

Suspension of Vale's Argentinean Project is an Opportunity for emerging Potash Players

✘ The Brazilian mining giant Vale SA has decided to suspend its USD\$ 6 billion potash project in Argentina – the Rio Horizonte project. The announcement was not surprising as work at the project stopped last December and as the Argentinean government has adopted policies generating an increasingly unfavorable investment climate. As a final consideration leading to the suspension, Vale said that it had not received the requested tax relief from the Government of Argentina, which would raise development costs, which would have included a mine and an associated railway, to over USD\$ 11 billion. The markets have welcomed the decision as Vale has been dealing with a number of cost cutting measures; however, the move is a big blow for Argentina, which would have become one of the leading potash producers in the world through this project.

Apart from the evident benefits to the community surrounding the mine, Argentina was counting on its own indigenous potash supply to help boost agriculture. More significantly, as far as the potash market is concerned, the decision carries important consequences for Brazil's potash supplies. Brazil, which has the largest agricultural industry in the world relative to its population, imports some 90% of the potash it requires from outside sources and mostly from Canada and Russia. Brazil is the world's third-largest potash consumer and uses much of it for the production of sugar cane. Inventories in neighboring countries such as Argentina were targeted as a considered a strategic necessity. Nevertheless, news of the suspension has been welcomed in Saskatchewan as Potash Corp and Agrium Inc have identified Brazil as one of

their fastest growing markets, helping to offset import reductions, and lower contract prices, in China and India. The potash majors have increasingly looked to Brazil as one of the growth markets.

The suspension is also good news for Canadian and other foreign mineral fertilizer players operating in Brazil itself. A newly formed Brazilian consortium, B&A Mineracao, a mining company created by Brazilian investment bank Banco BTG Pactual SA and former Vale executive Roger Agnelli, will be one of the first to take advantage. B&A Mineracao will receive an initial investment of as much as \$520 million to develop and acquire mining assets in Brazil, other parts of Latin America and Africa. B&A plans to produce 500,000 tons of potash and 1 million tons of phosphate within five years. Last December, B & A Mining in December offered to acquire all of Rio Verde Mining, a Canadian company with phosphate fertilizer projects in Brazil. The company already owned 30 percent of the company's capital. B&A thereby inherited phosphate deposits in Pará, Maranhão and Ceará as well as a phosphate mine in Rio Bonito, in the state of Pará, which will begin production in September, at 150,000 tons/year.

B&A has justified these acquisitions and its focus on potash and phosphate by citing the projected 'graduation' of seven billion people to the middle class worldwide, a demographic development that will increase the demand for agricultural products, and fertilizers, especially in Brazil and Africa. The projected demand for potash has caused a virtual scramble for this resource in key market areas and a further validation of the potash's potential has come from Abu Dhabi's Mubadala Development Co, which has expressed a strong interest in investing or acquiring the Rio Colorado project in view of Vale's suspension and likely exit from the project. Mubadala's interest is a further confirmation of potash's growing appeal.

Mubadala, as the managers of one of the largest sovereign funds in the world has targeted agriculture in relation to a

projected growth in food demand. Other sovereign funds from the Gulf region have been targeting South America to acquire land and resources related to the food sector. Emerging potash juniors such as IC Potash (TSX: ICP | OTCQX: ICPTF), which is developing the Ochoa premium potash (SOP) project in New Mexico has also targeted Brazil as one of its target markets. The suspension of the Vale Rio Horizonte project represents an opportunity for those prepared to manage Argentina's political risks even as it serves further evidence for the growing demand for potash in the near future.