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The Cost of Growth: Fertilizer Companies Cash In While Farmers and Communities Struggle

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Project
The Price of Poverty
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Funded by a grant from the Pulitzer Center's nationwide Connected Countries reporting initiative. The Price of Penny series toured or aired on student journalists at the University of Florida and the University of Missouri to report on fertilizer. This series can be found on the Columbia Missourian and Florida's WUFT News websites.

Meanwhile, the fertilizer industry has yielded record profits. Canada-based Nutrien Ltd., the world's leading producer of potash fertilizer, saw profits increase 10.5% between 2020 and 2021 to $7 billion. Tampa-based The Mosaic Co., one of the U.S. producers of potash and phosphate fertilizer, made $1.6 billion in net earnings in 2021, a 498% increase from the 2020. CF Industries, an Illinois-based fertilizer company, made $2.2 billion in 2021, a 95% increase from 2020.

The last pegging figures have heightened concerns about consolidation in the fertilizer industry, seen as the Biden Administration moves to boost domestic fertilizer production.

When asked for comment, Mosaic said in an email that the fertilizer business is cyclical and that has settled to a peak.

CF Industries did not respond to requests for comment. Nutrien did not provide a statement by press time.

Brad Hunter speaks for a photo in his farm in the Hobe Sound area growing organic or foraging. Image courtesy of Brad Hunter. United States.

Fertilizer companies are enjoying the highest profits on record as farmers and consumers are paying the highest prices on record for fertilizer. Fertilizer prices have fallen from their all-time highs in March 2022, when they spiked as high as 3.5 times higher than two years before, the commodity is likely to remain costly for some time, continuing to squeeze the food production system.

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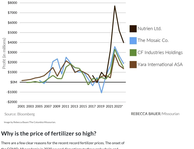
Fertilizer company profits spike in 2022

Russia's invasion of Ukraine forced a global price shock for fertilizer, leading to record corporate profits. Table: Figures for 2021 are for 2020 or company projections.



Source: Bloomberg

REBECCA SAUER / Missourian

Image by Rebecca Sauer/The Columbia Missourian

Why is the price of fertilizer so high?

There are a few clear reasons for the recent record fertilizer prices. The onset of the COVID-19 pandemic in 2020 caused disruptions to the supply chain and labor shortages that hindered production of natural gas, a major ingredient in fertilizer.

Then came the onset of natural disasters such as the February 2021 deep freeze in Texas, which forced natural gas wells and drives up demand for residential heating. In August that year, Hurricane Ida disrupted natural gas and fertilizer production in the Southeast.

Another factor was a reduction in imports from China, the world's leading producer of phosphate, a chemical element that is a key ingredient of fertilizer.

The war in Ukraine further tightened the market, as Western countries imposed sanctions on Russian fertilizer exports. Russia is a major natural gas producer. Russia and its ally Belarus in European natural gas prices and forced several European fertilizer plants to close or cut output.

Even low-water levels on the Mississippi River were to blame in price increases, as it limited the amount of fertilizer that could be shipped by barge.

"There were a myriad of reasons why we were seeing this big run-up in fertilizer prices," said Chad Hart, an agricultural economist at Iowa State University, seemingly going in the wrong direction if you were looking to ship fertilizer." said Chad Hart, an agricultural economist at Iowa State University.

Several of these factors are referenced in a study that co-authored that was funded by The Fertilizer Institute promoting "the lower analysis data will allow to state" But some argue the study omits a large factor of the price increase: market power as a result of consolidation.

Is the fertilizer industry manipulating the market?

Farm Action is a Missouri-based nonprofit organization that advocates for competitive food and agriculture systems across the United States. Co-founder Joe Maxwell believes consolidation in the fertilizer industry has led to market manipulation.

Since 1980, the number of fertilizer firms in the United States has fallen from 166 to 14, in 2019 and has consolidation accounted 71% of total domestic fertilizer production. CF Industries, Nutrien, Koch, and Yara USA, according to the Economic Research Service, accounted for 71% of domestic fertilizer production market. Nutrien and Mosaic, according to the Federal Trade Commission.

"These companies took advantage of their dominant position in a marketplace and increased commodity prices to the farmers in an effort to grab a larger and extract all the wealth that they could from that supply chain at the very roots. fertilizer," Maxwell said.

In 2021, the United States imposed tariffs on fertilizer imports from Morocco and Russia following petitions from Mosaic and CF Industries.

Growers widely decried the case. Andrew Pryor the National Corn Growers Association in Mosaic accused the company of "irresponsible" practices that "manipulate the supply curve" and "dictate prices to farmers." Later that year, Farm Action wrote a letter to the Antitrust Division of the Department of Justice accusing the fertilizer industry of using its "monopoly power" to the prices and requesting an investigation.

A week later, U.S. Sen Chuck Grassley, R-Iowa, submitted an additional letter to the DOJ requesting investigation. As of mid-May 2021, the DOJ had not announced an investigation.

Mosaic said in an email response that since the countervailing duties took effect, foreign producers importing fertilizer into the North American market has increased and, by extension, made the market more competitive.

In a company Q&A, a Mosaic official, Andy Long, said that the countervailing duties are not the reason for the price increase and said that the current market is not driven by "merely by a rising for fair trade."

President Joe Biden issued an executive order in 2021 promoting competition in the economy, including the agriculture sector and the fertilizer industry specifically. "Consolidation in the agricultural industry is making it harder for small family farms to survive," the order reads.

In response to the order, the U.S. Department of Agriculture collected comments from agricultural producers on competition, access to fertilizer and supply chain concerns. From more than 1,000 responses, 75% described concerns about the power of fertilizer manufacturers and 62% described what they see as unfair price setting practices.

One farmer commented to the USDA. The excessive price increases of fertilizer appears to be fueled by greed within the small group of fertilizer manufacturers," Stephen Sanger said. "The price of fertilizer today is set by the producers depending on what the price of corn and beans is hoped for."

CF Industries replied to the USDA by comparing fertilizer to food commodities.

"Fertilizer ingredients are internationally traded commodities, like the wheat, soybean and other crops they feed," the company said. "Their prices are determined by global supply and demand factors, as well as domestic and local conditions."

Although the study from Iowa State University does acknowledge market consolidation, it downplays it as a factor of price increase.

Hart claims the consolidation, but he said that power market manipulation, you have to be able to observe the market over a long and stable period of time which has been difficult amid recent events.

"You just can't expected not what's happening and whether there is a competition problem in this market or not," Hart said.

Although many factors have made the ingredients for fertilizer more expensive, Maxwell said the consolidation has made it easier for companies to pass the burden, likely to making a lot more money than they're spending. In 2021, Nutrien's net of goods sold increased by 34% compared to the year prior; however, its profits were up 163% from 2019. CF Industries saw its profit increase by 212% in 2022, while the cost of manufacturing and sales was only up 20% for Mosaic, profits were up 126% in 2021 but cost of sales only increased by 46%.

Although farmers enjoyed the highest corn prices on record in September 2022, their profits were offset by increased fertilizer prices.

"These Fertilizer Corporations are well aware of their leverage and have used the cover of conversation global crisis to raise prices far beyond those demanded by necessity," Farm Action said in a statement to the USDA.

Who is hit hardest by fertilizer prices?

While record fertilizer prices have translated to record profits for the fertilizer industry, small farmers, business owners and rural communities struggle to pay bills.

Carey Gunderson is a small business in northeast Missouri called Facebook Farm Supply that has sells fertilizer and farming equipment, the operator the company about 20 years ago.

Gunderson store is down the road from one of the many corporately-owned Nutrien stores that are scattered across rural America. Hamilton said that Nutrien's presence in the town has put competition as a small family-owned business with fewer than 10 employees.

When fertilizer prices go up, Hamilton's credit limit doesn't. This means he may not be able to serve as many customers as he used to, and customers may have to turn to other stores for their fertilizer supply.

"Because of the high prices, I actually lose business," Hamilton said. "And when I lose business, then I have less money to pay for health insurance, fuel, salaries, wage increases, day-to-day things that businesses need to survive."

Brad Hunter, a farmer in Jupiter, Florida, pulling fertilizer out of his truck. Image courtesy of Brad Hunter. United States.

Do fertilizer prices drive food insecurity?

Global experts also worry about how the high cost of fertilizer affects rising food prices and growing global food insecurity.

John Baffes, a senior agriculture economist for the World Bank, said that fertilizer is an important input to food commodity production, especially in less developed countries.

The International Monetary Fund's World Economic Outlook in October 2021 said that a 1% increase in fertilizer prices boosts food commodity prices by 0.45%. Experts say the connection between fertilizer price and food inflation is weaker in the U.S.

Alexis Maxwell, a fertilizer analyst for Bloomberg Intelligence, said there is not a strong correlation between the two.

However, even cost increases alone in the cost of the food inputs. Prices for food at grocery stores increased 13.5% between August 2021 and August 2022, the largest 12-month percentage increase since 1979, according to the U.S. Bureau of Labor Statistics. Many factors account for the increase, such as higher fuel costs for transporting food.

Kate Adeney, director of marketing and communications at The Food Bank for Central & Northeast Missouri, said the food bank is serving about 30% more people now than it was last year.

Adeney also said the food bank is currently spending three times as much on food as it was before the pandemic due to higher prices and fewer donations. "In general, we are seeing fewer donations from some of those big companies, simply because people are cutting back on their production," Adeney said.

Kate Adeney poses for a photo at Columbia and Jefferson streets in April 2021 at The Food Bank for Central and Northeast Missouri in Columbia. Image by Rebecca Sauer/The Columbia Missourian. USA.

What's next?

Despite these concerns, it will be hard to lessen dependences on fertilizer imports, which is essential for supporting the world's population.

"If we did not have fertilizer, the earth's population will be not 8 billion but will be 4 billion," Baffes said.

Farmers and small business owners may complain about fertilizer prices, but they will continue to pay for it. Hart said, because their business depends on it.

Experts say fertilizer prices may remain high for some time, but they are expected to fall — eventually.

"As farmers have pulled back, the lesser demand has allowed some of our suppliers to rebound," Maxwell, the Bloomberg analyst, said. "Prices are falling. So it's good news."

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