INTERVIEW

The Potash Corporation of Saskatchewan

Interviews by RMR

The Potash Corporation of Saskatchewan (PCS) is a major actor in the international potash industry.
RMR special correspondent Margaret Fry has interviewed PSC directors Steven Harapiak and Rolf Holzkaemper and former President David Dombowski on their views of the world potash industry and the role of PSC in the market.

S W Harapiak is President and Chief Executive officer, PSC. Rolf H Holzkaemper is President of PCS. David Dombowski is former President of PCS.
The interviews were made in April 1985.
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RMR: To what extent has there been a recovery in the world potash market during the past year?

Steve Harapiak, Rolf Holzkaemper: If we look at the recovery from the Saskatchewan point of view, there has been a dramatic improvement in terms of production increase. Production in Saskatchewan increased by approximately 30 per cent during the 1984 calendar year. This was in anticipation of a strong recovery in the North American market, following the agricultural program that was proceeding in the United States, and also in anticipation of a strong pick up in sales overseas. In North America itself the market recovery did not take place, the spring was rained out and the fall was rained out. Sales in North America remained flat. However, sales from Canada to offshore markets increased by approximately 26 per cent.

David Dombowsky: It appears to me that there has been a remarkable recovery, from a low of 23 million tons of K_2O in 1982 to what appears to be 28 million in 1984. This is a dramatic recovery, which I believe bodes fairly well for the future. Consumption in the USSR and the US has increased and the economic improvement in markets such as Brasil, which now shows real economic growth, puts current producers into a more favoured position than they have been for the past several years.

RMR: What is the relationship between the Canadian potash industry and that of, for example West Germany and the Soviet Union?

Harapiak, Holzkaemper: I guess that the relationship primarily is one of competing for markets. In certain parts of the world we compete for the same markets. In some cases they are more competitive than in others. In recent times Soviet producers have tended to allocate more of their production to COMECON consumption, so they have not been as large a factor as they have from time to time.

If we talk specifically about the producers in West Europe, I would simply add that for logistical reasons the Europeans sell mainly in a geographically defined area, Western Europe, and that they have logistical freight advantages in certain parts of Asia and Latin America. The Canadian, and in particular the Saskatchewan producers, sell on the Pacific market: China, Japan, India, the Philippines, Malaysia and Australia.

David Dombowsky: There has never been any formal relationship although PCS, when I was President, attempted to form some linkages. The first was with respect to world market development, when the PCS as the first Canadian producer became a member of the International Potash Institute, headquarted in Bern. The current membership of that Institute is comprised of the French, German, Spanish and Israeli producers. It was felt that on a worldwide bases we needed some concerted effort to encourage the use of fertilizers, particularly in third world countries, and particularly potash. I became a director of that Institute at the request of the Kali & Salz and Enterprise Minière et Chimique. We were laying the stage for some concerted effort worldwide in terms of extension programs and agriculture market development for potash.

The other linkage we were trying to develop was with the world's largest potash producer, the Soviet Union. PCS at that time entered into a protocol with the Soviet Union. We were going to mutually explore technological transfer in the areas of mining safety, environmental safeguards, salt separation, storage underground and other areas of great importance to the Saskatchewan industries. I do not know at this point what has happened to those initiatives.

RMR: Are there any new orientations in exports of Canadian potash, i e towards the People's Republic of China and other third world states?

Harapiak, Holzkaemper: In terms of potential we view the People's Republic of China as the market with the largest growth potential in the world, and consequently very interesting to us.

Again, if I can add, China is a very large user of fertilizer, primarily nitrogen. But in terms of phosphate and potassium their imports are much, much lower, and well below the ratio of fertilizer nutrient level, that would be used for a balanced agriculture. The market in China is one that will indeed develop over the time. But there are certain logistical problems, in the ports and other parts of their infrastructure, that have to be overcome. There are some bottlenecks there, but again, the question is primarily one of time, if it takes two years or ten years to eliminate them. The market will definitely grow to become the largest importing market in the world.

David Dombowsky: There is no doubt that India, China and Brazil in particular, all large potash consumers, will be net importers in the future, even though China and Brazil will certainly attempt to develop their own potash resources. As a result present producers and potential producers are eyeing this market for the future. Frankly, it is difficult for the Canadian producers, who are members of Canpotex to approach these markets in a much different manner than they have in the past, given the nature of their frame work and bylaws.

However, China and, to a lesser extent perhaps, India are exploring ways in which they can obtain a security of supply through diversified supply sources and thereby bypass some of the world's cartels. This is a new development initiated by the People's Republic of China. It is a way to use foreign exchange earnings to obtain security of supply of a strategic resource for which there does not now appear to exist any indigenous long term of source of supply for them.

RMR: What is the relationship between the nationalized potash industry in Saskatchewan and its privately-owned competitors; and specifically the role of the "Canpotex" potash export organization for Canadian Potash producers?

Harapiak, Holzkaemper: It makes sense for the Saskatchewan producers to utilize Canpotex as a joint marketing agency. Saskatchewan is landlocked, it is a long way from the Saskatchewan mines to deep water, and the consuming markets are at a long distance. It also is a fact that we are competing internationally primarily with state owned organizations. It is therefore very important that the industry stays together to take advantage of the freight savings that can be achieved through a joint undertaking.

David Dombowsky: Canpotex is a producer's cartel whose membership is comprised of all Saskatchewan producers, but at this point does not have membership from PCA in New Brunswick and Denison in New Brunswick.

This, I think, is specifically a question to be addressed to the privately owned producers and PCS. When I was President of the Corporation we viewed our role as an independent potash producer to be measured by the same kind of economic tests that the rest of the industry was measured by. We paid exactly the same provincial taxation and royalties as did the others. Well, it is true, we did not pay federal tax. But it would probably not have been important.

While I was there the PCS independently was very aggressive in terms of expansion to meet future world supply, very aggressive in terms of market of development and very aggressive in terms of research and development. The PCS viewed itself very much a member of the industry, but looked to the long term development of the industry in terms of the capital that was invested for the future. The announcements that have come out of Regina since the government has changed, would indicate that the government is now looking to the private sector memebers the industry to provide this kind of leadership. It appears that the PCS, after finishing its expansion at Lanegan, is going to play less of a leadership role in the future.

RMR: What is the role of potash in the world fertilizer markets, given its dependence on world corn and wheat production cycles and markets?

Harapiak, Holzkaemper: In North America in particular corn is the major consumer of all fertilizers, whether nitrogen, phosphates or potash. The problem facing the North American market today is one of oversupply. The oversupply has been somewhat corrected during 1983, as a result of cutbacks in the United States.

However, in 1984 the situation unfortunately worsened to some degree. The situation is highlighted by the fact that the strong US dollar makes it very difficult for North American farmers to compete effectively in international markets. The US farmer today receives less for his grain then he did a year ago. At the same time in consuming countries, whether in Europe or elsewhere, import of corn is becoming more expensive. What we see for North American agriculture are a few years of rather difficult times. The United States government has just announced that it will cut back in subsidies, which will make it even more difficult for the farmers. But in the long run we believe that the US farmer will be as efficient a producer as anyone in the world, but there is going to be a period of time when things are going to be rather difficult.

David Dombowsky: I am very optimistic about the future of potash in world markets. If one looks at the NPK ratio of nitrogen to phosphorous to potassium one sees potash deficiencies in turns of that ratio. China is a good example where the NPK ratio shows K at 0.02. Chinese agronomists indicate that K should be improved to 0.2 to take advantage of existing fertilizer application, soil contents and type of crops. If that ratio would be achieved it will mean a dramatic increase of potash use in China, from the present 1 million tons to a possible five, six or seven million tons. A similar situation exists in Brazil, another major potash consumer country. There is a synergy between nitrogen and potash. One cannot maximize the merits of nitrogen without also applying potash. Further, when soils become depleted the potash must be replaced in terms of maximizing production.

I am very, very bullish in terms of the future use of potash if the world economic environment shows some stability.

Yes, in terms of North American consumption there are two schools of thought about the wheat and corn cycles. I think one can say that corn prices track potash consumption or vice versa. On the other hand it is argued that in an environment where corn prices remain stable one has to decrease the unit cost of production by optimizing production. To that school of thought potash consumption must continue at high levels. Nevertheless, overall we know we will have cycles. But the world population continues to grow and again, if one does not envisage a catastrophic scenario, the world population must be fed. Implied in that is an intense of use of fertilizers on a dimininishing arable land base.

RMR: How do you evaluate the building of new potash mines in the Canadian provinces of New Brunswick and Manitoba, and their impact on the market?

Harapiak, Holzkaemper: I think we are in a situation in our market where we have a rather delicate balance between supply and demand. The emergence of new suppliers in the short run, combined with the additional capacity of our mines, will create some problems. Unhappily, the capacity does not come on in small increments, it comes on in large chunks and it takes a while for the market to adjust to this. We are concerned about this. We would be even more concerned with additional capacity coming on in Manitoba or New Brunswick beyond what is already under way.

If I may add one word, production in New Brunswick has certain logistical advantages. It is just a very short drive to the deep water of St John, and for a commodity such as potash freight costs plays a very important role. If we look at the province of Manitoba they will compete from the same logistical base as Saskatchewan. Given the current oversupply and the outlook in terms of supply and demand for the next five or ten years it does not make economic sense to open a new mine in the province of Manitoba or in Saskatchewan at this point of time. To expand an existing facility is one thing, but a greenfields operation would not seem to be economically justifiable.

David Dombowsky: My own view is positive, as indicated earlier. I think that the new production coming in Jordan, in New Brunswick and at PCS Lonegan, will have a market impact over the next few years. I feel, however, that we will start seeing a window in 1989, into the 1990s, for new production and therefore the investment decisions today will meet a vacuum. I should emphasize that because it takes a long time to bring on new potash production, at least three to five years, investment decisions need to be taken today. This conclusion, incidentally, is also shared by the FAO and the World Bank.

RMR: What is your comment on the proposed joint production arrangements between the People's Republic of China and the Potash Corporation of Saskatchewan?

Harapiak, Holzkaemper: Those discussions are still under way and of course they have substantial interest in our capability and our know-how. And obviously we have a reciprocal interest in the kind of market potential they represent. So, discussions continue, is the best way to summarize the situation.

David Dombowsky: I cannot comment on that although I will note again that the government of Manitoba with respect to potential potash production is talking to the PRC people about participation.

RMR: What has been the impact of two years of recession on labour relations in the potash industry?

Harapiak, Holzkaemper: Unhappily there have been cut backs, and also some lay-offs. But perhaps a new spirit of cooperation has emerged out of the recognition of the fact that we are in a difficult competitive situation. We have been extremely pleased over some of the productivity improvements that we have realized in the last couple of years.

Everybody has been under considerable restraint, not only in the competitive sense, but just generally by virtue of the fact that there has not been any possibility to make substantial wage increase. On balance I think we have excellent people, that we have the best workers in the world. This is something we can trade on, and one of our real competitive advantages.

David Dombowsky: No comments.

RMR: What is your comment on the changing orientation taken by the provincial conservative government to the role of Crown (state-owned) enterprises in the province's economy, and the reorganizations that have taken place over the last two years in the structure of provincial crown corporations and their

S W Harapiak, CEO of PSC (below top), and Rolf H Holzkaemper, President of PSC (below bottom).
David Dombowski, former President of PSC, at the inauguration of the Cory Division of PSC (below right, with David Dombowski to the left).

parent "holding company" the Crown Management Board.

Harapiak, Holzkaemper: No specific comment. But can I make one brief observation? We talked about the recovery of the potash industry in 1984. We should bear in mind that in 1985 the outlook is one of extreme caution. We do not anticipate that the North American market will grow to any particular extent. There may hopefully be some limited growth this spring. We will have to see what the crops are going to be like in North America, and whether we will also have a good fall. In terms of the international market, I think we recognize that after the spectacular growth in 1984 there is going to be a period of consolidation. Therefore, from an overall North America point of view, the outlook is one of some concern. We believe that there will be overall stable markets, but at the same time new production is coming on stream later in 1985 and in 1986 and there will be many new challenges ahead for the next few years.

David Dombowsky: No comments. ■