

BHP Faces \$14Bln Potash Decision as Uralkali Move Hits Markets

By [The Moscow Times](#)

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LONDON/WINNIPEG, Canada — Miner BHP Billiton's new boss is facing his biggest test to date, weighing the fate of a \$14 billion Canadian potash project just as the collapse of a Russian-Belarussian potash cartel puts more pressure on already weak prices.

The Jansen project in Canada's Saskatchewan province was a tough call for BHP chief executive Andrew Mackenzie even before Tuesday, with mining investors reluctant to spend on big-ticket projects and most also cool on an oversupplied potash market.

But Russian potash giant Uralkali's decision Tuesday to break out of its venture with Belaruskali — a move that it said could slash prices of the crop nutrient by 25 percent — could leave Mackenzie with an even tougher choice.

"Jansen is a project that will alter the dynamics of the industry. It is a big bet. You are betting that you will be so low-cost that you can kill the others," said Hunter Hillcoat, an analyst

at Investec in London. Jansen, indeed, would produce 8 million tons a year — about 15 percent of the 2012 potash supply.

"But this is a market with established players, and it will not be easy to be the 800 pound gorilla."

Until Tuesday, the global potash market was dominated by two cartels: the Belarusian Potash Company (BPC) and North America's Canpotex, the export arm of Potash Corp, Mosaic Co and Agrium Inc. BHP had tried unsuccessfully to take over Canada's Potash Corp in 2010.

BHP declined to comment Wednesday on its plans for Jansen. The miner said as recently as last month that Jansen remained "an option."

BHP's shares slipped 0.2 percent to A\$34.88 in Australia on Wednesday, in contrast to potash producers' shares overseas that were clobbered Tuesday.

Pushing ahead with the project would likely be taken negatively by investors eyeing BHP's spending, debt and dividend levels, according to analysts and industry sources.

"I think the company would be rewarded if they canned the project," said portfolio manager Darko Kuzmanovic at Caledonia Investments, which holds BHP shares, citing the oversupply in the potash market and potential lack of pricing discipline.

But few expect BHP to scrap its push into potash. It has already invested \$2 billion and dropping it would mean giving up a lucrative profit stream in future decades as developing countries begin to feed themselves better.

"Clearly markets have changed overnight, but BHP don't invest for daily moves. They invest for longer term," said Craig Sainsbury, an analyst at Goldman Sachs.

He predicted BHP could commit about \$500 million more to the project by June 2014 to continue sinking shafts. That would reduce risk and add value in case BHP opts to sell a stake ahead of a full investment decision in about two years, ensuring its potash would not reach the market until about 2020.

"They can sit back and see what happens with the market and to other greenfield projects," Sainsbury said.

BHP, whose board was due to consider the project in the coming 12 months, has long said it saw the Jansen mine as a potential "fifth pillar," in addition to iron ore, copper, coal and petroleum.

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