



## How Potash Corp./Saskatchewan Inc. Is Set to Win in the Upcoming Potash War

### Description

The global potash market is about to get competitive, and **Potash Corp./Saskatchewan Inc.** (TSX:POT)(NYSE:POT) shareholders should pay attention. Up until 2013, 70% of global potash production was controlled by two marketing cartels—the North American Canpotex and the European BPC cartel. These two groups kept a lid on production to support prices.

Then in 2013 the BPC cartel broke up, with its two constituent companies—Russian Uralkali and Belarussian Belaruskali—flooding the market with supply in an attempt to gain market share. The global potash market went from being a tightly controlled oligopoly to being a competitive open market, and this sent potash prices plummeting.

This is bad news for Potash Corp., and over the next few years things are set to get worse as more supply is on the way. Here's how Potash Corp. could come out ahead.

### Competition is about to increase

With the BPC cartel broken up, both Uralkali and Belaruskali—the second and fourth-largest potash producers, respectively—are now seeking to gain new market share.

Uralkali produced record output in 2014 and is now investing \$4.5 billion to boost production by 30% over the next few years. Uralkali has the lowest costs in the world, and knows by increasing production, it can gain market share and still survive due its low costs.

Belaruskali is also undercutting competitors and is currently producing at near-full capacity, and for the first time is attempting to sell into the U.S., which puts it in direct competition for Potash Corp.'s largest market.

Elsewhere, new projects are coming online, with **Eurochem**, **K+S**, and **BHP** planning big expansions.

### Potash Corp. is also expanding capacity

Fortunately, Potash Corp. is prepared to defend market share. Potash Corp. currently has the largest

amount of potash production capacity, with 20% of global capacity. Potash Corp. also has significant new production coming online, with some estimating about half of new global supply will come from Potash Corp.

Currently, Potash Corp. is completing its massive expansion at its Rocanville mine, which began in 2008 and will be complete in mid-2016. The new expanded mine will be able to produce 5.7 million tonnes of potash annually, making it the largest global project under construction.

In addition, Potash Corp. is also expanding its New Brunswick operations with its new Picadilly mine expected to have an operating capacity of 1.8 million tonnes per year. The end result is that Potash Corp. is expected to have capacity of 17.2 million tonnes annually over the next several years, up from an estimated 10.9 million this year.

This is well above Uralkali's expected capacity of 14 million tonnes in 2020, giving Potash Corp. the ability to expand production as needed to defend market share, meet growing demand, or influence prices.

In addition, Potash Corp. is currently attempting to buy German potash producer K+S AG. If successful, Potash Corp. would not only control K+S's existing potash facilities (which represent 7% of global capacity), but also K+S's new Legacy potash project in Saskatchewan, which will have two million tonnes of initial capacity.

This will give Potash Corp. control of 25% of global production, which will, in turn, allow them to control a large amount of global production to prevent potash prices from falling significantly.

### **Potash Corp. is also lowering costs**

Potash Corp.'s major control of global capacity will help it to compete, but so will the fact that it is one of lowest-cost potash producers, with these costs set to decline even further.

Potash Corp.'s new Rocanville mine will be its lowest-cost operation, and its new Picadilly mine in New Brunswick will allow it to shift production from its high-cost mine in the region to the lower-cost Picadilly facility.

By maximizing production at these low-cost facilities, Potash Corp. is driving down its costs, with costs falling by \$25 per tonne over the past year and expected to fall further. This allows Potash Corp. to keep producing even if prices fall more and defend its market share.

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### Date

2025/08/27

### Date Created

2015/09/15

### Author

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