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Written Testimony of Tim Healey

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Committee

On

“Business Opportunities and Climate Policy”

Thank you very much Chairman Boxer, Ranking Member Inhofe, Senator Bond and other members of the Committee for the opportunity to testify today about the impacts of climate change policies such as cap and trade and carbon tax on our business and our customers.

I am Tim Healey, Director of Regulatory Affairs for the Lange-Stegmann Company. Lange-Stegmann is a fertilizer wholesale distributor, selling fertilizer for agricultural application within a 150-mile radius of the City of St. Louis and we warehouse granular urea fertilizer for basic manufacturers for distribution throughout the Midwestern United States. We have forty-two employees. The company has been in business since 1926. Lange-Stegmann Company also owns Agrotain International, L.L.C., which manufacturers and markets nitrogen fertilizer additives that make urea nitrogen more efficient and reduce greenhouse gas emissions into the environment.

In particular we are concerned about increased costs that will be associated with the manufacture and transportation of fertilizer. The manufacture of nitrogen fertilizer is very energy intensive and requires the use of natural gas as a feed stock for ammonia, the basic building block for all nitrogen fertilizers. Approximately 32,000 cubic feet of natural gas is required to produce one ton of ammonia. The cost of natural gas accounts for 70 to 90 percent of the production cost of ammonia.

We fear climate change legislation may cause the power industry to switch fuel in order to operate and meet greenhouse gas emission goals established by Congress or promulgated by a regulatory agency. Switching to natural gas will cause an increase in demand with the only incentive to increase supply being price.

In the last decade, 26 U.S. ammonia plants have closed primarily due to the high natural gas prices. Presently we import more than half of this country's nitrogen needs.

We believe the remaining domestic nitrogen production cannot stay operational through any transition period where utilities turn to natural gas as an alternative for generating electricity. Once closed, they may never reopen. These plant closures could have a strategic affect on this nation's ability to produce food. They would also result in the loss of American jobs and a reliance on overseas fertilizer producers.

Stable fertilizer production and stable fertilizer prices are essential to a stable, affordable and abundant food supply. A cap and trade scheme not only results in higher fertilizer costs, but Lange-Stegmann and our customers would also face higher transportation and delivery costs, all of which will result in higher food prices for American consumers.

When the price of fertilizer increased as it did from January 2007 to the apex in the third quarter, 2008 our small company had to increase our line of credit by 50% in order to continue to purchase fertilizer. This additional line of credit came at a price of 1.5 points in up front fees, a 50% increase in the interest rate and soft costs (appraisals, audit and legal fees) exceeding \$70,000. Our customers, the fertilizer dealers and their customers,

the farmers had to increase their lines of credit accordingly with similar additional costs. Fertilizer dealers who were unable to increase their lines of credit simply closed their doors.

One should note that these lines of credit were increased when credit was plentiful. In today's market, small businesses like Lange-Stegmann are finding it near impossible to borrow money.

In addition to increased fertilizer costs from natural gas price increases and borrowing costs, we will experience increased costs to operate our facility. A modest cost of \$30.00 per tonne for carbon dioxide (CO<sub>2</sub>) equivalent would have increased our electric bill over last 12 month period, May 2008 – April 2009, by a minimum of \$90,000, our natural gas bill by a minimum of \$33,000 and the fuel bill to power our mobile equipment by a minimum of \$16,000. To a small business such as Lange-Stegmann, the increased utility costs of approximately \$140,000 per year, coupled with the higher input and transportation costs described above will be crippling to the company. These types of impacts will be multiplied by businesses nationwide at a staggering cost to our economy.

The cost of delivering fertilizer to our facility for distribution by barge and rail will increase as will the cost of delivering fertilizer to our customers by rail or truck. At a modest \$30.00 per tonne of CO<sub>2</sub> equivalent the additional cost per gallon of diesel for the delivering carriers will be in excess of \$0.32 per gallon.

There is no guarantee that we can pass these additional costs along to our customers, as we must sell fertilizer at the market price. Overseas fertilizer producers will not be subject to the same high operating costs as American fertilizer producers, and could force us to sell our products at a loss.

Further, farmers cannot afford to pay more for their fertilizer inputs. Farmers felt some pain last year, but were able to offset higher input costs because crop prices were also higher. The scenario does not apply to this year because crop prices are considerably lower. If fertilizer prices had not come down due to the economic downturn resulting in reduced demand for natural gas costs, many farmers would not be able to afford to sow a crop this year. In the autumn of 2008 very little fertilizer was sold due to historically high fertilizer prices and declining crop prices.

The cost of other agricultural inputs will increase as well. With limited credit availability and higher prices, farmers may be forced to choose among crop protection chemicals, equipment, fertilizer and seed. These choices will have a negative affect on yield and profitability.

Furthermore, all Americans will see increased costs in heating and cooling their homes, food prices, and everyone driving a motor vehicle will be paying more in fuel costs. We should remember the turmoil \$4 and \$5 per gallon gasoline prices caused last year, and that this contributed to the economic downturn we are now experiencing. At a modest \$30.00 per tonne for CO<sub>2</sub> equivalent the additional cost of gasoline will exceed \$0.30 per

gallon. At a consumption rate of 20 gallons per week the increased cost will exceed \$6.00 per week or \$312 per year.

The United States cannot unilaterally enact any legislation regarding carbon taxes/fees or a cap and trade program and expect to reduce overall greenhouse gas emissions while expecting our industries to remain globally competitive. Industry will follow the path of least resistance and relocate where regulations are least. Any type of legislation that is passed must be similar to that passed and enforced in any country or region. The playing field must be level. It must be recognized that a tonne of greenhouse gas emissions has the same affect no matter where on this earth it is generated. If a product is generated here in the United States the water and air impact associated with its manufacture will be less than if it were produced in a country that does not have the same level of environmental regulation.

The goal of any legislation should be the reduction of greenhouse gas emissions with the least harm to the economy. It must be recognized that additional costs associated with a carbon tax or cap and trade system will be borne by the consumer and in order to protect our agricultural and industrial economies any climate change program must be global.

Our company, like all companies and all Americans are concerned about the impact greenhouse gas emissions may have on the environment. The industry has made great strides in reducing its carbon footprint in the manufacture of nitrogen fertilizer.

The agricultural community can offset greenhouse gas emissions from other sources and reduce its own carbon footprint through the use of Best Management Practices (BMPs) including the further adoption of continuous conservation tillage which helps sequester greenhouse gases, use of enhanced efficiency fertilizers which reduce greenhouse gas emissions, and other conservation practices. The barrier to wide spread adoption of these BMPs is education in the market place.

Instead of penalizing Americans through a cap and trade system or carbon tax, we recommend legislation that encourages development and adoption of energy efficient products and processes. Incentivizing the adoption of best management practices and promoting energy efficiency will promote the goal of greenhouse gas reduction without the significant economic losses associated with a cap and trade or carbon tax scheme. During these tough economic times, our economy cannot bear the significant costs associated with the unilateral implementation of a massive cap and trade program or a costly carbon tax. Such a program will significantly raise costs on manufacturers, retailers, growers and ultimately consumers who will be forced to pay higher prices for food, fuel and other products.