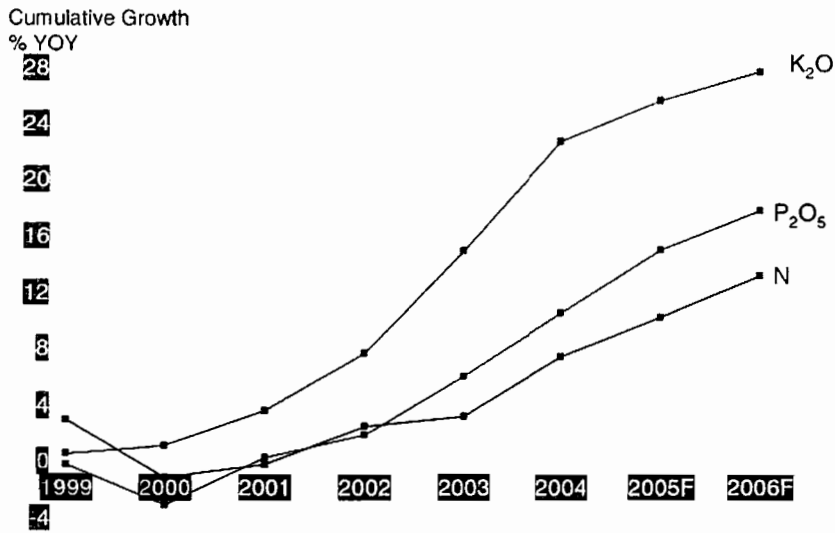
Fertilizer sales figures indicate that nitrogen, phosphorus, and potassium fertilizer use in North America appears to be level or declining. Figure 1. A review of the 2001-2004 sales data do not show any significant changes in these trends.

Figure 1. North America N, P₂O₅ and K₂O Consumption



World fertilizer consumption, however, is an entirely different story. As indicated in figure 2, between 1999 and 2005 nitrogen consumption increased about 12%, P₂O₅ increased nearly 15%, and K₂O consumption over 27%. North America played little to no role in this growth. China, India, Brazil, Malaysia, Vietnam, and the Pacific Rim in general is where fertilizer use is growing.

Figure 2. World Fertilizer Consumption Growth Forecast

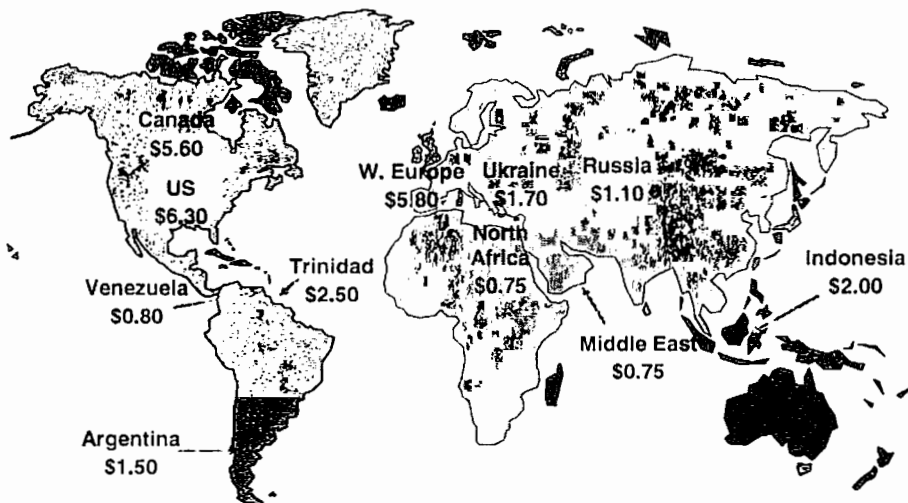


Source: Fertecon

Nitrogen Outlook

Right now natural gas prices are driving up the costs of all nitrogen fertilizers. About 80% of the cost related to nitrogen fertilizer production is natural gas, and this is reflected in current pricing. As you can see in figure 3, North America is at a tremendous disadvantage in nitrogen fertilizer production because of our high cost of natural gas.

Figure 3. World Natural Gas Costs
2005F - \$US/MMBtu



Source: Fertecon, PotashCorp

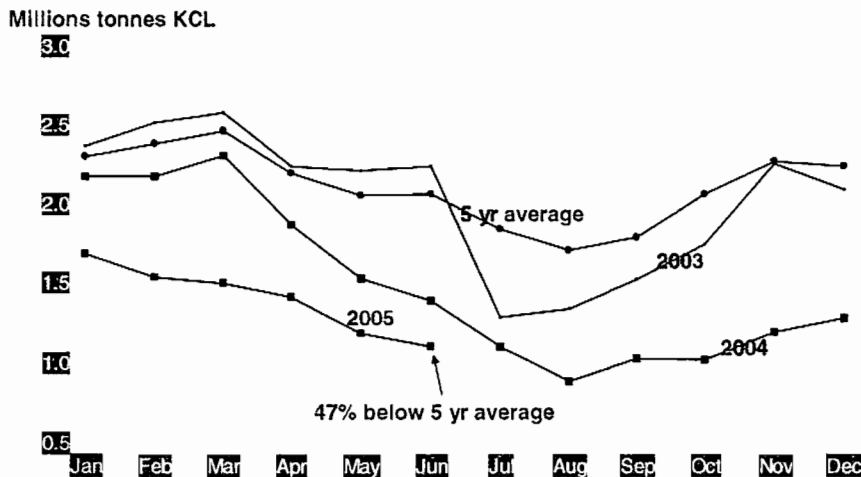
The U.S. has always been at some disadvantage as far as gas pricing, but this was offset by transportation costs for imported nitrogen. As the differences in gas costs increase, however, U.S. producers have found it very hard to compete. This has resulted in several U.S. nitrogen plants being temporarily shut down. If gas prices stay high, more U.S. production will be curtailed, and some shutdowns will become permanent. Also, high North American gas prices have encouraged foreign nitrogen manufacturers to expand their production, which will put further pressure on our industry.

The longer North American nitrogen producers are under these price pressures, the more our industry and farmers will be reliant on imported nitrogen fertilizer products. Although we may be more dependent on imported nitrogen products, the overall effect may be to actually moderate prices to the farmer, as the costs of production are much lower on imported material. North American nitrogen producers will be hard hit, however.

Potash Outlook

Unlike the nitrogen manufacturers, potash production in North America is healthy and expanding. As the N.A. market for potash is mature and only holding steady, increased export demands are what is driving the N.A. potash industry. Potash usage in China, Brazil, Malaysia, and the Pacific Rim has increased the most. Low cost, Canadian potash producers have been in an excellent position to capture this growth. This has subsequently put seasonal pressure on the supplies available for shipment to the U.S. and on U.S. potash pricing. This summer potash inventories were at an all time low.

Canadian Producers' Ending KCl Inventory



Source: PPI July 2005

As a result of the strong world demand for potash, and other countries willingness to pay prices higher than the U.S. market, all of the major N.A. potash producers announced production increases and mine expansions. These will take 2-4 years to implement, but in the long run, this will help stabilize supply and pricing in the N.A. market.

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Program Chair:

Brad Joern
Purdue University
West Lafayette, IN
(765) 494-9767

Published by:

Potash & Phosphate Institute
772 – 22nd Avenue South
Brookings, SD 57006
(605) 692-6280
Web page: www.ppi-ppic.org

Our cover: To world food security and agricultural production, the Haber-Bosch process has been the most economical means for fixation of nitrogen for fertilizer. Fritz Haber won the Nobel Prize for Chemistry in 1918 and Carl Bosch shared the prize in 1931.