Why would shares go up in value when someone's trying to sell them? [1]

Written by **Tim Worstall** [2] | Tuesday 17 September 2013

Answer: because the sale might allow someone to rebuild a cartel.

Part of the story is here [3] but I'll give you the simple version. Potash is one of those minerals vital to civilisation: it's a major ingredient in fertilisers. It's also cheap ($300 a tonne or a little more) and has very large capital costs in its production. Hundreds of million to billions to get a mine going. Marginal costs of production are near trivial.

So, it's a prime candidate for the cartelisation of the industry. Anyone looks like opening a new mine the current incumbents will gently remind them that they'll have all that capital at risk for years while everyone else can drop to marginal production prices and bankrupt them. This barrier to entry through collusion then keeps prices high for those incumbents.

And this is indeed what has been happening. The Belarussian and the Russian producers, between them some 40% of the world market, have been deliberately restricting their output in order to gain higher prices: monopoly pricing in effect, or at least partial monopoly pricing (when prices are at that sort of $300 a tonne for something then transport costs become very important. So local monopolies are certainly possible).

Then, because such cartels are always fragile to the possibility of defection, The Russians accuse the Belarussians of selling some stuff on the side and then they decide to break the cartel themselves. The price of potash falls on world markets. At which point the Belarussians arrest the CEO, the Russians decide to truly give up and sell their stock in the Russian producer.

At which point the shares in that Russian producer rise: just as someone's looking to offload them. Eh? And the global potash prices rises too? Yes, because the Russians selling out could be a prelude to a re-establishment of the cartel.

Which is, I thjink, an interesting little example of the extra profits that can be made by cartels/monopolies. And since those extra profits must come out of the pockets of consumers, why we don't want to allow people to generate cartels and or monopolies. But apparently they do things differently over in Russia and Belarus.

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