Thank you and good morning. It is a real pleasure to be here in New Orleans to present our outlook for potash. I intend to provide you with the “big picture” on potash – where the industry is at and where it is going. But first it seems fitting that on the 50th Anniversary of the Round Table, I take you back in time and share a bit of the history of potash. All production and sales figures refer to product tonnes unless otherwise stated.

The term potash is derived from the old method of producing potassium carbonate by leaching wood ashes and evaporating the solutions collected in large iron pots. The white residue left in the pot was called “pot ash” and was used in the manufacture of soaps, glass and medicines. Later, potash became the term widely applied to naturally occurring potassium salts and the commercial product derived from them.

Soluble potash salts were first discovered in deposits in the Stassfurt region of Germany in 1839 and commercial production began 22 years later. France officially began producing potash in 1919 when mines in Alsace came under French sovereignty after WWI. Potash production began in 1930 in Palestine from the mineral salts of the Dead Sea. In the Soviet Union, potash production began in 1931 from deposits in the Ural Mountains. In 1925, potash deposits were discovered at Carlsbad, New Mexico while oil was being drilled for, and pro-
duction commenced seven years later. The largest high-grade deposits of potash in the world were discovered in the 1940s in Saskatchewan, and production began in 1962.

While reserves are plentiful, they are not widely dispersed. Canada and the FSU have the largest reserve base. Canada’s reserves are concentrated in Saskatchewan and cover a large area. It is estimated that Saskatchewan alone can continue to produce at the current level for several thousand years.

Today only 13 countries produce potash, as the chart below shows – two in North America, four in Europe, two in the FSU, two in the Middle East plus China, Brazil and Chile.

Canada is by far the largest producer and produced over 8 million tonnes of potash in 1999, double the production of Russia, Belarus or Germany. The top six producing countries, which include Israel and Germany, produced 87 percent of the total last year. Canada produced one-third.
More than 150 countries consume potash. The US is by far the largest; it consumed 8.4 million tonnes in 1999, one-fifth of the total. China was a distant second at half that level, followed by Brazil, India, France and Malaysia. The top six accounted for 58 percent of potash used.

In the US, corn is the major consumer of potash and over 40 percent of the total used is applied to corn. In China, where farmers can grow two or three crops a year, rice is the largest consumer. An estimated one-quarter of the potash used in China is applied to rice. In Brazil, roughly 70 percent of potash is used on soybeans, sugar cane and corn. In Malaysia, oil palm is the single largest consumer, taking as much as 75 percent of the potash used.
It should be no surprise that with so few producers and so many consumers, as much as 80 percent of the potash produced crosses borders into other countries.

While the US produces potash, it is not enough to meet its needs and it is the world's largest importer. In 1999, the US imported 7.3 million tonnes, almost 90 percent of its requirements. China and Brazil, also large and important agricultural producers, are in much the same boat. Their potash production is far too small to meet their needs. In fact, like the US, China imported 90 percent of its requirements last year, and Brazil, 85 percent. India does not have any production and imports all of its potash, 3 million tonnes last year. The US accounted for 22 percent of the total imported in 1999. The top six importers, which include France and Malaysia, accounted for 65 percent of total imports.
Who are the largest potash exporters? The largest producers are also the major exporters, with Canada leading the way with 40 percent of total exports in 1999. The top six producers accounted for 95 percent of the total.
With this snapshot of the past and quick review of who’s who in the industry, let’s now look at recent developments and the outlook for potash.

While demand is growing once again after bottoming out in 1993 following the collapse of Communism in East Europe and the FSU, there is still a lot of surplus potash capacity as can be seen in the chart below. This remains a problem. But while demand does not always grow steadily, the trend is definitely up. At current growth rates, demand will absorb the existing capacity in 11 years.

Most of the surplus capacity is in the hands of producers in Canada and the FSU, as the next chart shows. In 1999, Canadian and FSU producers accounted for 80 percent of surplus capacity. The PCS share of that surplus was 60 percent. Other producers operated at or near capacity in 1999. This year has been much the same although our company is benefiting from continued strong global demand.
The potash industry has gone through some very difficult times. The 1980s were particularly troublesome and volatile markets, imprudent expansions, oversupply and low prices of that decade set the stage for consolidation and rationalization. In Canada, the changes were significant. In 1989-90, there were 8 producers capable of producing nearly 20 million tonnes of potash. Today there are only three producers and total production capacity is 20.6 million tonnes.

PCS is the largest producer with seven mines – six in Saskatchewan and one in New Brunswick – accounting for 59 percent of total Canadian capacity. IMC produces potash at three locations in Saskatchewan and accounts for 33 percent of Canadian capacity. Agrium has one mine with 8 percent of capacity.
The change in direction for PCS began in 1987 when new management was brought in to shore up the company. Management’s strategy from the outset was to try to balance supply with demand. While the company has a lot of excess capacity, and while world demand is increasing, we have continued to try to match production with demand. We monitor demand closely.

![PCS Potash Production and Sales](image1)

Let’s turn now to the US where, like Canada, the industry has seen its share of consolidation and rationalization. The five major producers in 1989 have become two; namely, IMC-Kalium and Mississippi Potash, both with facilities in New Mexico. Horizon was shut down in the early ‘90s and Mississippi Potash closed one of its 32 mines in December 1998 because the ore body was declining. As a result,

![US Potash Production and Sales](image2)
production in the US has been falling. However, it appears that US production and sales have now bottomed out and will level off in the near future.

That’s the story in North America, now let’s look at the FSU, another large producer and a major competitor for us.

Two major reserve and production areas – in Belarus south of Minsk at Soligorsk and in Russia on the western slope of the Ural Mountains – comprise the potash industry in the FSU, the second largest world producer when these two countries are grouped together. Belaruskali is government-owned but the Russian producers, Uralkali and Sylvinit, are now privately-held joint stock companies. In 1999, these three producers together produced 12.6 million tonnes.

Production and sales in the FSU began to increase in 1994, as the next chart shows, after bottoming out in ‘93 due to the collapse of Communism. Exports have been rising. Domestic consumption is only a fraction of what it was under the former Communist government. Improvement has been slow and crop production has suffered. In 1999, for example, Russia produced 55 million tonnes of grain, compared to almost twice as much 10 years ago. Some of the decline was due to drought and pests, but much has been caused by the lack of proper fertilizer application. Until demand comes back, producers are expected to continue to look to offshore markets. However, while ports are expanding, we believe there are limits to export growth.
Several of the Russian mines date back to the 1930s and ‘50s and they need major repairs. The ore grade is low, roughly 14 percent K2O compared to around 26 percent in Canada. Belarus is perhaps in better shape as most of the mines there were constructed in the 1960s and ‘70s and the ore grade is approximately 18 percent K2O. But perhaps even more significant as time goes on are the productivity levels. In Russia, the work force is close to 21,000 with 12,000 directly involved in mining and milling operations. The situation in Belarus is much the same. This drives the productivity level down and costs way up. The productivity ratio in Canada is 10 times that of the FSU. It takes only one worker in Canada to produce 4,000 tonnes of potash, in the FSU it takes 10. This is not sustainable long-term.

Now let’s look at production outside of the two largest producing regions.

As illustrated in the next chart, production in Western Europe has been declining, while it has been expanding in the Middle East and elsewhere, namely Brazil, Chile and China. But the increase has not been enough to offset the decline in Europe.
The German industry was consolidated after the reunification of Germany. Mines were closed and production was reduced. Some improvement has been made to the two former East German mines still operating. The big change has been in France which is running out of ore reserves; production is to close in 2004, resulting in a loss of 600,000 tonnes KCl. In 1998, Israel’s Dead Sea Works purchased Spain’s potash industry. While there are plans to improve productivity at the existing mines and mills, there are no signs of it yet. Production was down in the first six months of 2000. The UK has had flooding problems but production has been stabilized. Looking ahead, we do not expect any significant increases in production in Europe.
In the Middle East, Israel and Jordan have both completed expansions and production has been slowly rising, but there are limits to growth. DSW has no room to enlarge its evaporation ponds, which are currently over 90 km square. Jordan is expanding its pond system and milling capacity to bring annual production to 2.4 million MTPA KCl by 2004, an increase of 400,000 tonnes. The build-up of “salt mushrooms” has complicated and reduced production in recent years, but Jordan has for the most part resolved this problem. High temperatures and ideal evaporation conditions helped it reach 1.8 million tonnes last year.

Turning to the remaining three countries, all small producers.

After 15 years and millions of dollars of additional capital, Brazil’s sole potash producer has at last reached design capacity, producing 550,000 tonnes last year. While Brazil struggled to bring its mine to capacity, Chile to the west has been gradually increasing its potassium chloride production. In 1999, SQM produced 500,000 tonnes KCl by solar evaporation at its facilities in the Atacama Desert. The KCl is mostly used as feedstock for potassium nitrate production. SQM plans to raise its KCl capacity by a further 200,000 tonnes.
China’s potash production is centered around Lake Qarhan, inland in the Province of Qinghai far from the major market area. Two potassium fertilizer factories there produce much of the country’s potash. They have the capacity to produce about 400,000 MTPA KCl by solar evaporation. Qinghai Potash Factory is the largest with a capacity of around 300,000 MTPA and is the site of the former Sino-Israeli JV project. Last year China produced an estimated 400,000 tonnes KCl. Several projects have been proposed to expand existing capacity there but to date there has been nothing.
Let’s look at the demand side of the equation and growth opportunities before I try to pull it all together.

About 95 percent of the potash consumed in the world goes into fertilizer and potash fertilizer consumption is expected to grow by about 2.5 percent a year, on average, over the period 1999 to 2005. The two largest markets, North America and Europe, are mature as illustrated in the next chart. Consumption in Europe has been declining due to environmental pressures but should soon begin to stabilize. Application rates were some of the highest in the world. Potash consumption in the US is expected to continue to increase as world demand for food increases.

Most of the growth will be in the developing world, particularly Latin America and Asia.
The greatest growth potential lies in Asia and Latin America. At the top of the list are China, India and Brazil. Their NK ratios are still far below optimum levels. China should have a ratio of 4:1 but it’s closer to 6:1 with compounds included. China’s potash consumption is forecast to grow by 4.4 percent per year over the six-year period through 2005 to 4.2 million tonnes K2O. India’s ratio has fallen back to 8:1. In time, these markets should approach the US ratio of 2:1. Brazil’s ratio is .7:1. It is skewed by the large acreage planted to soybeans and the low N use on corn. Brazil needs to use more of all three nutrients. But one must not forget the other markets in Southeast Asia such as Thailand and Vietnam and those in Latin America, which are rapidly emerging as major consumers and importers of potash and other fertilizers. Vietnam has quadrupled its potash imports in the last four years and Thailand’s has tripled in 10 years. And there are others in the wings.
Looking ahead, here is what we see for new capacity and demand growth.

While there has been a lot of talk, no major new capacity additions are expected in the near future – only smaller, incremental additions. In Canada, only 200,000 tonnes are certain. IMC-Kalium is expanding its industrial production but other expansions it announced have been put on hold. Jordan is adding 400,000 tonnes of incremental capacity and Chile 200,000 tonnes. These expansions will be offset in part by the closure of the French industry in 2004 or earlier.

Major potash projects you have heard about, as in China and Thailand, are far from certain. Financing continues to be a problem for these projects take a lot of capital and there is a great deal of risk. The proposed $500-million Sino-Israeli JV project to expand production in Qinghai province by 800,000 MTPA from 300,000 MTPA has been dropped. A new group of Chinese investors is now proposing to add 1 million tonnes of capacity in various stages. In our estimation, it would cost upwards of $1 billion to build a 2-million MTPA “greenfield” potash facility in Thailand. A new mine and mill in that tropical environment is not without significant risks. The proposed ASEAN project has many of the same risks. Potash has been discovered in Argentina but the reserves have not been developed due to their remote location and the lack of existing infrastructure. Down the road, there may well be new “grassroots” production but it is years away.

As can be seen in the next chart, growth in demand is expected to outstrip new capacity over the next five years. The gap could
amount to as much as 4 - 5 million tonnes at its peak. Fortunately for consumers, there is 8-10 million tonnes of surplus capacity in the world.

Who will fill the gap?

The FSU will fill some of the gap, but there are unanswered questions there. Can it continue to produce exclusively for the export market at the expense of the domestic market? What is the future of FSU domestic demand? Who will fill the void left by closure of the French industry? It is certainly possible that when domestic demand comes back in Russia and Central Europe, and as the French industry declines, more FSU production will remain at home and in the nearby markets in Europe.
At Potash Corporation of Saskatchewan, we have 6 million tonnes of excess capacity waiting to be utilized and, with port facilities on Canada’s east and west coasts, are well-positioned to handle the new growth opportunities that arise in Asia and Latin America. Yes, it will require some capital to bring our surplus capacity into production but we are committed to doing so. We are excited about what lies ahead.

Canadian Potash Opportunities
More Product Will Go Abroad

Thank you for the opportunity to share this view with you. I would be pleased to answer any questions you may have.

This release contains forward-looking statements, which involve risks and uncertainties, including those referred to in the Company’s annual report. A number of factors could cause actual results to differ materially from those in the forward-looking statements, including, but not limited to, fluctuation in supply and demand in fertilizer and petrochemical markets; changes in competitive pressures, including pricing pressures; changes in capital markets; changes in currency and exchange rates; unexpected geological or environmental conditions; and government policy changes.