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Sector Coverage

Joshua Mayfield
jmayfield@hallgartenco.com

Growth Minerals Sector Review

Fertilizers in a Time of War

July 2025

Growth Minerals Sector

Fertilizers in a Time of War

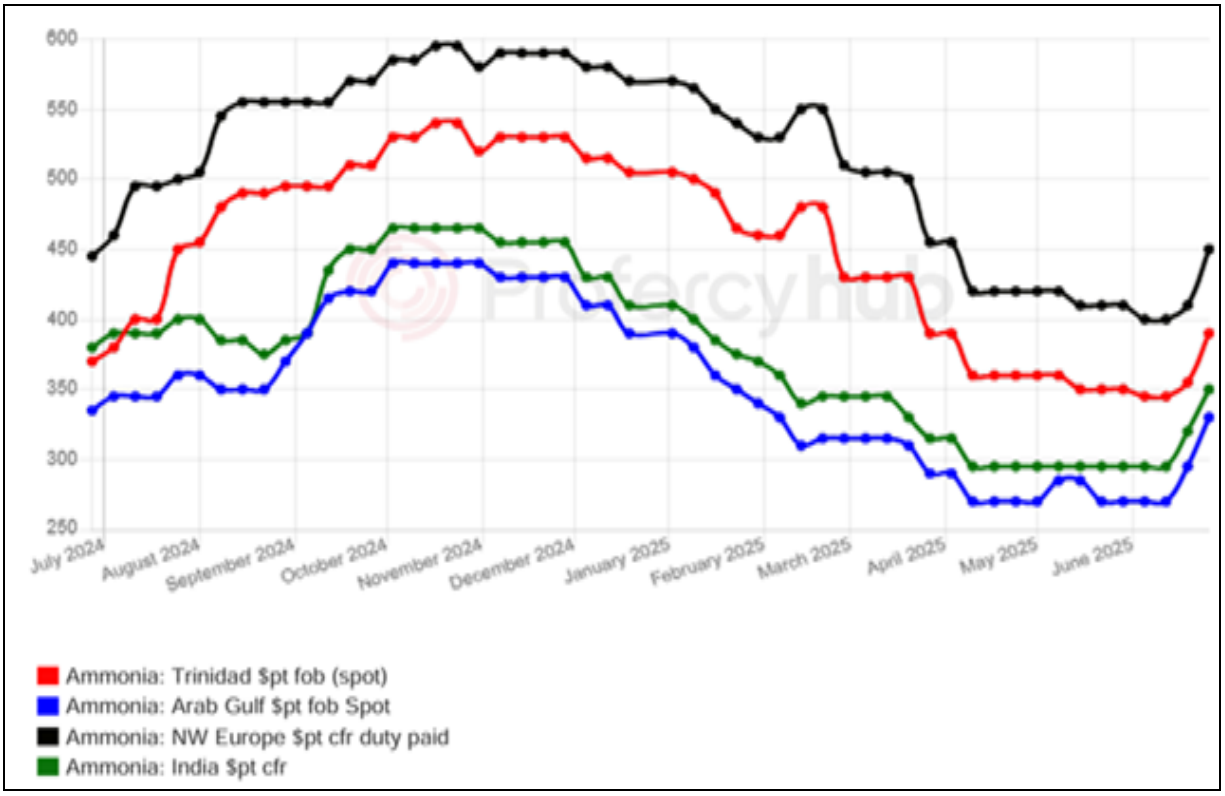
- **Ammonia prices all went up in tandem with the Middle East tensions**
- **The US sidelining itself in the world of trade negotiations has proven a boon for other footdraggers, like the EU, trying to prove that it can negotiate something with someone after having long been a bad faith negotiator itself**
- **There are finally signs of movement at Aguia, the ASX-listed story with a long-stalled Brazilian phosphate project**
- **Russia has been bending over backward to seduce East of Suez clientele for its fertilizer exports**
- **Fundings of various sizes for Kore, Sage and South Harz show financial markets are open to developers in the growth minerals space, despite much negativity emanating from Bay Street on the broader mining financing scene**
- **Canada has become even more appreciated for its potash virtues in an age of tit-for-tat tariffs and threatening noises from the US**
- **The Black Sea is to fertilizers what the Strait of Hormuz is to the global oil and gas trade. Think about it!**
- **The UK slapped tariffs on fertilizers from Russia and Belarus**
- **End-users should brace themselves for disruption to exports from Jordan and Israel should things heat up again in the region**

Ammonia's "Post-War" Volatility

The global fertilizer markets got off to a raucous start this summer season after Israel's strike on Iran's nuclear facilities on June 13. Ammonia supplies were in full focus thereafter, but also nitrogen and potash fertilizer supplies. Israel and Jordan are the two biggest potash producers in the Middle East, while Iran and Egypt are two of the biggest urea fertilizer suppliers to global markets. The news was largely silent on potash, probably due to suppressed price movements, while the prices for ammonia went up across the board after the war escalation between Iran and Israel.

Ammonia prices all went up in tandem with the Middle East tensions. Global price benchmarks track ammonia production hubs in the Caribbean, Persian Gulf, Northwest Europe and India, with a focus on markets in West of the Suez. Ammonia prices were already on a bullish trend due to various reasons, one reason being that Trinidad and Tobago announced early natural gas curtailments at the facilities on the Caribbean. Nevertheless, Algeria, Egypt and Iran continued to export ammonia and nitrogen

fertilizers despite the Middle East tensions. The Strait of Hormuz "catastrophe" was completely overblown, as usual. Although ammonia prices broke through USD$400 per tonne for US Gulf Coast and Northwest Europe markets, prices didn't react the same at the production sources in the Middle East, where Persian Gulf price benchmarks hit a ceiling of around USD$350 per tonne FOB.



Source: Profercy (June 27)

Ammonia is seeing some volatility in prices at present. However, it's a far cry from the 2021-2022 explosion in prices across all benchmarks. From 2021-2022, prices for ammonia supplies climbed substantially to around a peak of USD $1,600 per metric tonne.

The UK Toes the Line on Fertilizer Tariffs

The United Kingdom announced new tariffs on fertilizer imports from Russia and Belarus. The UK will impose additional import duties on nitrogen fertilizers from Russia. It's not clear why the UK tied Belarus into this latest tariff scheme, considering that Belarus does not export nitrogen fertilizers. The UK already imposed fertilizer tariffs on Belarus and Russia after Russia's initial invasion of Ukraine in 2022. Tariffs were initially imposed at 35% for Russia and Belarus-origin fertilizers, except for nitrogen. It's important to remember that neither the UK nor the EU—nor the rest of the world—were able to reduce dependence on Russia for fertilizer supplies after the invasion of Ukraine in 2022.

Russian fertilizer supplies should be a considerable focus in the short term, especially because of volatility in ammonia prices that were discussed above. In any given scenario where natural gas prices spike, ammonia will inevitably rise in line with high prices, which will cause tighter supplies from Middle East and North African producers. The UK chose the same type of framework as the EU, to progressively increase duties on Russian nitrogen fertilizers over a three-year period. We covered the EU fertilizer tariffs on Russia and Belarus last month—Tensions Drive Fertilizer Action.

The UK has a much tougher road ahead than the EU when it comes to reducing fertilizer dependence. The UK is known for having a high dependence on the US for nitrogen fertilizer supplies as well. One US-based company, CF Industries, supplies the UK market with ammonia and nitrogen fertilizers from its Billingham Complex in the UK. CF Industries announced preliminary plans to permanently close the UK fertilizer plant in July 2023. Since then, it is yet to be seen whether CF Industries will keep its operations there.

Yara International has made plans to build a nitrogen fertilizer plant in Yorkshire, which is likely to take up the shortfall from the retreat of CF Industries. CF Industries could still export ammonia and nitrogen fertilizer supplies from the US to the UK, so it's not like the UK will be counting on Yara's fertilizer plant to save it from Russia in the long term. Despite changes, the global fertilizer markets are still a major concern for the UK as ammonia and nitrogen fertilizer prices do not see any signs of stability in the near term.

Trade Deal Momentum Heating Up

The UK fertilizer tariffs are a boon for Trump's trade deal momentum. Other trade deals are in the works as well. The EU signed off on its controversial trade deal with Ukraine, while an even more controversial trade deal between the EU and Mercosur countries came into focus from a deal between Mercosur and EFTA countries—Switzerland, Norway, Iceland, and Liechtenstein.

The EU-Ukraine trade deal is officially known as the EU-Ukraine Deep and Comprehensive Free Trade Area (DCFTA). It's long phrasing for a deal that has sent farmer protesters into the streets of Brussels from all the EU's agriculture centers. The DCFTA is about agricultural commodities, not so much about fertilizers, but it's in Ukraine where the sensitive nature over fertilizers and pesticides occur to the expense of EU-based farmers.

Farmers in Ukraine are not bound by the same environmental regulations so they can produce higher crop yields by intensifying applications of fertilizers and pesticides. This advantage comes into play during weather events that decrease crop yields. The European continent is seeing extreme changes in weather patterns, such as heatwaves across Southeast Europe, where those countries serve as agriculture centers to the EU markets. The EU-Ukraine trade deal was the priority for the EU, due not only to agricultural commodities demand, but also the defense and security implications for the EU and

Ukraine.

The EFTA-Mercosur deal sounds comparatively more symbolic in nature. The EFTA agreed to cut taxes on imports of industrial goods, while Mercosur exports of cheese, coffee, chocolate, lamb, wine, and spirits will be traded at more advantageous terms. This trade deal could be a step in the direction of closing an EU-Mercosur deal by the end of the year. For example, one of the highlights for finalizing the deal was Brazil's commitment to anti-deforestation practices.

In the end, global trade deal momentum came to a screeching halt for the EU and the US. The high stakes in committing to such a massive trade deal between them have already caused geopolitical shifts to take place. This is the impetus for the EU-Mercosur deal. It is also the impetus for EU fertilizer tariffs on Russia and Belarus. The EU and the US are both highly dependent on fertilizer supplies, so comparative advantages appear to be making a comeback for global food and fertilizer supplies. It's a new kind of "race to the bottom" to see where the US and the EU can secure the cheapest commodities around the world. Food and fertilizers are a classic example of this trend.

Aguia (ASX: AGR) - A Sleeper Phosphate Story in Brazil

This race to the bottom will not come at cheap prices for fertilizers in the near term. Fertilizer stocks are not necessarily proliferating. Many of them fly below the radar on the New York Stock Exchange and Australia Stock Exchange. Fertilizer stocks are ignored by the mining space, since the common denominator for investors seems to be agtech trends or quasi-chemical industry stories—the latter emphasizes urea and nitrogen fertilizers.

One that has appeared on our radar has been Aguia Resources Limited, an ASX-listed company (AGR:ASX) that could be viewed as a phosphate developer or gold explorer depending on where you are reading about the stock. The company has five 100%-owned projects located in Colombia and Brazil. All three Colombian projects exhibit high grades of gold, silver and gold-copper, respectively. Its primary gold project, Santa Barbara, has already produced and sold gold. It is now in the preliminary phase as it accelerates underground development. It is expected to generate strong earnings from gold mining in 2025.

For our point of view, it is even more humble to look at Aguia's organic phosphate holdings, located in the state of Rio Grande do Sul, which are ideally positioned in the midst of its prime market: the rich agricultural region of southernmost Brazil.

Aguia's logistical advantages in Brazil cannot be underestimated at current prices for phosphate fertilizers. Since 2016, Aguia's former management focused on constant demand for Brazil's phosphate market, but also another unique advantage: a cost advantage in shipping phosphate rock to Brazilian farmers compared with imports from Morocco.

Imagine how significantly higher that margin is going to be in the current global phosphate market. One of the main issues the company faced in Brazil was the permitting for the phosphate mining project, which the new management overcame in a legal victory this year.

After a period of quiescence due to local objections, Aguia is firing up phosphate operations again with the support of the state government. The phosphate development project also aligns with Brazil's National Fertilizer Plan to reduce Brazil's massive import dependence on fertilizers from Russia, Algeria and Morocco. Currently, Brazil's Rio Grande do Sul agricultural regional market is 100% dependent on imported phosphate.

For such a low-profile project, it has not only a BFS, but one that was updated as of the 23rd of March 2023. Capex over the first three years is an exceedingly modest AUD$26.2mn. The overall JORC Resource is 108mn tonnes. The project is based on the production of an organic phosphate fertiliser by the mining of only the saprolite from the Phosphate deposit. This option is attractive due to the high natural P_2O_5 grade in the oxidised ore (saprolite) (8.8% P_2O_5 on average) at the deposit.

After the ramp-up period, the annual production of 316,000 tonnes of organic phosphate fertiliser will

equal approximately 10% of the existing demand for this nutrient in a 300 km radius of the mine site.

Aguia began conducting field trials for its organic phosphate product Pampafos since 2019, and then it applied its new phosphate product Lavratto this year, using ryegrass and oats for winter and soybeans and corn for the summer. The field trials were successful across the board for crop yields. Aguia's organic phosphate product outperformed the equivalents of phosphate imports from Morocco, including for triple super phosphate (TSP) and monoammonium phosphate (MAP).

The company also has grass roots copper exploration projects in Brazil. With Colombian gold production about to become the tail that wags the dog at Aguia, and the Canadian markets being much more au fait with all things fertilizer, it would seem like a good idea to us for the management to seek a path to getting the Brazilian phosphate into the line of sight of Canadian investors via a demerger onto that market.

Russia & Belarus Operating Subtly East of Suez

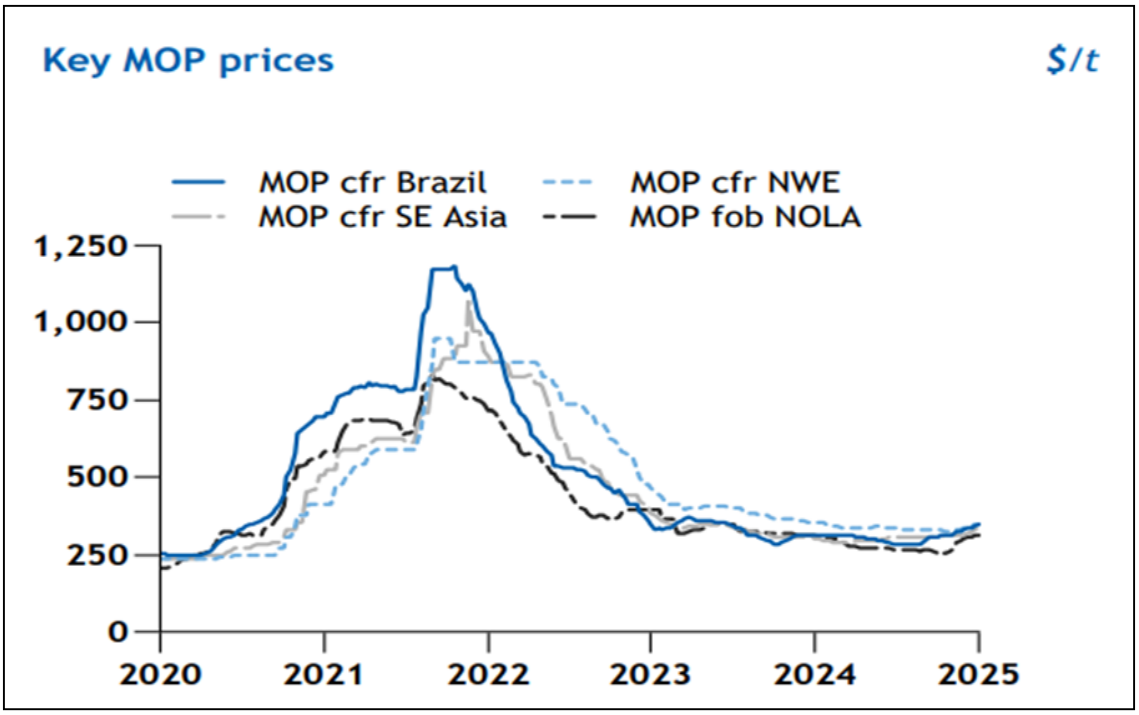
The Israel-Iran war escalation did more than just put global fertilizer supplies into focus. It turned the attention over to the East of Suez markets. With Asia-Pacific's growing demand for food, potash and urea fertilizer supplies have seen a significant shift to the East of Suez since last year. Canpotex has even had a hard time competing with Russia and Belarus in the key markets there. The reasons are clear. The governments in Indonesia and Malaysia have a high preference for Belarusian potash supplies, while Russian fertilizer producers make deals in tandem with the Kremlin's strategic objectives that suits national strategies for food security.

In the East of Suez markets, fertilizer supplies are indeed high politics and thus price movements and trade deals should be analyzed from this vantage point. Although no one was paying attention, Russia held the St. Petersburg International Economic Forum (SPIEF) on June 18. Food and fertilizer supplies were on the agenda. Russia's fertilizer producer Phosagro stole the show after selling 4.3 million tonnes of fertilizers in January-May 2025.

The CEO of Phosagro, Mikhail Rybnikov, even showed off how the company is going to capitalize on the EU's fertilizer tariffs by sending more fertilizer supplies in the upcoming quarters.

This year's SPIEF was important geopolitically as well. Russian President Putin and Belarusian President Lukashenko held a joint meeting about the state of the world from their perspectives. It didn't sound like Lukashenko had much to say about it at all, though. The US and EU sanctions on Belarus's potash fertilizer exports have been a devastation to the country's economy. Moreover, Belarus is even more dependent on Russia for transportation and shipping of its fertilizer supplies since the shipping routes were cut off from the Baltic Sea in 2021.

In closing, have a look at the attendees during this joint meeting: Azerbaijan, UK, Vietnam, Germany, Indonesia, Spain, Kazakhstan, China, USA, Türkiye, Uzbekistan, and France. These are all the countries we have covered in the Growth Minerals Sector Review this year. The results of a press conference between heads of state from Russia and Belarus might not be important at the G7 Summit, but any strategic planning being made between them is critical to the global potash markets. Greenfield potash production capacity will not be able take market share away from Canpotex, Russia or Belarus in the future.



Source: Argus

The Power of Prayer on Food Security?

There are news stories that must be highlighted to reveal the extreme nature of disruptions to global food and fertilizer supplies. One news story about Nigeria came out a day before the Middle East war escalation in mid-June. BBC wrote about the "Disbelief as Nigeria urges prayer to end food shortages" on June 14. According to the report, Nigeria's Agriculture Ministry stopped working and chose to pray for food at a prayer session. Rightfully so, Nigerians were angry at the government's decision to engage in a prayer session for food.

The UN estimates that 4.4 million people in Nigeria lack access to food. High prices for food staples in Nigeria have caused living standards to deteriorate over time, while the government in Nigeria responded by giving away 1,000 tractors and two million bags of fertilizers to Nigerian farmers. Does this benefit Nigerians? Nigeria exports agricultural commodities to global markets, and with all the

conundrums and corruption around Nigeria's oil and gas exports in recent years, the country needs hard currency despite food shortages on local markets.

This might all sound like another one of those conversations on global issues in the developing world, but it's indicative of a global trend. The Trump Administration has prioritized trade deals at the expense of the US farming community; the same could be said about the EU and their trade deals with Ukraine.

The UK's fertilizer tariffs will make Nigeria's and Morocco's fertilizer exports very attractive to the UK market. It's no surprise that CF Industries wants to get out of the UK. Yara might be rethinking plans for the fertilizer plant there as well.

Nigeria's richest person, Aliko Dagote, is all over the news with his $2.5 billion urea fertilizer plant. It's supposed to be part of the Nigerian government's strategy to boost re-industrialization in Nigeria. This is hard to believe in one of Africa's most populous countries that has high rates of poverty, crime and food insecurity, not to mention terrorism!

The proof is in the pudding. Headlines about the construction of the Dagote fertilizer plant were all over the place after Israel's strike on Iran caused concerns over urea fertilizer supplies from Egypt. Egypt had to temporarily shut down its urea fertilizer plant due to the knock-on effects from Israel's natural gas supply. This event only caused disruptions for about two weeks, but it was two weeks of marvelous headlines about the Dagote fertilizer plant.

Potash ends on a positive and "critical" note

There was a stream of positive updates about potash mining projects in June. One of the potash developers in Gabon that we covered previously, **Millennial Potash** (TSX: MLP), is not the only developer of interest in the potash sector, as Sage Potash (TSX: SAGE), South Harz Potash (ASX: SHP) and Kore Potash (LSX: KP2) have all announced new funding.

Sage Potash is a US potash mining project based in the Paradox Basin of Utah. The company closed its latest private placement at CAD$6 million. The funding will be used to advance the company's Sage Plain project which will be a greenfield potash mine in Utah.

South Harz Potash Project in Germany is a potash developer located in the historical potash mining district in Central Germany. South Harz Potash is a subsidiary of Germany's potash mining giant K+S. The company raised AUD$3.11 million through a two-tranche placement and rights issue to fund the company's dual-asset strategy at South Harz.

Kore Potash is a competitor to MLP in neighboring Republic of Congo, where there are known to be much larger deposits of potash reserves than in Gabon. Kore announced a USD$2.2bn funding package

for its Kola Project that will pay debt and royalty financing to advance the construction of the potash mine. The Kola potash mine has the potential to produce 2.2 million tons a year of muriate of potash (MOP). A significant difference between the two mines is that MLP's potash mine is not for MOP production.

Canada Aiming to Maintain Dominance

K+S Potash Canada announced a "Ramp-Up Initiative" at the company's Bethune mine in Saskatchewan that will increase production capacity to 4 million tons per year. K+S Potash Canada, a German subsidiary of BASF, will have to consider ongoing trade discussions between Canada and the US. The company relies on the US market to supply large volumes of potash and has already hinted at supplying the China market as a way to hedge trade concerns.

The G7 Critical Minerals Action Plan was announced at The G7 Summit. According to the statement from the Prime Minister of Canada: "The Action Plan will focus on diversifying the responsible production and supply of critical minerals, encouraging investments in critical mineral projects and local value creation, and promoting innovation."

It's certain that potash will be play a key role in any critical minerals' strategy for Canada. After all, potash is a critical mineral in both Canada and the United States. BHP's Jansen potash mine is reportedly 60% of the way to completion for Phase One. The grandeur of BHP's Jansen mine has potash developers and producers in a race to the top, leaving unresolved questions around the future of potash production capacity and supply chains.

Conclusion

A week may be a long time in politics, but the last month has seemed an eternity in terms of all things military. There was escalation then de-escalation and finally an eerie feeling that this was only a pause in proceedings. To hark back (as Hallgarten does with metals) to WW2 and even WW1 one would note that fertilizers were not a hot topic and certainly not a bulk commodity in those previous periods. Agricultural zones were used to low soil productivity and self-reliance indeed self-subsistence.

While one might talk about how China might get chrome in a war scenario, one well might ask how the big agricultural regions of the world might get fertilisers for their much-depleted soils (and much augmented populations) should bulk carriers start sinking. Think about it.

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