



# TEAMSTERS CANADA RAIL CONFERENCE DIVISION 320



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**Subject: Canadian Potash Update**

Dear Brothers and Sisters,

As posted on the TCRC National website, please find the appended bulletin.

In Solidarity,

Murray Douglas  
TCRC Div 320  
S&C Officer

## **BHP plan signals major shift in potash**

**Published:** January 21st 2010

**Source:** CTV - Euan Rocha

BHP Billiton's plan to invest more money in its Saskatchewan potash project could weaken long-term pricing of the crop nutrient, threaten the viability of junior explorers and prove to be a game changer for the global fertilizer industry.

The world's largest miner plans to invest \$240-million to fund the development of the first stages of its Jansen potash project in Western Canada. The mine is being designed to produce about eight million tonnes of potash a year, or roughly 12 per cent of current global capacity.

To be sure, \$240-million is less than a tenth of what a project this size would cost and BHP only intends to make its final investment decision in 2011, but its announcement raises the likelihood that Jansen will eventually go into production.

BHP said it plans to pursue two other greenfield potash projects in the resource-rich province, while also working on logistics and port facilities to transport product from its mine.

Dahlman Rose & Co analyst Charles Neivert characterizes BHP's move as the proverbial 800-pound gorilla entering the room. He warns that the development of Jansen would put a damper on the long-term outlook for potash prices.

"BHP's announcement regarding the advancement of its Jansen potash project, and parallel

work on a port and logistics, signals a growing level of commitment to entering the potash market in a major way," said Mr. Neivert.

Potash is a common name used to describe various compounds containing potassium and it is a key ingredient in fertilizers. The mineral emerged from obscurity a few years ago, when high grain prices, coupled with tight potash supplies and strong demand drove prices to over \$1,000 a tonne from below \$150.

Prices have since retreated to about \$350 to \$400 a tonne, as farmers hit by the credit crisis and falling grain prices slashed their potash usage.

"With BHP coming in, if there is some reasonable discipline among all the players, you could still maintain a price level that is from a high-\$200 to a mid-\$300 range, which is still extremely profitable," Mr. Neivert said.

But pricing in this range could imperil the projects of many junior explorers, whose comparatively small-scale potash projects will only generate viable returns with the price at \$500 to \$600 a tonne, or more.

"It's been hard enough for juniors to find funding before this (BHP project), because of the expansions that Potash Corp., Mosaic and Agrium have planned," said Mr. Neivert, adding that it could become even tougher for the juniors going forward.

Dawn Zhou, the chief executive of Athabasca Potash shrugs off the threat posed by BHP, but admits that junior explorers like Athabasca will have to look for more creative ways to fund their projects with prices at current levels.

BMO Nesbitt Burns analyst Joel Jackson contends that BHP's plan may adversely affect junior explorers in Saskatchewan more than it would affect a company like MagIndustries, which is pursuing a potash project in Africa, as the economics of projects differ in both places.

However, not many analysts are overly optimistic about the long-term prospects for both existing potash producers and junior explorers.

In a note to clients, CIBC World Markets analyst Jacob Bout said that BHP's plans for Jansen would "flatten the long end of the potash pricing curve," hurting junior potash companies.

BHP's foray into the sector might also weaken the hold that potash export consortiums like BPC and Canpotex have over global markets.

BPC, or Belarussian Potash Co., is the export arm of Russia's Uralkali and Belaruskali, while Canpotex is the export consortium jointly owned by Potash Corp., Mosaic and Agrium. The two organizations typically account for over 60 per cent of global potash exports.

"The entrance of a large global mining company, such as BHP, into the potash market would arguably weaken the position of incumbent producers, as BHP has a history of running its mines flat out," Mr. Bout said.

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