



## **High Energy Prices Impact Agriculture in 2007**

- The nation's farming and ranching sectors depend on a reliable and affordable supply of energy to run equipment, fertilize crops, heat buildings and homes, and transport products to market.
- Direct energy expenses rose 47 percent from 2003 to 2006. Electricity expenses are forecast to rise 6 percent as rates go up 2.6 percent and total output increases 3 percent. Between 2003 and 2006, fuel expenses rose 66 percent as a result of a 113.6 percent increase in the cost of imported oil.
- The Economic Research Service of the United States Department of Agriculture estimates that principal crop related expenses – seed, fertilizers, and pesticides – are forecast to be \$36.1 billion, up 5 percent from 2006. This is the fourth straight increase of \$1.8 billion or more.
- The unprecedented high level and volatility of natural gas prices has had serious impacts on the U.S. fertilizer industry and the American farmer. Natural gas is the raw material from which nitrogen fertilizers are made and today, in the case of ammonia, natural gas accounts for over 90 percent of the total cash cost of production. The fertilizer industry depends on natural gas, and since 1999, 40 percent of the U.S. fertilizer industry has been shut down or mothballed and the industry has been forced to move production to other countries, creating a threat to our food security.
- Since 1980, U.S. farmers have increased nitrogen use efficiency by 35 percent while boosting corn yields by 40 percent. While the agriculture industry does whatever it can to conserve energy in its operations, additional energy supplies are needed to maintain American competitiveness in the global marketplace.
- The sharp rise in natural gas prices and the resulting curtailment of U.S. fertilizer production also has had a dramatic impact on fertilizer prices throughout the marketing chain and in particular, at the farm level.
- According to the U.S. Department of Agriculture data, fertilizer expenses are forecast to increase a little more than \$725 million (5.3 percent) in 2007, thus following three years of double digit percentage increases. Applying the previous year's application rates to forecast planted acreage of individual crops, the use of fertilizer in 2007 should be up 5 percent, with use on corn up 9.5 percent.
- The expected 4.5 percent increase in pesticide expenses in 2007 will take them to their highest level ever. The percentage increase is the largest annual increase since 1996, when they peaked at \$9 billion. According to the U.S. Department of Agriculture, the price increases are likely linked to relatively high oil prices, since petrochemicals are used in many pesticides.