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Russia's Fertilizer Tycoon Says Potash Glut May Last a Decade

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- EuroChem to produce speciality fertilizers targeting China
 - Potash fell to a decade low of \$220 to \$230 a ton this year

By Yuliya Fedorinova
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Russian billionaire Andrey Melnichenko, whose fertilizer company is investing more than \$6 billion in potash mining, said it could take at least a decade for the potash market to work off the excess because of the past “disruptive” actions by the largest sellers.

Potash prices have collapsed since 2013, when a trade pact between Russian and Belarusian producers, which helped prop up the market, fell apart. At the time, Canpotex Ltd., a Canadian potash exporter, and Belarusian Potash Co. controlled about 80 percent of global exports.



Andrey Melnichenko

Photographer: Jason Alden/Bloomberg

Their tactics kept prices at high levels, which encouraged new investment from other companies and led to excess supply, said Melnichenko, who owns EuroChem Group AG and is Russia's eighth-richest man, according to estimates from the Bloomberg Billionaires Index. Potash fell to a decade low of about \$220 to \$230 a ton this year on continued oversupply. In 2008, it reached above \$900 a ton.

Potash Slump

EuroChem expects to weather the downturn because its potash production, due to start next year, will pay some of the lowest costs in the industry and the company has diversified into other products and more complex services, Melnichenko said.

“Producing only commodity fertilizers and selling it to a trader doesn’t work anymore,” Melnichenko said in an interview at Bloomberg’s offices in London. “The market is becoming more sophisticated. Farmers are learning to use data and analyze it. That’s why we should offer something smarter.”

The company sees opportunity to expand in China by selling specialty crop nutrients, which help increase crop yields and quality. It’s planning to begin construction of a new plant in Kazakhstan by the start of 2018 to produce specialty fertilizer based on phosphate and potash.

Field Experiments

To expand in advanced products, EuroChem is doing hundreds of field experiments per year and widens distribution, Melnichenko said.

“To be in this business, you have to understand the client’s needs and you can’t manage this process if you do not have retail and do not have distribution,” he said.

The company will continue making commodity products, such as phosphate, potash and nitrogen, to supply the retail network, he said.

EuroChem is building two new potash mines in Russia’s Volgograd and Perm regions that jointly will be able to produce more than 8 million tons a year. At first, the mines will be used to create the company’s own complex fertilizers, but it may start supplying other clients after 2020, Melnichenko said.

Other companies in the industry are considering scaling back. BHP Billiton Ltd. may end up mothballing its Canadian potash project by the end of this decade after spending \$2.6 billion, Chief Executive Officer Andrew Mackenzie said this week.

In fertilizers, the situation may stay tough, Melnichenko said, adding that it’s possible nitrogen prices haven’t reached the bottom yet and the phosphates market is still suffering from oversupply. Because of its low costs and business model that encompasses mining, retail selling and a variety of products, EuroChem still generates profits even in a depressed market, he said.