



CANADIAN FERTILIZER INSTITUTE

INSTITUT CANADIEN DES ENGRAIS

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Saskatchewan Potash Producers Association

INTRODUCTION

Potash is a Canadian mining success story. The industry, based in Saskatchewan and New Brunswick, is in the third year of record production and sales for this vital fertilizer. Canadian potash is used by farmers in more than 70 countries.

Potash is the largest mining industry in Saskatchewan. It employs approximately 6,000 people and generates approximately \$370 million in royalties and taxes for the province.

The annual value of Saskatchewan potash sales is more than \$2 billion, most of it exported. Saskatchewan accounts for more than 30 per cent of world potash production and 45 per cent of the world potash trade.

CFI members also operate a phosphate rock mine in Kampuskasing, Ontario, producing over one million tonnes of ore annually. This ore is railed to Redwater, Alberta, where it supplies Canada's only phosphate fertilizer production facility, supplying about one-half of Canadian farmers' requirements for this essential crop nutrient.

Potash exports were constrained in 2005-06 due to pricing negotiations with customers in China and Brazil, but the outlook for potash demand remains strong in importing countries such as the United States, China, Brazil and India. World population is growing by approximately 70 million people each year: more-and-more food needs to be grown on less-and-less land. The growing need for crops to produce ethanol and other biofuels is creating new demand for crop production. The crops used to produce biofuels tend to be intensive potash users.

This positive market outlook has been coupled with significant tax relief at both the federal and provincial levels.

The result is that the three potash companies, PotashCorp, Mosaic and Agrium, are all undertaking major expansions of their existing mining operations in Saskatchewan. Our industry is planning hundreds of millions of dollars in new capital investments and the creation of more than 200 permanent jobs.

While the potash mining industry in Canada is enjoying considerable success, federal and provincial governments must continue to make good business decisions to ensure this success is sustained in the long term.

There are several major areas where governments can support the continued growth of the potash industry

We support the brief that is being submitted by the Canadian Mining Industry Federation. But there are a number of issues our industry would like to highlight:

ENERGY

An important economic issue for our industry is the high cost of North American natural gas relative to other producing regions around the globe. North American natural gas prices are putting our industry at a global competitive disadvantage.

Potash is the most significant user of natural gas in the non-metals mining sector.

Federal and provincial governments should recognize that, unlike oil, there is currently no global market for natural gas. An increase in gas costs that is an isolated phenomenon to North America impacts Canada's fertilizer production costs and ability to compete on the world market.

A growing demand for natural gas in North America has been a trend for a number of years. The increase is primarily due to the rise in gas-fired electrical power generation. If Canada is going to maintain existing value-add and energy-intensive industries and also meet this new demand, we must support natural gas exploration and development or new sources of supply such as coal-bed methane and LNG. We need a streamlined regulatory approval process for energy and pipeline projects, while continuing to achieve social and environmental objectives. Royalties and taxes on natural gas are a particular burden on the fertilizer industry, which uses natural gas as both a fuel and a feedstock. Governments should look at options for reducing this burden and study the downstream impact on Canadian industry and agriculture.

CFI also believes that governments have a critical role to play in the development of a Canadian biofuels industry to reduce our reliance on natural gas and other fossil fuels. Fertilizer, and particularly potash, will play a critical role in the production of crops needed for ethanol and other biofuels. We support the federal government's plan to develop a Canadian biofuels strategy. A number of provinces are already supporting biofuel development. We hope an effective national strategy will emerge, backed by all levels of government.

AIR EMISSIONS

Canada's fertilizer industry has the most modern and efficient production facilities in the world and our companies are committed to reducing industrial emissions that affect air quality.

This complex problem will take time and significant investment to solve. We are committed to work with governments at all levels to improve Canada's air quality.

The fertilizer industry continues to support the need for a Made-in-Canada plan to reduce Greenhouse Gas emissions as well as continuing efforts to reduce other air emissions.

While we support the need for cleaner air, we believe it must be done in a way that protects the international competitiveness of our industry. Our industry wants to be consulted on the policy options that federal and provincial governments are considering to meet these goals.

We believe that government must work in partnership with industry in its approach to environmental sustainability. A key component of that cooperative approach is providing incentives for business to meet realistic environmental targets. Reduction targets for the industry must be reasonable, cost effective and achievable in practice.

Governments in Canada need to adopt policies that will enable our industry to make the investments necessary to continue reducing greenhouse gas emissions and to contribute to the objective of clean air.

Governments should facilitate investment by eliminating barriers to trade, continuing to move to a more competitive corporate tax system and providing new investment incentives to accelerate technology change, modernize facilities and upgrade skills.

Measures like the accelerated tax allowance could be an important part of the market-based incentives approach.

SKILLS SHORTAGE

With expansion of Saskatchewan potash production, the industry is acutely aware of the need for skilled workers. As Saskatchewan looks to the future; labour skills and an aging workforce are critical if we wish to build on our strengths. Our industry provides high-paying, rewarding jobs. However, competition from mega-projects in other regions plus retirements are making it harder to retain skilled trades-people.

The potash industry supports the findings of last's years report by the Mining Industry Training and Adjustment Council (MITAC) called *Prospecting the Future: Meeting Human Resource Challenges in Canada's Minerals and Metals Sector*.

The study found that the mining industry is facing a serious labour supply gap over the next 10 years of up to 70,000 workers. The age group of 55 and older in the mining sector has doubled in the past 10 years. Saskatchewan has an aging population and out migration of youth and retirements is creating challenges for industries such as potash.

Our industry is concerned that traditional industries that are based largely in rural regions of Canada will face even greater challenges than other sectors of the economy which may be able to count on increasing populations in urban centres.

In Saskatchewan, governments need to focus on developing inclusive policies that foster better educational outcomes and greater participation in the labour force for Aboriginal Canadians.

CANADA TRANSPORTATION ACT

For many of Canada's shippers, particularly in the resource sector, rail is the only economic way to move their products hundreds or thousands of kilometres to domestic, U.S. and offshore markets. Rapidly rising freight rates, declining railway service levels combined with mounting rail capacity constraints are, however, increasingly hampering our ability to move our products to markets.

The Canadian economy cannot afford such problems. Canadian farmers, miners, manufacturers and other businesses that depend on the railways to get their products to market are accordingly in urgent need of enhanced protections under the Canada Transportation Act (CTA) to enable them to obtain fair and reasonable freight rates and service levels from the railways that serve them.

Canadian shippers met with Transport Canada and officials from the Office of the Minister of Transport in May 2006 and presented a number of amendments to the CTA that, if implemented, would provide the enhanced protections those shippers so urgently need. CFI is optimistic that the federal Minister of Transport will support the broad shipper consensus reached in May and that the amendments proposed by the shipper community will remain a high priority with the government.

Included in these measures are the following:

- an important amendment that will retain and carry forward the important industry and shipper language that has recognized the unique shipping needs of Canadian industries

in Canada's national transportation policy statement since 1967(the foundation on which all of the CTA operates);

- amendments that will enable shippers who are located on the line of a single railway to access competing railways at interchanges in both urban and more remote regions of the country, and;
- new provisions that will enable individual shippers, as well as groups of shippers, to more effectively dispute unreasonable rates and services using the process of final offer arbitration.

It is our understanding that the draft legislation will be tabled soon after Parliament resumes in September. Canadian shippers need the changes agreed to in May to redress the imbalance between the freight railways and their customers.

Shippers look forward to working with the Government to ensure that Canadian industry and shippers have access to a freight transportation system that allows them to effectively serve markets at home and abroad.

CONCLUSION

Canada's potash industry remains internationally competitive. In fact, it is the world leader. We cannot be complacent. Federal and provincial governments must continue to strive to provide an operating environment that will allow our industry to seize new global opportunities.

The Canadian Fertilizer Institute is an industry association that represents manufacturers, wholesalers and retail distributors of fertilizers, including nitrogen, phosphate, potash and sulphur. Our mission is to be the recognized and unified voice of the Canadian fertilizer industry by promoting the responsible, sustainable and safe production, distribution and use of fertilizers.

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