BHP makes clear Jansen is a keeper as giants grab more of world’s agribusiness

BHP Billiton has reasserted its hopes for the Jansen potash project at a time when some very big players have moved to consolidate the agribusiness space. The big question is: with BHP – a mining and petroleum company, no less – already talking about “feeding the world”, can it be only a matter of time before new and old agribusiness players start thinking along those same lines and cast eyes in the direction of potash and phosphate?

Andrew Mackenzie, the Scotsman who heads BHP, has spelled out his hopes in *Boss*, the monthly magazine inserted into the *Australian Financial Review*. The article’s writer says that potash could become BHP’s fifth pillar (joining iron ore, copper, oil and coal) by 2020. Which sounds a long way into the future, but is less than six years away: to be in production then will require a decision to mine in the not too distant future; even if 2020 becomes the deadline for the decision to mine, rather than production, then in potash development terms that is still near-horizon stuff. The article sums up what we at Investor Intel have been saying for a very, very long time: “As the burgeoning middle classes of Asia, Africa and South America grow wealthier and more urbanised, more will be spent on food. With fewer farmers and growing demand for higher farming yields, there will be additional demand for fertilizers”. (While that will be self-evident to Investor Intel readers, it does no harm for that point to be hammered home to the general reader.)

And Mackenzie nails the point in the interview. BHP is always looking for ways to improve returns to shareholders, he says. “Post-industrialisation, in a highly energy-efficient world, what is there for a company beyond that? And we’re thinking, well, people will want to feed themselves better, hence fertilizer.”

Mackenzie goes on to make the point that, if BHP got the potash story right, this could be a pillar for the company from between 10 to 50 years. The company could adapt its skills in underground mining acquired by its years in the coal business. It would also used BHP’s skills in imaging sedimentary sequences which it has built up in the petroleum division. And, finally, its marketing history with iron ore and coal place it in a position to draw on that expertise for marketing potash.

“But we don’t have to wait 50 years. I mean, it should start looking good in our view in the next decade and that’s what we’re getting ready for,” he added.

The BHP chief goes on to say Saskatchewan has the best potash resource in the world, and his company believes it has the best undeveloped part of that. That will be the focus – BHP will not be exploring for potash elsewhere. “Saskatchewan is our Pilbara, is our Bowen Basin, is our Escondida,” he said, referring to the company’s huge iron ore, coal and copper operations respectively.

The bottom line: we don’t know when BHP is going to give the go-ahead, but one thing is certain, and that is that Jansen will remain in its very firm grasp, and will therefore remain firmly in the rear-vision mirror for other potash companies.

Meanwhile, there has been considerable activity in the agribusiness sector. China’s state-owned grain trader, China National Cereals, Oil & Foodstuffs Corp (Cofco), has bought a controlling stake in Nidera, a 94-year-old Rotterdam-based farm products trading house whose business stretches from the former Soviet Union to South America (where it is big in the oilseeds sector). It is also in talks with Hong Kong’s Noble

Group to establish a sugar, soybeans and wheat joint venture – putting it in direct competition with global operators Archer Daniels Midland (which was recently stopped from buying Australia's GrainCorp), Bunge, Cargills, Glencore Xstrata and Louis Dreyfus Commodities.

The Financial Times says the attempt to build a global agri-product supply chain is in line with Beijing's priorities. "Rising incomes and richer diets have collided with a shortage of arable land and clean water, leaving the world's second largest economy to abandon its traditional reluctance to look abroad for feed grains," the paper notes. China is already the world's top importer of soybeans, while demand from Chinese dairy farms has driven up North American alfalfa hay prices.

I would also point out that yesterday the Reserve Bank of New Zealand hiked interest rates, the first Western central bank to do this in recent years. Why? Because New Zealand is now being described as possibly the best performing developed economy, and that is because of the surging terms of trade for its dairy (particularly), meat and wood products. China takes 20% of all New Zealand imports, and is a huge customer for milk products.

Fortunately for New Zealand, foreign giants cannot pick off its dairy powerhouse, Fonterra Group, because it is a co-operative, owned by the farmers who supply the 22 billion litres of milk a year that goes through its processing plants. But others have succumbed: Glencore spent $6.1 billion to buy Toronto-listed Viterra and its Canadian and Australian wheat business, Marubuni spent $2.7 billion to buy U.S. grain company Gavilon. Cofco owns Tully Sugar in Australia and has expanded into wine and dairy production.

How long before any of these players get the idea of entering the fertilizer business, too?