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To All Members of the House Congressional Fertilizer Caucus and the House Blue Dog Coalition:

I am writing to express concerns about the impacts that certain provisions included in the “Build Back Better Act” would have on the fertilizer industry and our farmer customers’ ability to continue providing an affordable and abundant supply of food. As our nation and the world continue to navigate the COVID-19 pandemic, we are concerned that these provisions would reverse the slow but steady progress that has been made over the past several months and could result in significantly increased costs for our businesses, our farmer customers and ultimately the American consumer.

The Fertilizer Institute represents the entire fertilizer supply chain including manufacturers, wholesalers, retailers and importers. These businesses support nearly 500,000 high-quality American jobs and have an economic impact of more than \$130 billion annually, supporting communities in all 50 states. Our industry was deemed essential during the COVID-19 pandemic because of the important role we play to ensure American farmers receive the nutrients they need to enrich the soil and, in turn, grow the crops that feed our nation and the world.


Oppose the Increased Corporate Tax Rate

Subtitle I of the “Build Back Better Act” proposes to replace the flat corporate tax rate of 21 percent with a graduated rate structure which would increase the top rate from 21 percent to 26.5 percent for income above \$5 million. This tax increase will have a significant impact on American agriculture. Inflation is at a 13-year high and energy prices have increased significantly from this time one year ago (oil up 90%; natural gas up over 100%¹). Further increasing the costs of food production at this time would have a detrimental impact on agribusinesses in the food supply chain and ultimately the consumers who would face higher prices at the grocery store. Therefore, we strongly urge you to oppose this tax increase.

Oppose the Methane Fee

Subtitle A, “Budget Reconciliation Legislative Recommendations Relating to Air Pollution,” of the “Build Back Better Act” includes a provision that would impose a tax of \$1500 per ton of methane emissions from oil and natural gas facilities. While TFI and our members recognize the need to reduce greenhouse gas emissions and continue to invest significant capital to do so, methane emissions are already being addressed via regulations at the federal and state level. We also understand that additional federal regulations to reduce methane emissions are expected later this year.

¹ U.S Energy Information Administration



□ The proposed fee would not actually require any emission reductions. Rather, it is a punitive tax on oil and natural gas operations - a tax that would be passed on to both industrial and residential consumers and would be particularly harmful for ammonia producers and their fertilizer customers. As a result, the fee would not incentivize oil and gas producers to make the investments in technology and innovations necessary for meaningful emissions reductions.

It also bears emphasis that the methane fee would almost certainly increase the cost of natural gas at a time when natural gas prices recently hit a seven-year high. We are likely to see continued price increases as we enter the fall and winter seasons which typically see increased demand for natural gas due to colder temperatures.

Based on a recent analysis by Resources for the Future² which examined the impacts of a methane fee on natural gas prices, TFI estimates that the proposed fee would lead to an increase of \$59 million - \$103 million in annual natural gas costs for ammonia production. Unlike the proposed methane fee, we cannot simply pass this added cost on to our farmer customers. Fertilizer is a globally traded commodity and any increase to the cost of production simply makes us less competitive in the global markets.

Ammonia is the basic building block for all nitrogen fertilizers. To make ammonia, we use natural gas as both a feedstock and an energy source in a fixed chemical process that combines nitrogen from the air and hydrogen from the gas to produce fertilizer in a form that the plant can utilize. This is called the Haber-Bosch process and has been referred to as “one of the greatest technological marvels in this century which has made the most difference to our survival.” (Smil, 1999). It is also one of the most energy-intensive of all manufacturing processes due to the large amount of natural gas required.

The current energy crisis facing Europe is a prime example of how high natural gas prices can impact the fertilizer industry and our customers. Record natural gas prices combined with other pressures are forcing the continent’s ammonia producers to reduce output or idle plants which will lead to lower availability and higher prices of fertilizers for farmers in Europe. This reduced ammonia production capacity is also expected to result in higher food prices for consumers.

Unfortunately, the U.S. experienced a similar situation to Europe from 1999-2008 when natural gas prices increased from \$2.50 per MMBtu to nearly \$9 per MMBtu. These high input costs forced the U.S. ammonia producers to close 27 of 42 production facilities, cutting our production capacity in half and making U.S. farmers more reliant on imports. Most of the lost capacity moved overseas to countries with lower energy costs. Furthermore, these countries may not have the same environmental standards as the United States and could result in increased global greenhouse gas emissions.

Thanks in part to the increased supply of domestically produced and affordable natural gas resulting from the shale gas revolution, the U.S. ammonia manufacturing industry recently experienced a renaissance as evidenced by the construction of new manufacturing plants and the re-opening and expansion of existing facilities which have added billions of dollars

² Methane Fees’ Effects on Natural Gas Prices and Methane Leakage Issue Brief 21-12 by Brian C. Prest — September 2021.

to the U.S. economy. Each new facility creates jobs for construction workers and permanent, high-paying jobs for individuals who work in that plant.

45Q Tax Credit Modifications

The 45Q tax credit for carbon capture and sequestration (CCS) is a critical policy tool to help domestic ammonia producers reduce carbon emissions. TFI applauds several 45Q modifications in Subtitle G of the House Ways and Means Committee's portion of the Build Back Better Act, including a six-year extension of the project construction commencement deadline and immediate increases to the full credit values.

At the same time, we are very concerned with a provision that would require eligible entities to capture at least 50% of the CO₂ at their facilities. This new eligibility requirement would render the credit effectively unobtainable for ammonia plants and many other industrial facilities. TFI strongly urges that this eligibility threshold be removed from the bill.

To ensure that we avoid putting domestic fertilizer manufacturers and our farmer customers at a competitive disadvantage by increasing costs at a time when businesses and consumers can least afford them, we urge you to oppose the proposed increased corporate tax rate and methane fee. And, while we support several modifications to the 45Q tax credit urge you to oppose the new capture threshold requirement that would put the credit out of reach for one of the most difficult sectors to decarbonize.

Thank you for your time and consideration of these important issues. If you have any questions, please contact TFI Vice President of Government Affairs, Clark Mica at (202) 515-2725 or via email cmica@tfi.org.

Sincerely,



Corey Rosenbusch
President & CEO