

April 2012

Phosphate Rock from Western Sahara

PotashCorp has received requests for information regarding the importation of phosphate rock from the Boucraâ region in Western Sahara (or “the region”). As part of our ongoing efforts to operate with transparency, we are providing a summary of our position on this subject.

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 by PotashCorp at one of its 17 facilities. This particular site, Geismar, Louisiana, requires very high-quality phosphate rock to meet the specifications required 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 phosphate mines in the United States, is not a viable option given the sensitivities to the particular qualities of the rock source.

To provide context on the magnitude of the rock imported, the gross margin from Geismar accounted for 0.3 percent of our corporate total over the past five years, and the amount of phosphate rock imported accounted for approximately seven 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.

PotashCorp’s U.S. subsidiary imports phosphate rock in accordance with applicable trade and customs laws. There has been no determination by the United Nations (U.N.) or any competent legal authority that the production and use of phosphate rock from Western Sahara is in violation international law. The U.N. Security Council previously sought a legal opinion regarding the exploration and extraction of mineral resources from 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.” 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 conducted there and PotashCorp has been rigorous in our evaluation of OCP’s activities. We believe that OCP’s operations and investments in the region have significantly contributed to the development of Western Sahara and continue to provide substantial economic and social benefits to the Saharawi people, all of which make it more likely rather than less likely that the people of the region can effectively exercise their right to self-determination.

Furthermore, while we appreciate the concerns that have been expressed about the status of Western Sahara, we believe the security situation is complicated. Indeed, the rising threat posed by Al-Qaida in the Maghreb (AQIM) in 2011, particularly in neighboring (southern) Algeria, Mali and Mauritania demonstrates the fragility across the region. The U.N. is actively working towards a solution to what is admittedly a complex set of issues. Like many interested parties to the dispute, we are looking forward to a peaceful U.N. sponsored resolution.

PotashCorp’s Commitment to its Code

As a company, we are committed to ensuring that all suppliers comply with international law and labor practices, as well as the high ethical standards as defined in our [Code of Conduct](#).

To that end, we have been in communication with – and sought assurances from – the senior management team at OCP regarding its compliance with our standards. From such discussions, we can highlight the following:

OCP’s Commitment

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

- OCP has been a member of the community for over 30 years through its wholly owned subsidiary, Phos-Boucrââ, and its actions have directly benefitted and are in the interests of the local population.

- Phos-Boucraâ is one of the largest employers in the region, with approximately 1,900 employees.
- In addition to its commitment to local employment (which is outlined below), the company is committed to local sourcing of goods and services 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

- OCP has undertaken significant efforts to provide advanced vocational and engineering skills training to enable the local Saharawi to obtain good-paying stable jobs with the company.
- This commitment to hire locally has dramatically changed the composition of the company's employee base. With the opening of a new training center by OCP in 1995 – and an agreement reached between the company and local labor representatives about hiring patterns of employees from the region – the number of employees from the local population rose from 39 percent of the overall workforce in 1997 to 54 percent as of May 2011. This level of hiring is significant given the general lack of modern mining-related work skills in the local population.
- Executives and employees of local origin play key roles in both strategy and operations. The General Manager, who directs the subsidiary's activities, and other key members of the Phos-Boucraâ senior executive team are local Saharawi.
- Traditionally, the majority of local employees have been lower-skill workers given the lack of technical schools and training centers in the region; however, this is changing due to OCP's commitment to local job-training efforts. Since 1987, the number of workers in higher-skills jobs has increased from eight to 60 percent.
- OCP's salary scale is consistent across all regions – 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. In fact, KPMG's report outlines that Phos-Boucrâ has 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 keep the operation running, investing MAD 2.6 billion [EUR 230 million] in capital.
- Over the coming years, the company has further plans for development that include sustaining the level of activity while increasing the lifespan of the phosphate deposits, developing higher value added products and increasing port capacity.
- As part of its investment in the overall region, Phos-Boucrâ has also contributed to the community by way of social projects for the wider benefit of the Western Saharan population.
- Between 2007 and 2010, the company provided MAD 38.8 million [EUR 3.5 million] for social projects, including support for city infrastructure, disadvantaged groups and local sporting, cultural and artistic activities.
- The company's investments in infrastructure provide direct benefits and help assure the long-term viability of trade from the region:
 - Desalination facilities provide water for local use, as well as the operations.
 - Port infrastructure is designed for both import and export, broadening the impact of OCP's investments on the local economy.
- These long-term capital investments – as well as related business partnerships, local infrastructure development and support for social programs – provide a solid foundation for the region's long-term economic growth.

PotashCorp's Due Diligence

PotashCorp has taken steps to thoroughly review the circumstances in the region:

- We have required OCP to provide assurances and proof that they meet our standards.
- In February 2012, we received on a confidential basis a copy of the "Phos-Boucrâ" report conducted by KPMG (dated November 25, 2011). This report is a substantial review of the economic and social impacts of OCP's operations in the region. At this point in our review,

we believe the assessment substantiates the positive impact in the local region by hiring more Saharawi employees, providing education and training opportunities where disparities exist and giving back to their community.

- We also requested and recently received, on a confidential basis, copies of two separate legal analyses undertaken by highly respected global law firms, DLA Piper and Covington & Burling LLP. Both firms – and Ana Palacio, Spain’s former Foreign Minister, who was a signatory to the DLA Piper opinion – concluded that OCP’s operations in the region directly benefit the people of the region and are consistent with international legal obligations.
- In addition to reviewing the findings of KPMG, DLA Piper and Covington & Burling, we plan to meet with these parties to discuss the work they performed.
- After a thorough review of the work conducted, we will evaluate whether there is a need to commission an independent third party to conduct a final review and analysis on our behalf.
- Additionally, members of PotashCorp’s management team have requested a tour of Phos-Boucraâ and surrounding areas during 2012 to observe the economic and social conditions, including opportunity, investment and infrastructure within the region.

Refugee Camps

PotashCorp is aware that, despite all the positive contributions and efforts of OCP within Boucraâ, there are humanitarian concerns for historically displaced inhabitants living in refugee camps in Algeria. OCP did not cause this situation and has done much to provide better working conditions and opportunities for the local Saharawi population. We believe those who choose to black-list OCP are simply penalizing local Saharawi workers and their families. This effort to make a political statement is an action with no benefit and large and very real downside to significant numbers of people.

OCP provides important social and economic benefits to its employees and the communities where it operates and the termination of PotashCorp’s business with OCP would only set these back.

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 highly-charged and political in nature. Even if our contractual commitments to our long-time customer did not require us to import this particular rock supply, any decision to cease doing so would constitute a political judgment on our part that might undermine the very economic development in the region necessary to promote local self-determination.

As we believe the interests of our stakeholders are best served by a company that remains out of the political arena, we continue to support the efforts of the U.N. to broker a solution on the future governance of Western Sahara, and to keep the peace in the meantime. In this regard, we are encouraged that the parties to the dispute have continued to engage in U.N. sponsored discussions and we look forward to a peaceful resolution to this complicated dispute. As these efforts continue, we believe the best interests of the local Saharawi people are served by the continued employment and investment made possible by OCP's operations in the region.

As a company, we continue to assess OCP's social responsibility and the risks associated with sourcing this rock, but are comfortable that this practice is in accordance with applicable trade and customs laws and that the interests and needs of the people of the Boucraâ region are being met.