Africa holds the Key to Higher Potash Prices

Potash prices are bouncing back. The first sign of a 'renaissance' came after the Russian-Belarusian Potash Company the Belarusian Potash Company (BPC) signed a deal to supply a million tons of potash to India earlier in the week at a price of two on February 6 at a price of USD 427/ton. While the price is not as high as the 2012 contract (USD 490/ton) it is significant because it is higher than breakthrough contract with China that Canpotex (representing Potash Corp, Mosaic and Agrium Inc) signed on New Year's Eve 2012 at USD 400/ton. The Indian contract price has validated K+S's CEO Norbert Steiner's prediction that potash prices would not sink below a ceiling of USD 400/ton. Steiner has also predicted that potash demand would increase slightly this year as well compared to 2012.

Not a day later, Canpotex also signed a contract for 1.1 million tons with Indian customers at USD 427/ton (timing and pricing the same as the BPC/IPL contract. While the price per ton is lower than the previous contract, Canpotex has garnered a larger slice of the Indian potash market pie as the previous one was for 950,000 tons. The Indian contract and the fact that Brazilian demand (and prices) are increasing further suggest that potash prices have reached their lows and that and global potash shipments should start to increase. As optimistic as this scenario may be, there are geopolitical factors that will help to sustain, or increase further, the high potash prices – and those of other mineral fertilizers. The special factor to consider is Sub-Saharan Africa.

Sub-Saharan was second only to South East Asia in the intensity of economic growth over the past decade. Even in the face of the past five years economic stagnation in the rich countries, Africa has continued to experience growth: "I

cannot help but be impressed by the continent's resilience … in the face of the most serious disturbances seen by the world's economy since the Great Depression," said the head of the International Monetary Fund, Christine Lagarde. The IMF meanwhile expects African economic growth to continue at over 5% in 2013. Resources, mining, oil and gas explorations have fueled Africa's growth, but agriculture has also emerged as an important factor. While in Europe, the gross domestic product shrank by 11% in the last five years, it rose by 29 percent in Africa.

Many investors still do not care; they think of Africa as 'hunger and war', even while it has earned the statistics as one of the world's most dynamic and fastest growing regions in the world. AGCO, a large Agricultural equipment manufacturer, recently held its second annual Summit held in Berlin. The summit focused on Africa, its unfulfilled agricultural potential and the need. Soil productivity is the priority. It is estimated that more than 60 percent of the potential agricultural land has not yet been cultivated. Such an undeveloped farmland reserve is the key to ensuring a sustainable food supply. Increased mechanization and better soil fertilization are the two essential ingredients to boost agriculture. African farmers need more modern mechanized farming methods to increase the level of productivity. Through greater productivity and efficiency, the dependence of African countries on imported crops and food self-sufficiency decreases increases.

Africa holds more than half of the world's unexploited agricultural resources. Africa's agricultural industry has lagged but it will inevitably have to improve as Africa's population is expected to reach over two billion people by 2050. This will require Africa's food production to improve considerably in order to meet the inevitable surge in food demand. Most of the growth and additional food supply needs will be concentrated in sub-Saharan Africa, where, on average,

women have 5.1 children – more than twice the world average of 2.5 children. Even if birth rates drop as a result of education and changes in culture, Africa's food needs will still be enormous and its agricultural sector will be under increasing pressure to meet this challenge, especially as far as the production of such staples as cereals and rice are concerned.

The drive to improve agricultural production means that demand for fertilizers such as potash and phosphate will increase in Africa, especially considering that crop yields are far from allowing the continent to reduce its dependence on food imports. The UN notes that agricultural output in sub-Saharan Africa has actually dropped by 10% on a pro-capita basis since 1970, having risen 40% worldwide in the same period. This is reflected in a considerable disparity in fertilizer consumption, which can be as low as 10% of the world average. Africa's soil itself needs more mineral fertilizer in order to be productive as it is often rusty and deficient in the very nutrients, nitrogen and phosphorous, that phosphate and potash based mineral fertilizers can replace. The difficulty for African farmers is that a limited supply of such products has made them economically inaccessible, which means that after an intense agricultural season, an African farmer is less able to replenish the soil with nutrients.

A return to subsidies for mineral fertilizers may be the solution as indicated by Malawi's recent experience. In 2005, the recently deceased president Mutharika's government started to subsidize fertilizers, the resulting boost to agriculture became known as the 'Malawi Miracle' such was its success. This success has helped change attitudes in the large international lending institutions, reducing financial barriers to demand for phosphates and potash in Africa. The Norwegian fertilizer company Yara International ASA ('Yara', OL: YAR) has set an ambitious growth plan in Africa as a medium term growth market. The company noted that the main

obstacle to the African market is far less an issue of demand, of which there is plenty, than one of limited logistical capacity.
Africa needs more and larger ports, railways and roads to accommodate the market requirements.

Finally, while Africa's growing demand alone will add demand for fertilizers, the high price of petroleum will also contribute to this trend. The 'Arab Spring', far from having set a course for gradual democratization and stability, has actually raised regional instability. The 'Spring' is far from over and a new season of protest has arrived as the secular opposition in Tunisia and Egypt is trying to shift the course back in line with the original aspirations of the movement. The instability will be reflected by high oil prices and by potential shortages of phosphate given that Tunisia is one of the main producers and that production has been severely cut by strikes and social disruptions.

Morocco and Jordan (respectively the number one and number six ranked producers in the world) are not immune to the political pressure, especially if the secular ideals manage to overcome the current Islamist trend. Jordan also supplies potash to some of its Arab neighbors; any disruption in supply would best be filled locally. High oil prices and political instability in the Middle East will raise demand for bio-fuels. Bio-fuels tend to be produced from potash and phosphate intensive crops such as soybean and corn, which will stimulate mineral fertilizer demand worldwide in the short and medium term.

African governments are also being encouraged to develop autochthonous commercial agricultural practices. Ethiopia, Sudan, Mozambique, Angola and Uganda have already indicated an interest in pursuing this path and some, like Ethiopia, are already on the way to becoming potash producers (Allana Potash, TSX: AAA). Africa could to see consumption of potash increase by 200-1000 percent over the next decade. Some of

this potash will be mined in Africa itself; however, Brazil and even Argentina could also become large suppliers. Fears of a food crisis have forced African governments to recognize the urgency of addressing their food production deficiencies. The continent now has the choice and the means to become one of the main food producing and exporting regions in the world thanks to an effort in which potash and phosphate will play a key role.