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## Potash turning into a buyer's market

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*Russian producer sells 700,000 tonnes of the crop nutrient to China in a contract worth 24 per cent less than last year*

The giants of the potash industry are losing their grip on the market.

In a sign that the industry is shifting in favour of the buyer, Russian producer OAO Uralkali took a 24-per-cent cut in potash prices when it negotiated a semi-annual contract to supply China with 700,000 tonnes of the crop nutrient.

"This was a very good deal for the Chinese," said **Michael Levshin**, analyst with **Veritas Investment Research Corp.** "It's the least China has paid for potash in more than half a decade," he said.

In the past, China and India have tried to force the world's biggest producers to reduce prices by delaying their potash purchases.

But the Asian countries had marginal success until last year when Uralkali killed the Russian-Belarus potash cartel and sent the fertilizer industry into turmoil.

Before the breakup, Belarusian Potash Co. (BPC) and its North American equivalent Canpotex Ltd. controlled 70 per cent of the market.

The demise of BPC has forced producers to become more competitive as potash prices plummeted.

Although there was an expectation that Uralkali would fetch between \$300 and \$325 a tonne, the Russian producer got \$305 per tonne, which is 24 per cent lower than the \$400 per tonne price last year. Canpotex, a joint venture of Potash Corp. of Saskatchewan Inc., Agrium Inc. and Mosaic Co. that sells potash outside of North America, is expected to announce its fertilizer contract with the Chinese by February.

"The collapse of BPC weakened the cartels and increased China's bargaining power significantly. In my opinion, that kind of power doesn't fade easily, and I expect any future price increases to be sluggish at best," said **Mr. Levshin**.

The lower prices for potash and other crop nutrients, along with weaker demand have hurt producers' profits. Calgary-based Agrium is the latest producer to feel the effects and cautioned Monday night that its profits would come in at the lower end of its guidance. In December, Saskatoon-based Potash Corp., one of the world's largest fertilizer producers, slashed 18 per cent of its work force and reduced production.

A Russian official has said that Uralkali and the Belarus potash producer, Belaruskali, are talking about joining forces again.

But even if there was a reunification, that does not mean BPC and Canpotex would have the same kind of pricing power it once had.

(Potash does not trade on public markets, leaving price formation almost entirely up to producers and their customers.)

A glut of potash on the market is already weighing on prices and there are no signs that there will be enough demand to meet the onslaught of new production.

"The risk is that you're going to have another year of really no demand growth, " said Joel Jackson, analyst with BMO Nesbitt Burns. "Even with a lot lower prices than last year, you're not going to see global demand push past the types of peaks we have seen over the last seven, eight years," he said.

Exacerbating the situation is the fact that companies outside of Canpotex and the former BPC alliance are developing potash mines.

Australia's BHP Billiton Ltd., which failed in its bid for Potash Corp., is building its massive Jansen mine in Saskatchewan.

Europe's K+S is developing its Legacy project in Saskatchewan and expects to start producing fertilizer in 2016.

Potash Corp. is due to report its fourth-quarter results next week.