PotashCorp

JUL 29, 2010 | TRANSCRIPT

Q2 2010 Earnings Conference Call

Operator:

I will now turn the conference over to Denita Stann, Senior Director, Investor Relations. Please go ahead.

Denita Stann:

Thanks, Brock. Good afternoon. Thank you for joining us and welcome to our second quarter earnings call. In the room with us today, we have Bill Doyle, our President and CEO, Wayne Brownlee, our Executive Vice President and Chief Financial Officer, David Delaney, Executive Vice President and Chief Operating Officer, Joe Podwika, Senior Vice President and General Counsel, and Garth Moore, President of PCS Potash, Tom Regan, President of PCS Phosphate and PCS Nitrogen and Stephen Dowdle, President of PCS Sales. I would like to welcome the media who are listening in and remind people that we are live on our website.

I would also like to remind everyone that today's call may include forward-looking statements. Such forward-looking statements are given as of the date of this call and involve risks and uncertainties. A number of factors and assumptions were applied in the formulation of such statements and actual results could differ materially.

For additional information with respect to forward-looking statements, factors, and assumptions, we direct you to our news release and our most recent Form 10-K. Also today's news release, which is posted on our website, includes a reconciliation of certain non-GAAP financial measures to the most directly comparable GAAP measures. I will now turn the call over to Bill Doyle for some comments, and then we'll go to questions.

Bill Doyle:

Good afternoon. Thank you for joining us for this discussion of PotashCorp's second-quarter performance and our outlook as we enter a very promising time for our company.

Over the past year, investor questions have had a common theme, with people wondering when we will reach an "inflection point" for potash – the point where demand re-emerges, supply tightens and pricing opportunity returns. It has been a difficult question to answer but recent supply and demand developments lead us to believe that we are rapidly approaching that important juncture.

Our results this quarter demonstrated, once again, that the realities of global food production are taking hold and igniting improved demand for the fertilizer industry.

Tighter grain and oilseed inventories, along with supportive prices for crop commodities, led farmers in most growing regions to pursue the economic opportunity that comes with increased production – and return to the practice of replenishing essential nutrients in their soils.

This was particularly evident in potash, as volumes for our core nutrient were nearly five times the level of last year's second quarter. With the notable exception of China – where adverse weather impacted spring planting and fertilizer use – virtually every major potash market moved closer to historical consumption patterns.

Our performance this quarter – and for the first six months of 2010 – reflected ongoing improvement in fertilizer markets.

We generated earnings of $1.55 per share – more than double the same quarter last year. This is the second consecutive quarter of strong earnings, increasing our first-half total to $3.02 per share or $921 million – almost matching our full-year 2009 earnings.

The unique potential of potash is re-emerging – and this enabled us to triple our gross margin from last year's second quarter. It also led to increased contributions from our equity investments in other global potash producers.

We believe a strong foundation has been re-established – and that fertilizer buyers and food producers around the world are preparing to take on the significant challenge of meeting food demand in the months and years ahead.

During the quarter, however, the positive fundamentals that underpin our industry appeared to be overshadowed by lingering questions about the debt levels of certain European countries and the pace of global economic recovery.

This overlooks the fact that – on a long-term basis – agriculture operates on a different plane than other industries. Keeping pace with global food demand is not a choice; it is an ongoing necessity.

We believe this demand will support a powerful period of growth for agriculture, especially in North America, which exports more crop commodities than any other region in the world.

The bottom line is that the long-term drivers of our business remain solidly in place and the catalysts that fuel near-term fertilizer demand are accelerating.

In recent weeks, pressure on grain and oilseed inventories has become more pronounced – with global grain consumption projected to once again exceed production this year.

After consecutive years of ideal growing conditions in most regions, many people began to think of record crops as the norm – taking the world's food supply for granted and discounting the realities of crop science.

This year, adverse weather conditions are impacting production in several key growing regions.

In Russia, grain production is expected to decline by around 20 percent, while Canadian wheat production is forecast to be down 23 percent.

China, which places a priority on food self-sufficiency, is facing significant challenges as a result of adverse weather and nutrient imbalances. This year, China is expected to import over 75 percent of its soybean requirements, at the rate of around one million tonnes per week, along with significant volumes of corn for the first time since 1996.

Even with the potential for a record crop in the United States, the corn stocks-to-use ratio is projected to be at its lowest level in seven years.

This pressure on global supply has driven up futures prices for corn, soybean and wheat by 10-30 percent since the end of the second quarter – and further improved farm economics from already supportive levels.

To increase yields, farmers must address nutrient deficiencies created by a combination of record harvests and reduced fertilizer applications.

While this is a long-term process, it is well underway, with buyers in most regions purchasing potash volumes at near pre-recession levels. This rapid recovery resulted in estimated global shipments in the range of 25-27 million tonnes for the first six months of 2010. That is within 10 percent of the record first-half demand achieved in 2008.

We anticipate ongoing engagement by these key markets in the back half of the year as well.

For the first time in several growing seasons, North American farmers expect to have a longer fall application window, while Latin American customers are actively purchasing to meet demand for their primary planting season.

India could reach record import volumes by the end of the year – and China is likely to purchase some additional volumes in the second half.

Potash demand from other Asian countries provided the largest market for Canpotex during the first half of 2010. Demand in this region is expected to remain very strong, driven by supportive grower economics and the importance of potassium to high-value crops like oil palm.

With this continuing recovery in demand and scheduled maintenance shutdowns, we expect potash supply – and producer inventories – will tighten in the third quarter.

For the year, we expect global potash consumption will reach approximately 50 million tonnes – a significant step forward following the unprecedented decline in 2009.

Keep in mind, we anticipate this level of demand will be reached without the full engagement of China – historically one of the world's largest markets – and does not include the necessary restocking of the global supply chain.

As we look ahead to 2011, we expect China will return to its pre-downturn consumption level, which is approximately 11 million tonnes.

With pressure on grain reserves mounting, China's Ministry of Agriculture is redirecting efforts to improve food production. This includes a renewed investment in agricultural education and an extension of its free soil-testing service.

As we have seen in the past, when China becomes fully engaged, it can move forward with giant steps. Over the past 20 years, its annual potash consumption growth has averaged almost 10 percent – and in eight of those 20 years, its growth has been greater than 10 percent.

The prospect of a hungry and growing market in China creates a very positive operating environment in the years ahead.

With full engagement anticipated from all key major markets in 2011, we believe global consumption could rise to approximately 55 million tonnes, close to the historical trend line.

The other part of the equation is supply – and we estimate that global potash producers will have operational capability of approximately 60 million tonnes next year. Given anticipated demand, this would result in operating rates higher than 90 percent of capability, reflecting a historically tight market.

While fertilizer buyers have been confident that the needs of their customers could be met with just-in-time purchasing over the past two years, tighter supply/demand fundamentals could shake them out of this purchasing mindset – as concerns over product availability and the potential for higher prices provide motivation to rebuild inventories.

We believe the process of refilling the global distribution chain would require another 5 million tonnes of potash. If restocking begins in 2011, this could lead to demand in excess of our current estimates.

Over the past two years, our company has remained true to our long-held strategy of matching supply to demand – taking significant production cutbacks during challenging times.

At the same time, we executed on our Potash First strategy and continued to invest in our expansions in Saskatchewan and New Brunswick. We know that potash capacity takes a long time to build and that this business rewards those who operate with a long-term view.

We believe that time is near – and that improving market conditions will allow us to demonstrate the power of our quintuple leverage in potash.

As potash demand grows – putting pressure on supply – we have an unmatched ability to bring on new capacity and to sell increased volumes in an improved pricing environment.

As our production and sales volumes increase, our operating costs and provincial mining taxes are reduced on a per-tonne basis, further enhancing our returns.

We also gain greater benefit from our investments in offshore potash producers, as improving conditions support their performance and the returns they generate for our company.

As we look ahead, we see the fundamentals in place that will allow us to demonstrate the true potential of Potash Corporation. We are a patient company with a long-term approach – and we believe this will be rewarded in the months and years ahead.

Based on current conditions, we expect full-year earnings for 2010 to be in the range of $5.00-$5.50 per share. This includes third-quarter earnings of $0.80-$1.20 per diluted share.

Rising demand for food is a powerful motivator – and major buying regions have returned to the table. Farmers are eager to capture the economic benefits of their efforts and are making the necessary investment to protect the fertility of their soils.

With our unmatched asset base and proven strategies, we can deliver on the expectations of customers around the world – and deliver stronger performance for our shareholders.

Thank you for your time and your interest in PotashCorp. I'm joined by members of our senior management team, which has undergone a transition since our first-quarter call.

Jim Dietz, formerly our Executive Vice President and Chief Operating Officer, retired effective June 30. Jim made major contributions to our company but none greater than his leadership in our improved safety performance. Some shareholders do not fully appreciate the importance of safety. Not only is it the right thing to do for the welfare of your people but also is indispensable to running a good company. On behalf of our Board and our company, I want to thank Jim for his many years of dedicated service.

I'd also like to congratulate David Delaney, who accepted the role of Executive Vice President and Chief Operating Officer, and Stephen Dowdle, the new President of PCS Sales. David and Stephen each have more than 25 years of fertilizer industry experience and they have been terrific leaders for our company – and for our industry. We are excited to have them taking on their new responsibilities.

With that, we will be happy to answer your questions.

Operator:
Your first question today comes from Vincent Andrews of Morgan Stanley. Please go ahead.

Vincent Andrews:
Thank you. Bill, wondering if you or somebody else from the team can go through, sort of, how the purchasing environment or how your customers' posture has shifted over the last month or so as commodity prices have come up? Are you seeing any change in the desire to build inventory levels going into the fall or any sort of commentary around that would be helpful. Thank you.

Bill Doyle:
All right, Vincent. I can tell you that we just came from the Southwest Fertilizer Conference down in San Antonio, and while the temperature was cooler this year, I would say the mood was a bit warmer, and when I say that, I mean enthusiastic, and I would tell you that our customers are excited about this fall. They're going to have an early harvest in Illinois and in certain parts of Illinois we're going to be harvesting corn in the middle of August, so that will be some of the earliest corn coming off. But across the board, you're going to have an early harvest. With these crop prices now up, December corn in the $3.90 range, this will be the second most profitable year for corn farmers and they're ready to go.

There is no inventory in the dealer system, and so the fill that we're looking at, and that concludes at the end of this month and a couple days here, looks to be incredibly strong, record in many places, so I would tell you that there has been a change, and you can see it in the attitudes. I like to visit with some of my older friends that are not quite as optimistic as some others and listen to their sage advice, and I found even the most depressed of my friends were optimistic, so that gives you a pretty good feeling.

We are going to see a change here in granular potash, which I think is really going to be your first indicator of supply tightness, because what you're seeing now is you're going to have, with an early harvest you're going to have demand for granular potash domestically coincide with demand for granular potash in Brazil, which is also having a very strong season.

When you have soybean prices up at the $9.80 level that provides very good margins for soybean producers. You have sugar prices up over $0.18, very positive for Brazil, which leads the world as the number one sugar producer; cotton in Brazil right now is hot. I was on the phone with Brazil this morning. The Port of Paranagua, one of the leading import ports, has a 17-day wait right now for ships to discharge, and we're just starting the shipping period, so these people may be able to see their fertilizer sitting out in the port, but they can't get their hands on it, so Brazil is tightening up.

You're going to see granular potash here over the next couple of months really become tight on a global basis, and that will give you impetus for price increases in granular potash, which will start to lead the way in price improvements for the fourth quarter. So, all of these points that we talk about, that inflection point certainly, what we're seeing now in the US and Brazil is one of those.

Operator:
The next question comes from PJ Juvekar of Citi. Please go ahead.

PJ Juvekar:
Hi. Your potash realized price was lower than the other company that reported so far, and I was wondering if you are selling more into Asia or Latin America that carried lower netbacks and what's your potash price forecast for 3Q?

Bill Doyle:
PJ, I am going to ask Stephen Dowdle to comment on that one. Stephen?

Stephen Dowdle:
Yes, PJ. We sell approximately 58% of our potash offshore which, as you know, the offshore prices are lower right at the moment than the domestic prices, and it is difficult to compare our price realizations with others, as there are timing issues as well as product mix issues as well as market issues that make apple-to-apple comparisons difficult.

Bill Doyle:
When we're talking about quarter changes, and we're not in the same quarter, I think I know which company you're referring to, but if you take a look at that, and you look at transportation, distribution, how those are treated, and then you throw in the mix of other products, we're pretty transparent in the way we report. It is pretty easy to see our numbers.

Operator:
The next question is from Edlain Rodriguez with Gleacher & Company.

Edlain Rodriguez:

Thank you. Good afternoon, guys. Bill, you talked about strength in Brazil. Supposed to be strong here yet prices are not able to go through so, with the exception of China, demand seems to have come back to near normal everywhere else, and yet we're not seeing the prices. Like is it a question of is it like a glut of capacity out there that's preventing price from moving up and also can you talk about Canpotex and China and India where you are right now?

Bill Doyle:

All right. Edlain, I will try and answer those questions separately. As I said in just my prior answer to Vincent, what you are seeing now is granular potash tightening. So it hadn't tightened to the point where those increases in prices have shown themselves yet, but as we're moving on here, and you start looking at the commitments of the month of July, which obviously is almost done here, but then what we have got on the books for August I am talking Canpotex into Brazil, very healthy month of August.

September, I can tell you we could sell at least 100,000-tonnes more of granular right now that we won't have because of our combination of US and Brazilian combined demand for granular, so with that tightening coming, as I said you are going to see pressure on prices moving up here in the fourth quarter in Brazil and that will be the catalyst to get prices moving for the first quarter of 2011 in the standard market.

In terms of where Canpotex is with India and China, Canpotex of course has contractual commitments on a quarterly basis in India, and has been shipping against those commitments. We are expecting another contract with China before the end of the year, we had a little bit of a delay in that with the change in the management at Sinofert which is probably going to delay the process a few weeks, but we expect Canpotex to certainly conclude some additional tonnage to China. China is really in a very delicate situation.

When you think about what's going on with their grain production and you think about corn now being imported and we are very much the opinion that China is going to become a major corn importer. As I said, they're importing a million tonnes of soybeans a week and when I say that this year the estimate is 1.7 to 1.8 million tonnes of corn. Next year could be 3 to 5.

A lot of people think they will be up at the 15-million-tonne corn importing range before the end of 2015, but that also doesn't mean they won't be a major potash importer. They will do both because the pressure on meat supplies in China is just enormous, and when you have limited arable land you need to address your fertility needs which have been neglected here the last three years, and there is going to be a big catch-up in China, so when I said over the last 20 years 10% annual growth average, but we all know China doesn't go average, and when China begins to grow again, it really pops, and so our estimate is 11 million tonnes up from 8.5 million tonnes this year, 11 million tonnes of consumption for 2011.

We could be conservative. Because they've got that much pressure coming, and they have been mining the soil and you can see it in their grain production. So that is the real delicate balance. China reengages and look out.

Operator:

The next question comes from Bob Koort of Goldman Sachs. Please go ahead.

Lindsay Drucker Mann:

This is Lindsay Drucker Mann filling in for Bob. I'm hoping you could just comment on the North America volumes in the quarter which seem to be a bit light versus expectation.

Bill Doyle:

I am going to ask Stephen Dowdle to comment on that.

Stephen Dowdle:

The North American volume in the second quarter, we had the mindset of the dealers – they were determined to end the year with zero inventory. We had a record shipment volume during the first quarter, and the second quarter was characterized by dealers buying that last truckload 100 times, and the result of that was that the season ended with inventory at levels that veterans in the industry told us that they have never seen before.

Our expectation is that as we move forward here into the third and fourth quarter that we are going to see the second half volumes be in the domestic market north of 4 million tonnes which will be a normal volume for the second half and with the prospect of early harvest and an open fall application season; this estimate may be conservative.

Operator:

Your next question comes from Jeff Zekauskas of JPMorgan. Please go ahead.

Jeff Zekauskas:

Thanks very much. PotashCorp expects to ship about 7.6 million tonnes for the year, and in the first half you shipped 4.4, so that would leave 3.2 in the second half or down 25%, but the thrust of your comments is that the second half should be pretty good, and when you assess the overall market at 50 million tonnes, you said that in the first half you think the market grew 25 million to 27 million tonnes, so the second half should be similar to the first, so why is it that you're so conservative in your financial projections for potash production second half?

Bill Doyle:

Well, Jeff, I think you've got to remember we're taking some shutdowns that we're tying in. For example at Cory, we have our new expansion, so we're going to be down in Cory I am looking over to Garth, what is it, October 4th, so we're down now and we're going to be down – we have to tie into the new head frame and there is all part of the process of bringing on that new capacity there, and then just our other shutdowns.

What I am saying, this combination of demand in the US with an early fall coinciding with demand in Brazil, the normal planting season is October/November but they have to take the material now when you have Paranagua delays and all the problems you get. It takes time to get it there, and you combine that with shutdowns, and it is not just North America maintenance shutdowns. You have shutdowns around the world.

You're going to see quite a substantial dip in potash inventories between now and September, and it is just a function of all of those things working at the same time. I think that's what you're not taking into account, and the market might be a little bit better than we think, but as I said, this year we're going to take it one quarter at a time and everybody says prove it to me, so I guess we're just going to have to prove it. I guess that's what we have.

Operator:
Your next question comes from Jacob Bout of CIBC World Markets. Please go ahead.

Jacob Bout:
Good afternoon. Had a couple of questions here on the supply/demand, so first of all on the demand side, you mentioned that you expect global potash demand to be 55 million tonnes in 2011. Now, that's 2 million to 3 million tonnes higher than some of your competitors and what various industry associations are talking about.

Maybe you can walk us through what your assumption is for some of the major markets and then maybe if you can comment a little bit on what you see happening in 2012 like from what I have seen, it is not a whole lot of capacity coming online in 2010, 2011, and as we look out in 2012 there is quite a bit of capacity coming online from not only Canpotex, but Russia, Dead Sea and China. Thank you.

Bill Doyle:
I don't know about that last contention, Jacob. I would debate that with you because a lot of those projects have been delayed and pushed out. I mean, I know what we've got going on. I don't see it even in other Saskatchewan producers. I don't see that, so we'll debate that with you on the telephone afterwards.

In terms of where we are for 2010, first of all we said 50 million tonnes from the beginning of the year and everybody said that number is too high and all our competitors are saying the number is 44 or 45, and those competitors have been coming up, just watching them creep up here with their various calls, and we still are at 50, and we don't have the official statistics for the first half, but when you run the numbers we think the number is somewhere between 25 million and 27 million. And if you keep in mind all of last year we were at 29.2, we almost came up in the first half to ship as much as we shipped all last year, so that 50 number, we feel that's looking like we thought it was at the beginning of the year to be a recovery year and a substantial increase, up from the 29.2 of last year.

If you look at 2011, I am not going to get into 2012 because I am not that smart. 2011, if you look at some of the major markets, I already talked about China, 11 million. I am talking consumption here. These are both domestic and imports, so if you take from 8.5 this year, which is our forecast for China up to 11, if you think about Brazil, and again you're talking about domestic production in Brazil and imports, this year Brazil is going to be 6.5 and that number is 7 for next year. That 6.5 might be a little low this year, I'm not sure. By the time it all ends we have 7 in our numbers for next year, and if you look at India, we're 6 this year and we see 6.3 for next year.

If you want to look at other Asia, which is the big players there, Indonesia, and Malaysia, we're at 6 this year and we've got them for 6.3 next year so that 55 million tonnes number, remember what I said, it doesn't have any inventory rebuild in there. That's just consumption, so if you get inventory rebuild, if the inflection point comes when the supply/demand tightens up enough and the price starts to move, you will see some inventory rebuild, too, so that's not in there, but that's a real possibility.

Operator:
Your next question is from Fai Lee of RBC Capital Markets. Please go ahead.

Fai Lee:
Bill, regarding your commentary earlier about an inflection point, the real excitement for the potash market might be when China comes back in full force as you mentioned for 2011. What's your best estimate on when China will start stepping into the market for 2011 supply? Do you think will be in January, February, or later, or do you think they can move earlier if they see granular prices moving up as you suggest could happen in Q4?

Bill Doyle:
Fai, Stephen Dowdle spent more time in China than anyone that I call a dear friend. I am going to let him comment on that first.

Stephen Dowdle:
With the attention that the Chinese government has been giving to their production issues and their yield stagnation, particularly in corn and soybeans, it is such a high level that it is our expectation with this process of increasing their potash consumption, that we will see evidence of this process in the second half of this year.

Bill Doyle:
As I said earlier a little bit of delay I think with the Sinofert management change, this new CEO gets his feet on the ground, but we think Canpotex will conclude another contract with Sinofert before the end of the year.

Operator:

Your next question is from Elaine Yip of Credit Suisse. Please go ahead.

Elaine Yip:

Hi. Hello. How are you? Question on the phosphate and nitrogen side. For those businesses you increased your gross profit assumptions for the year in a couple of consecutive quarters. Can you talk about what's driving the better outlook there?

Bill Doyle:

Elaine, I will let Stephen Dowdle talk about that one as well.

Stephen Dowdle:

Elaine, it is all price. The volumes haven't changed significantly, but the price expectations have, we see in both nitrogen and phosphate markets anywhere from $30 to $60 price increases here in the last three weeks, so we expect that this is going to have an impact on our gross margins, and what we're also seeing in the industrial market, higher expectations from our industrial customers about their demand in the second half.

They were very conservative in the first half about their second-half outlook, and now they realize that their demand in the second half is stronger than they had anticipated and we're seeing that reflected in the market. We're seeing that reflected in the ammonia market and the recent strength in the ammonia price is evidence of that.

Bill Doyle:

I would add one other thing and that is the consolidation that we saw in the market earlier this year has resulted in a new approach by that new company to the marketplace and I can tell you in a product like UAN that's made a huge difference. There is a lot of pressure there to show the earnings that's required to justify the purchase price, I guess.

Operator:

Your next question is from David Silver of Bank of America Merrill Lynch. Please go ahead.

David Silver:

Yes. Hi. I would like to go back to maybe a question about the global potash market, a couple people have asked, maybe I would like to frame it in terms of Canpotex and their global market share. I think what I would like to do is compare PotashCorp shipments in 2007 and 2008 to maybe what you are seeing in 2010 and 2011, so in 2007 and 2008 I think PotashCorp shipped a combined total of about 18 million metric tonnes, and if I look to what you're projecting for 2010 and 2011, I think it is going to be a little less than that, and if you think that your global demand numbers are right, demand should be roughly the same 2010 and 2011 versus 2007 and 2008, so would Canpotex's decline in market share over that period be related to a different competitive dynamic? Is it more difficult to sustain pricing playing your role of swing producer? Can you just comment on that, please? Thank you.

Bill Doyle:

David, if you look at it just on the surface, you might come to that conclusion. What I would say to you is when the market is weaker, so if you look at 2009 and the global shipments were 29.2 million tonnes of potash, Canpotex took the biggest hit of any supplier in the world, and I can tell you as the biggest member of Canpotex we took the biggest hit of any supplier in the world, and that's just the way it goes. It has been our approach because it has been in our best interests to do that. As long as it continues to be in our best interests to do that, we'll do it.

I think as while you see this market recover, Canpotex's market share will grow. Especially as we come up against very tight supply, when you talk about 90% operating requirements for 2011, that's getting up there, and if you get the inventory replenishment, that puts it up even higher, and that's when we start to take our share again. That's when Canpotex starts to grow its share, so it is a little more fluid than you might surmise by looking at the numbers. But if you understand what happened and what has historically happened, Canpotex's share in a softer market always declines more than any other producer in the world when the market is strong, Canpotex's share grows faster than anybody else, and the basic reason is they've got some producers that have the capability to supply.

Operator:

Your next question comes from Mark Connelly of CLSA. Please go ahead.

Mark Connelly:

Thank you. Bill, just following up on Fai's question, when you think about the impact of the droughts and now the floods in China and the drought in Russia, is there some risk that the rebound in demand may come later because they just aren't going to need it or aren't going to be able to get it through as early? I am just curious how you think about the impact because the impact has been pretty massive in China, whether it is going to push things back or accelerate. Certainly it increases food demand, right?

Bill Doyle:

I think what you are seeing is that these grain prices are very reflective of the current production, and I think we have crossed the threshold here with China importing corn now, and we see it on a permanent basis, and just visiting with various customers of ours in San Antonio earlier this week, everybody is looking at $4 as the floor and moving to $5 here in the not too distant future.

Certainly by the end of next year, you're going to see a lot of pressure towards $5 corn, and it's just is China going to be a player in the corn market, and when you think about China not so long ago when the market was 75 million tonnes of corn exports, China was a 15-million-tonne exporter, and now the forecast by a couple of reliable people who study the marketplace are going to say it is 15-million-tonne corn importer by 2015. That's a huge change.

When you combine that with their need for potash, just to keep reasonably in good shape in terms of meat production, because all of that grain when you think 75% of China's corn production goes to feed animals today, and when you look at the demand for those animals, growing as fast as it is, but they have to come at it both from the import of corn and the import of potash because they need both, because that escalating factor is moving so fast, so I don't think that there is going to be the delay. There might be some logistical issues, but one of the things we were planning on when we started our expansions in 2003 was to be ready when the time came, and we think we're going to be ready.

Operator:

Your next question is from Michael Piken of Cleveland Research. Please go ahead.

Michael Piken:

Good morning. Just a question on the cost side, and I know you guys have a number of shutdowns sort of planned for the third quarter and I am just wondering if you could sort of give us a handle in terms of operating rates, where you expect to be in potash for both the third quarter and as well as the fourth quarter? And what that might do to your average cost per tonne if you could give us some sort of ballpark direction, presumably it should be I would assume higher in the third quarter than it was this quarter just because of your lower operating rates, but if you could provide a little more color around it, that would be great.

Bill Doyle:

Michael, I am going to ask Garth to speak to that one.

Garth Moore:

Yes. Our operating costs in the third quarter a lot of it is our normal maintenance shutdown costs. Those costs are amortized across the twelve-month period so they're not going to really have a major effect on the unit cost of production and as far as our operating rate for the total year right now we'll be running at about 70% of our operational capability for the entire year as we go forward.

Operator:

Your next question is from David Begleiter of Deutsche Bank. Please go ahead.

David Begleiter:

Thank you. Bill, you talk about some operational capability. What's the risk that number is a million to two million tonnes higher next year as obviously nameplate is much higher than operational?

Bill Doyle:

Are you talking about us or are you talking about global?

David Begleiter:

Global.

Bill Doyle:

I think that risk is not very great. When you look at where people are this year, when you look at the Russians and the Belarusians, they're producing everything they can right now. If you look at the Israelis, producing everything they can. If you look at the Germans, producing everything they can. Really the only area of the world not producing full out is Canada. So I just don't see the risk of there being operational capability for 2 million tonnes more. I don't know where it is and they don't have any expansions they're bringing on during that period of time.

Operator:

Your next question comes from Sam Kanes of Scotia Capital. Please go ahead.

Sam Kanes:

I would like to switch horses to phosphate rock reserves, an area that is sticky at $100 per tonne and we saw an asset sale or equity sale well over two times the cost of developing Bayovar in Peru, and I am wondering where you sit currently.

You have been very quiet on your North Carolina position. I know it is double the length of reserves relative to Florida. Florida is under pressure here and increasing pressure on permitting. Do you have any permitting issues coming up in the next while? Have you fully explored your North Carolina reserves? I imagine you have, and how is your cost per tonne moving there versus your competitors in Florida on a longer-term basis?

Bill Doyle:

I am going to split that question with Tom Regan. I will just answer the easy part which is the permitting part. We have a Life of Mine permit in northern Florida at our White Springs operation so we don't have to worry about another permit there. In North Carolina of course we just got a 35-year permit in North Carolina, so we're in good shape on the permitting side which is obviously a big issue that's in the press these days and we think it is a big advantage for our company not to have those types of issues. Tom, do you want to talk about the second part of that question?

Tom Regan:

Relative to the operations, I would say that in both White Springs and Aurora, our focus is on costs because we consider that to be an advantage, and I am not going to quote numbers, but I can tell you that we feel pretty good about the progress we're making on costs, especially with the idea that we have these permits in place and so our attention is not diverted toward permitting issues, and I would continue to say that I feel that we do have a cost advantage, especially when we look at the world market for rock.

Bill Doyle:

The other thing, Sam, that's changed a little bit here is the pressure on the non-vertically integrated phosphate producers has really ratcheted up, and you have seen an announcement by Agrifos that they're going to actually stop producing phosphate altogether. You have other players around the world that are in that same position, that I don't see having a long life span ahead of them.

So then you balance that out with Maaden coming on it is probably really two years away from now from having any meaningful production, so phosphate really – there has been some change in phosphate, and it is of course based on the rock, and the rock is the fundamental of the business, so those people that have exceptional natural capability in the rock supply, low cost, low impurities, low pumping distances to the phosphate plant, they're in the cat bird seat, and it says to me that phosphate is going to be a little more balanced, that I don't think you're going to see the severity of the impact that we originally thought with Maaden coming on, so we look for earnings in the phosphate area to be a little bit better over the medium term than we thought at one time.

Operator:

Your next question comes from Martin Lavigueur of Macquarie Capital Markets. Please go ahead.

Martin Lavigueur:

Hi, I was just wondering if you could just discuss some of the developments in terms of Russia with Uralkali obviously having a major shareholder encouraging the company to look at taking positions in Silvinit and also Belaruskali and whether or not you think that this is real and what it could mean for the potash market. Thanks.

Bill Doyle:

Martin, I don't have any more insight than you do. You read in the press various comments, of course they've got new players. You've got one fellow in particular that took over the biggest piece of the Rybolovlev holding in Uralkali, and he seems to be saying to Bloomberg and Reuters and others that his interest in Silvinit and interest in Belaruskali and a lot of rumors going on but I don't know really what will happen in that arena.

It had a limited chance in the past because there was a personality clash between the Rybolovlev and the folks at Silvinit, maybe with the sale there that's less of an issue, and there have been other rumors of Belarus selling the piece to China and China was going to end the potash world by taking over a piece of Belaruskali. And of course that never really made too much sense if you think about potash being one of the most important natural resources in Belarussia, why the government would give away the future value of that resource, that never made much sense to me, but anything is possible. With a change in characters with change in players, there might be something there.

Operator:
Your next question comes from Fadi Benjamin of Stifel Nicolaus. Please go ahead.

Fadi Benjamin:
Hi. Thanks. It is Fadi Benjamin for Horst Hueniken. And thank you for taking my question. It is a two-tier question. The first part is about sulfur prices. Could you shed some light on what your sulfur cost is and the second question is about the Maaden project. Taking the view the Maaden won't come online for the next two years, we do have an excess supply of ammonia because it is also an ammonia plant of around 400,000-tonnes annual that they could export. So if you could just shed light on how that will affect ammonia prices and ammonia global supply and demand. Thanks.

Bill Doyle:
All right. I am going to ask David Delaney to comment on both of those issues. David?

David Delaney:
Regarding sulfur prices, we have seen a lot of pressure in the sulfur market in the last 30 days. We just concluded our third quarter sulfur price at $95. In reference to the ammonia market and the incremental Maaden ammonia coming on line, we think with the industrial demand that has picked up quite dramatically here in 2010, along with high operating rates in the phosphate industry, high gas costs for the former Soviet Union and Ukraine, that would likely not have a lot of impact on the ammonia price going forward. We're pretty bullish on ammonia prices.

Bill Doyle:
Just to add when we talk about Maaden, it is not that they won't be starting up, start their rock mine and get the rail working and a little piece, but for any appreciable tonnage it is going to be two years. It just takes that long to ramp up production. Everybody thinks you build the plants and turn the light switch on and it works full capacity the first day.

I mean, it is no different in potash, there is ramp-up time there as well, and these are huge industrial complexes that when you get to phosphates there is a little chemistry involved, so you have to bake the cake a certain way as well, so it takes a little longer than people think.

Denita Stann:
We'll have time for one more question.

Operator:

Thank you. The final question today comes from Hari Sambasivam of National Bank Financial. Please go ahead.

Hari Sambasivam:

Thank you. I have a quick question about China. Now, Canpotex generally has not had a substantial market share in China so I am wondering in terms of participating in China's growth what exactly does Canpotex do to gain that share so I am just wondering typically it has been a lower priced market than the rest of your Asian markets. Is there something that Canpotex is willing to maybe take a price reduction of some kind, or are there other ways of participating in the Chinese market growth as you go forward? Thank you.

Bill Doyle:

Well, if you go back in time, just a little bit of history and not that long ago, I am talking about early 90s, when the Russians weren't exporting anything before the collapse of the Soviet Union. Of course Canpotex took the biggest share in China, and over time, over the years, the Russians, bringing more and more tonnes into the marketplace, became the biggest supplier to where if you look at the three Belaruskali, Uralkali, Silvinit, they're about 60% of the market today.

They also have the advantage of being able to come in via rail, so that has changed over the years, and Canpotex in recent times has had about 30% market share in China, and I think that that's probably the number that the Canpotex members have in mind where we should be and the Chinese price when you think about lower prices in a weaker market, it is a lower price in stronger markets that price comes up and remember we had a $400 increase in one negotiation in China. So I think it sort of fits with my earlier comments that as this market accelerates and as demand comes back and you get to up against higher operating rates, and when you see that pressure, that inflection point that we're talking about, these things change.

There is a fluidity in it, and you will see Canpotex become even a larger market share in China over this next ten-year period, because when you think where China is going to grow, and who has the tonnes, it is the Canadian members, and I can speak for Potash Corporation because we know what we're going to have between now and 2015, and that's operational capabilities 17.1 million tonnes, 18 million tonnes of capacity.

China is going to – they're going to need those tonnes, and so Canpotex, without any expansions at these other places and keep in mind Sylvinit which spent all of that money on the reserves, $1.5 billion on those reserves adjacent to the property haven't spent a nickel to put in a new facility there, so that's quite a ways away and then the change in ownership of Uralkali, their greenfield project has been put on hold, and so China is going to be more dependent on Canada over the next few years and you will see the market share become more fluid again and Canpotex will increase its market share.

Denita Stann:

Thank you, everyone. If you have any questions, please don't hesitate to give us a call at the office and have a great day.

Operator:

Ladies and gentlemen, this concludes the conference call for today. Thank you for participating. Please disconnect your lines.