The Mosaic Company

Moderator: Gagnon, Laura
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OPERATOR: This is Conference # 7584806

Operator
Good morning. My name is Mary and I'll be your conference operator for today. At this time I would like to welcome everyone to the First Quarter 2019 Earnings Conference Call.

All lines have been placed on mute to avoid any background noise. After the speaker's remarks, there will be a question-and-answer session. If you would like to ask questions during this time, you may press star and the number one on your telephone keypad. If you would like to withdraw your question, you may press the pound key. Thank you. I will now turn to the call over to Laura Gagnon. Ma'am you may begin.

Laura Gagnon
Thank you, and welcome to our first quarter 2019 earnings call. Presenting today will be Joc O'Rourke, President and Chief Executive Officer; and Clint Freeland, Senior Vice President and Chief Financial Officer. We also have other members of the senior leadership team available to answer your questions after our prepared remarks.

The presentation slides we are using during the call are available on our website at mossaicco.com. We will be making forward-looking statements during this conference call. The statements include, but are not limited to, statements about future financial and operating results. They are based on management's beliefs and expectations as of today's date and are subject to significant risks and uncertainties.

Actual results may differ materially from projected results. Factors that could cause actual results to differ materially from those in the forward-looking statements are included in our press release issued yesterday and in our reports filed with the Securities and Exchange Commission.
We will also be presenting certain non-GAAP financial measures. Our first quarter press release and performance data attached as exhibits to yesterday's form 8-K filing also contain important information on these non-GAAP measures.

Now I'd like to turn the call over to Joc.

**Joc O'Rourke**

Thank you Laura and good morning to you all. Mosaic delivered another solid quarter despite significantly lower phosphate prices and operating rates driven by weather conditions in North America as well as regulatory changes in Brazil.

Despite the challenging conditions, we continue to execute at a very high level across the company, which is reflected in well-controlled operating costs and continued increases in synergy realization at Mosaic Fertilizantes.

Our results demonstrate the economic value of the much more efficient business that we have created. Before we get into the results for the quarter, I would like to provide you with an update on the situation in Brazil, where the new regulation governing mine tailings down is having an impact on our operations.

Since the Vale dam failure, Brumadinho in January we have been working with our external consultants and the Brazilian regulators to ensure our own dams remain safe to operate and meet the newly implemented standards. In March, we recognized that our dam at Araxa did not meet the new requirement and idled that mine. In-mid April we were unable to complete geo technical assessments at an additional three dams resulting in the idling of our Tapira and Catalao mines.

Now that the assessments are complete, we have a much better understanding of the timing and implications related to idling of these mines. At Catalao we expect to be fully operational in the second quarter. At Tapira, we expect to return to full operation in the third quarter.

At Araxa, we are on track to begin operations in the third quarter. While these mines are idled, we expect to meet our Brazilian customer’s fertilizer needs with a combination of existing rock and production inventory in Brazil, rock from our mine in Peru and MAP from Florida.

For the year we expect to incur higher rock costs from importing rock from our Peru mine, primarily from higher transportation costs and additional cost from underutilization at the mines and chemical plants. Combined we expect these incremental costs could total up to $100 million.

We are continuing to look for ways to further mitigate these higher costs. We also expect some positive offsets, for example, higher operating rates at our lower cost, Florida assets should lead to stronger margins. We
anticipate the work to bring all dams into compliance and remediate the remaining upstream list will be accomplished within our existing capital budget over the next three years.

Our ability to use Miski Mayo rock in our global production demonstrates the strategic and risk management benefits of owning three quarters of this mine. In addition, we expect that these incremental shipments may allow the mine to operate at higher rates, driving lower cost per tonne.

Shipping MAP from Florida to Brazil will allow us to consume, built-up US inventory more quickly. Going into North American spring season both Mosaic’s and channel inventories were high due to the weak 2018 fall application season and the late and wet 2019 spring. Reducing our own inventories while the spring season is depleting channel inventories should result in a tightening of supply.

To summarize our efforts related to dams in Brazil. We have a well-defined plan to resolve the issue. We are taking action and making good progress towards resolution. We are meeting our customer needs and we’ll continue to do so reflecting the benefit of our global asset footprint and combination of distribution and production.

And finally, we believe that in the end Mosaic will have a lower risk profile and remain in an excellent position to serve resilient agricultural markets for generations to come.

Now let’s move on to the quarter results. We provided substantial updates on our progress at our Analyst Day at the end of March. So, we will keep our remarks brief. For the quarter, Mosaic reported earnings of $131 million, up from $42 million last year, both on revenues of $1.9 billion.

The company generated $430 million of adjusted EBITDA compared to $399 million of adjusted EBITDA a year ago and adjusted earnings per share of $0.25 compared with $0.20 a year ago. The improvement in operating margin despite a lower phosphate stripping margin and the impact of curtailments reflects the underlying improvements we've made in our cost structure.

Based on our actual results for the first quarter and our outlook, we are revising our full year EBITDA guidance to $2 billion to $2.3 billion from $2.2 billion to $2.4 billion. This reflects the impact of the regulation change in Brazil, but also acknowledges the impact of higher Canadian resource taxes and slower phosphate pricing recovery than originally anticipated.

Moving on to the business environment, markets for our two nutrients diverged during the first quarter. As I said earlier, phosphate prices fell primarily as a result of high carryover inventories in North America and high and early seasonal imports into New Orleans.

In addition, Chinese exports in the first quarter increased by over 0.5 million tonnes from a year ago, adding to global market length. While
lower raw material prices helped, market stripping margins still declined over 20% year-over-year.

North American demand began to emerge at the quarters end and prices have stabilized. In fact, prices have actually increased for product that is upcountry in the U.S. where high Mississippi River water levels have creative logistic challenges.

Mosaic has a strong geographic competitive advantage in the U.S. over importers. At the end of the quarter, over 40% of our phosphate inventory was in upcountry facility above St. Louis in Mosaic’s or our customer’s warehouses, which gives us the ability to get product where it needs to be regardless of river shipping conditions.

This also highlights why we recently purchased a very large distribution facility called Pine Bend near the north end of the Mississippi River in Minnesota. The facility significantly improves our ability to serve Midwest customers and reduces our logistics risks.

In addition, we're finally seeing seasonal demand in China emerge which is focusing Chinese production on domestic demand. On the other side of the world fertilizer demand in Brazil is running ahead of last year with very strong shipment growth in both phosphates and potash.

In contrast to the phosphate market, potash was much less impacted by the logistic challenges in the Mississippi River region. And the potash supply and demand picture remained balanced during the quarter with prices holding relatively flat.

Our curtailments in the quarter were driven by logistics issues internationally and full warehouses domestically. Those issues are now resolved and we expect inventory to flow out in the second quarter with much less logistical friction.

In addition, we continue to expect constructive market fundamentals for potash through at least 2020. We acknowledged that there are risks to our outlook including whether such as the El Nino related drought that may impact potash demand in Southeast Asia and palm oil demand uncertainty, in phosphates the Chinese supply and demand picture continues to search for a new normal.

The continued strength of demand in our markets combined with our strong execution gives us confidence that we can weather the short-term challenges and come out even stronger in the end.

Now Clint will discuss the segments in more detail including our expectations for the second quarter. Clint?

Clint Freeland

Thanks Joc. Good morning everyone. I'll start by reiterating Joc's message regarding the first quarter. Our business performed well as a result of
excellent execution across the business units, and we delivered results in line with our expectations despite the weather and regulatory factors Joc discussed. Our Potash business generated another strong quarter with shipments in gross margin per tonne coming at the high end of our expectations.

Our cash costs of managing brine inflow declined to $28 million in the quarter and overall costs remained well controlled. We curtailed production at our Canadian mines during the quarter due to high inventory levels at the plants, which resulted from severe winter weather and slow rail service. As a result, our operating rate declined to 86%, which not only let us to recording approximately $11 million in idle plant costs during the first quarter, but also having higher cost production role into inventory, which will be realized during the second quarter.

Last year, we changed our revenue recognition policy and there's now a longer lag between Canpotex shipment and revenue recognition. Fewer tonnes leaving the mines in the first quarter will negatively impact Canpotex volumes, but we expect this to be offset by strong domestic sales during the quarter.

With these dynamics in mind, our expectations for the second quarter are for sales volumes of 2.3 million to 2.6 million tonnes and adjusted gross margin per tonne in the range of $70 to $80. As previously disclosed, we expect our cost of doing business in Canada to increase from where they have been in the past. As a result of higher taxes, we expect the Saskatchewan resource tax increase to raise our cost of goods sold by approximately $35 million in 2019 and by roughly $50 million per year thereafter.

Our phosphates results for the quarter reflected the deeper-than-usual seasonal price reductions and a continued delay in price recovery. While we recognize sales of 1.8 million tonnes, which was near the top end of our guidance range, we ended the quarter with over 1.3 million tonnes of finished product inventory. We expect to liquidate this inventory as we meet our North American and Brazilian customer needs, which should allow us to maintain high operating rates and low conversion costs.

We earned adjusted gross margin per tonne of $36 during the first quarter, slightly below our expectations due to lower market prices and the impact of higher cost associated with the accelerated maintenance work done in the quarter. We announced this shift to curtail production by 300,000 tonnes during the quarter because of temporary market conditions. Similar to the fourth quarter of last year, rock costs during the period were somewhat elevated as we transition to new mining areas. This is short-term, however and does not change any of the longer term targets that we outlined at our Analyst Day.

Cash conversion costs continue to be well managed. During the second quarter, we expect to sell 2.3 to 2.6 million tonnes of finished product reflecting strong North American and Brazilian seasonal demand. Our
gross margin per tonne expectation is $40 to $50 and includes the impact of the higher rock cost I mentioned running through inventory.

Recent ammonia and sulfur price declines are expected to flow through cost of goods sold likely in the third quarter. Our MicroEssentials products continued to perform well during the quarter with gross margin premiums of $62 per tonne over MAP. We expect this to remain in the $40 to $50 per tonne range for the year. In Brazil, fertilizer demand remains robust. Gross margin per tonne in the first quarter was lower than expected due to the cost of idling Araxa and other costs related to the new regulations.

Mosaic Fertilizantes realized net synergies of $66 million ahead of the $47 million that we shared during our Analyst Day presentation. All-in-all, business fundamentals, production, sales and synergy capture remained very strong in the quarter. Even with the current challenges, we believe that we will achieve our targeted net synergies of $275 million in 2019.

As Joc noted earlier, we expect it to incur up to $100 million in incremental costs during 2019, as we managed through the dam issue in Brazil. As part of our mitigation plan, we intend to import up to 120,000 tonnes of Miski Mayo rock monthly at an incremental logistics cost of $60 per tonne of rock. This covers about 40% of our total monthly rock used at the Brazilian plants. In over six months, this would add about $40 million to our costs in 2019.

Even with imported rock and existing rock inventories, we still expect to operate our chemical plants below full capacity resulting in higher period cost and cost per tonne of finished product. And finally, we plan to import up to 300,000 tonnes of finished product from Florida. However, I would note that the lower cost of production in Florida offsets a meaningful portion of the incremental transportation costs.

Taken together, these items are expected to increase the segment’s operating costs by up to $100 million in 2019, approximately $50 million in the second quarter alone. For the second quarter, we expect sales volumes of 2 million to 2.3 million tonnes in line with normal expectations. As part of our plan to meet our customer needs, we’ve already begun to modify our current contracts to be optional origin, which allows us to source product from any of our global facilities, be it from North America, Brazil, or Saudi Arabia to serve our customers.

Gross margin per tonne is expected to be within range of $15 to $25, reflecting the impact of the higher costs that I mentioned, partially offset by distribution margins on the imported tonnes. At our recent Analyst Day, we outlined 2021 targets for each of our business units and we will continue to mark our progress toward them. This slide shows the four quarter rolling average as of the first quarter. Averages are meant to smooth out seasonality and the impact of turnarounds.

In addition, we’ve provided you our starting point, the 2018 actuals. While we work through the regulatory changes in Brazil, we do not expect to be
making progress on the Mosaic Fertilizantes targets. The only other metric that is pressured near-term is the cash cost of rock and phosphates where we've had a couple of quarters of higher costs as we transition to new mining areas.

As we've discussed in the past, our business is seasonal, which means our working capital and cash flow is as well. The first quarter of each year tends to see the greatest use of working capital as inventory builds for spring application season and certain accruals from the previous year are extinguished.

This year was no different, as inventories rose by approximately $300 million and almost $200 million in payables related to Canadian taxes and G&A accruals were paid. As we move forward in the year, however, we would expect working capital to return to more normal levels.

As noted earlier, we're updating our guidance ranges for the year as a result of incremental cost in Brazil, higher tax burden in Canada and slower than expected phosphate recovery. Adjusted EBITDA is now expected to be in the range of $2.0 billion to $2.3 billion and adjusted earnings per share is now $1.50 to $2, reflecting an expected increase in the effective tax rate.

Regarding cash usage, there are a handful of items to note. First, cash tax estimates have increased by almost $15 million on higher Canadian earnings and withholding. Cash interest expense estimates are up $10 million, due to a combination of lower cash balances and higher working capital financing cost in Brazil.

And finally, we've allocated $55 million during the quarter to the acquisition of the Pine Bend Warehouse, which financially generates an after tax unlevered return in the mid-teens and strategically positions us to better serve our customers by having increased Midwest warehousing capacity.

This acquisition lowers our logistics risk and allows us to take advantage of time and place premiums like we're seeing today. This acquisition also allowed us to avoid significant future CapEx spend at our Savage facility. Based on these factors, we expect capital available for allocation to be in the range of $400 million to $700 million for the year.

Now I'll turn the call back to Joc for his closing comments.

**Joc O'Rourke**

Thank you, Clint. Several factors have our close attention. We will continue to monitor the evolving North American spring season. We will continue our work to meet new dam compliance requirements in Brazil. And as always, we will be monitoring Chinese phosphate exports. In addition, we are required to make a decision on the future of Plant City during the second quarter.
Regardless of the external challenges, Mosaic is in excellent position to generate strong returns. As our first quarter results demonstrate, we have made major progress and Mosaic today is a stronger and more resilient company than it has ever been before. We will keep pushing for lower costs and greater operating efficiencies, while driving excellent safety performance and maintaining the integrity of our assets. We are optimistic regarding the markets and we're confident that Mosaic will deliver robust value for all our stakeholders across the business cycle.

With that, I will take your questions. Operator?

Operator Thank you. At this time, I would like to remind everyone in order to ask questions please press star followed by the number one on your telephone keypad. Again press star one followed by the number one on your keypad. We will limit one question per participant, thank you. Our first question is from the line of Mark Connelly from Stephens Inc. Your line is now open.

Mark Connelly Two things, if we look past the dam issues, you had talked about a $70 transportation cost for imports into Mato Grosso and at the time those assets weren't—still weren't competitive despite having that advantage. If we looked past the dam cost, do you have a sense of where you think you're on track to be? Are you going to fully offset that and—or is that, are you going to be sort of somewhere in the middle?

Joc O’Rourke Mark, if I understand your question—sorry. Good morning. If I understand your question correctly, the suggestion is that even with the $70 transport costs, we are in the middle of the cost curve. I believe that's kind of what you're asking. And what I would say to that is two things, clearly because we are in the market, we do get the market premiums because of the time and place utility. And our synergies are absolutely moving us down the cost curve and making us much more competitive in that Mato Grosso market. So the $70 definitely is an advantage to us and one that we're, I think capturing quite effectively in that business.

Operator Our next question is from the line of Andrew Wong from RBC Capital Markets. Your line is now open.

Andrew Wong Hi, good morning. Just regarding the revised earnings guidance for 2019, can you provide some more detail on the fertilizer prices and margins that are being run through those figures? Is that guidance maybe based on spot pricing margins or maybe some improvements for later this year? Thank you.
Joc O’Rourke: Yes. Thank you, Andrew. Let me hand this to Corrine to give you a little bit of detail on it. But I think as I mentioned in my opening remarks, the downwards pressure on our guidance, if you will, was based on, first of all, our understanding – a better understanding of the costs to remediate in Brazil. And second piece though to that was obviously the Canadian taxes and then finally, the price recovery in phosphates being slower than what was originally expected because of the late spring. But somewhat offset by higher expected performance from our potash business than might have been in the original guidance. Corrine, can I – you talk…

Corrine Ricard: Yes. We have factored in a modest recovery in phosphate margins for the rest of the year. Today we believe that NOLA price market is significantly below world price level is $30 to $40 lower than world price levels. So we could see some upside in the numbers that we've used because we just put in a modest recovery for Q3 and Q4.

Operator: Your next question is from the line of John Roberts from UBS. Your line is now open.

John Roberts: Thank you. Can you hear me? Hello?

Joc O’Rourke: Yes.

John Roberts: Yes, sorry. Just to pin you down a little bit more on the dam issues here, it sounds like there was minimal in the first quarter and there'll be minimal in the fourth quarter. So again, it's roughly $50 million – you gave $50 million for the second quarter, it'll be roughly $50 million in the third quarter as well. Is that correct?

Joc O’Rourke: Yes, that is correct. The way we expect to see this flow through is, again, most of it is the transport of Miski Mayo rock into Brazil and the extra transport costs of that offset by Miski Mayo costs maybe being a little better. The second piece is the – some transport costs, most of which is offset by lower cost from Florida for the MAP. And then the third piece is the underutilization of the assets because of the idling. So the first quarter or second quarter here, yes, $50 million. I think we're fairly solid on that. And then third quarter could be up to $50 million depending on execution.

Operator: Your next question is from the line of Jeff Zekauskas from JP Morgan. Your line is now open.
Jeff Zekauskas  Thanks very much. Have a couple of questions on cash flow. In the course of your opening remarks, you said you have to decide on the future of Plant City, if you close Plant City or are you have to make arrangements for it, how much can the future cash outlays incrementally be for that?

And secondly, you talk in your press release about strong cash flows this year. My guess is that the cash outlays from you know Brazil and extra costs may reduce your cash generation expectations by, I don't know $300 million this year or something like that. Can you provide some insight into those two issues?

Joc O'Rourke  Sure. Thanks Jeff. Okay. Well, let me reiterate that. Yes, and indeed the future of Plant City will have to be decided by July. We have to do that this quarter. And I'm going to let Clint talk a little bit about both how the cash flows this year and how they flow through. Although I will say, I believe there is a table somewhere in the deck that does go through the overall changes to cash flow but Plant City, I think, Clint, you can give some color on that.

Clint Freeland  Sure. Good morning, Jeff. Excuse me. So we've looked at the scenario of what happens if we make the decision to finally close Plant City. And I think there are a couple of things to keep in mind. First of all, you would have a noncash asset write-down, currently the book value of that asset is about $230 million. So you would have a noncash write-off of that asset is about $230 million. So you would have a noncash write-off of that to the extent that you permanently closed the facility.

And then the other thing that you would have would be an increase in the ARO, the asset retirement obligation related to that facility. And really that change would be an increase of about $100 million, that change is primarily the effect of the present value calculation associated with it. And obviously that work would be pulled forward. So about a $230 million book value of noncash charge associated with that and then an ARO increase of about $100 million.

Now when you look at the actual cash that we would spin and say over the next five years, I think our preliminary estimate would be in total over that five year period, roughly a $100 million. There are a couple of different lines of work that need to happen, you have the gypstack closures that would need to happen, but you also have some water treatment that would need to happen.

We're looking at a number of different options, particularly for water treatment, different technologies that could meaningfully impact the amount that we would need to spend on that. So that could be variable,
but I would say, if you think about cash over the five-year period, post-
closure, probably in aggregate about $100 million.

**Operator**

Our next question is from the line of Chris Parkinson from Credit Suisse. Your line is now open.

**Chris Parkinson**

Great. Thank you. Hopefully I'm not echoing. Can you just talk a little bit about your update on the outlook for Chinese DAP and MAP exports? Clearly it's been a little noisy just in the very beginning of the year with top producers increasing operates. But is it still your understanding there will be additional closures in 2019. So if you could comment on your net outlook for the year as well as your expectations for local rock costs, it would be greatly appreciated. Thank you.

**Joc O'Rourke**

Okay, Chris. Thank you. And I apologize to the group for our line just got lost for a while there, so I apologize. But I'm going to hand this straight over to Andy to talk a little bit about the supply and demand balance for DAP and MAP in China. Andy?

**Andy Jung**

All right. Thanks Joc. And thanks Chris for the question. So I think we're all aware of that Q1 exports were up year-over-year, a little over 500,000 tonnes. But bear in mind that Q1 is a relatively low volume quarter for exports. It makes up usually 10% to 15% of annual exports. What we've seen from a rock costs standpoint is that rock production was down in 2018 via the official statistics 22% year-over-year. We understand that they depleted domestic inventories to maintain their downstream production relatively flat. But that will be putting upward pressure on costs as we move through 2019, we'd also expect to see sulfur prices on the rise. We've seen continued relatively high ammonia costs. So there won't be this upward pressure supporting the price floor in China. And because of that we would expect to see volumes as we move throughout the course of 2019 begin to taper off. And also supporting that is just the emptiness of their domestic channel. So they robbed their domestic channel of tonnes in order to export in Q4 as well as in Q1. And we would expect that in order to replenish that domestic pipeline, they'll have to keep tonnes at home rather than in the export market.

**Operator**

Your next question is from the line of Jonas Oxgaard from Bernstein. Your line is now open.
Jonas Oxgaard: Good morning, guys. If we can continue on that question, let's look at the demand side in China. It's been pretty weak for last couple of years. It doesn't seem to be moving much right now and can you talk about what you're seeing and how you think that's going to evolve over the next year?

Joc O'Rourke: Yes, sure Jonas. I'm going to hand that back to Andy again, but let me make a general comment, which is what we have seen in China, at least for their corn and oilseed type crops is a flattening of the yield curve. So the yields are not increasing, which means that if they don't get back to a better utilization or a more consistent utilization, I believe that they will have yield issues, which doesn't fit their needs to become more self-sufficient.

But Andy, do you want to talk a little bit more about all that?

Andy Jung: Yes. In the – I guess into the minutiae a bit more, production is round about that 25 million tonne mark. Consumption is perhaps a bit over 15 million tonnes, maybe towards 16 million tonnes. And that's left them with the ability last year to export in excess of 11 million tonnes by taking down some pipeline inventories in the country.

As we move into 2019, we think production year-to-date is roughly flat, at least so far through the first quarter. We think that consumption is probably down slightly, maybe in the 0.5 million tonne ZIP Code. And as we move through the rest of the year, we would think that production likely slips a bit lower as some of the environmental compliance issues come to bear or bear further.

And also some of the cost pressures that I talked about earlier and domestic consumption as they replenish the pipeline and look to a fall season, we would expect to see domestic consumption level out. As Joc mentioned, the yields, grain and oilseed yields in China have plateaued and we don't think that that's a sustainable situation for the government there. And then what brings us back to the export volume, we do think year-over-year we'll see a slowdown in the final three quarters of the year. And for the full year be down marginally versus where we were last year.

Operator: Your next question is from the line of Adam Samuelson from Goldman Sachs. You may now ask your question.

Adam Samuelson: Yes, thanks. Good morning. So two questions, first just want to get a little more color on your view of spring application, demand thus far and through the first week of May. Just do you see enough product going to ground to actually clear out the inventories on phosphates and I guess to a lesser extent on the potash side, how much is there a risk of product being
stranded out of St. Louis that would not get to the ground in time for the spring that then will carry over to the fall and continue to weigh on NOLA values. And then just a clarification question on Clint’s earlier comments on the ARO, the cash outlay over the next couple of years on Plant City, should you decide to close it. Is that covered by the ARO trust or is that incremental cash outlays from the corporation? Thank you.

Joc O’Rourke

Okay, thanks Adam. That’s a barrel full. I’m going to hand it to Corrine to talk a little bit about the spring but what we can say is look, spring is going and while there is a small amount of product stuck in St. Louis, it probably will not get out for spring season. That is affecting us a lot less because we are – have a lot of material in upcountry where we’re getting good premiums for right now as much as $95 a tonne premium over the NOLA price, but Corrine, do you want to talk a little bit about that?

Corrine Ricard

Sure. I sure can. Thanks Adam. We certainly experienced a wet cold start to the spring season, but April and early May have brought on some really solid demand. It’s important to note that the corn planting is only about 23% completed, so there is a lot of spring yet to go. A lot of fertilizer application to hit the ground that we believe will clean out inventories.

It is true that the barge transportation has been pretty disrupted with flooding and repairs along the U.S. lock and dam system in the upper Mississippi River, and some of the barge resupply may not be hitting the Twin Cities markets in those northern markets until as late as June and that would be pretty late for spring. So the threat of that little bit of barge, a product overhang has been overly impacting the NOLA price levels. I would say is that the volume appears to be much smaller than is expected in the market.

We’ve attempted to purchase barges to fulfill our needs for our Brazil shipments, and there was not enough products available to be able to put together a vessel that was in any kind of an exportable position and so barge count estimates put probably about 100 barges of which over half are sold, waiting for tows to go to the upper Mississippi river or maybe about 130,000 tonnes is all of the overhang that we really expected out there.

When you put that in the context of a normal 2 million tonnes summer fill program is pretty small and so we don’t – that’s why we were so confident that the NOLA price levels are overly discounted. As Joc said, our upcountry positions put us in a great position to be able to see volumes go to our customers. So we’ve got over 350,000 tonnes in warehouses in the north. We've got about 7,000 rail cars loaded. So we've been able to fulfill our customer's needs. They are not waiting. We're finding ways to get them, even though the barge system is
disrupted. And as Joc said, that's benefiting our customers because they can get supply from us, but it's benefiting us as well as those upcountry values are a significant premium over NOLA. Our prices today out of Pine Bend are about $400 a short tonne. And that's about a $95 premium over NOLA.

**Joc O’Rourke**

And Clint do you want to just talk a little bit about the cash outlay of ARO?

**Clint Freeland**

Sure. Hi Adam. The cash related to the ARO that I just mentioned around Plant City would come out of corporate cash. As you now we do have a trust that's set up. It has about $625 million in assets in it today. But there are some limitations and some rules around when we can begin to take cash out of that to help offset the cost of some of the remediation expenses and we're not there yet.

A matter of fact, I don't think we'll be there for quite some time. So, for Plant City, I would expect to have to use corporate cash to satisfy that.

**Operator**

Your next question is from the line of Ben Isaacson from Scotia Bank. Your line is now open.

**Ben Isaacson**

Thank you very much and good morning. You've talked a lot about phosphates in China and I was hoping you could address the rest of the world. On Page 18, of your slide deck you have negative demand growth in India, in other Asia, obviously North America has been a bit of a challenge. With OCP and Ma’aden both ramping up this year can you talk about how – when you triangulate all of that, how long you expect this slower recovery in phosphates to take? Thank you.

**Joc O’Rourke**

Andy, can I hand that straight to you? Thanks Ben. I'm going to hand that straight to Andy to talk about.

**Andy Jung**

All right Ben. You're correct that, we've downgraded some of our demand expectations for 2019. The biggest drop in demand is China and we've already talked about that, but we see some small, 100, 200,000 tonne a year slower demand in a number of other geographies.

There are some offsets on the supply side that I don't think get probably enough attention and they haven't in the first half of the year simply because they haven't transpired. So you've got the Nutrien Redwater closure, which is basically upon us today. Mosaic’s Brazil curtailments really don't impact the market until the second half of the year. And then swinging back to China once again, it's really a second half of the year story where we expect to see production and exports decline.
And we've seen a few, curtailments Australia, Tunisia, South Africa, Mexico, which will probably continue to bounce around and have some difficulties in the second half of the year as well. And we think that that leaves the market relatively balanced, and then in the second half of the year, frankly tightening back-up relative to the looseness that we've seen here in the first half.

Operator

Your next question is from the line of Joel Jackson from BMO Capital Markets. Your line is open.

Joel Jackson

Hi. Good morning. Thank you for taking my question. I see from your Brazil guidance that you're expecting to 300,000 tonnes year-over-year increase in Q2. It looks like a much bigger mix shift to Q2 than you had last year. Considering all the logistics challenges going on with finished product and raw material in Brazil, can you explain, that expectation a little bit more please?

Joc O'Rourke

Yeah. I might leave this to Rick, if Rick is on the call. Is Rick on our call?

Rick McLellan

Yes, I'm here Joc. I can take that.

Joc O'Rourke

Yes. Would you take that Rick? Thanks Joel.

Rick McLellan

Yes, I think, a couple things that you have to remember, Joel, is that last year in the second quarter we experienced the impacts of the trucker's strike, which we don't expect to have happen this year. And if we look at the first quarter, the first quarter was a bit slower for domestic demand, both on the distribution side, the farm side and the third party side.

In the second quarter, that's ramped up. And so we frankly look for good volumes, but if you want to circle around the real issue, was the impact of being out of business for 10 to 11 days with the trucker's strike last year.

Joel Jackson

Thanks.

Joc O'Rourke

Thanks Joel.

Operator

Your next question is from the line of Vincent Andrews from Morgan Stanley. Your line is open.

Vincent Andrews

Thank you. Just a question I didn't hear you mention or maybe I missed it when the line cut out, but I didn't hear you mention a African swine flu at
all. So just be curious to get what your thoughts are at this point on the impact to global P&K markets, if any short, medium, long-term. Thanks.

Joc O’Rourke
Okay, thanks. Thanks Vincent. Yes, again, Andy has been tracking this and so the African swine fever, I mean we're looking at a big, big call of the Chinese hog fleet or whatever you want to call it. So, I'm going to let Andy talk a little bit about what that might mean and it's a longer term issue rather than necessarily a short term.

Andy Jung
All right, well thanks Vincent. I guess we'd start out to say that there are a lot of unknowns still, and we're watching and monitoring, but we don't have all the answers quite yet. What we do know is that Chinese pork production will certainly be down significantly both this year and probably into next year as well.

Following that feed demand will obviously decline as well. And it could be significant enough that it would erase typical annual global growth in grain and oilseed demand. So, if you look at corn being about 1.1 billion tonnes, soybeans about a third of that 350 million tonnes. So taken together at 2% typical annual growth rate, you're talking a little over 30 million tonnes of grain and oilseed demand that could be lost.

There will be offsets. So the U.S. industry, the Brazilian industry, the European pork industry, they're all setting up to produce more pork and export to China. So, there will be increased feed consumption in those geographies.

And then just to put it into some context, if you look at the E10 program that China is set to roll out, the incremental demand from Corn for an E10 program in China would be in excess of that 30 million to 32 million tonnes of feed demand that would be lost. So, there are a lot of potential offsets out there that we continue to monitor as well.

Joc O’Rourke
But Andy, would you also say though, once the pork starts it being regrown then the demand will increase back to what it was and beyond.

Andy Jung
Yes. So that will probably take a couple years, maybe up to five years depending on the longevity of this outbreak and the severity of the outbreak. And what you likely will see you is bit of a whiplash event where feed demand ramps up very quickly as higher pork prices incentivize, bigger rations and faster growth plans for the hog barns.

Operator
Your next question is from the line of PJ Juvekar from Citi. Your line is now open.
PJ Juvekar  Yes. Hi. Good morning. Joc I have a couple of questions on the Florida and Brazil. With Brazilians mine shut down at least for now, why wouldn't you run Florida mines harder and bring phosphates from there as opposed to bringing a rock from Peru. And then secondly, on Florida as you make your strategic decision on Plant City, in potash you played price or volume strategy, should we expect similar strategy in phosphates from you? Thank you.

Joc O'Rourke  Okay, PJ, let me just give you a little bit of an understanding if you will, on the Brazilian rock and bringing in Brazilian rock from Miski Mayo. The Brazilian market is made up of a number of products including SSP, animal feed. TSP, MAP only the MAP really can be imported from Florida.

We don't have rock to export to that location from Florida. So we are stuck or not stuck, but we are required to export Miski Mayo rock to Brazil to make-up the SSP and the feed that we wouldn't be making. So that's the first piece.

The Florida, we will export as much from Florida as we believe the market will take. And you're right, that is the best economic way to do that. In terms of price over volumes strategy, I think we have previously said the conditions on which we would start-up Plant City again, and I think we can consistently say those haven't changed from a year ago. So, I think I can, at least say that about where that might be going.

Operator  Your next question is from the line of Don Carson from Susquehanna. Your line is now open.

Don Carson  Yes, thank you. I want to go back to North American application outlook for P&K. She noted only 23% of the crops planted, but it's a pretty narrow pre-plant application window. Now obviously a nudge and you can side dress after you plant the crop but that appears pretty limited in P&K. So, do you think we could lose some application here that would be postponed to the fall or do you think it gets lost for good this calendar year? Because, I noticed on your North American, update for both P&K, you really didn't change that much from your February outlook.

Joc O'Rourke  Thanks Don. I'm going to leave this straight over to Andy and Corrine. Andy, Corrine?
Corrine Ricard  Sure, thanks Don. We have a fairly narrow window that remains, however we believe that as long as product is available, we're going to see application that goes with the rest of that corn planting. And as we said, Mosaic is in a position to have a product available for customers in the north. We do believe that the application and demand overall will be relatively unchanged. We may see some of what we have lost last fall will be potentially replaced next fall. We don't think we will be seeing a lot of those tonnes in the spring season this year, but perhaps in the fall. Andy, do you want to talk about that some more?

Andy Jung  Well I'll just add little bit of color in that, we've seen seasons like this before and the historical data shows us that by and large you really don't miss on farm demand. Whatever problems exist the industry and whether it's producers, distributors, retailers, farmers themselves, we'll find a way to get the product to ground because you don't want to spend hundreds of dollars on a bag of seed and then not feed that plant.

Don Carson  Thank you.

Operator  Your next question is from the line of Michael Piken from Cleveland Research. Your line is open.

Michael Piken  Yes. Hi, good morning. I just wanted to talk a little bit more on the potash side of the market. I wanted to get your sense in terms of the brine inflow cost, I know 28 million in the quarter and just trying to understand the margin compression a little bit. How much of that is from price and how much of that was from potentially the spillover effect of running your plants in 1Q at a lower level that's going to compress the 2Q margins versus the 1Q margins.

Joc O’Rourke  Okay. Thanks Michael. Yes, I can answer the margin compression. It's virtually exactly what you said. The idea of running the plants at a slower rate in the first quarter will impact the cost profile in the second quarter. The second thing that happens is recognition of revenues in the second quarter will change the product mix slightly, which also impacts those margins. But most of that is flow on of the pricing from the first quarter.

Now your question on brine inflow costs, I would say they are managing that quite effectively now and that's the reason we've seen I think up to $100 million lower costs per annum than we had maybe four or five years ago, which is really great to see.
Clint Freeland  One thing, excuse me, Michael, the one thing that I would also add to that around the margin impact and now the second quarters recall that the increase in CRT, the taxes are going to start flowing through in the second quarter. So that'll need to be factored in as well.

Operator  Your next question is from the line of Alex Falcao from HSBC. Your line is now open.

Alex Falcao  Right. Thanks for your question and good morning. I have two questions. One regarding in Brazil, we saw yesterday Vale coming back and saying that they would probably operate or restart the operations at Brumadinho mine in a couple of weeks, I just want you to know if that's a leading indicator, since they were the ones most affected and you know it seems that, there is sort of a normalization on licensing in Brazil. And that could lead to a better than expected a reopening’s for you guys that’s the first question.

And the second question is on freights specifically on potash, we saw a huge decline in the first quarter. Is that something that is going to continue going forward, for freight and what's the reason for that? Thank you. On freight, on freight, for potash specifically, right? So the potash freight cost is down, significantly. I just want to know what's the reason for that and is that something that should continue in second quarter.

Joc O'Rourke  Okay, great. Well, let's talk, start with Vale. There is no question that time will settle a lot of the churn in Brazil. And I think, yes, Vale restarting in a couple of weeks is probably a good sign. It means that they're starting to be some level of discussion between regulators and Vale and that may be returning to a level of normalcy.

In terms of our expectations, our plans are relatively set now, so I don't see it affecting us per se in terms of coming in back earlier. In terms of Canpotex freight and the overall freight from – I mean I’ll hand that to Corrine.

Corrine Ricard  Yes. I believe what's happening there is that proportion of tonnes that are going to Canpotex versus the North American distribution system. We don't pay the freight Canpotex pays the freight on those export shipments whereas we do on the domestic shipments and with the North American fill season a little bit lower, we had less winter fill shipments to the domestic market and its associated freight costs.

Operator  Again participants, if you have any questions please press star followed by the number one on your telephone keypad.
Joc O’Rourke  There's no more questions, let me conclude. To conclude our call today, I would like to reiterate our key points. First. We have a well-defined path forward to manage through the dam situation in Brazil and we are confident that we will be able to continue to meet our Brazilian customer needs.

Second, despite regulatory and weather related challenges, Mosaic continues to deliver very strong results for this quarter, and our outlook for the year continues to be strong. And third, Mosaic is executing very well and we've made tremendous progress on our business transformations. Today Mosaic is a stronger and more resilient company than ever, and we're in an excellent position to deliver strong returns across the cycle.

So thank you for all you for joining our call and have a great day.

Operator  This concludes today’s conference call, thank you everyone for joining. You may now disconnect.