



**The Fertilizer Institute  
Fertilizer Industry Round Table**

# **2006 Fertilizer Outlook and Technology Conference**

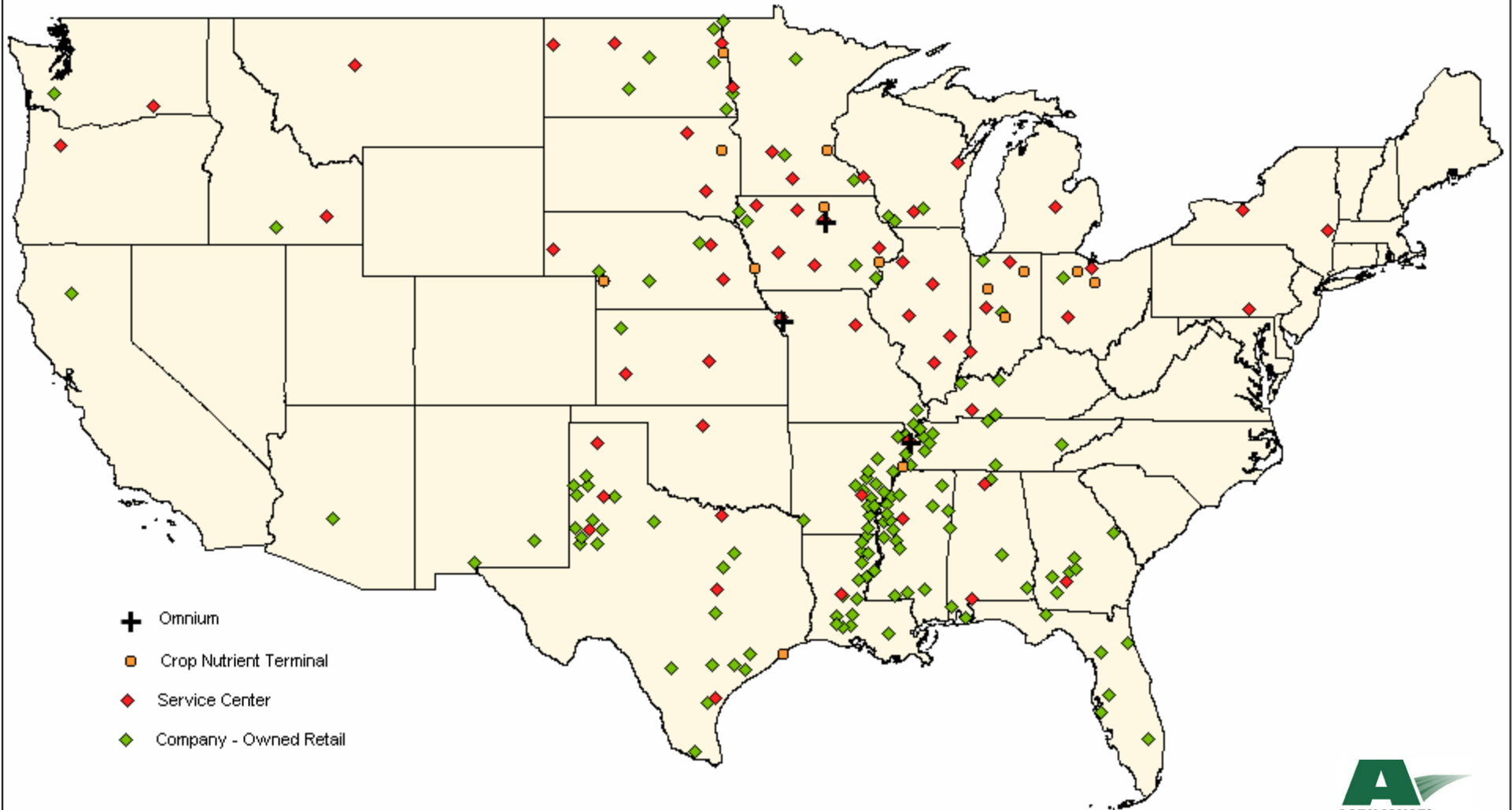
November 2005

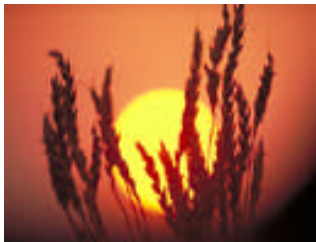
Bruce Vernon  
Director, CN Marketing  
Agrilience



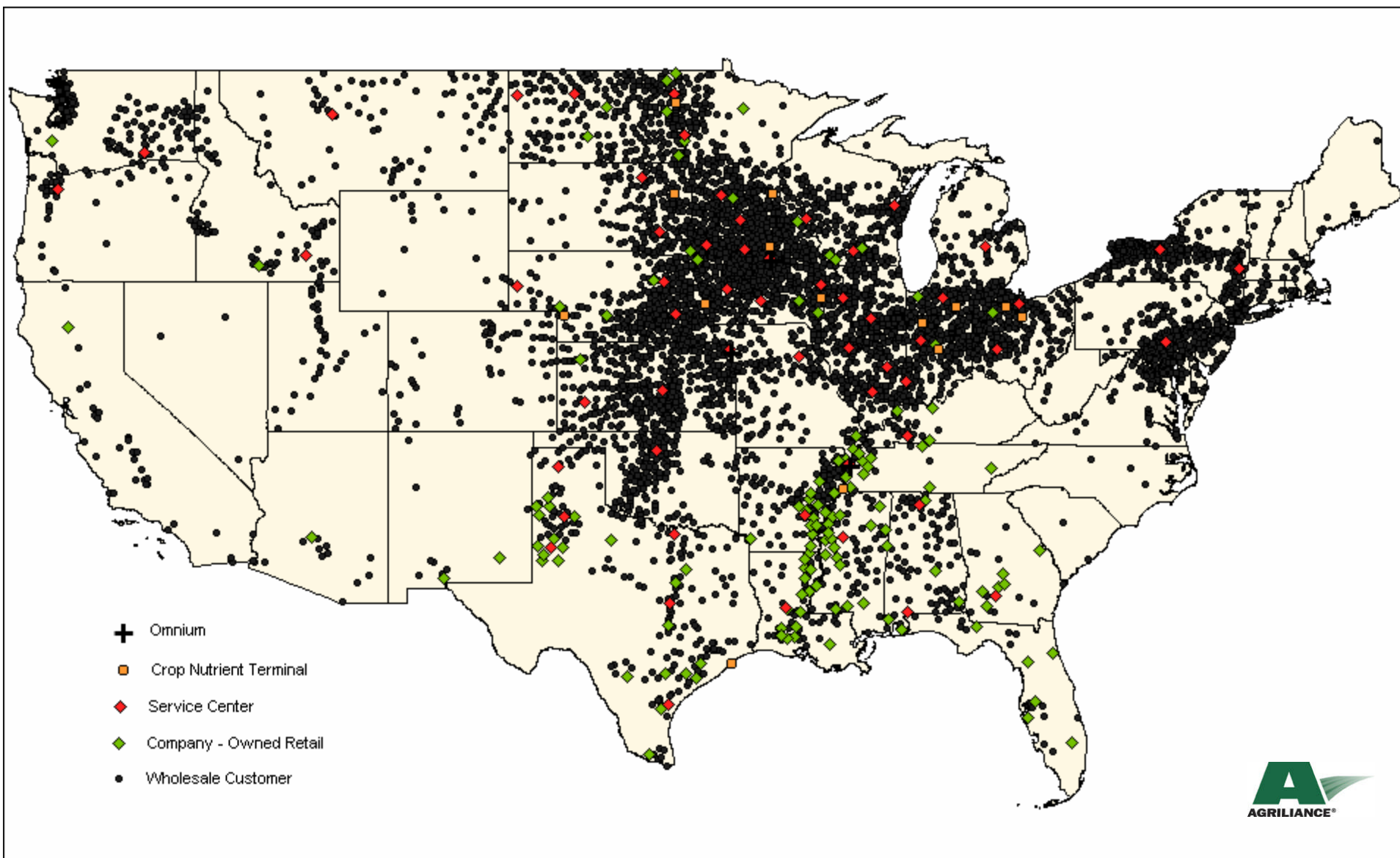


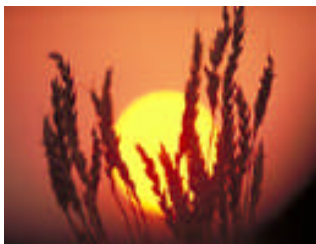
# Agrilience Operations





# Agrilience Wholesale





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A large, clear crystal ball sits on a dark brown, turned wooden pedestal. The crystal ball is the central focus of the slide, and the text is superimposed on it.

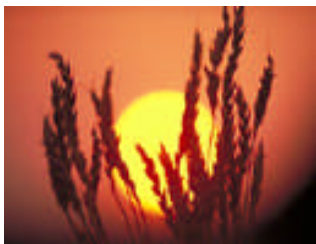
**North  
American  
Wholesale  
Outlook**



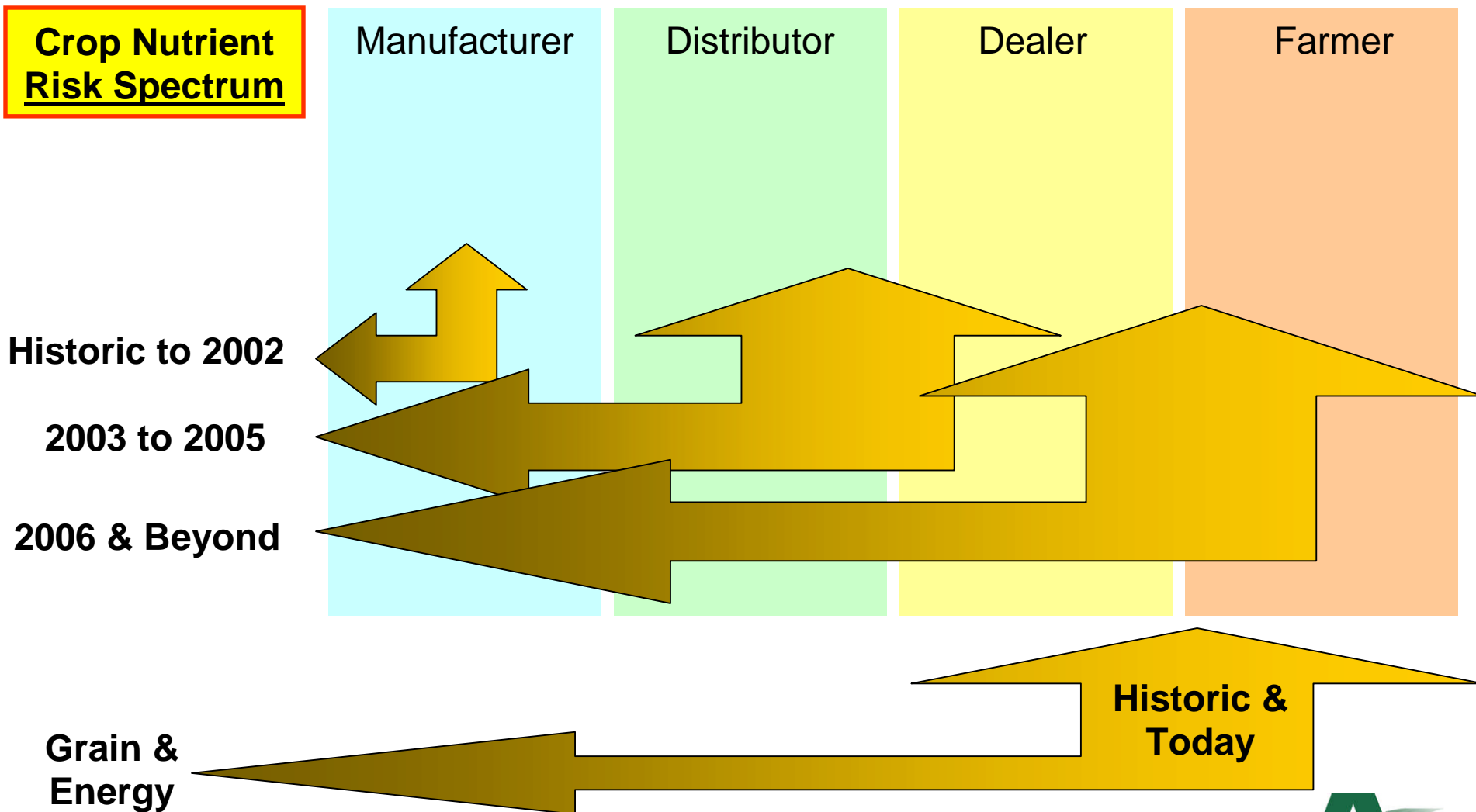
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- Natural Gas – Historic Highs
- Hurricane Season - Katrina, Rita, Wilma
  - Disruptions of Market, Production & Transportation
- Crop Nutrient Pricing – Hat Trick
  - N +\$50, P +\$30, K +\$30
- Fuel Surcharges – Crude oil >\$60
- Freight Contracts – 15 to 50% increase
- Domestic Production Curtailment
- Lengthening of the Supply-chain

**Buyer Resistance**



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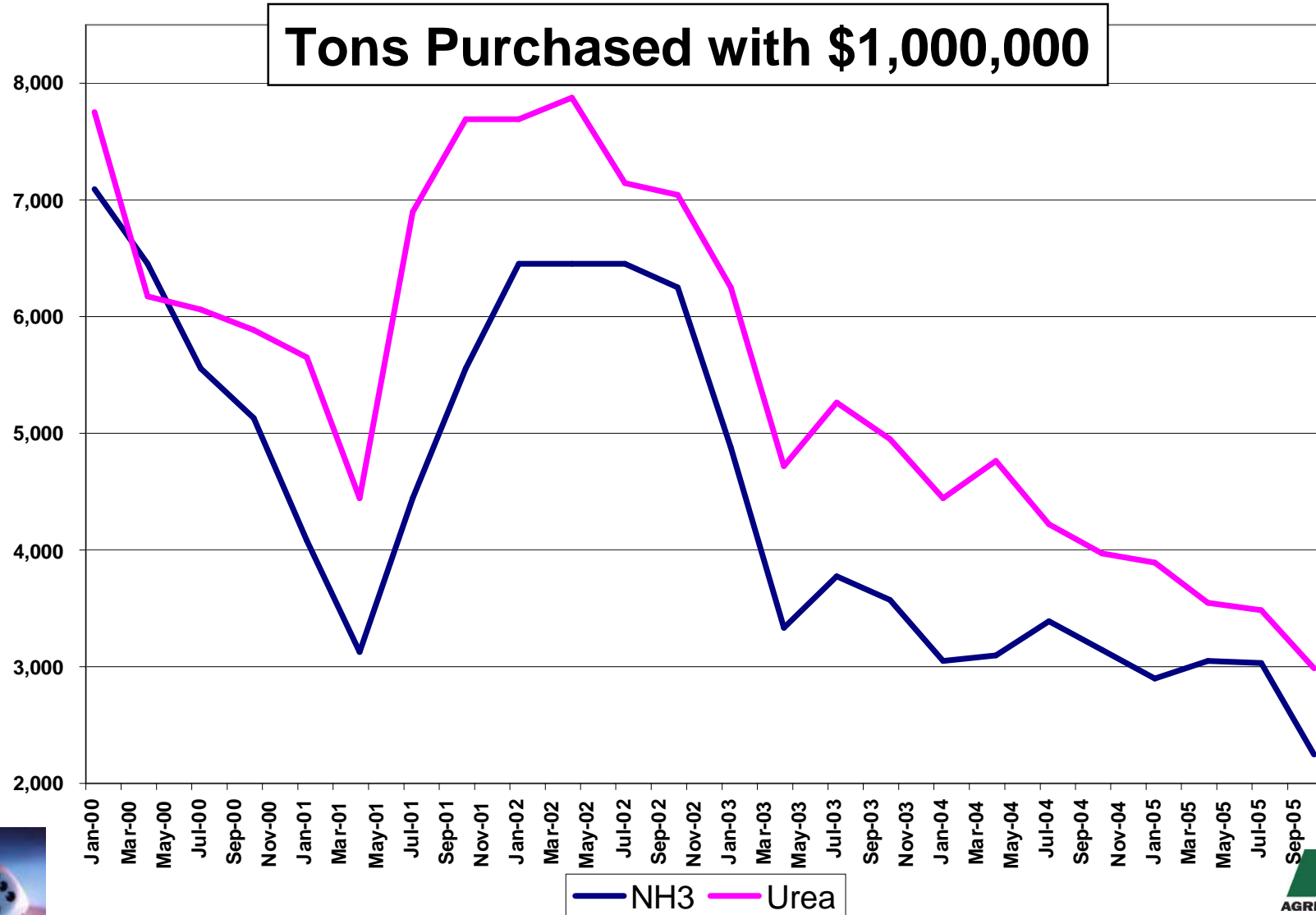


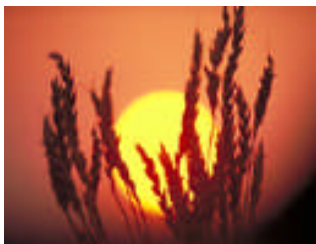
**Two Primary forms of Dealer Risk**



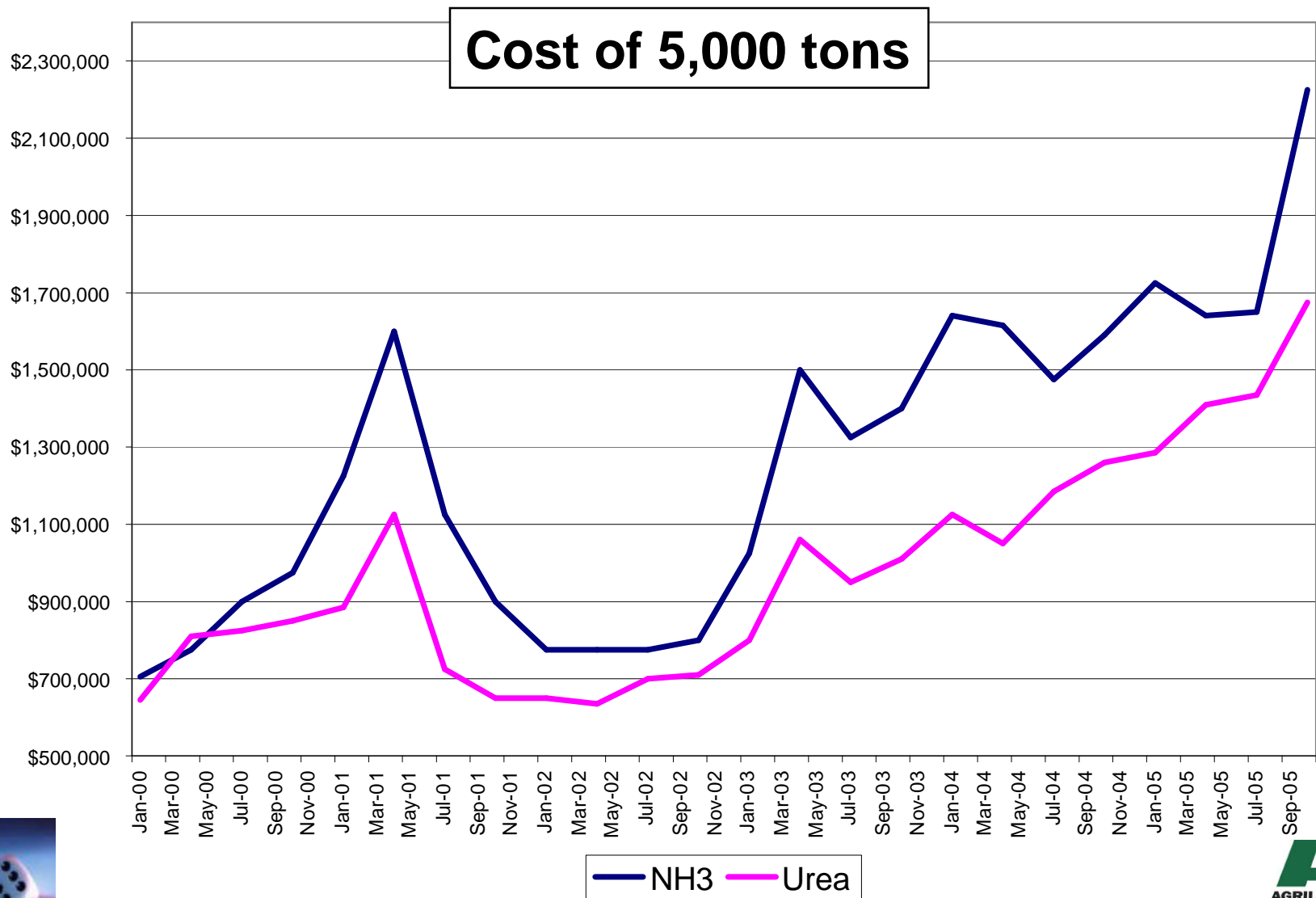


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## Dealer Risks

- High Costs of CN
- High domestic natural gas prices
- Increasing fixed and variable costs
- Margin compression
- Lack of sufficient CN risk management options





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## Farmer Risks

- High Costs of
  - CN, Energy, Land
- Low returns for crop
- Increasing fixed and variable costs
- Lack of sufficient CN risk management options





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## Wholesale Outlook - Questions

- Farmer Intentions
  - Crop Change
    - ◆ Less Corn Acres, more beans ?
  - Application Rates (*Spring*)
    - ◆ N reduction: 5%, 10%, 15% ?
    - ◆ P & K reduction: 10%, 20%, 30% ?
- Price Shock
  - Once fall volumes move, what will dealer/farmer reaction be towards new price levels
- Global CN Competition
  - Supply & Demand
  - Market Values / Market Netback





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## Wholesale Outlook – Concerns

- Continued Buyer Resistance
  - Upside versus Downside price risk analysis by dealer/farmer
- Manufacturer, Distributor & Dealer Inventories
  - Changing business models – Risk Avoidance
    - ◆ Just-in-case ➡ Just-in-time ➡ Just-run out
- Delaying dealer orders places additional burden on an already stressed logistics system
- Sustained and additional domestic production curtailment
- Lengthening of the Supply-chain
  - Offshore versus Domestic
  - Infrastructure
    - ◆ Existing
    - ◆ ROIC





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## Wholesale Outlook

### Farmers

- Cropping decisions will be delayed as long as possible
  - Corn will be planted with slight acreage reduction
- Purchasing Inputs will be delayed
  - All expenses will be scrutinized
    - ♦ Land, CN, Energy, CPP, Irrigation...
- Lender will have an increased concern in farm operations
  - Marginal production land will be questioned
  - Risk Management considerations





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## Wholesale Outlook

### Dealers

- Price Sensitivity
  - Increased Shopping
  - Reluctance to build inventories
  - Cash Flow Strain
- Drive for Efficiency
  - Consolidation of operations - Fewer locations, Reduced Handling
- New considerations for risk management
  - Forward Contracts, Hedging, Portfolio Management





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## Wholesale Outlook

### Distributors

- Cash Flow and Accounts Receivables focus
- Spot outages during seasonal demand peaks
- Freight – Barge, Rail & Truck
  - Contracts Rates, Surcharges and Availability
  - Disruptions
- Nitrogen product shifts
  - Cost per pound of N
  - Ability to source
  - Weather





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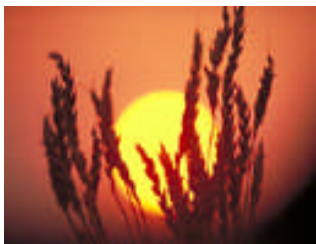
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**Increased earnings** will not come from the two ends of the supply-chain,

they must come by

**optimizing distribution efficiencies**  
**and managing risk.**





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## Distribution Efficiencies



Future growth of imports will demand investment in distribution facilities





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## Risk Management

The left screenshot shows the Agrilience CN Exchange website. It features a large green and orange logo with 'CN' and 'X' inside a hexagon, and 'CN EXCHANGE' below it. Above the logo is the text 'CROP NUTRIENTS' and 'AGRI LIANCE RESPECT THE LAND.' Below the logo is a login form with fields for 'User Name:' and 'Password:', and buttons for 'Logon' and 'Reset'. There are also links for 'Forgot your password?' and 'A word about time zones.' The right screenshot shows the CME Chicago Mercantile Exchange website. It has a blue header with 'cme' and 'Chicago Mercantile Exchange'. Below the header is a navigation bar with links like 'About CME', 'Trading at CME', 'Market Data', 'Products', 'GLOBEX eTrading', 'Clearing Services', and 'Education'. The main content area includes a table of 'Delayed Quotes' with columns for 'CONTRACT', 'LAST', and 'CHANGE'. There are also sections for 'QUICK LINKS', 'CME NEWS HIGHLIGHTS', 'EDUCATION HIGHLIGHTS', and 'CME E-DATA'.

Supply

Price

Dealers must discover methods to balance their risks





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## Thank You

Bruce Vernon

[bwvernon@agriliance.com](mailto:bwvernon@agriliance.com)

Agriliance  
Crop Nutrients

