

August 2014

## **Phosphate Rock from Western Sahara**

As part of our ongoing efforts to operate with transparency, we are committed to providing updates to our stakeholders on the subject of our importation of phosphate rock from the Boucraâ region of Western Sahara (or “the region”).

### **Background on PotashCorp’s Importation of Phosphate Rock**

PotashCorp, through a wholly owned U.S. subsidiary, purchases phosphate rock from the Moroccan company OCP, S.A. (OCP). This rock is sourced in Boucraâ and is used at one of our 17 facilities. This particular site – Geismar, LA – requires a very specific phosphate rock to meet the requirements under a long-term agreement with a large customer that produces food-grade phosphoric acid. We inherited this contractual commitment from a predecessor company. We have concluded that the use of phosphate rock from other sources, including from our own mines in the United States, is not a viable option given sensitivities to the particular qualities of the rock source.

To provide context on the magnitude of this business and the rock imported, the gross margin from Geismar accounted for 0.2 percent of our corporate total over the past five years, and the amount of phosphate rock imported accounted for approximately 6 percent of the phosphate rock we processed company-wide.

PotashCorp is mindful of the dispute between the Kingdom of Morocco and parties who claim to represent the interests of the inhabitants of Western Sahara. Our objective is to ensure that our business relationship lives up to our Code of Conduct as well as the international standards, trade and customs laws applicable to the region. We appreciate the concerns that have been expressed about the status of Western Sahara and recognize that the issue is both politically-charged and complicated. Members of PotashCorp’s senior management team have visited Western Sahara – touring the PhosBoucraâ operations and community of Laayoune – to

observe firsthand the economic and social conditions, including the very real opportunities for employment, investment and infrastructure taking place in the region. We also saw for ourselves the impact of OCP's activities to promote not only investment in the community's priority projects but in its people too.

Like so many interested parties to the dispute, we are looking forward to a peaceful United Nations (U.N.)-sponsored resolution and are encouraged by Morocco's autonomy plan for Western Sahara which has been well received by the international community.

In the absence of a permanent resolution, a distinction must be made between political issues and the legal and other responsibilities placed on companies operating in the region. A small group of politically-motivated individuals claim that OCP's Phos-Boucraâ operations are not in conformity with international law, and have directly challenged the legality of our importation of phosphate rock produced by OCP in the region.

PotashCorp – and its U.S. subsidiary – has consistently adhered to applicable trade and customs laws regarding the importation of phosphate rock. Neither the U.N. nor any other competent legal authority has concluded that the production and use of phosphate rock from Western Sahara is in violation of international law. The U.N. Security Council previously sought a legal opinion from the U.N. General Counsel regarding the legality under international law of the exploration and extraction of mineral resources in Western Sahara where it was concluded that such activities would be illegal “only if conducted in disregard of the needs and interests of the people of that Territory.”

A recent EU-Morocco fisheries partnership agreement struck at the end of 2013 adheres to the same principle of local benefit. In fact, a majority of Member States sought no less than the same assurances that the deal will bring tangible social and geographical benefits to the local population in Western Sahara that PotashCorp, a company, has sought, and continues to seek, of its business relationship.

While the long-term governance of the region is an emotive issue, this standard provides a crucial framework for evaluating the legitimacy of business activities. We believe that Phos-Boucraâ's operations and investments in the region have significantly contributed to the

development of Western Sahara and continue to provide substantial and sustainable economic and social benefits to the Saharawi population, all of which create enhanced opportunity for, and capacity building within, the local population.

### **PotashCorp's Commitment to its Code of Conduct**

As a company, we know that living up to our commitments according to applicable trade and customs laws isn't necessarily enough. That is why we are committed to our Core Values and Code of Conduct, which define the standards that we abide by in our daily actions. The Code of Conduct helps us fulfill our broader responsibilities by outlining our commitments to integrity, describing our principles of conduct and guiding ethical decision making.

Beyond our own actions as a company, we are committed to ensuring that our suppliers not only comply with international law and labor practices, but the high ethical standards defined in our Code of Conduct.

### **PotashCorp's Due Diligence**

In addition to obtaining assurances from OCP's senior management team regarding its compliance with our standards:

- We obtained copies of two separate legal opinions provided by highly respected global law firms, DLA Piper together with Palacio y Asociados (led by Spain's former Foreign Minister, Ana Palacio) and Covington & Burling LLP. Both firms concluded that OCP's operations in the region directly benefit the people of the region and are consistent with international legal obligations.
- We obtained a copy of a report conducted by KPMG which was commissioned by DLA Piper as part of the work necessary to provide its legal opinion. This report captures the economic and social impacts of OCP's operations in the region, as well as the sustainability of OCP's operations in the region.
- In 2013, after in-depth reviews of the DLA Piper/Palacio opinion and KPMG report, members of PotashCorp's senior management team met with the authors of the DLA

Piper/Palacio report to better understand the methodology and analysis that supported their legal opinion. Representatives of KPMG were also present to discuss the nature, scope and results of their work.

- In 2013, PotashCorp's senior team visited Western Sahara – touring the PhosBoucraâ operations and community of Laayoune – to observe firsthand the economic and social conditions, including opportunity, investment and infrastructure within the region.

From these discussions, we affirmed that the highest standard was applied in assessing OCP's obligations regarding exploitation of natural resources in Morocco – specifically, the application of the U.N. defined obligations for an administering power or country rather than the less stringent obligations of a corporation. Further, in ascertaining whether OCP's operations benefit the local people, the analysis went beyond direct and indirect impacts to more broadly include the stewardship and sustainability of OCP's operation. This involved an in-depth review of the company's capital investment program, maintenance of assets and efficiency of operations relative to industry practice. As well, mine reserve specialists were commissioned by KPMG to focus on the sustainability of the Boucraâ rock reserves.

The analysis further affirmed that significant benefits were being harvested by the local population in the region, including employment, promotion, training, educational assistance, local spending, community investment and other direct impacts. Given the absence of formal regional data, indirect benefits could not be quantified, which is unfortunate since spin-off impacts (i.e. the “multiplier effect”) would only add to the already demonstrable direct benefits.

Our visit to Boucraâ included time spent in Laayoune where we were able to observe some of the infrastructure investments and social programs that OCP has supported. Through this, we observed OCP's commitment to delivering benefits in its communities and the strong relationships it has forged. We had the opportunity to speak with a number of Saharawi employees and gained an appreciation for the quality of life they enjoy. Importantly, the company's commitment to local employment was evident. Dramatic increases in the number and skill level of Saharawi employees over the past couple decades have been driven by OCP's investment and commitment to training and education. The capacity this builds in the local population cannot be underestimated.

Key benefits from our discussions, visit and review of the KPMG study are highlighted below.

## **OCP's Commitment**

### *Activities are beneficial to the local population and consistent with international law*

- OCP has been a member of the community nearly 40 years through its wholly owned subsidiary, Phos-Boucraâ.
- Phos-Boucraâ was founded in 1962 by the Spanish 'Instituto Nacional de Industria' (INI). OCP purchased a 65 percent stake in 1976 and the remaining 35 percent was kept under ownership of the INI. The Moroccan/Spanish joint venture continued until 2002 when OCP bought the remaining stake.
- Phos-Boucraâ is the largest private employer in the region, with nearly 2,200 employees.
- In addition to its commitment to local employment and community investment (outlined below), the company is committed to local sourcing and plays a critical role in expanding economic development in the region.

### *A local operation, run by – and actively seeking to train and recruit – people from the region*

- Phos-Boucraâ actively seeks to hire from the local population and the company is committed to providing advanced vocational and engineering skills training to enable the Saharawi to obtain good-paying, stable jobs with the company.
- The company's commitment to training is reflected in its company-wide 'OCP Skills' program, which involves the development of training centers in every region it operates.
- OCP opened the Laayoune training center in 1995, and its commitment to train and hire locally has dramatically changed the composition of the company's employee base. Approximately 60 percent of Phos-Boucraâ's employees are from the region, and 77 percent of hires between 2000 and 2013 are Saharawi.
- In addition to increasing the number of qualified locals, the company's commitment to training has raised skill levels significantly. The number of Saharawi workers in higher-skills jobs has increased from 8 percent to approximately 60 percent since 1987.
- Executives and employees of local origin play key roles in both strategy and operations. More than one-third of Phos-Boucraâ's management team is from the region, including the General Manager, who is responsible for the subsidiary's activities.

- OCP's salary scale in Phos-Boucraâ is consistent with its salary scale at all other operations in Morocco – meaning that Saharawi employees are compensated like all other employees in the same professional group and at the same level.
- Retirement benefits are generally regarded as the best in the region, and medical care and dental benefits extend to all employees, pensioners and their families.
- Other benefits for employees include the provision of meals, a housing facilitation program, mortgage loans, education and training opportunities.

*Investing in the community and long-term infrastructure*

- Phosphate mining in Western Sahara presents economic, financial and engineering challenges, requiring significant investment. Since 1976, all earnings generated by Phos-Boucraâ have been reinvested in the development and viability of the operation and region. KPMG's report outlines that the operations generated a cumulative loss between 1976 (when OCP first acquired a stake in the company) and 2010. Even in unprofitable times, OCP has taken a long-term view and made substantial efforts to ensure the sustainability of the operation.
- The company is in the midst of multi-billion dollar plans for development that include sustaining the level of activity while increasing the lifespan of the phosphate deposits (through access to lower layers), developing higher value-added products locally and increasing port capacity.
- OCP's substantial investments in infrastructure (including energy, water and port infrastructure) have helped to create conditions for broader economic growth in its communities. This includes water desalination facilities for its operations that also contribute to Laayoune's water supply and port infrastructure that provides import/export capabilities for the entire region.
- As part of its investment in the overall region, Phos-Boucraâ also contributes to the community by way of social projects for the wider benefit of the Western Saharan population. This includes a clear commitment to youth education and empowerment through scholarships, skills development and other opportunities.
- From 2011 to 2013, the company provided MAD 70 million for local projects related to education, health care, outreach and environmental awareness.

- These community investments – as well as related business partnerships and local infrastructure development – provide a solid foundation for the region's long-term economic growth.

## **Refugee Camps**

PotashCorp is aware of the humanitarian concerns for historically displaced inhabitants living in refugee camps in Algeria and other regions. Here again, it is important to separate politics from the responsibilities of OCP as a company and its inability to influence or control the refugee situation, which was the result of an armed conflict.

Through our due diligence, we have affirmed that OCP has established a proactive affirmative action campaign to the benefit of the local people and, importantly, is making significant economic and social contributions to the entire region. As a result, we believe those who choose to make a political statement about OCP are effectively penalizing Saharawi workers, their families and communities.

## **PotashCorp Summary**

As an ethical but non-political company, we have thoughtfully studied the issues surrounding Western Sahara. We appreciate the concerns that have been expressed, but also recognize that this issue is complex, highly-charged and political in nature. Aside from our contractual commitments to a long-time customer that require the importation of this rock, any decision to cease doing business in the region on the basis of a political judgment could undermine the economic well-being of the region.

We believe the interests of our stakeholders are best served by a company that remains out of the political arena, continues to support the efforts of the U.N. to broker a solution on the future governance of Western Sahara and, above all, ensures substantial benefits continue to be realized by the Saharawi through OCP's activities. In this regard, we are encouraged that parties to the dispute have continued to engage in U.N.-sponsored discussions, that momentum may be shifting to even more dialogue and rapprochement and that a peaceful resolution to this

issue will soon be achieved. As these efforts continue, we believe the best interests of the local Saharawi population are served by the continued employment and investment made possible by OCP's operations in the region.

OCP has recently launched information on its corporate website and is committed to working towards publishing an annual sustainability report. More information about Phos-Boucraâ can be found at:

[www.ocpgroup.ma/en/group/global-presence/subsidiaries/phosboucraa](http://www.ocpgroup.ma/en/group/global-presence/subsidiaries/phosboucraa) and

[www.ocpgroup.ma/sites/default/files/filiales/document/Phosboucraa-website-en.pdf](http://www.ocpgroup.ma/sites/default/files/filiales/document/Phosboucraa-website-en.pdf).