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Sector Coverage

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Growth Minerals Review The Black Sea as the Fertilizer Epicentre

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Growth Minerals Sector

The Black Sea as the Fertilizer Epicentre

- + Brazil Potash has begun the task of trimming its sizeable capex for its project in Brazil's north
- + There are finally signs of movement at Aguia, the ASX-listed story with a long-stalled Brazilian phosphate project
- × As we have often warned, the Black Sea is a fertilizer battlefield and intensifying warfare in the zone is disrupting trade in these products
- × Political ire is rising over the weakening position of Ukraine with Trump finally coming off the fence and lashing the Putin administration in Russia
- × The "stolen grain" issue from Ukraine is starting to produce rancour but little action
- × Belarus finds itself hemmed in export-wise with Lithuania restricting egress of fertilizers from its port facilities
- × BHP has seen a cost blow-out for the capex of its Jansen mine

Many Countries Are Not Happy with the War in the Black Sea

The Russia-Ukraine war intensified on the Black Sea. On July 9, Russia launched 728 drones and 13 missiles which was recorded as the largest drone attack since the war began on February 24, 2022. This attack on Ukraine kickstarted US President Trump's dismay toward President Putin, saying that he was "not happy" with the way things were going between Russia and Ukraine.

More fighting has resumed at the port of Odessa and at energy infrastructure sites on the Black Sea. Odessa is one of the most strategic targets for Russia's military attacks, and it is Ukraine's lifeline to export grain and other agricultural commodities to global markets. Although it is not considered to be part of the temporarily occupied territories (TOT), the airspace over Odessa has been closed since the beginning of Russia's invasion. It has been a prime target for Russia's aerial and naval attacks all along.

This has allowed Russia to focus its attention on occupying other parts of Ukraine, such as areas with vast agricultural land for grains and oilseeds. In the TOT, Russia has been accused of developing transportation and logistics hubs to transport stolen grain out of Ukraine to global markets. The Ukrainian government officially calls this "raider tactics" by Russia to occupy and steal from the country's rich source of agriculture during the invasion.



Source: Wikipedia

The European Union (EU) and others have been largely inactive on the problem of Ukraine's stolen grain this year. Reports have revealed that some EU-based companies facilitated grain exports from Ukraine through the bypassing of inspection and control procedures, for example. The real problem is that other countries continue to buy grains and wheat from Russia regardless of the TOT problem.

Bangladesh was accused by Ukraine's ambassador to India of buying over 150,000 tonnes of stolen grain from Russia directly. Bangladesh responded that it had not bought any grain from the TOT in Ukraine; however, it is evident that Russia sells large volumes of wheat and grain from its own ports, which can easily be blended with stolen grain.

What has Russia had to say about all of this? Well, Russia had this to say about the expiration of the UN-brokered deal to export Russian food and fertilizers to global markets: "Given the destructive line of Western capitals to increase illegal unilateral sanctions against Russia, none of the objectives [of the agreement] have been successfully completed."

July 22 marked the end of a three-year deal signed between the United Nations and Russian Federation to resume the exports of food and fertilizers to global markets after the invasion of Ukraine caused disruptions to supply. The sanctions placed on Russia's various export mechanisms caused the deal to be fruitless in the end. For obvious reasons the deal will not be renewed, but it does emphasize the need for food and fertilizers from the Black Sea.

Russia and Belarus Potash Conundrums in the Baltic Sea

Potash fertilizer is where the discussion gets even more complicated. Belarus is in court with the EU to undo the sanctions that were placed on the country's potash fertilizer exports through the Baltic Sea. Lithuania is the key problem here. The Belarus government filed a lawsuit against a bulk cargo terminal in Lithuania, Birių Krovinų Terminalas (BKT), for blocking Belarus's fertilizer shipments from the Baltic Sea due to the sanctions.



Source: Center for Strategic and International Studies (CSIS)

Belarus has offered to withdraw the lawsuit in exchange for allowing the potash fertilizer shipments to resume through Lithuania, although the Lithuanian government has refused this offer so far. This situation was linked to Belarus's decision to release political prisoners in June. It was believed that American diplomats helped facilitate the prisoner exchange in hopes that Belarus potash fertilizers could be exported through the Baltic Sea again.

All this international politicking illustrates the importance of Belarus potash supplies. Belaruskali is one of the world's largest potash producers. Since the sanctions were placed on various Belarusian business

entities, Belarus's potash shipments have become increasingly reliant on Russia for transport to global markets. It's no wonder that Belarus is willing to give up the lawsuit at the European General Court in exchange for its potash exports. The Baltic Sea is to Belarus as the Odessa Port is to Ukraine: a lifeline for food and fertilizer exports. If stolen grain from Ukraine has made its way surreptitiously to global markets, then it's a likely bet that potash supplies from Belarus will do the same.

Finland is the other key problem for potash exports from Russia and Belarus. There have already been problems there since 2023, when Finland closed its border with Russia. This had an immediate impact on Russia's potash fertilizer exports. Russian fertilizer exports through Finland were a point of contention during the UN-brokered deal to allow exports of Russian fertilizers to global markets. Finland detained Russian fertilizer cargos during the negotiations in Istanbul, even though Russian fertilizers were not being sanctioned at the time by the EU.

There appeared to be confusion at the time, given that Belarus's potash was placed under the EU sanctions, but Russia's potash was not being sanctioned. In other words, the EU has already been on the lookout for Russia's transporting of Belarus's potash supplies on the Baltic Sea.

BRICS Momentum Outshines Canadian Potash Projects

The EU sanctions have caused a significant shift in Russian and Belarus-origin potash by rail to emerging markets. The BRICS countries have been a highlight in this new trend. The Russian Association of Fertilizer Producers (RAFP) claimed at the BRICS Business Forum in Brazil that Russia produced over 63 million tonnes of mineral fertilizers in 2024, of which over 50% went to BRICS countries. On the other hand, Russia stepped up offers of fertilizer donations to certain countries, notably Sri Lanka, where a blocked shipment in the Gulf of Riga turned into a major political win for Russia at the end of 2024. It was carrying 55,000 tonnes of potash for Sri Lanka.

One of the reasons Russia's fertilizer exports are booming is because Brazil demand is growing at a rapid pace in 2024-2025. Brazil has already increased fertilizer imports from 10.18 million mt in the first half of 2024 to 11.54 million mt in the first half of 2025. Most of Brazil's purchasing activity in the first half of the year was for nitrogen and phosphate fertilizers, which is notable given the higher prices. As long as potash prices remain below US\$400 per tonne, Brazil will increase potash imports to meet the crop demand going into the second half of the year.

Other major fertilizer producers are taking note of Brazil's fertilizer demand. Both Russia's Eurochem and US-based Mosaic Company have announced new investments into fertilizer production capacity in Brazil. Eurochem invested over US\$1bn in a new phosphate fertilizer plant. It will produce over one million tonnes of phosphate fertilizer at the Serra do Salitre phosphate facility. The Mosaic Company will begin operations at a blending, storage and distribution plant in Palmeirante, Tocantins, Brazil. The processing plant has a capacity of one million tonnes per annum, including warehouse capacity,

automated blending and bagging systems that are connected to a rail system linking ports in Northern Brazil.

Brazil Potash – Looking to GRO

This is all occurring during the Brazil Potash (NYSE: GRO) construction advancements that will see Brazil's first domestic potash mine by 2029. Brazil Potash announced a significant milestone in the Autazes Project by establishing a strategic partnership with Fictor Group. Fictor Group will build the powerline and provide energy transmission for mining operations. Fictor Group also received a US\$20mn equity stake in Brazil Potash through a build, ownership and transfer agreement that will last 25 years. The terms of the MoU between Brazil potash and Fictor Group note that the latter will cover costs of \$200 million in power transmission for mining operations. This means that Brazil Potash no longer has to cover this amount of the capital expenditures. The power transmission infrastructure is scheduled to be completed by July 2029.

This news was a boon for GRO's stock price. It's not too apparent though from a high-level look at what is a pretty disastrous chart (on the following page), but in fact the year low was \$1.25 and the stock is now in the mid-\$1.60s.



Evidencing this, the company was able to cut 8% of the total capital costs for mine construction. Brazil Potash CEO Matt Simpson shared that the company is looking for international firms to provide mine shaft services, but that local contractors will be employed for further construction and engineering work at the mine site.

Tariffs as an Own Goal for the US

Due to the rising prices for nitrogen and phosphate, the U.S. fertilizer market is facing headwinds in the near-term. U.S. fertilizer affordability fell from 0.98 to 0.71. On top of that, U.S. tariffs are making Canada fight back with its own potash stick. Members of Canada's Parliament are calling on Prime Minister Carney to protect Canadian potash producers by making a strategic reserve, under a new critical minerals framework that will allow for the purchase of bonds.

In other news, BHP Group's Jansen potash mine took a big hit in capex costs to the tune of US\$1.7bn, putting the capex requirements at a total of between US\$7-\$7.4bn. The mine was also pushed back to mid-2027 for first production of potash. It's not as if BHP is in a hurry to get the potash mine up and running, with potash prices seemingly in a stable position allowing Canpotex, Russia and Belarus to capitalize on large export volumes at low operating costs.

Conclusion

In a global trading arena where U.S. tariffs rule the roost, any agricultural producer is going to rethink fertilizer supplies in the medium- to long-term, which includes all three of the macronutrients—nitrogen, phosphate and potash. Potash remains to be one of the more reliable sources, as China is not a key supplier, nor has the Middle East tensions caused any potash supply disruptions as it had for nitrogen-based fertilizers such as urea.

In addition to being the world's largest wheat exporter, Russia is also the world's largest fertilizer exporter, including nitrogen, phosphate and potash supplies. Without Russia, the global fertilizer market would be in disorder. China's export restrictions of nitrogen and phosphate fertilizers have already caused disruptions, all the while putting more of an emphasis on the demand for Russian-origin fertilizer supplies. The latter caused the EU to finally place its own sanctions regime on Russia's fertilizer imports. It is yet to be seen at what cost this will come to the EU.

Other countries are fearful of the US's threat to place secondary sanctions on purchases of Russian fertilizers. In this scenario, there will be massive problems for agricultural powerhouses across the world, notably Brazil and Kenya, who already import some of the largest volumes of Russian fertilizers. Those countries will not be able to simply replace Russian-origin fertilizers with other sources. The global fertilizer market is highly concentrated into certain areas of nitrogen, phosphate and potash production, and Russia is one of the only countries that can supply large enough volumes of all three fertilizers at stable prices for importing countries that grow food for the global markets.

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