

Uralkali Breaks Potash Cartel to Grab Market Share on Price Drop  
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By Yuliya Fedorinova

July 30 (Bloomberg) -- OAO Uralkali, the world's largest potash producer, broke up a marketing venture that controlled about 43 percent of global exports, signaling prices will weaken as the Russian company grabs market share.

Uralkali plans to boost sales to consumers including China, which imports about a fifth of global supplies, after switching to its own unit, Uralkali Trading, from a joint venture with Belarus, according to statements from the Berezniki, Russia-based company. The change in trading policy may push prices to less than \$300 a ton, Chief Executive Officer Vladislav Baumgertner told reporters today. That's at least 25 percent below the current contract price for China.

Prices for the nutrient used in fertilizer has fallen this year because of stockpiles in China, historically low import volumes in India and plentiful producer inventories. Potash Corp. of Saskatchewan Inc. cut its 2013 earnings forecast by as much as 20 percent last week because of the price decline, while K+S AG shares fell the most in 15 years today.

"Uralkali's announcement completely turns the global potash market upside down," Elena Sakhnova, a VTB Capital analyst in Moscow, said by phone. "If previously global potash producers were acting like an oligopoly, working with the rule that benefited higher potash prices over shipped volumes, now the market will be fully competitive."

#### Shares Fall

Uralkali shares fell 18 percent to 152.75 rubles at 2:20 p.m. in Moscow, their lowest intraday level since November 2010. Israel Chemicals Ltd. fell 17 percent to 29.39 shekels in Tel Aviv, the biggest intraday drop in almost five years. K+S shares dropped 25 percent to 19.97 euros in Germany.

The Russian company, with the lowest production costs among international peers, will run at full capacity next year, boosting output to 13 million tons in 2014 from 10.5 million tons this year, Baumgertner told reporters by phone. Uralkali's production cost is \$62 a ton, compared with more than \$100 a ton for North American producers and almost \$240 in Europe, according to a company presentation in July.

"We see the potash price may fall below \$300 a ton after the change in our trading policy," Baumgertner said. That's the lowest since January 2010. The price will remain higher than \$200 per ton, the production cost level for some international

producers, he said.

Cooperation with Belaruskali in Belarusian Potash Co., known as BPC, reached “a deadlock” after the Belarusian government canceled the joint trader’s exclusive right to export the country’s potash and Belaruskali exported the fertilizer ingredient on its own, Uralkali said in a statement.

#### China Rail

Filipp Gritskov, a BPC spokesman, declined to comment, as did Olga Dolgaya, a spokeswoman for the government of Belarus. While other global producers will be hurt, Uralkali will be cushioned by increasing sales volumes, Sakhnova said. It is the only potash producer in the world that can ship potash by rail to China, the largest consumer of the soil nutrient, and may contain Belarus’s ability to compete, she said.

Rail deliveries to China will reach as much as 2.5 million tons of potash annually, Baumgertner said. Uralkali forecasts stable revenue on increased sales volumes and will keep its dividend policy unchanged, he said.

Uralkali will extend its first-half supply contract with China through December, meaning it will ship as much as 500,000 tons more potash to the Asian market by the end of the year, Baumgertner said. The price may be cut from the current \$400 per ton, he said.

#### China Target

China’s current spot price of \$350 a ton may “to some extent” be considered a target this year, he said.

Uralkali hadn’t planned to renew the China contract this year, hoping to sign a new agreement in October or November at a price no lower than the current level, according to a statement from Baumgertner on May 29. At the time, it also cut railway shipments by about two-thirds to get a higher price.

Anticipating the trading shift will create volatility in the share prices of all global potash producers, including its own, Uralkali said it has frozen a \$1.6 billion buyback program and won’t make a tender offer for its stock by the end of the year, according to Baumgertner. The company had purchased \$1.25 billion shares from the market as of July 22. Last month, Baumgertner said that the board in November may consider more stock purchases.

Uralkali decided against proceeding with its Polovodovskoye greenfield development because of the potential changes in the potash market, he said.

Goldman Sachs Group Inc. cut Uralkali to hold July 24, a day before VTB Capital reduced its rating on the stock to sell.

“No longer does Uralkali plan to follow a price before volume strategy,” analysts at Liberum Capital, led by Sophie Jourdiar, said today in a note. “We expect global potash prices to fall.”

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