

Title: China:Reaction to BHP bid for Potash Corp
MRN: s 47E(d) 17/09/2010 09:52:37 AM ZE8
To: Canberra
Cc: RR : Guangzhou, Hong Kong, Melbourne, Shanghai, Taipei Acio
From: Beijing
From File:
EDRMS
Files:
References: s 47E(d)
Response: Routine, Information Only

Summary

China's Ministry of Commerce says it is paying close attention to BHP Billiton's bid for Canada's Potash Corp, and will review the bid in accordance with its anti-monopoly laws if a formal application is made. Potash Corp represents 20 percent of global potash production and 30 percent of potash trade.

On 15 September, Ministry of Commerce spokesman Yao Jian responded to a question at a press conference about BHP Billiton's US\$39 billion bid for Canada's **Potash** Corp.

2. Yao noted that **Potash** Corp occupied 20 percent of global **potash** production, and 30 percent of **potash** trade. He said this sort of a merger - between a major **potash** company and a major resources company - would naturally attract attention from global and Chinese industries. He said MofCom would pay close attention to the deal and, if there was a formal application, would examine it in accordance with China's anti-monopoly laws.

3. According to some media reports, China's Sinochem Group also made initial inquiries with **Potash** Corp's board. Yao, however, said MofCom had not received any Chinese bids.

s 33(a)(iii)

text ends

Sent by: s22(1)(a)(ii)
Prepared by: s22(1)(a)(ii)
Approved by: Holloway
Topics: POLITICAL-ECONOMIC/Foreign Investment, POLITICAL-ECONOMIC/General Economic
▼ New Distribution

s 47E(d)

Title: US Midwest - Media Coverage - September 2010

MRN: s 47E(d) 27/09/2010 12:37:47 PM CDT

To: Canberra

Cc: RR : Washington

From: Chicago

From File: s 47E(d)

EDRMS

Files:

References: The cable has the following attachment/s -

s22(1)(a)(ii)

BHP Billiton.pdf

s22(1)(a)(ii)

Response: Routine, Information Only

Summary

US Midwest media coverage for Australia during the week ending 24 September 2010 included a comparison between the Australian and US economies, BHP Billiton's takeover bid for Potash Corp.s22(1)(a)(ii). Relevant articles are attached.

Post reports on significant coverage of Australia in US Midwest media during the week ending 24 September 2010. Relevant articles are attached.

s22(1)(a)(ii)

3. Illinois and Wisconsin media reported on 22 on 24 September that Potash Corp. is asking a US court to block what is deemed a "hostile" take over by BHP Billiton.

s22(1)(a)(ii)

text ends

Sent by: s22(1)(a)(ii)

Prepared s22(1)(a)(ii)

by:

Approved s22(1)(a)(ii)

by:

Topics: PUBLIC DIPLOMACY/Media

▼ New Distribution

www.chicagotribune.com/business/sns-ap-cn-canada-potash-bhp-takeover,0,3535938.story

chicagotribune.com

and Wisconsin

Canada's Potash files complaint against Australia's BHP in US court, seeks to block takeover

By Associated Press

9:32 AM CDT, September 22, 2010

TORONTO (AP) — Potash Corp. of Saskatchewan is asking a U.S. court to block a hostile takeover by mining giant BHP Billiton.

Australia's BHP Billiton Ltd. launched a hostile US\$130-per-share takeover bid last month after Potash directors rejected its offer as being wholly inadequate.

The complaint is the latest defensive move by one of Canada's largest mining companies and the world's largest producer of the fertilizer ingredient potash.

Potash's filing with a U.S. district court on Wednesday alleges that BHP Billiton has made false and misleading statements in making the US\$38.6 billion takeover offer.

It also argues BHP is being "unusually coercive" because it requires support from only half of shareholders, rather than the more routine two-thirds majority.

advertisement



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Ref: 78694358

<http://www.chicagotribune.com/business/sns-ap-cn-canada-potash-bhp-takeover,0,446274...> 9/22/2010

Title: BHP bid for Potash Corp - Canadian media

MRN: s 47E(d) 19/08/2010 06:57:42 PM EDT

To: Canberra

Cc: RR : Washington

From: Ottawa

From File:

EDRMS

Files:

References: s 47E(d)

The cable has the following attachment/s -
BHP Potash Corp media 19 Aug.doc

Response: Routine, Information Only

Summary

Extensive Canadian media coverage of BHPB's bid for Potash Corporation has focussed on the possible impact on the current export monopoly arrangements. An editorial in the major national daily has argued that the proposed takeover would not jeopardise Canadian national interests.

Canadian media coverage of BHP's bid for Potash Corporation has focussed on whether the sale would be in the national interest. A specific focus has been on the implications of a takeover for the current export marketing arrangements in which Potash Corp and the other Saskatchewan-based potash producers (Agrium and Mosaic) jointly own an international marketing company, Canpotex, which acts to balance exports and domestic production. There has been some negative reaction in the media to published remarks by Kloppers to the effect that BHP would honour Canpotex contracts, but that the company's 'baseline demeanour' is to 'run assets at full capacity and take the market price' which has been interpreted as a signal that BHP would withdraw Potash Corp from Canpotex.

2. Political-level comments on the issue have been limited to date. Saskatchewan energy minister (Boyd) noted that the provincial government would want to be involved in any major changes to the structure of the industry, including any decision on export marketing. He was quoted as saying 'That (Canpotex) model has worked well for Saskatchewan in the pastwe want to make sure naturally that ...we maximise on the (return on) resource for the tax payers of our province. An editorial in today main national daily broadsheet 'The Globe and Mail' argues that the proposed takeover would not jeopardise the Canadian national interest and that the federal and provincial governments should not obstruct a deal that is supported by shareholders of Potash Corp.

text ends

Sent by: s22(1)(a)(ii)

Prepared by: s22(1)(a)(ii)

Approved

by:

Topics: POLITICAL-ECONOMIC/Foreign Investment, PUBLIC DIPLOMACY/Media

▼ New Distribution

s 47E(d)

Globe and Mail
Editorial, 19 August 2010

While it's an important commodity, the sale of a large potash company will not jeopardize the national interest

Investors and backroom operators are battling over Potash Corp. of Saskatchewan, and Canadian governments may be pulled in to play referee. They should take the longer view and recognize that while potash is an important commodity, the sale of a large potash company will not jeopardize the national interest. As a result, policy-makers should be largely deferential to the market forces that are at work, and help keep Canada open and competitive.

Potash's board rejected a \$38.6-billion (U.S.) takeover bid by Australian miner BHP Billiton.

BHP now says it will take its proposal directly to Potash shareholders; other takeover candidates, including other mining companies and state-owned Chinese companies, may emerge. The federal and Saskatchewan governments could intervene, with provincial legislation that further ties the company to its Saskatchewan base, or with a federal finding under the Investment Canada Act that a foreign takeover is not of "net benefit" to Canada.

Canada is the biggest player in a potash industry that involves little competition – the product is mined in only 13 countries – but on which the world, through potash's use as an ingredient in fertilizer, is heavily dependent. With growing prosperity in China, Brazil and India (which together consume almost half the world's potash), world fertilizer demand will continue to grow.

Because potash is a substance that is so concentrated in Canada (with around a third of world production), it would be a Herculean task for a foreign company to simply "move" production elsewhere. While potash mining is a source of profit and jobs for Canadians, it is less a source of immediate innovation than other sectors that epitomize the knowledge economy – advanced telecommunications; aerospace – and which may merit more protection.

There is, meanwhile, plenty of potash still to be mined in Canada (with around 53 per cent of the world's reserves; reserves that stand at 400 times the production level in 2008). The industry is also capital-intensive, so if a bigger player can expand in Canada, it should not immediately be prevented from doing so.

Potash Corp. shareholders also deserve consideration. Almost half of the company's shares are owned in Canada, and government intervention might devalue that stock, reducing wealth for Canadians.

At the same time, front-office jobs are an important, and shareholders, directors and governments should work together to ensure that whatever sale happens keeps as many of these in Saskatoon as possible. And more scrutiny would be called for if a state-directed or -financed corporation were to bid on Potash Corp., because food scarcity and sovereignty are issues of growing concern.

There are bigger issues at play in the Potash Corp. sale, but they are on the periphery – they do not justify government obstruction of this transaction.

Globe and Mail
Article 19 August 2010

Australian mining company BHP Billiton Ltd says it intends to pull out of the powerful group that controls overseas exports of Canadian potash if it succeeds in buying the country's largest producer, a move that would change the economics of one of the West's most important natural resources.

Executives at BHP, which formally launched its \$38.6-billion hostile takeover attempt of Potash Corp. of Saskatchewan on Wednesday, told investors that the company plans to handle its own negotiations with buyers of potash. That pledge poses a threat to Canpotex, the global marketing arm of Canada's major potash companies, which plays a major role in controlling the supply and the price of a commodity that is a key ingredient in the fertilizer that farmers use around the world to grow their crops.

Canpotex, which represents Potash Corp., Agrium Inc. and Mosaic Co. in selling potash produced in Saskatchewan, accounts for an estimated 40 per cent of the commodity's global trade. If BHP were to succeed in its takeover quest and follow through on its plan, analysts say that could result in even greater price swings for an already-volatile commodity. That, in turn, could have negative implications for smaller or higher-cost potash companies in Canada and possibly for the Saskatchewan government, which makes sizable royalties from the potash business.

Provincial leaders have so far given no indication that they would try to block BHP's bold move on Potash, the largest company in Saskatchewan and the sixth-largest public company in Canada by stock market value. But Saskatchewan Energy Minister Bill Boyd warned in an interview that his government would want to be involved in any major changes, including any decision that weakens or dissolves the export monopoly.

"That [Canpotex] model has worked well for Saskatchewan in the past," Mr. Boyd said in an interview. "We want to make sure naturally that the resources, potash itself, that we maximize on the resource for the taxpayers of our province. Of course we would want to talk about any changes to that structure and it may impact upon other decisions we would make."

The province would have to review any impact a breakup of Canpotex would have on provincial revenues, which benefit from higher potash sales through taxes and royalties, Mr. Boyd said.

The battle over the future of Potash Corp. highlights the growing importance of Prairie potash reserves in the effort to increase crop yields and raise the global food supply to meet higher demand, particularly from ever-wealthier consumers in Asia. Canada has 53 per cent of the world's potash, and Potash Corp. is the largest potash miner, with about one-fifth of global production.

Though most potash production is ultimately controlled by just two groups – Canpotex and a marketing group that represents primarily Russian potash suppliers – the nutrient has still seen wild changes in price, ranging from \$200 to \$1,000 a tonne over the past three years. The price was driven higher by fears of world food shortages, then pushed down by the recession as farmers bought less of the expensive fertilizer.

But Potash prices are rebounding, sitting around \$375 today, lifted by rising prices for crops such as wheat and corn after extreme weather conditions curbed production in Canada and Russia.

BHP chief executive officer Marius Kloppers said the company's philosophy is to take as much out of its mines as it can and then sell the goods directly to its customers, rather than trying to control supply and collaborating with competitors to squeeze out higher prices, as Potash Corp. has done. "Our baseline demeanour, which is unchanged by this transaction ... is to market our product ourselves, stand in front of our customers ourselves, run our assets at full capacity and take the market prices," Mr. Kloppers said.

Financial Post
Article 19 August 2010

If BHP Billiton Ltd. takes over Potash Corp. of Saskatchewan Inc., the landscape of potash mining and selling in Canada could be poised for a massive overhaul.

Right now, Potash Corp. and its fellow producers in Saskatchewan (Agrium Inc. and Mosaic Co.) sell all of their offshore product through a jointly owned marketing company called Canpotex Ltd. It is one of a few groups worldwide that control the majority of potash supply.

Potash Corp., the biggest shareholder in Canpotex, has a long-standing strategy of matching supply with demand to keep prices elevated. So when a recession hits and demand declines, as it did in 2008 and 2009, the company slashes production and Canpotex exports declined.

BHP has a completely different strategy: It likes to market its products independently, and it prefers to produce at full capacity no matter what the economic conditions are like. That raises big questions about the future of Canpotex if BHP buys Potash Corp. Chief executive Marius Kloppers addressed that point Wednesday:

“We will honour the Canpotex arrangements, but our baseline demeanour is always, in all of our other products, to run assets at full capacity and take the market price. And that’s unlikely to change as a result of this acquisition,” he said.

It was not exactly a ringing endorsement of Canpotex. Like all outsiders, Mr. Kloppers is not privy to the exact wording of the Canpotex contractual agreements, so he does not know how much output he is obligated to sell through the consortium. But he indicated that he is eager to sell product outside it.

If BHP was able to move a lot of product on its own, it could make it much tougher for Canpotex and its rivals to control prices and output. That would be welcomed by some potash customers, who have accused the producers of operating like cartels and keeping fertilizer prices artificially high.

“I wouldn’t rule out that BHP would stay in Canpotex or not stay in Canpotex. Anything could happen,” said Joel Jackson, an analyst at BMO Capital Markets, noting that it depends exactly how the terms of the Canpotex agreement are structured and how much flexibility that gives BHP.

While BHP sells the vast majority of its product on its own, it does have a couple of joint ventures in which it has to market jointly with its partners, much like Canpotex. As Canpotex’s future becomes cloudy, there are rumours that another potash marketing firm, Belarusian Potash Co., could become stronger by potentially adding Russian producer OAO Silvinit.

Title: Canada: BHP bid for Potash Corp - media coverage
MRN: s 47E(d) 21/09/2010 05:13:57 PM EDT
To: Canberra
Cc: RR : Washington
Ministers: Foreign Minister, Trade Minister
From: Ottawa
From File:
EDRMS
Files:
References: s 47E(d)
The cable has the following attachment/s -
Recent media coverage of BHP Billiton offer for Potash Corp.docx
Response: Routine, Information Only

Summary

BHP Billiton's bid for Potash Corp of Saskatchewan has continued to attract a high level of media coverage. Commentaries have covered most positions, with critics raising concerns about a hollowing out of corporate Canada, and supporters arguing that Canada needs to safeguard its pro-investment reputation. Negative views from the provincial government have been highlighted, focussing on concerns about revenue and employment. Responding to a question in the Parliament yesterday, PM Harper noted that an acquisition of this scale would be scrutinised under the foreign investment screening regime.

BHP Billiton's bid for **Potash** Corp has continued to attract regular and high profile media attention, print and electronic. As was the case in earlier coverage (reftel), the media has focussed mainly on the adequacy of the offer, the possible impact on the current export marketing cartel (Canpotex) and the effects on the revenue stream of the Saskatchewan provincial government. Sample of coverage is attached.

2. The CEO of **Potash** Corp has continued to make highly critical statements about the offer, portraying it as "wholly inadequate" and an "ill-disguised attempt" to take advantage of the company's stock price. The main national dailies, the *National Post* and *Globe and Mail* also reported in breathless terms on accusations (made by **Potash** management) of "inappropriate and highly unethical" behaviour against BHP Billiton for making approaches to **Potash** Corp's major shareholders. The *Globe*, *Toronto Star* and Saskatchewan regional newspapers have also reported on a regular basis on the prospects of a rival bid emerging from China.

3. Commentaries in the print media have ranged across the full ideological spectrum, from those advocating approval to safeguard Canada's reputation as a country that welcomes foreign investment to opposition to any action that would result in the (further) transfer of Canada's national industry champions to foreign ownership and the country's relegation to 'branch office status'. Several media commentators - though a minority - have lamented the "hollowing out of corporate Canada" and referred to previous takeovers of Canadian resource companies Alcan (by Rio Tinto), Falconbridge and Inco. Some

commentators have also raised the prospect that the deal could result in the company being removed from the Toronto Stock Exchange.

4. The right-of-centre *National Post* has generally been supportive of the bid, questioning the impact on Canada's reputation as an investment destination should it be blocked, the impact on resources ownership - stating the provincial government will continue to retain legal ownership - and noting recent Canadian investment in Australia as evidence that investment is a significant component of the bilateral relationship.

5. The local media in Saskatchewan has to date been largely factual in its reporting, but has been dominated by coverage of provincial politicians who have been either opposed outright or in need of further reassurance and/or undertakings. Provincial Premier Wall has been reported raising his concerns about the future of Canpotex. (The provincial government has hired the Conference Board of Canada to assess the impact of BHP Billiton's takeover on employment, revenues, and the province's strategic position in the world's **potash** industry. The report is due at the end of the month). An editorial in the Saskatchewan Star Phoenix called for the provincial government not to stand in the way of any takeover, calling the government's current opposition "illogical".

6. The federal government has made few public statements to date. In Parliament yesterday, PM Harper fielded a question on the topic from the left wing NDP demanding that the government reject the bid. Harper said *"In terms of foreign takeovers, as you know very well, this government's position has not been to give a blank cheque to foreign takeovers. There is a law in place. I have spoken about the particular case that the leader of the NDP raises with the premier of Saskatchewan. Obviously, we will examine his concerns as we do the review that is required under the Foreign Investment Review Act."* Industry Minister (Clement) has noted that a takeover of such a large Canadian company would be subject to investment screening and that this would involve both net benefit and national security tests.

text ends

Sent by: s22(1)(a)(ii)

Prepared by: s22(1)(a)(ii) Research Officer

Approved by:

Topics: POLITICAL-ECONOMIC/Domestic Political, POLITICAL-ECONOMIC/Foreign Investment, POLITICAL-ECONOMIC/General Economic, PUBLIC DIPLOMACY/Media

▼ New Distribution

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Sample of media coverage of BHP Billiton offer for Potash Corp

National Post

Sale will run up against Wall

Diane Francis, Financial Post

Thursday, Sept. 16, 2010

An unsolicited bid from global mining giant BHP Billiton PLC for Potash Corp. of Saskatchewan Inc. has resurrected concerns about foreigners buying Canada's biggest resource companies, the loss of head offices, jobs, control and future growth. Premier Brad Wall spoke with Diane Francis, Financial Post editor at large, about the issues.

Q How do the people of Saskatchewan feel about this deal?

A The public's concerned and knows the importance. They have been following it very carefully, seeing the various commentaries by yourself and others on the issues. There is the jobs issues and the revenue issue for the province. Potash Corp. is a well-known entity with a lot of history in the province. I would say this, and have repeated this, not only to send a message to people here and to the rest of the country: Potash belongs to the people of the province. It doesn't belong to Potash Corp. or any other entity. A licence to mine is one of the tools we have that we're investigating right now through a task force internally which includes Enterprise Saskatchewan, Energy and Resources and Finance. I have talked to former premiers Roy Romanow and Peter Lougheed who managed these issues better than any other premier. The issue is to make the province a good place to invest and protect the resources.

Q Do provincial powers override shareholder rights?

A Certainly that's my understanding. We have the powers to regulate the resource and retain sovereign powers of taxation. We're going to be very measured about this. This is not a time for ideology. We are home to 50% of the world's potash resources and there is nothing more important than energy security and food security. We're well-positioned in both. We want to make sure that long after my government is gone, the people of Saskatchewan maintain control.

Q Can you scupper the deal because the province owns the potash?

A We have a big say in this, but the federal government will say no or yes [to a foreign takeover]. I have talked with the Prime Minister and we are going to highlight our concerns -- royalties are potentially one area and Canpotex (the marketing organization dominated by Potash Corp.). We are enjoying great success at a time when Russia is consolidating its potash companies. This deal [with BHP Billiton or China] would put Canpotex at risk. Why would anyone stand by and allow that to happen?

Q What are the feds doing?

A Investment Canada is examining this through two filters: the national security and net benefit to Canada issues.

Q What if Investment Canada rubber stamps this or fails to meet your conditions?

A With or without the federal government, the mining licence is here. We are finding out what leverage that gives us.

Q The head office will go if a foreign company buys Potash. Isn't this reason to kill the deal?

A There have been problems with other [Investment Canada] deals. They have been ignored. We believe conditions and terms should be carefully predefined and what the implications would be of a breach.

Q But big foreigners can flout preconditions, and have, so why not bypass Investment Canada and do it yourself ?

A I'm not that fatalistic. No one can mine potash without a licence from Saskatchewan.

Q If Potash goes, won't Cameco and Saskatchewan farmland fall into foreign hands too?

A The province has a "golden share" in Potash and Cameco. [A golden share is a nominal share that can outvote all other shares in certain circumstances, usually held by governments in companies that are being privatized.] The NDP loosened the golden share regarding Saskatchewan Oil [which became Nexen] and Potash but not Cameco. This protects the head office and corporate presence, and through legislation more things can be added to the golden share.

Q What about the CEO's excessive payout (estimated at a total of US\$445-million if the company is bought) and the fact he commutes from Chicago?

A It's a bit of an issue and we'd like to see a stronger corporate presence. It's been a great corporate citizen and done a good job for their stockholders and invested billions in the province. The issue of compensation I will leave to others to judge.

Q Do you believe that our resource companies are targeted by giants and will merely be pawns if we don't stop this?

A We're not pawns, we're the sheriff and nobody mines or extracts anything here unless the people say it's OK.

Let BHP buy Potash Corp.

Terence Corcoran, Financial Post · Wednesday, Sept. 15, 2010

What a lineup! Jeffrey Simpson at the Globe, David Crane at the Toronto Star, Maude Barlow of the Council of Canadians, investment guru Stephen Jarislowsky, and now former Calgary resource executive Dick Haskayne -- together they have become the ersatz Paul Reveres of the Canadian economy, riding through the pages of newspapers to alert the population to the looming menace of foreign ownership of our vital natural resources. In this case, the threatened sacred trust is potash. Collectively, our midnight riders of economic nationalism have assembled a wrong-headed and misguided series of arguments against BHP Billiton's \$40-billion takeover of Potash Corp. of Saskatchewan. If ever Canada sought to become a backwater in the global mining economy, moving to block the Potash deal would be a good place to begin.

It's not clear where this started. Maybe it was Ms. Barlow, still fighting the old anti-corporate free trade battles, who declared last month that the BHP Billiton takeover of Potash Corp. should be blocked by Ottawa. "When you hand over all the power over these resources to international investors, be they backed by a large country or just private investors, you lose control, you lose the ability to take care of your local economy, your local environment."

That was a month ago. Within days, Jeffrey Simpson had weighed in: "At heart, sadly, Canadians are a rentier people. We live of the bounty of the land and its resources that we own, but, where possible, we rent to foreigners and their companies." The Potash deal, he said, was another selloff, another sellout.

Also within days, David Crane, a veteran nationalist hand wringer who fretted about losing control over potash all through the free trade debates of the 1980s, was back at it. "In the global economy Canada needs its own multinationals with the scale and scope to operate from Canadian headquarters, with all the strategic decision-making power ... that typically comes from the head office of a successful multinational. Potash Corp. is a Canadian success story with great potential. We need to keep it that way and our government should say so."

Exactly which government should be doing all this is unclear. The government of Saskatchewan, which actually legally owns the potash resource, has decided to waffle through the next few weeks by hiring the Conference Board of Canada as a consultant to provide advice on any takeover. In Ottawa, Industry Minister Tony Clement has been duly circumspect, saying only that the government would apply the law in the event a takeover comes up for review. The takeover issue would become more complicated if a foreign state enterprise, from a country such as China, were to enter the contest.

Never mind China. For Dick Haskayne, a former chairman of several Canadian resource companies, including TransAlta and Nova Corp., the case is already clear. Writing in the National Post and the Calgary Herald, Mr. Haskayne said there are "compelling reasons why the Ministry of Industry should not approve the BHP Billiton PLC takeover of Potash Corporation of Saskatchewan." He said he is "absolutely opposed" to the "prospect of losing another one of our Canadian corporate champions, or 'Northern Tigers.' "

As with all economic nationalists, Mr. Haskayne must first build an emotional head of steam. He trumpets Potash Corp. as "one of the top 10 companies by market value on the Toronto Stock Exchange," a claim that is true--but only because BHP's takeover offer catapulted the company into the top ranks. As of yesterday, Potash had a market cap of \$45-billion, tied with Barrick for fifth place. If we lose Potash, said Mr. Haskayne, we are witnessing another "hollowing out" of corporate Canada and the continuing "decimation" of the Canadian mining industry.

To further support this argument, Mr. Haskayne enlists Don Argus, former chairman of BHP Billiton, who back in 2008 said that "Canadian policies are a worst-case scenario." Canada, he said, has lost more head offices than any other country and had already been reduced to "branch office" status. While that is what Mr. Argus said, it's not the whole of what he said.

In July of 2008, Mr. Argus and BHP had launched a hostile takeover bid for Rio Tinto, another mining giant. His comments on Canada came in the context of this offer and his attempt to convince the Australian government to support Australian mining companies and the takeover.

A 2008 news report captures the intent of Mr. Argus's comments:

Mr. Argus said in Brisbane late Thursday that BHP Billiton directors had made a conditional offer for Rio Tinto to create a global resources company with scale to compete with China's industrialization that was changing the world.

"However, we [the Australian government] need to get smarter and we need to work out what we do with the dollars earned and taxes paid [from the mining sector]," he said.

"We continue to see the resources sector as a cash cow continually milked, but without serious reinvestment we will lose this opportunity. Australia's position in global resources is not guaranteed. If we fail to remain competitive, Australia will incur a substantial opportunity cost and, in the worst-case scenario, our resources will fall into overseas hands and we will become a branch office--just like Canada.... We have been losing competitiveness, but we are well-placed to increase market share and we have the resources to do it, so Australia in the new world order needs to work out whether we become a competitor or a spectator."

In this case, Mr. Argus was making the case against government meddling in and taxation of the mining industry. It was hardly an argument against foreign ownership. In fact, BHP is already technically a foreign-owned company in Australia, with 50% of its shares held outside the country.

Foreign ownership and investment have been the key reason for the relative success of Australia's mining industry. In a speech last year, the current CEO of Rio Tinto's energy division, Doug Ritchie, said Australia's world class resource industry is the product of massive foreign investment from Japan and now China. "Foreign capital is ubiquitous," he said, holding majority and minority interests. "The major mining companies -- BHP, Rio Tinto, Anglo, Xstrata -- are now majority foreign owned, and that ownership has allowed Australia access to the global capital it needs to develop its resources."

Rather than fight off foreign ownership, said Mr. Ritchie, Australia should continue to accept it from China today as it accepted Japanese investment decades ago as Japan rapidly industrialized.

Foreign ownership of mining companies--the lifeblood of the global industry -- is also not the same thing as owning the resources. In the case of potash, the government of Saskatchewan will continue to own the potash. Contrary to Ms. Barlow's claim, a takeover would not mean that "all the powers" would be turned over to international players. Potash Corp. is merely the corporate venture that holds the rights and operates the business in a competitive global multinational context. By blocking such foreign ownership, Canada would be sending a message to the world that global multinational players are unwelcome and that Canada refuses to allow its resources to be part of the global market. That's no way for a Northern Tiger behave.

Globe and Mail

Potash brass, China in talks on rival bid

Management working to form investor consortium to top BHP's offer for fertilizer company

Andy Hoffman, Brenda Bouw and Mark MacKinnon

Toronto, Vancouver, Beijing — From Thursday's Globe and Mail

Published on Wednesday, Sep. 15, 2010 11:55PM EDT

Potash Corp. of Saskatchewan Inc. is working to assemble a Chinese-led consortium of investors to back a leveraged buyout with senior management that would trump BHP Billiton Ltd.'s \$38.6-billion (U.S.) hostile bid.

The plan being considered would include significant capital from a Chinese resource company or investment fund, which would then be combined with smaller contributions from international sovereign wealth funds and possibly Canadian financial players such as pension funds. Strategic partners such as rival potash producer Mosaic Co. could also be part of the consortium, sources say.

Together, these investors could provide enough capital to account for as much as half of the funds needed for an offer that would top the BHP's \$130 per share unsolicited bid. The rest of the offer to shareholders would be financed through debt as well as potential asset sales, and key management from Potash Corp. would remain in place to run the company.

"It is a viable option," said a source close to Potash Corp. who spoke on the condition of anonymity. The source also cautioned that there are significant difficulties in finalizing a consortium's structure and that other options were still possible.

"It is still a big cheque to write....and it is a challenge to manage multiple parties," the source said.

The proposed buyout plan is, however, being strongly considered as the Saskatoon company's primary defence against BHP, in the event that a competing bid from another mining or resource firm fails to emerge -- a scenario that seems increasingly likely as potential players such as Teck Resources Inc. count themselves out of the running.

The structure of the plan is also gaining favour with both the company and potential consortium members, in part because it is believed such a proposal could be palatable for both federal and provincial governments and would be able to satisfy regulatory concerns. It would also fulfill China's needs to secure potash for its growing population, and eliminate concerns that BHP could come in and control a large chunk of the market.

China is the world's top consumer of potash, a nutrient used to enhance crop yields. However, the prospect of a state-backed Chinese company taking over Potash Corp. would face significant regulatory scrutiny and could be blocked under the Investment Canada Act or fail to win support from the Saskatchewan government, which has expressed concerns about a potential Chinese bid.

"China is highly reliant on potash imports," Commerce Ministry spokesman, Yao Jian said Wednesday at a regular news conference in Beijing. "We will be paying close attention to this deal."

China's Sinochem Group has been considering getting involved in a rival bid for Potash Corp., according to sources. On Wednesday, *Caijing*, a Chinese magazine reported that Sinochem vice-president Han Gensheng said a \$10-billion investment in Potash Corp. is too large for the company and "not a good deal." Hours later, however, Mr. Gensheng's comments were removed from Chinese websites and *Caijing* later retracted the story saying the interview never took place.

Politically charged comments – even those made by well-placed official sources – frequently disappear from Chinese websites. When they do, it's usually interpreted as a sign someone higher up the political chain disagreed with the remarks.

Sources say China's State Council is still considering how exactly to approach a possible bid for Potash Corp.

A consortium of investors including a minority Chinese interest backing a leveraged management buyout may allay political concerns over China's role in a Potash Corp. bid as company management could be used as a friendly domestic face leading the offer and keeping the company locally controlled.

Potash Corp. CEO Bill Doyle has said "BHP will not be the only bidder" for the company. However, a full-blown bid for Potash Corp. from a mining company capable of competing with BHP's offer appears increasingly unlikely.

Brazil's Vale S.A. has said it is not planning a bid for Potash Corp., and while Rio Tinto PLC is believed to be interested in Potash Corp., its CEO has said the company is focusing on acquisitions of less than \$10-billion.

Potash Corp. spokesman Bill Johnson declined to comment as did an official from Mosaic Co.

BHP has raised \$45-billion from a consortium of international banks to fund its offer, creating difficulties for a rival group to raise its own competing capital. However, with the exception of Toronto-Dominion Bank, Canada's 4 other big banks could be tapped to help fund a leveraged buyout offer along with deep-pocketed Chinese financial institutions in conjunction with other international banks.

To help fund an offer, the management buyout consortium could also sell Potash Corp's nitrogen and phosphate assets which analysts have said could be worth anywhere between \$7-billion and \$12-billion.

Saskatchewan questions benefit of Potash Corp. takeover

Wall not convinced sale of resources giant is good for the province or the country

Brenda Bouw Mining Reporter

Saskatoon — Globe and Mail Update

Published on Monday, Sep. 20, 2010 11:44AM EDT

Saskatchewan is playing hardball with BHP Billiton Ltd. over its \$38.6-billion (U.S.) hostile bid to buy Potash Corp. (POT-T151.78-0.75-0.49%) saying it's not convinced a sale of the resources giant is good for the province, or the country.

Shortly after meeting with BHP executives in Saskatoon on Monday, Saskatchewan Premier Brad Wall indicated the province doesn't see significant benefits from the proposed acquisition.

"My views may change ... but as of today, I don't know how we are better off if this takeover or any other subsequent change happens," Mr. Wall told reporters. "I don't see how Saskatchewan or Canada is better off."

Saskatchewan's support for any takeover of Saskatoon-based Potash Corp., the world's largest potash producer, is seen as crucial to Ottawa's decision on whether to approve the deal. Any major foreign takeover of a Canadian company must be considered of "net benefit" to the country, according to the Investment Canada Act.

Prime Minister Stephen Harper said he has discussed Saskatchewan's concerns with Mr. Wall.

"I have spoken about the particular case with the Premier of Saskatchewan and obviously we will examine his concerns as we do the review that is required under the Foreign Investment Review Act," the Prime Minister told the House of Commons on Monday, the first day of its return from summer recess.

Late Monday, BHP extended its bid deadline for Potash Corp by a month to Nov. 18. The move came after the Canadian Competition Bureau requested more information from the miner on its offer, BHP said in a release.

BHP said it's "confident" the offer will receive all required regulatory approvals.

Mr. Wall said Australia-based BHP, the world's largest mining company, has assured him it will keep Potash Corp.'s corporate head office in the province, and plans to complete the Jansen potash project. Still, Mr. Wall said his current view is that the planned takeover fails to provide the necessary benefits.

"If we were asked for a recommendation, using the federal government's own measures – and we think they are appropriate by the way ... as of today, I just haven't seen it," Mr. Wall said.

BHP vowed to make Saskatchewan the world headquarters of its potash operations, no matter the outcome of its unsolicited bid for Potash Corp.

"[Potash] is a good business for us and a good business for the people of this province," BHP chief executive officer Marius Kloppers said Monday during an event to officially open its new office building in downtown Saskatoon, a few blocks away from Potash Corp.'s offices.

"Our aim is to build a material potash business and not just one mine. ... The centre of our potash business will be right here in Saskatchewan," Mr. Kloppers added.

BHP has also vowed to maintain jobs in Saskatchewan. However, its plan to pull out of the Canpotex potash-marketing arm has created concern with the Saskatchewan government. The province worries BHP's move to market potash on its own and operate at full capacity will lead to lower potash prices, which, in turn, will mean lower revenues for the province, which collects royalties from the resource.

Saskatchewan has hired the Conference Board of Canada to review the risks and opportunities behind a takeover of Potash Corp., one of its largest taxpayers.

The report is due by the end of the month and will form the basis of the province's decision on whether to support the takeover bid.

Mr. Wall was careful to point out that the government is still doing its homework on the deal.

"I'm not telling you this is what we are going to say to our federal government, but I think it's important to sound this note: That as of today ... the government of Saskatchewan needs to be looking out for the interests of the Saskatchewan people and asking the question, 'How is this province better off because of this or some other deal? How is Canada better off?'"

Potash Corp. has rejected BHP's offer and is looking at other deals. Chief executive officer Bill Doyle has reassured investors another offer is coming, saying "BHP will not be the only bidder."

The Chinese government is close to a decision on how it plans to trump BHP's offer, and is considering a number of key proposals from state-owned firms, according to people familiar with the matter. While China hasn't said for sure that it will bid, sources say the country is anxious to see whether it can make a counteroffer to both upset BHP's plans to gain a large stake of the potash market, as well as to secure its own supply of the crop nutrient.

Liberal Leader Michael Ignatieff said Monday that the potash issue warranted a cautious approach.

"We want to make sure that this doesn't cause us to lose head-office capacity, Canadian leadership in an industry where we have an extremely important position," he said during a press conference held to mark the return of Parliament for the fall session. "And we want to make sure that this purchase is reviewed and looked at carefully to make sure it is of net benefit to Canadians."

Ralph Goodale, the deputy Liberal Leader who represents a Regina riding, said the federal government must work very closely with Saskatchewan on the potash file.

"When it comes to potash, the national interest and the Saskatchewan interest become very much the same thing," Mr. Goodale said. "They need to work up that set of principles that can be applied under the Investment Canada Act to make sure that the net benefit is there."

The critical issue is the marketing strategy, Mr. Goodale said. That strategy, he said, must continue to work in the best interests of Saskatchewan.

Saskatoon Star Phoenix

Grounds for debate

Potash, possible presence of foreign company hot topics

By Cassandra Kyle, The StarPhoenix September 11, 2010

Saskatchewan may see long-term benefits to potash revenue if BHP Billiton -- in the event of a successful takeover of Potash Corp. of Saskatchewan Inc. -- does not join Canpotex, a University of Saskatchewan professor argued Friday.

"It would be important for PotashCorp to remain in Canpotex, but it might be good for BHP Billiton not to and the reason is they are different companies," economist Murray Fulton said.

Because BHP Billiton is a large company that prefers to produce at near capacity levels and directly market products to customers, other potash producing regions, such as Russia, may be forced to cut back their production rates, he explained.

Such a scenario could see BHP Billiton selling large amounts of Saskatchewan potash at substantial prices, Fulton said.

"I need to underscore that's a possibility -- anything can happen in these particular markets," he said after the Johnson Shoyama School of Public Policy event.

Fulton cautioned such a situation may cause problems at the outset.

"That strategy over the long term may be advantageous, but from year to year I think it's going to add to the volatility and from a volatility perspective that may not be a good thing for the province at all."

CONTINUE PARTNERSHIP

PotashCorp is a key partner in Canpotex, which markets Saskatchewan potash to international destinations. Mosaic Co., and Agrium Inc. -- the two other potash producers in the province -- are also partners in Canpotex.

Shortly after BHP Billiton announced its \$38.6-billion US proposal to buy PotashCorp in August, the company explained it prefers to market directly to buyers.

However, BHP Billiton executives later said they would consider joining Canpotex and, if successful in its bid, the company would honour existing PotashCorp contracts with Canpotex.

When it comes to the offer for PotashCorp -- the world's largest fertilizer producer -- a price too high or too low from any interested party could lead to negative consequences, Fulton said.

The price must be high enough, he said, to appease local shareholders, but if an offer is too high, the acquiring company will be under pressure to prove it made a good deal.

"How would they do that? Well they might put extra pressure on wages, they might decide not to make investments . . . and I think the big one is it may put them in a position where they would be going to the government and saying: 'We need a change in the royalty structure to make ourselves profitable.' That is not something that's very advantageous."

Peter Phillips, a U of S professor of public policy who also participated in the lecture, said foreign investment in Canada has its pros and cons.

Foreign owners do what's in their best interests and usually repatriate a portion of profits, Phillips said. However, evidence shows foreign companies operating in Canada also contribute to the country's economic prospects and often bring new management and technology.

"(And) they bring financial reach," Phillips said. "They usually have better access to multinational markets. For instance, PCS is listed on two stock markets, BHP Billiton is on seven. It just gives them more markets they can tap into at lower cost and a more stable base of patient investors -- which is useful if you're in a capital-intensive enterprise as mining is."

At the lecture, which was simulcast to the University of Regina and included U of R associate director Ken Rasmussen and scholar-in-residence Jim Marshall, Phillips said multinational companies, including those incorporated in Canada, often do their best to blend in to communities.

"These companies are a bit like chameleons, they try and adapt to the market wherever they are," he said.

MAKING MOVES IN AUSTRALIA

While the hot business topic in Saskatoon is the potential takeover of PotashCorp by an Australian-based firm, the policy professor noted three Western Canadian companies, all with operations in Saskatchewan, are making big business moves in Australia.

Cameco Corp. is advancing its Kintyre uranium project in Western Australia, Viterro acquired Australia's ABB Grain for \$1.4 billion last year and, in August, Calgary-based Agrium made a \$1.1-billion bid for Australian grain seller AWB Ltd.

"These are as much cultural icons in Australia as PCS is in Canada," Phillips said. "So if we expect access to international markets, we're not going there with the intent to rape and pillage, we're going there with the intent to generate wealth."

Whatever happens to PotashCorp, Phillips hopes questions raised about royalty rates, labour policies and environmental stewardship as a result of the recent bid are addressed in the province.

"I would hope that whatever happens with potash and PCS . . . that we don't forget that these other issues are still there and are important and need to be dealt with," he said.

Province should keep hands off any potash deal

The Star Phoenix August 28, 2010

If the Saskatchewan government believes it knows best how to manage a potash company, it should buy or build one.

Otherwise -- and there is strong evidence to suggest that those corporations that are in the business and risking their own money can best decide how the industry works -- the Saskatchewan Party government should butt out of whatever deal BHP Billiton or any other potash company wants to make with primarily foreign investors.

This week, Premier Brad Wall suggested he would like to see BHP commit to selling off-shore potash through Canpotex, a marketing co-operative that includes Potash Corp. of Saskatchewan Inc., Mosaic Co. and Agrium Inc., if its bid to purchase PotashCorp succeeds.

His concern is that if the market for potash outside of North America is free, the price may drop.

It's an illogical position to take from any government but particularly so for one that has opposed the monopoly marketing of Prairie wheat through the Canadian Wheat Board.

The CWB was established to protect producers, a group that disproportionately lived on the Prairies and was subject to abuse from multinational agribusiness that controlled inputs, transportation of goods and the farmgate price for production.

Canpotex, on the other hand, is meant to protect the investors who own the potash companies. Its benefits for the people of Saskatchewan, aside from the few that may hold shares in member potash companies, is restricted to providing a percentage of the profits back to the government in the form of royalties.

But the provincial government has unique powers when it comes to this single input cost. It can set a unit price for the resource that would guarantee a fair return to the people for every tonne extracted and sold.

It shouldn't matter to the government if that tonne is extracted and sold by an American company with 20 per cent of its head office in Saskatoon, an Australian company with 100 per cent of its

potash wing based in the city, a Chinese company with its head office close to its biggest market or a Mali company with its head office in Timbuktu.

The royalty rate should be set on an expert prediction of where the market will go over a business cycle, with a caveat that if the market turns sour, or if it suddenly takes off, a new industry-wide rate will be negotiated.

The only variation should be based on quality of product or cost of production, and the province can measure its take by simply weighing the export.

If the government believes high-quality jobs are essential for urban centres, it should use the proceeds from potash to create its own jobs. If it believes a portion of potash revenue should be redirected to research, it should extract enough of a return from the entire industry in royalties and taxes and redirect the money itself.

There is an unquestionable advantage for the potash industry to conduct research into better and more efficient means of extraction, processing and use of potash. A company that could more efficiently reach deeper underground for product, cut the cost of processing or enter otherwise unavailable markets with innovative product will succeed.

But a company forced by legislation to conduct research will only live up to the basic requirements and Saskatchewan will receive a much smaller benefit.

And a government that has the money through wise royalty structures to conduct its own research may invest it all in potash innovation, or decide to use it to look into broader agro-food technology or even use the cash to investigate MS research because it believes that's in the best interest of its society.

Mr. Wall shouldn't be so concerned about the wisdom of placing head office jobs in Saskatoon. In the wake of their privatization, legislation was drafted requiring head offices for both the PotashCorp. and Cameco Corp.

Cameco, which is consistently recognized among the top 10 employers in the nation, has proven the value to the company of integrating itself into the community and caring for its workers.

PotashCorp skirted the law and moved 80 per cent of its top executives to Illinois.

And Mr. Wall should be more circumspect about the value of a forced marriage to create a marketing company. Last year, Saskatchewan's treasury took a deep hit when the world's other potash marketing giant, Belarussian Potash Co., which represents Belaruskali and Russia's Uralkali, cut the price to perspective Saskatchewan customers.

The product Saskatchewan couldn't sell then is still here and much more valuable today.

The provincial government should focus on its responsibilities, regulating and taxing industries in such a way to encourage economic development while protecting the environment and the workers.

And if it wants to pass useless laws, it should make it illegal in Saskatchewan to claim to be free-market or free-trade capitalists while advocating for government meddling in private business.

Calgary Herald

Potash Corp. ownership must stay at home

Sale threatens resource control, industry reputation

By Dick Haskayne, For The Calgary Herald September 11, 2010

If the BHP Billiton PLC \$40-billion "hostile" bid for Potash Corporation of Saskatchewan succeeds, it will be of great consequence to this country and should give Canadians -- and our governments -- cause for concern. In the next few weeks, shareholders must decide whether or not to accept an all-cash bid of \$130 US per share from BHP.

As a Potash Corp. shareholder and former CEO and past chairman of several large resource companies, I am absolutely opposed to this takeover bid with the prospect of losing another one of our Canadian corporate champions, or "Northern Tigers," as I defined them in my book.

I have nothing against Australians or for that matter, BHP. Ultimately, the issue for me is much broader concerning the ownership and control of public companies that own and manage a large inventory of our strategic natural resources.

Potash Corp. owns and operates the largest reserves of potash in the world. Formerly a crown corporation, it is now widely held and a core holding in most equity portfolios as it is one of the top 10 companies by market value on the Toronto Stock Exchange. It is instructive to know that the others in that group of 10 include four banks, three energy companies and two other mining companies. Furthermore, those three industry groups -- finance, energy and mining -- represent 78 per cent of the market value of the total TSX.

As a result, this potential acquisition by a foreign company becomes critical particularly because of the "hollowing out" of the mining industry experienced in the past few years through foreign takeovers of several Canadian mining champions: Alcan (\$40 billion), Falconbridge (\$18 billion) and Inco (\$20 billion) as well as several other smaller players. Many of us commented on the decimation of the Canadian mining industry but perhaps some of the most damning observations came from outside of the country.

In 2008, Don Argus, then chairman of BHP, made the following points. "Canada's policies are a 'worst-case scenario;' " "Canada has lost more head offices than any other country;" "Canada has already been reduced to an industry 'branch office' and is largely irrelevant on the global mining stage." He made these comments to warn the Australian government because Australia is a major mining country, similar to Canada.

Mark Citifani, CEO of the South African company AngloGold Ashanti Ltd. and former chief operating officer of Inco, said, "Countries such as Brazil and even South Africa, where AngloGold is based, have instituted rules and regulation designed to protect mining companies and give them an advantage over global competitors," and further, "One of the things I've noticed in North America and some other countries is they are not supportive of global industry champions."

In Canada, Ian Telfer, chairman of Goldcorp Inc. has said, "Only companies that are playing under the same rules as Canadian companies should be able to take over Canadian companies," referring to the takeover of Inco, which is protected from unwanted wanted takeovers by the Brazilian government's "golden shares."

Peter Munk, respected chairman of Barrick Gold Corp., has expressed similar views. Sherritt International chairman Ian Delaney had even harsher comments when he said, "Canada has squandered its title as the centre of global mining finance."

I shared those views then and now offer my specific reasons for recommending the proposed takeover of Potash Corporation of Saskatchewan by BHP not be approved by the minister of industry for the following reasons:

- It would be the largest, most significant takeover of any Canadian mining company in history. This news would send a worldwide message that Canada is prepared to sell any of its prized resource companies.
- This takeover would further reduce Canada's stature as an important mining country and indicate that Canadians are satisfied with "branch office" operations of our major resource assets.
- Potash Corp. is so important for the world because of its enormous reserves and, coupled with the future demand for fertilizer, Canada should take a long view and jealously protect the management of that asset considering the interest of shareholders and what is best for Canada.
- BHP would have control of the largest potash mines in the world as well as holding substantial, undeveloped reserves recently acquired through the takeover of Athabasca Potash Inc. Accordingly, there would be too much control of this resource by a foreign company where the decisions of the real head office in Australia may not be consistent with what is best for Canada.
- A good example of an important decision relates to the question of continuing participation of Potash Corp. in Campotex, a unique marketing consortium with its partners Agrium and Mosaic. The breakup of such an important organization would be a disaster for Canada and, especially, for Saskatchewan.
- It seems inconceivable that this takeover could be demonstrated as "a net benefit" to Canada because BHP offers nothing to Potash Corp. that it is not doing now in terms of operations, finance or marketing. Canada arguably has the best corporate governance practices in the world and Potash Corp. complies with those high standards. Therefore, Potash Corp. should continue to be a public company with all of the transparency involved compared with a branch operation whose operations would be buried within a large multinational corporation. Consequently, there seems to be more negatives than positives.
- There is ample evidence that Australia is also concerned about similar takeovers of their own major mining companies. Therefore it is unlikely that they would permit a takeover of BHP by a Canadian or other foreign investor.
- The timing is opportunistic, by BHP's own admission. While that is acceptable behaviour in this world of takeovers and mergers, by any measure the price appears to be low. People should realize in deals like this, the large proportion of the shares often move into the hands of arbitrageurs and hedge funds who couldn't care less about Canada and therefore would likely push for government approval so they can realize a higher price for the shares.
- People who believe that BHP's offer of a "head office" for potash in Canada has any significance would be dreaming. Anyone familiar with the corporate world knows that all significant corporate decisions are made in the "real head office" by the CEO and the directors of the parent company and

not at a "head office" of a branch. Canadians need to wake up and understand the relevance of this issue.

- One of the most important factors that seems to be overlooked is that such a transaction would result in a continuing shrinkage in the number of large public companies, eliminating the ability of our world-class pools of capital to take meaningful positions in strong Canadian champions.

I believe these are all compelling reasons why the minister of industry should not approve the BHP Billiton PLC takeover of Potash Corporation of Saskatchewan.

I recognize the corollary to my argument is that we live in a global economy and to shut the door in Canada could risk similar treatment of Canadian companies in other countries.

Ultimately, however, this is about being good stewards of this country's natural resources for the benefit of future generations. Selling Potash Corp., as others have gone before it, would not achieve this objective.

I make these statements even though I, with 20,000 shares of Potash, would profit nicely from the takeover offer.

But I believe in the long-term value of the company, and would rather benefit by continuing to hold the shares rather than sell out to the highest bidder -- which would result in the disappearance of yet another Northern Tiger from Canada's corporate landscape.

Title: Canada: BHP bid for Potash Corp - media coverage
MRN: s 47E(d) 20/10/2010 11:26:50 AM EDT
To: Canberra
Cc: RR : Washington
From: Ottawa
From File:
EDRMS
Files:
References: s 47E(d)
Response: Routine, Information Only

Summary

Media reporting suggests that the provincial government in Saskatchewan will shortly communicate to the Canadian federal government its formal opposition to the BHP Billiton bid for Potash Corp. While this does not necessarily mean that the federal government will reject the proposal, it is a setback for the company. There is scope for further negotiations between the company and both governments, but the federal investment review process is due to be completed on 3 November.

text ends

Sent by: s22(1)(a)(ii)
Prepared by: s22(1)(a)(ii)
Approved by:
Topics: POLITICAL-ECONOMIC/Domestic Political, POLITICAL-ECONOMIC/Foreign Investment, POLITICAL-ECONOMIC/General Economic, PUBLIC DIPLOMACY/Media

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s 47E(d)

Title: Canada: BHP bid for Potash Corp
MRN: s 47E(d) 22/10/2010 11:40:05 AM EDT
To: Canberra
Cc: RR : Chicago, Washington
From: Ottawa
From File:
EDRMS
Files:
References: s 47E(d)
The cable has the following attachment/s -
Potash Saskatchewan address - Premier Wall - 21 Oct 2010.pdf
Response: Routine, Information Only

Summary

The debate over BHP Billiton's proposed acquisition of the Potash Corp has escalated to the political level following comments by the provincial premier stating his unequivocal opposition. But recent remarks in the Parliament by PM Harper suggest that the federal government does not view the Potash Corp as a strategic national asset.

s 47E(d), the Premier of Saskatchewan (Wall) went public yesterday to announce his opposition to BHP Billiton's proposed acquisition of the **Potash** Corp.

2. In his speech (attached), Wall argued that the takeover was not in the strategic interest of the province or the country, characterised **Potash** Corp as one of Canada's last major mining companies and that Canadian ownership of it was critical. He also argued that the bid does not represent fair value for the asset, would severely damage the province's revenue situation and lead to a loss of employment in the industry. He dismissed any undertakings that BHP might give in terms of employment and revenue and said that previous undertakings by foreign companies that had acquired Canadian firms had not been honoured (he mentioned Rio's takeover of Alcan among others). He suggested that any foreign takeover of **Potash** would be unacceptable to his government regardless of the price.

3. In building his argument that the bid should be rejected, Wall suggested that the Canadian federal government should follow the example of the then Australian Government in blocking Shell's bid for Woodside in 2001. Wall said 'Here is an example from Australia, the home of BHP Billiton. When Shell bid \$10 billion for a controlling stake in a leading company developing Australia's offshore natural gas reserves, an answer came from the enterprise-friendly government of Prime Minister John Howard in April of 2001, and that answer was a respectful no. Not yes with conditions, it was no. Australia's then-treasurer Peter Costello said it was in the country's best interests to have these offshore reserves to be quote "unequivocally managed and operated and marketed for Australia."

4. Wall's speech represents an escalation of the provincial government's rhetoric which until yesterday had focussed mainly on its concerns about potential revenue loss. BHP Billiton has indicated that it will continue to pursue regulatory approval of its offer, which rests with the federal government. The head of BHP's non-ferrous team (Mackenzie) was

quoted in the Canadian media yesterday expressing the hope that the Saskatchewan government would 'come around'. The company has published a full page advertisement in a number of mainstream Canadian newspapers today in which it presents its claims as being of net benefit to Canada and outlines its record at the Ekati diamond mine in northern Canada to reinforce its claims about its record of fulfilling its commitments.

5. The federal government has remained relatively quiet and public comments by the Industry Minister (Clement) yesterday emphasised that the federal government was seeking to take an even-handed approach. In a brief comment in Parliament on 20 October (responding to an opposition question), PM Harper described the case as follows: 'This is a proposal for an American-controlled company to be taken over by an Australian-controlled company, and we will of course review the matter. As is required by law, the government will listen to all sides on the matter and the government will render a decision according to whether the transaction is a net benefit to Canada'. Many commentators have pointed out that **Potash** is in fact 49 per cent Canadian owned, with 38 per cent US ownership, and that 8 out of the 12 directors are from Canada (although most of its senior management are based in Chicago. Harper's comments have been widely interpreted as indicating that the federal government is in favour of the bid, although there is speculation as to how Harper would manage the potential political impact of approval at both the federal and provincial levels.

text ends

Sent by: s22(1)(a)(ii)

Prepared by: s22(1)(a)(ii)

by:

Approved

by:

Topics: POLITICAL-ECONOMIC/Domestic Political, POLITICAL-ECONOMIC/Foreign Investment, POLITICAL-ECONOMIC/General Economic, PUBLIC DIPLOMACY/Media

▼ New Distribution

s 47E(d)



**PREMIER OF SASKATCHEWAN
LEGISLATIVE BUILDING
REGINA CANADA S4S 0B3**

**Potash Saskatchewan address
Saskatchewan Chamber of Commerce
Conexus Arts Centre
Regina, Saskatchewan
Oct. 21, 2010**

(Check against delivery)

The world has, I think in many ways, tuned in a little bit more to what has been happening in Saskatchewan over the last number of years and certainly over the last number of weeks.

If you were watching the Google trends back in August, when the BHP Billiton hostile takeover story broke, you would have seen a real spike in terms of the number of stories with the word Saskatchewan. In fact, we broke our own record in terms of the number of media stories around the world involving the word Saskatchewan, at the time of this announcement of this hostile takeover. It wiped out previous record, happily, because the previous record was the 13th man story from the Grey Cup. So there have been some unintended benefits to all of this.

I remember a night in August when I got a call from someone who told me that the next day the news would break, that the PotashCorp of Saskatchewan would become the target of a hostile takeover bid by BHP Billiton. It was one of those rare nights where Tammy and I had actually organized a date night. We were going to be going to the movie, and the movie we went to that night was *Inception*. I don't know if you have seen it, it's the new DiCaprio movie and it's pretty complex. It's one of those movies you've got to pay attention to, there's about seven different dream plots with one dream plot and I don't remember anything of the movie, I can tell you that. I was thinking mostly about potash and what the implications for what I had just been told might be. Tammy and I are going to have to rent that when it's out on DVD.

Immediately upon learning the news, the Government of Saskatchewan struck an internal task force made up of representatives, senior officials in Finance, Energy and Resources, in Justice and in Enterprise Saskatchewan. We retained the services of the Conference Board of Canada to help us provide some qualitative analysis as to the impact of this takeover on the provincial economy and on the revenues for the province

of Saskatchewan. We also retained what we think is among the best legal counsel you'll find in Canada when it comes to these kind of takeovers, when it comes to learning more about and piloting through the Investment Canada review process.

I sought the counsel of other premiers. We had a chat, sir. I had a chat with the previous premier; I had a discussion with Premier Romanow, provided good advice.

I talked to Premier Lougheed. I think Premier Lougheed was one of Canada's best premiers in terms of balancing the need to have a brand of welcoming climate for investment in his province, but also a being careful steward of the resources of his province. He said what he often says to me; he asked a rhetorical question. He said, "Who's resource is it, Brad?" And I said, "Premier, it's the resource of the people of the province of Saskatchewan." And he said, "You're right. Act like it, and you'll be fine." And we have. And we will.

We have engaged with the companies involved in this particular takeover and some of the companies on the periphery of this potential takeover. We have engaged with them, all along seeking to further the interests of the owners of the resource, the people of the Province of Saskatchewan. And we have sought through this process to make sure that we were balancing the protection of our strategic interests. The protection of this resource that we have, with the need for us to continue with this brand improvement that you've been a part of that has made Saskatchewan not a great place to be from, but a great place to be. We want to build on our brand as a place where investment from all over the world is welcomed. And we have sought throughout this process to balance that against the need to also protect, for future generations, the strategic interests of Saskatchewan.

We have used in our analysis the metric that the federal government uses measure whether or not these takeovers are good or bad – it's a net benefit analysis. This process asks the question, is there a net benefit to Canada, to Saskatchewan, of this proposed takeover. We have applied this net benefit analysis in three different areas. Number one is jobs. Number two is revenue, your revenue, the rent you should be getting for the resource that you own. And number three is this concept of what about our strategic interests in the world going forward.

Let's start with jobs.

Let's take BHP Billiton's comments about full production at face value. That added production would place current expansion plans now being pursued by other players, we believe, in potential jeopardy. Currently, Mosaic and Agrium, the other companies, are undertaking about six billion dollars in expansion of their assets in the province. That is 750 permanent direct jobs, 8,000 person years of construction in those particular projects. If the production model is flat out production, we know what that will do to price, and I think the companies will tell you that those jobs are then potentially at risk.

What about Canpotex? It is an agency that BHP Billiton quite honestly has said they are not interested in a long term relationship with. But, it is an agency that is very well

respected. It has served your province very well. It has carved out a position for us in the world stage and in the potash market and yesterday, Canpotex announced a three year deal with China. A three year deal with Sinofert covering 3.15 million tonnes of potash with a price to be negotiated every six months. If the takeover goes ahead and when Billiton then eventually pulls out of Canpotex, that's potentially 88 more jobs at risk. Most of them in the Province of Saskatchewan; most of them high level international marketing jobs, and there is more to consider. Canpotex is right now analyzing, and I think getting close to making a positive decision on a new rail car maintenance and staging facility. The preferred sight is the PostashCorp's mine at Lanigan. Phase one of the project is 55 million dollars invested here in the province, 120 person years of employment for construction, 20 full time jobs. If the future of Canpotex is in question, does that project go ahead? I don't know.

Add to this the announcement last year from Canpotex on the planned expansion of shipping capacity on the west coast, at a cost of 500 million dollars. This includes a new terminal facility on Ridley Island near Prince Rupert, along with the separate expansion right beside the existing terminals at the Port of Vancouver. Construction at Prince Rupert will create about 600 person years of employment during the construction phase and 60 full time jobs in British Columbia. But this is a Canadian question that we are engaged in today. If the future of Canpotex is in question what about those jobs?

BHP Billiton has been very honest about their plans for shipment of potash. They want to build their own terminal in Vancouver /Washington USA. What is the impact on the families that are working at the port facilities in Vancouver and Prince Rupert of that – in the midterm, in the long-term? Some have postulated that any job losses as we have delineated here this afternoon are going to be made up for by the fact that there is a brand new Greenfield mine BHP is planning for Jansen Lake. But they have said that mine will happen anyway. And by the way, we welcome that investment. That obviously isn't a takeover that's new investment into the province. That is what we are striving for and we are grateful that BHP Billiton has made that decision that would have that vote of confidence in our economy but, they have said though that that mine is going ahead anyway, notwithstanding the result of the process we are involved in.

So, when you review the jobs test on the net benefit question, the question then exists about the jobs that are in play as a result of Mosaic and Agrium's expansion. What about the impact on Canpotex and planned port and rail car expansions in Saskatchewan and BC? It's not a net benefit, possibly a loss, and Jansen Lake, not a net benefit.

Let us turn to the impact of this takeover proposal on royalties and taxation revenue for the province that is point number two for the province and for the country. Consider the losses from writing off the interest costs of acquiring PostashCorp anywhere from 168 to 200 million dollars per year on our budget. That is not a net benefit. And make no

mistake there is not a deferral or a delay in payments of moneys to come eventually. This is would be a loss that is ongoing for as long as it takes for the debt to be retired that stems from the takeover.

What about the fiscal impact from BHP Billiton in the stated position that they want to be a price taker. Full production, stand in front of your customer, take the price. Well, we have commissioned our report. The Conference Board has weighed in on that and they have said if you run potash assets at full capacity, and if you take the market price that results, the resulting oversupply could cut the price by 60 per cent, and then our revenue exposure is up to 570 million dollars annually. So, we have a range of revenue risk to this province as a result of this, ranging from 3 billion to 6 billion plus. And Canada of course is impacted especially on the corporate income tax side. Not a net benefit.

Finally, what about the strategic interests of our province? Let me just say on these first two issues, we have engaged with BHP Billiton. They have made known to us they wanted to talk a little bit about these two issues. They have been trying to meet our concerns. We have appreciated that dialogue and that discussion, but we are obviously a long ways away from any result that would protect the revenue and protect, potentially, the economic strength of the Province of Saskatchewan. And even were we to get to that stage, I have real doubt whether or not we should overcome the concerns that we should have about the impact on this about the strategic interests of our province and of our country.

Think for a moment about the scope and the scale of the proposal before the people of our province, and before the people of Canada, and before the financial markets. I don't think there has been a bigger corporate takeover proposed in the history of our country. Consider what is at stake in terms of potash. We all know that arable land is actually decreasing in supply, because of urban sprawl and population growth. We know that countries are getting hungrier, that the protein intensity of diets is increasing and therefore agricultural intensity will be also on the rise up. We know then that this amazing nutrient we have in such great abundance in the province, this potash, is going to be in greater supply. It is a strategic resource. And we should act like it. The country should act like it.

What other takeover in the history of corporate takeovers has involved up to 25-30% of the world's anything? Can you name one? Can you think of one?

This takeover involves 25-30% of the known reserves in the world's potash. This is different. This is not like any other takeover that we have contemplated in the country. Are our strategic interests in the province likely better served by a company who's vested in potash, that that's their really number one priority? That's their most important profit centre. Or are we better served by a company, a good company, but one that has 100

different mines in 25 countries? A company for whom this massive proposition still only accounts for about 20-25% of their business. Will potash become a lost leader for a company that has other things to sell? These are questions. These are serious questions about the strategic position of your Saskatchewan and of our country as a result of this takeover. And there are others.

How is the end of Canpotex, an agency that has put us on the map in the potash sector, an agency that has built strong strategic and successful marketing alliances around the world, how does its end further our strategic interests, our strategic position? I don't believe that it does.

And in all of this PCS is lost. And there's probably a lot of good debate around the province about the amount of officers now in Chicago, and I appreciate their pledge to Saskatchewan. It sounds like they are going to be retrenching back to Saskatoon, where their headquarters are. But imagine the loss of the Potash Corporation in all of this. Notwithstanding what was debated in the House of Commons yesterday, this is not a foreign controlled company. Potash Corporation is 49% percent owned by Canadian shareholders, 38% percent by Americans and the rest by others. 8 out of the 12 directors are from Canada. Two of them are from Saskatchewan. One's got a farm in Saskatchewan. Right now, the proponent in this deal is offering one board seat to Canada, not to Saskatchewan. And we need to think about how another foreign takeover in our mining sector would be for the country, for Canada's influence over strategic resources.

Canadian led mining companies are at risk of becoming an endangered species. This is the last and the biggest one, some have said. The list of those companies who have now fallen under foreign control is significant including Cohen, Falconbridge and Alcan. The people of this province are asking themselves, what happens to the country, what happens to our economy, if the Potash Corporation of Saskatchewan is next?

In this deal, we would lose a proud Canadian company. We would lose a loss in our international leverage in the potash sector, a loss of our marketing agency, along with the good will and contacts in which it provides. And we would transition from being price leaders to price takers. I don't see how there is a net benefit there, then, in terms of the strategic interests of the country.

We have expressed these concerns in meetings and publicly we have had quick answers provided to us to solve them. Why not just change your royalty structure? That's been offered up as an answer. How would we do that exactly? Agrium and Mosaic have made 6 billion dollars worth of decisions to create jobs and attract investment in this province based on the current royalty structure. The current royalty structure is the reason why there is, today, 12 billion dollars worth of potash expansion underway in your Saskatchewan, creating thousands of jobs. It is a good royalty structure for that reason

because it is paving the way for growth—the growth you prize, that I prize and our province wants for Saskatchewan. So are we then to have two structures? One for BHP that has its marketing model, and we've got to keep Mosaic and Agrium whole, I would say. We know the affect on businesses and the investment climate, on your economy when you're having royalty shock. When there is a bunch of changes in your royalty structure. We don't want to do that. Right next door we saw what happened as a result of that. When a company makes a multi-million dollar decision to invest in a mine, that company requires a very clear understanding of the costs. That's what the Saskatchewan Potash Producers Association have said about this issue.

Another quick answer we've received to our concerns is well just get some undertakings then, get the company to make some promises then. Promises about the head office, promises maybe about Canpotex, promises about the revenue situation for the province. But I don't find much solace today, ladies and gentlemen, to be derived from the historical record of companies involved in takeovers, and of promises being kept, or of Investment Canada holding companies to their promises. Market conditions can change, interest rates change, and before long companies come with a request to have something adjusted or something changed.

Here in our province in 1994, ironically, the Potash Corporation came and asked for changes and dilution of the Golden Share that was established in the 80s, and it was granted in 1994. According to the Globe and Mail, 10 years ago, an antecedent of BHP Billiton, Billiton PLC made a promise to locate its global headquarters for base metals in Toronto, relative to an acquisition of Rio Algom, a copper producer. Less than a year later, the federal government gave permission for that promise to be broken, and after the merger they created a new company. That base metal producer moved its headquarters to Houston, Texas. It was a promise that was made and I'm sure from a corporate standpoint it needed to or it was broken and those jobs went to Houston.

There are other examples. Xstrata paid \$18 billion for Falconbridge in the summer of 2006. The federal government extracted a promise that no jobs would be cut and the promise was broken. With Vale of Brazil, commitments were made that staffing would be maintained after purchasing Inco. In March of '09, 463 jobs were cut, and I'd say the promise was broken. Rio Tinto promised not to cut jobs or operations when it took over Alcan. Hundreds of millions of dollars in cuts to scheduled upgrades to smelters in Quebec and BC occurred then thereafter, and 300 jobs were cut, including 18% of the head office at Alcan.

I know that there is this suggestion out there that, well, promises can be made but pardon the Government of Saskatchewan, or anyone in this province of Saskatchewan if we're a little bit concerned about them being kept. We can't build schools on promises.

We can't reduce taxes on promises. We can't pay off the debt on promises. We need greater assurances than that, on something as important as this.

In 1904, Prime Minister Laurier declared that the 20th Century would be Canada's century. I liked what he was thinking about, but he might've been 100 years too soon. I think this could be Canada's century, if we get it right. Today the world is facing two important questions of food security and energy security. And Canada has the answer those questions in prolific production of agriculture, of food, an amazing profile and inventory of natural resources.

I believe there is a vision for our country that beckons us. A vision that would have us take our rightful place in leading a world that needs answers to these questions on food security and energy security. It is a vision of a country, then, that through the benefit of this natural resource and exports reinvest in the next economy, in the knowledge economy, the new economy, and continue to grow in the interests of future generations. But to do that, we as Canadians, all of us, we need to have that vision in the first place. And we will need the requisite courage required to fulfill that vision. We will need the courage to make tough decisions. This has been a tough decision. Decisions like saying to an eager world that, well, we welcome investment, but there are certain strategic resources that call for circumspection. That call from discipline on our part as Canadians. That call on us to keep an eye to the future. We see a place for Canada in the world, and a big role for Canadian companies, situated in a world that wants what has been bestowed upon us by providence, and in such abundance.

Ladies and gentlemen, we have done our due diligence, exhaustively. We have asked the questions. We have made our assessment of this foreign takeover and what it represents. We believe there is a risk for a net loss to jobs in the country. We believe there is a significant risk to net loss to revenue for the Governments of Saskatchewan and Canada, revenue that in our province that would require deficits, or tax increases, or program cuts, or some combination of those things. And our assessment also tells us that the takeover will result in a net loss of our strategic influence around the world, at a time when the influence of our province, and I think our country, should be on ascendancy.

So, in the interests of jobs for Saskatchewan families, in the interests of the quality of life that we prize that is funded by revenue to government, and in the interests of the place of our province and our country in the world, we must say no to this hostile takeover.

And let me just say this, the answer no is not unprecedented. It has been given in free market economies around the world. Here is an example from Australia, the home of BHP Billiton. When Shell bid \$10 billion for a controlling stake in a leading company developing Australia's offshore natural gas reserves, an answer came from the enterprise-friendly government of Prime Minister John Howard in April of 2001, and

that answer was a respectful no. Not yes with conditions, it was no. Australia's then-treasurer Peter Costell said it was in the country's best interests to have these offshore reserves to be quote "unequivocally managed and operated and marketed for Australia." Why in the world should we deserve anything less than that in Saskatchewan and in Canada? Why wouldn't we make that same kind of decision, so that we can ensure the great natural resources we have are managed and operated and marketed for Canada and for Saskatchewan? And by preserving just such an environment, we are saying yes to a bright future for this industry. We say yes to the national interests of our country. We say yes to fulfilling the potential of our province and our nation. We say yes to controlling the resource and our future. We say yes to Canada's century. We say yes to Saskatchewan's century, because a world that needs food security, a world that needs energy security and innovation, that world needs a strong and vital Canada. Let's be that Canada for the world. That big hope and grand vision requires on this occasion a modicum of courage and one little word.

No.

Thank you.

Title: Canada: BHP bid for Potash Corp - more comments by Premier of Saskatchewan
MRN: s 47E(d) 27/10/2010 01:26:07 PM EDT
To: Canberra
Cc: RR : Chicago, Washington
From: Ottawa
From File:
EDRMS
Files:
References: s 47E(d)
Response: Routine, Information Only

Summary

Continuing his campaign against BHP Billiton's bid, the Premier of Saskatchewan has issued a media release highlighting the key elements of Australia's foreign investment screening regime and arguing that, if it was assessed against a national interest test, BHP's bid would be rejected.

The following is the text of a media release by the Premier of Saskatchewan of 26 October.

Federal Government should look at the 'national interest' test applied by Australia - home of BHP Billiton

Premier Brad Wall today said the federal government should consider Australia's rules for reviewing foreign investment while protecting the country's interests. Under Australia's foreign investment policy, an investment must be in the "national interest" in order to be approved. In assessing "national interest," the Australian government considers the following:

- Investment in enterprises that are large employers or that have significant market share may raise more sensitivities than investments in smaller enterprises;
- The government considers whether a proposed investment may result in an investor gaining control over market pricing and production of a good or service in Australia;
- A particular concern is the extent to which an investment may allow an investor to control the global supply of a product or services; and
- The government considers the impact of a foreign investment proposal on Australian tax revenues.

Wall said these considerations would all apply if 50 per cent of the world's **potash** was situated in Australia and Australia's largest **potash** producer was subject to a foreign takeover.

"The Australian foreign investment review process spells out some of the very same concerns we have been using to assess the BHP Billiton takeover bid here in Saskatchewan, and Australia has one of the strongest investment climates in the world," Wall said.

"So these are hardly the concerns of a 'banana republic' as some have suggested. These are legitimate issues that are considered by Australia's national government and that should be considered by Canada's national government.

"Shouldn't Canada's review process be at least as strong as Australia's, especially when we hear the former Chair of BHP Billiton calling Canada a 'branch office?'" Wall asked.

ends

2. The media has reported reactions to Wall's statement. The head of the peak industry body, the Canadian Council of Chief Executives (and former Liberal industry minister), Manley said 'if it (PCS) is special and strategic, then you have to ask what was the public policy behind privatising it in the first place...and if you are going to privatise something and you want to maintain some sort of control over it, it is within your power to put limitations on who can own the stock and how you control it.' Manley also dismissed Wall's arguments about applying a national interest test by noting that 'net benefit includes national interest'.

3. A delegation of Saskatchewan ministers were in Ottawa yesterday for a round of representations, and they were reported in the media saying "We think that they (the federal government) are hearing the concerns of Saskatchewan and we are optimistic they will agree with our position in the end,"

text ends

Sent by: s22(1)(a)(ii)

Prepared by: s22(1)(a)(ii)

by:

Approved

by:

Topics: POLITICAL-ECONOMIC/Domestic Political, POLITICAL-ECONOMIC/Foreign Investment, POLITICAL-ECONOMIC/General Economic, PUBLIC DIPLOMACY/Media

▼ New Distribution

s 47E(d)

s 47E(d)

Title: Canada: BHP bid for Potash Corp
MRN: s 47E(d) 29/10/2010 03:12:30 PM EDT
To: Canberra
Cc: RR : Chicago, Washington
From: Ottawa
From File:
EDRMS
Files:
References: s 47E(d)
Response: Routine, Information Only

Summary

The head of the one of Canada's major industry organisations has made public remarks drawing attention to the importance of maintaining Canada's reputation as pro-foreign investment.

Following is the text of an article in today's National Post reporting comments on the **Potash** takeover by John Manley, chief executive of the Canadian Council of Chief Executives, on BNN. Note that Manley is scheduled to visit Australia next month (to attend the Australia-Canada Economic Leadership Forum):

starts

The Industry Minister is going to have to take a careful look at this, not just from the point of view of Saskatchewan and the Premier of Saskatchewan, but from the national point of view. The overall philosophy of the Investment Canada Act is that investment is good. We want to encourage foreign investment. Yes, in major takeovers we will take a look at something called net benefit, which is not particularly well defined in the act, to ensure that we do look to investors to provide some assurances with respect to what they're going to do with the investment.

Canada's been pretty consistent on open trade. Now we're being put to the test on open investment. If we want to portray ourselves as open to investment, then what we have to be prepared to do is to take an offer that comes in and that is subject to review and say: "All right, what are the elements of net benefit?" You've got to be bargaining in good faith. It's got to be possible within the realm of a reasonable economic deal for the investors to believe they are being fairly dealt with. You can be tough, but they've got to feel that it's open, transparent and fair. Otherwise, we're in the category of some countries that we really wouldn't like to be compared with.

My basic point is this: the philosophy of the Investment Canada Act is pro-investment. Canada benefits enormously as a small economy from open trade and investment rules. When we get into these situations, yes, we should look for the best possible deal. But we should also have one eye very much on our international reputation, on the rules that we want other countries to play by when we are the buyer -and, by the way, recent statistics show that more Canadian money is flowing out to make acquisitions than foreign money is flowing in.

ends

Read more: <http://www.nationalpost.com/todays-paper/reputation+protect/3743694/story.html#ixzz13mBrbOAV>

text ends

Sent by: s22(1)(a)(ii)

Prepared by: s22(1)(a)(ii)

Approved by:

Topics: POLITICAL-ECONOMIC/Domestic Political, POLITICAL-ECONOMIC/Foreign Investment, POLITICAL-ECONOMIC/General Economic, PUBLIC DIPLOMACY/Media

▼ New Distribution

s 47E(d)

Title: Canada: government rejects BHP bid for Potash Corp
MRN: s 47E(d) 03/11/2010 06:29:09 PM EDT
To: Canberra
Cc: RR : Chicago, London, Washington
Ministers: Foreign Minister, Trade Minister
From: Ottawa
From File:
EDRMS
Files:
References:
Response: Routine, Information Only

Summary

The Canadian Government has rejected BHP Billiton's bid for the Potash Corporation of Saskatchewan. A statement issued by Industry Minister Clement says 'at this time, I am not satisfied that the proposed transaction is likely to be of net benefit to Canada'. BHP has 30 days to make further representations, after which the Canadian Government will make a final decision.

Canada's Industry Minister, Tony Clement, has issued the following statement regarding the application by BHP Billiton to acquire the **Potash** Corporation of Saskatchewan Inc. (**Potash**Corp)

STARTS

"I can confirm that I have sent a notice to BHP Billiton indicating that, at this time, I am not satisfied that the proposed transaction is likely to be of net benefit to Canada.

"I came to this decision after a careful and rigorous review of the proposed transaction. BHP Billiton has 30 days to make any additional representations and submit any undertakings.

"At the end of that period, I will make a final decision.

"The confidentiality provisions of the Investment Canada Act prohibit me from discussing specifics of an ongoing case.

"I can assure Canadians, however, that I will provide an explanation of the reasons behind my final decision at the time that decision is made, in accordance with the provisions of the Act.

"Canada has a long-standing reputation for welcoming foreign investment. The Government of Canada remains committed to maintaining an open climate for investment."

ENDS

text ends

Sent by: s22(1)(a)(ii)

Prepared s22(1)(a)(ii)

by:

Approved

by:

Topics: POLITICAL-ECONOMIC/Domestic Political, POLITICAL-ECONOMIC/Foreign Investment, POLITICAL-ECONOMIC/General Economic

▼ New Distribution

s 47E(d)

Title: Canada: Potash
MRN: s 47E(d) 04/11/2010 01:40:12 PM EDT
To: Canberra
Cc: RR : Chicago, London, Washington
Ministers: Foreign Minister
From: Ottawa
From File:
EDRMS
Files:
References: s 47E(d)
Response: Routine, Information Only

Summary

In comments delivered on the floor of the Parliament today, the Canadian Agriculture Minister indicated that market control was a factor in yesterday's decision by the government to block BHP Billiton's bid for Potash Corp.

In his comments, the Agriculture and Agri-Food Minister (Ritz) appeared to suggest that concerns regarding Australia's position in key export markets may have been a factor (beyond the obvious domestic political considerations) in yesterday's decision on the proposed acquisition of **Potash** Corp by BHP Billiton. He said 'Having someone different mine it (**potash**) certainly does make a difference in that Australia is a major marketer of a lot of the same foodstuffs that Canada is. We're a volume producer -- so are they,.....and for them to be able to go to the Indias and Chinas of the world and say 'We now control your fertilizer too' I think would have had a very detrimental effect. And I know the Minister of Industry took all of that under advisement and it helped him ... formulate the decision.'

text ends

Sent by: s22(1)(a)(ii)
Prepared by: s22(1)(a)(ii)
Approved by:
Topics: POLITICAL-ECONOMIC/Domestic Political, POLITICAL-ECONOMIC/Foreign Investment, POLITICAL-ECONOMIC/General Economic

▼ New Distribution

s 47E(d)

Title: Canada: Reactions to the Government's decision to block BHP bid for Potash Corp

MRN: s 47E(d) 05/11/2010 08:23:39 PM EDT

To: Canberra

Cc:

From: Ottawa

From File:

EDRMS

Files:

References: s 47E(d)
The cable has the following attachment/s -
Media coverage of BHP.docx

Response: Routine, Information Only

Summary

Opposition parties and the Saskatchewan provincial government have strongly backed Canada's decision to block BHP-Billiton's bid for Potash Corp. Opposition criticism has focussed on the fact that the Government will not make a final decision until next month, leaving open the possibility that it might still approve the takeover. National newspapers have criticised the government for putting politics ahead of good policy, but a number of regional papers have applauded the Government's decision as 'standing up' for Canada and protecting a 'strategic asset'.

The Canadian Government's decision to block BHP Billiton's takeover bid for **Potash** Corporation of Saskatchewan has been strongly supported by opposition parties, the provincial government of Saskatchewan and a number of media outlets.

2. The leader of the Liberals, the largest opposition party, said after the Government's announcement 'They [the Government] have been dragged kicking and screaming towards what we hope is a clear no on this deal. I say 'we hope' because there are 30 more days. Our position is the door should be shut firmly on this deal.' The leader of the left-wing National Democratic Party welcomed the Government's decision, but then attacked it for approving previous foreign takeovers of Canadian mining companies and proposed a resolution calling on the government to hold public hearings on foreign investment proposals.

3. Under pressure from both parties in question time, Prime Minister Harper conceded that the legislation under which the government is blocking BHP's takeover bid should be reviewed. While constrained by the *Investment Canada Act* (which requires BHP to be given 30 days to make further representations before the Government can make a final decision), Harper also sought to lower expectations that the Government would reverse its position, repeatedly congratulating Minister Clement on 'a decision that is clearly in the best interests of the country.' This followed Clement's comments to the media earlier in the week that 'Some decisions can only be taken once and there is no turning back ever – such as the case today.'

4. Canada's national newspapers, *The Globe and Mail*, *The National Post* and *The Financial Post* have all been highly critical of the Government's decision, with *The National Post* running a story today on the decision headlined 'What the #!%*?' which points out that 51 per cent of **Potash** Corp's shares are already owned by foreigners. In an opinion piece in *The Financial Post*, Mark Milke stressed the 'hypocrisy' of blocking foreign investment while Canada negotiates FTAs with a number of countries. A story in the *Globe and Mail* reported on a meeting of European Ambassadors in Ottawa at which some reportedly said the EU needed to include strong investment protections in the FTA it is negotiating with Canada to ensure that investments by its companies are not blocked in the same way. The *Globe and Mail*'s editorial concluded that 'the Conservative government appears to have abandoned its economic liberalism for the sake of holding on to 13 seats in Saskatchewan'.

5. The Government has rejected strongly to suggestions by a number of its critics that its decision will reduce Canada's attractiveness as a destination for foreign investment or limit Canadian companies' ability to invest overseas. Clement described a claim in *The Economist* that the decision had damaged Canada's international reputation as 'patently ridiculous' and told Reuters that 'You can't say we've become Venezuela because of one decision ... what investors want is certainty. They want to know what the rules of the game are.'

6. The provincial government of Saskatchewan and a number of regional newspapers have wholeheartedly endorsed the Government's decision as necessary to protect a 'strategic asset' for Canada. However, apart from referring to Agriculture Minister Ritz's statement in Parliament (s 47E(d) refers), they have not sought to explain what makes **Potash** Corp a strategic asset.

7. A selection of Canadian newspaper articles on the issue is attached.

text ends

Sent by: s22(1)(a)(ii)

Prepared by: s22(1)(a)(ii) Research Officer

Approved by: s22(1)(a)(ii)

Topics: POLITICAL-ECONOMIC/Foreign Investment, POLITICAL-ECONOMIC/General Economic

▼ New Distribution

s 47E(d)

Media coverage of BHP – Potash decision

Montreal Gazette

Potash mess is political, not strategic

By JAY BRYAN, The Gazette November 4, 2010

Well, the soap opera over those potassium-rich rocks under Saskatchewan is going to continue.

Without any explanation, the Harper government has announced that a \$38.6-billion bid for Potash Corp. doesn't provide a "net benefit" for Canada, avoiding political fallout among Westerners and nationalists, even as it betrays its own free-market principles and the Potash shareholders who might beg to differ.

It does preserve a thin veneer of respect for markets by giving the luckless bidder, BHP Billiton, another 30 days to guess what new bid could meet the unknown criteria.

The amount of high-level agonizing this government is inflicting on us over a takeover offer for some potash-rich holes in the ground is emblematic of Canada's remarkably irrational approach to foreign investment.

In principle, nearly everyone agrees that such investment is a good thing. It not only brings money into the country, but also fertilizes our economy with new management ideas and production techniques.

Indeed, the federal and provincial governments maintain battalions of business-development specialists to persuade foreign companies to invest here.

When they do, we taxpayers often pick up the tab for hefty subsidies that clinch investment deals.

But this warm regard is strictly reserved for the creation of new businesses. If a foreign outfit wants to buy a familiar Canadian corporate name, many of us react like a small child who thinks someone is about to snatch away his favourite toy. "No," we shriek. "It's mine."

Of course, little kids don't know enough to be dishonest about their motives. Adults use more important-sounding language whose meaning is impenetrable.

The favourite word in recent weeks has been "strategic." Potash is now "strategic," says Saskatchewan Premier Brad Wall, even though it was considered so non-strategic by an earlier government of Saskatchewan that in 1989 the one-time crown corporation was sold off to private investors.

Now the very same deposits of potash are so strategic that it would be catastrophic for foreigners from Australia, BHP Billiton, to purchase control from the largely U.S.-based foreigners who now own most of the company - a company whose boss lives in that well-known Canadian town, Chicago.

So what is it exactly that makes Potash strategic?

Hard to know. Wall who's been using this term since he decided weeks ago that he didn't like the deal, hasn't said.

Liberal leader Michael Ignatieff, who discovered the strategic nature of potash yesterday when he lined up with Wall and the nationalists in his own party, hasn't explained this either.

The most plausible guess is that "strategic" refers to the fact that Saskatchewan has the world's largest deposits of potash, enabling its three large producers -with Potash Corp. the largest by far - to maintain a cartel that manipulates supply to help keep prices high for this important fertilizer.

This is good for the government of Saskatchewan; not so good for the world's hungry poor, who account for most of the new demand that has pushed up demand in recent years.

And BHP Billiton has indicated that it would pull out of the cartel, raising the terrifying spectre of some new competition in pricing that could reduce the royalties and corporate income taxes raked in by the province.

This is just business as usual, of course. There's an Organization of Petroleum Exporting Countries, so why not an Organization of Potassium Exporting Corporations?

But let's not pretend that this somehow contributes to a better Canada.

We're doing to low-income residents of Latin America and Africa and Asia what it would be illegal for a group of companies to do to Canadian farmers.

Indeed. the anti-competition potash cartel doesn't sell within Canada.

And let's not pretend that this will somehow contribute to Canada's long-term prosperity.

Economist Steven Globerman, who's just completed a report on the best ways to encourage foreign investment in Canada, says he can't see much benefit to the kind of micro-management of would-be investors that's carried out by the federal government.

The true, long-term attraction for foreign investment, he said, comes from good schools, good infrastructure and predictable, honest governments -pretty much the same things that are good for Canadians.

Since foreign direct investment, whether in new ventures or existing ones, is a key avenue for the creation of more prosperity in Canada, he sees the Potash mess as a discouraging omen that Canada might not be headed for the more enlightened foreign-investment regime we need in order to maximize such benefits.

Toronto Star

Potash takeover: Doing 'the right thing'

2010/11/04 00:01:00 Email Print Share Rss Article

Two weeks ago, Prime Minister Stephen Harper shrugged off the impending foreign takeover of Potash Corp. of Saskatchewan. "As members know, this is a proposal for an American-controlled company to be taken over by an Australian-controlled company," Harper misinformed the House of

Commons. Harper's remarks were widely viewed as a signal that the government was about to approve the takeover.

Flash forward to Wednesday evening, where in the Commons foyer Industry Minister Tony Clement said solemnly that the government "must do the right thing" and reject the bid for not providing a "net benefit" to the country, as defined by the Investment Canada Act. (Under the law, the bidders have 30 days to try to change the government's mind.)

What changed? As Liberal Leader Michael Ignatieff said, the government was dragged "kicking and screaming" to this decision. The takeover met with an enormous outcry, not just from Saskatchewan Premier Brad Wall and his legislature but also from other provincial politicians, business leaders, academics, and even parts of Bay Street. A poll showed that those Canadians with an opinion were against the takeover by a margin of four-to-one.

Of course, a wide array of Canadians also opposed the government's decision to kill the mandatory long-form census; yet Harper has refused to back down on that.

The difference is that the opposition on the census issue was amorphous and unlikely to cost the government politically, whereas approval of the Potash takeover would have hit Harper where it hurts most: seats in Parliament -- specifically, the 13 Conservative MPs in Saskatchewan, whose seats would have been in serious jeopardy.

That being said, the Harper government made the right decision, if for the wrong reasons. BHP Billiton proposed to take over a successful Canadian firm that has cornered the world market on potash, a key ingredient in the making of fertilizers. It is difficult to see what net benefit there would be for Canada in this transaction, while the downside is readily apparent -- the loss of control of a strategic resource.

The right-wing commentariat has argued that allowing the takeover of major Canadian corporations is somehow the price of "economic freedom." Hogwash. Other industrialized countries -- including Australia, home of BHP Billiton -- do not hesitate to block foreign takeovers that are not in their interest. Canada, if anything, has been a boy scout on this front. Until now.

Globe and Mail

Mr. Clement has much to explain

From Thursday's Globe and Mail

Published Wednesday, Nov. 03, 2010 11:59PM EDT

Tony Clement, the federal Minister of Industry, has much to explain after his laconic rejection of BHP Billiton Ltd.'s application for permission to proceed with its offer to buy Potash Corp. of Saskatchewan Inc.

Canadians and investors around the world -- not least Potash Corp.'s own shareholders -- are entitled to learn what Mr. Clement thinks is the meaning of "net benefit" to Canada, in the words of the Investment Canada Act. Evidently, in his and his colleagues' minds, free markets and the free flow of investment are not sufficient.

If this means a new economic nationalism, what else is going to be protected? What does it mean for the foreign owners of mining and forestry companies in Canada? Should we expect foreign governments to act in a similar way toward Canadian companies?

More vehement opponents of BHP's bid, notably Brad Wall, the Premier of Saskatchewan, Michael Ignatieff, the federal Liberal Leader, and Greg Selinger, the Premier of Manitoba, have used different language. They have declared the potash deposits of Saskatchewan to be a strategic resource. Mr. Ignatieff duplicated the term: "We should not cede strategic control over a strategic resource." They all speak as if the word "strategic" were a self-explanatory objection to a share purchase by a company from a like-minded, friendly country such as Australia.

For all the strengths of Potash Corp., it is not a strategic asset in the sense of being the centre of an industry cluster that generates all sorts of spinoffs in its surroundings. Nor is it a multinational global champion that could plausibly act as the base for Canadian acquisitions abroad. Like Mr. Clement, the would-be strategists need to explain their strategizing.

This strange rebirth of economic nationalism comes from the very region that opposed the national energy program of the 1980s. Indeed a whole history of opposition to non-Canadian ownership and acquisitions has hitherto had a decidedly centralizing tendency. Now, however, the Conservative government appears to have abandoned its economic liberalism, for the sake of holding onto 13 seats in Saskatchewan.

Potash ruling casts doubt on foreign takeovers

PAUL WALDIE, BILL CURRY

TORONTO, OTTAWA—From Thursday's Globe and Mail

Published Wednesday, Nov. 03, 2010 7:48PM EDT

The federal government's decision to block the takeover of Potash Corp. (POT-T141.14-0.29-0.21%) has thrown Canada's rules governing foreign takeovers into question, casting doubt on the prospect of future bids for many prominent Canadian companies.

Industry Minister Tony Clement said BHP (BHP-N91.670.470.52%) \$38.6-billion (U.S.) bid for Potash Corp. did not meet the "net benefit" test under the Investment Canada Act, but the Australian mining giant has 30 days to try to change the federal government's mind.

The federal government "must do the right thing when faced with difficult decisions," Mr. Clement said.

"I believe that my decision today is the right decision in the interests of Canada and in the interests of Canadians and that is my bottom line." BHP said it was "disappointed" with the ruling but stopped short of saying it will drop its bid.

Mr. Clement said that he made the decision on his own, adding that federal officials had reviewed BHP's offer but made no recommendations on whether it met the "net benefit" test. He declined to provide further information on the specifics of his review.

But the historic move suddenly throws into question whether or not the government would allow a foreign acquirer to buy other large companies whose assets may be of strategic interest to the country, such as Suncor Energy Inc., natural gas producer Encana Corp. or Research In Motion Ltd.

Such a policy would mark a dramatic shift in Ottawa's attitude toward large deals since 2006-07, when it permitted foreign corporations to buy Inco Ltd., Falconbridge Ltd. and Alcan Inc.

Business leaders across the country had been eagerly awaiting Mr. Clement's decision as rhetoric over BHP's offer had soared. Several provincial premiers backed Saskatchewan Premier Brad Wall in calling for the government to block the deal, and some corporate executives worried about the impact of the takeover. A recent Globe and Mail poll of business executives found a nearly equal split between those who said they were concerned about it and those who weren't.

"I find myself very conflicted by this issue," said Ian Telfer, chairman of Goldcorp Inc. "As a long time proponent of free markets it pains me to see governments interfere in the movement of capital. However, as a proud Canadian.... I agree with the decision and I am very pleased that Canadians will continue to have the opportunity to invest in these unique Canadian assets for decades to come."

Mr. Clement's refusal has now raised questions about just what guides decisions about these takeovers, said Roger Gibbins, CEO of Canada West Foundation.

"In a sense the whole bid [by BHP Billiton Ltd.] has elevated the discussion beyond the merits of a specific proposal and into a kind of broader discussion about the nature of the country," Mr. Gibbins said. "The criteria that were used, the paper criteria, are not the ones brought into play. So that demands almost immediate effort to try to figure out what are the larger criteria that we are talking about?"

Under the current rules, Investment Canada reviews takeover bids above \$299-million and assesses whether the deal is a "net benefit" to Canada. That assessment is done confidentially but it includes reviewing employment, technology development, productivity, competition and national policies.

Mr. Gibbins said Wednesday's decision went further and appears to bolster the role of provincial governments as well. "That's part of the strategic consequences that come out of this, that we've reached a point where Ottawa making these decision by itself doesn't make sense."

Already, there are calls to change the way foreign bids are reviewed. The federal New Democrats have introduced a motion in Parliament that calls for a tighter definition of "net benefit". The NDP motion calls for several key changes to the legislation, including mandatory public hearings and publication of all conditions attached to the approval of a takeover.

"I'm in grave danger of agreeing with the NDP," said Joseph d'Cruz of the University of Toronto's Rotman School of Management, who said he is not normally sympathetic to NDP policies. "But on this one, I think they're on the right track. I think having public hearings is pretty healthy,"

"I've always been a bit concerned that the commitments that the foreign companies make to Investment Canada are confidential and the public doesn't know what they are. On an important public policy issue, I think confidentiality is not healthy."

Prof. d'Cruz said the existing rules leave the bureaucrats virtually no room to determine that a deal is not to Canada's benefit, something he said needs to be changed.

Former Industry Minister John Manley, who now heads the Canadian Council for Chief Executives, has argued the rules do allow bids to be rejected if they are not in Canada's national interest.

However, in the case of Potash, he expressed regret earlier this week that it had become so “overtly politicized.”

The federal government has only once before used the Investment Canada Act to block a foreign takeover. In 2008, the Harper government turned down a proposed acquisition of aerospace company MacDonald Dettwiler and Associates Ltd. by U.S.-based Alliant Technology. It was followed in 2009 with new legislated amendments to the act that allow national security concerns to factor in to decisions on foreign takeovers.

The Harper government has been sending mixed signals about foreign investment in recent years. In 2008, the Tories appeared open to easing foreign ownership rules in telecommunications and airlines. “We are a party of free enterprise, free markets and free trade,” Mr. Harper said at the time.

In 2009, the government took a different approach when bankrupt Nortel Networks Corp. sold a collection of patents for new wireless technology to Sweden’s Ericsson for \$1.1-billion. The Ontario government urged the Prime Minister to block the sale arguing that taxpayers had funded development of the patents. Mr. Clement refused, saying the deal was “very beneficial to Canada.”

A few months later the feds took the extraordinary step of overruling a decision by the Canadian Radio-television and Telecommunications Commission. The CRTC had refused to grant a cellphone licence to Globalive Wireless Management Corp., ruling the company fell outside Canadian ownership rules because it was backed by an Egyptian company. The government reversed the decision, arguing the CRTC had interpreted the laws incorrectly.

National Post

The wrong call on Potash

National Post · Thursday, Nov. 4, 2010

The federal Conservative government has provisionally blocked the takeover of Saskatchewan's Potash Corp. by Australia's BHP Billiton. Assuming this is not just a negotiating ploy to extract a better price, that's the wrong call. As politically popular as it might have been in the short run for the Tories to wrap themselves in the flag and protect this "Canadian" company from a hostile foreign takeover, the long-term impact on international investments, free trade and the Saskatchewan economy dictated the opposite course of action.

Saskatchewan Premier Brad Wall -- until now an ally of the federal Tories -- may be happy with Ottawa's choice. But his attitude is almost certainly based on local political considerations more than sound economic ones. Indeed, Mr. Wall himself commissioned a Conference Board of Canada study that concluded a takeover would be, at worst, neutral to his government's finances and, at best, positive to his province's economy.

The Conference Board determined that Potash is already in foreign hands. It found "51% of the company's shares are owned by foreign nationals and institutions." Also, the corporation's headquarters are in Chicago, rather than Saskatoon or Regina.

According to the board, there would indeed be "a fiscal hit for the province of \$200-million per year under the existing tax and royalty regime" if the sale went through. However, that hit would be offset by a "positive effect of creating investment and jobs for Saskatchewan." The provincial treasury might lose money as BHP writes off interest payments on the debt it would take on to finance its

\$39-billion takeover, but the increase in jobs and investment-- direct and indirect-- by BHP and others would create enough new economic activity to compensate.

It also is hard to swallow the argument that BHP was merely an outsider eager to acquire Potash Corp. so it could strip it of its assets and ship its profits overseas; BHP is currently developing a 2,000-job, \$12-billion potash mine at Jansen Lake, Sask. That's hardly the action of a multinational robber baron.

Many investment experts believe BHP's offer is too low by as much as 25% given the long-term forecast for commodities such as potash. But the decision whether to accept the bid or not should be the hands of shareholders -- not politicians.

Title: Canada: Potash

MRN: s 47E(d) 10/11/2010 04:21:23 PM EST

To: Canberra

Cc: RR : Chicago, London, Washington

Ministers: Trade Minister

From: Ottawa

From File:

EDRMS

Files:

References: s 47E(d)

The cable has the following attachment/s -
CBC Interview with Michael Danby - 2010 11 09 - Potash.docx

Response: Routine, Information Only

Summary

In comments made to the Canadian media, Michael Danby said he hopes the Canadian Government would reconsider its decision to block the BHP bid to acquire Potash Corp.

Attached is our transcript of comments made to the Canadian media yesterday by Michael Danby MP who is visiting Canada to attend an anti-semitism conference. He described the Canadian decision as "very, very surprising." and "I think you can't selectively be a member of the World Trade Organization.... Either you believe in free trade or you don't." He also said that he hopes that Canada will "reconsider this, because I think it creates an atmosphere around investment in Canada generally."

text ends

Sent by: s22(1)(a)(ii)

Prepared by: s22(1)(a)(ii)

by:

Approved

by:

Topics: POLITICAL-ECONOMIC/Domestic Political, POLITICAL-ECONOMIC/Foreign Investment, POLITICAL-ECONOMIC/General Economic

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s 47E(d)

CBC

Power and Politics

9 November 2010 17:10

Interview with Australian MP Michael Danby on Potash Corp

Evan Solomon: Ottawa's thumbs down on the takeover of Saskatchewan-based Potash Corporation - hostile bid takeover by the Australian company BHP Billiton - is getting a thumbs down 'Down Under'.

The Australian Government is telling the Canadian Government it cannot selectively be part of international trade treaties, like the WTO, and the BHP takeover deal should be allowed. Their raising the question especially as the G20 starts and our Prime Minister is on his way there now.

Questions about protectionism are on the agenda. Has our reputation, the reputation of Canada, been tarnished by the Potash rejection.

We will be talking with Australian MP Michael Danby about the major international conference on Anti-Semitism he's attending, but first we wanted to get his reaction to the Potash decision.

[Cut to pre-recorded interview]

Solomon: Joining me now is Michael Danby, an Australian MP and Chairman of the foreign affairs committee in the Australian parliament. Thanks for being here.

Michael Danby MP: Pleasure.

Solomon: Of course you're in Ottawa for the anti-Semitism conference, but there's a very big issue here, which is of course the refusal by Canada to accept the BHP Billiton, Anglo-Australian company, bid for Potash Corp.

Very bid decision here. I want the Australian view. Were Australians and was the government shocked by that decision?

Danby: We'll the government and the public were pretty surprised. We understood that Canada is a very friendly country. I'm here, its wonderful place, a lot of hospitality.

But, we're very surprised. Canada's a member of the World Trade Organisation and we would have thought a commercial bid where more capital is being brought in and expertise to expand, perhaps, the operations of Potash Co. was rejected was very, very surprising.

I think you can't selectively be a member of the World Trade Organisation. Either you believe in free trade or you don't.

Solomon: How big of a story was this in Australia?

Danby: Well it's in all the TV stations and front pages of newspapers.

Solomon: Front page story?

Danby: Yeah.

Solomon: When you say you can't selectively be a member of the World Trade Organisation, tell me, tell our audience, what exactly you mean by that? What signals do you think this government is sending then?

Danby: Well, I think its ...Umm ... I hope the Canadian government is given BHP 30 days in order they may reconsider this kind of thing. But, what it means is that there is an atmosphere created about investment in Canada around the world, that perhaps that you aren't open for business and people who are working in all these industries who may need some capital to expand their activities ... I mean BHP Billiton is not an antagonistic sovereign wealth fund from a country where the government is controlling this corporation.

It's not ... we have not come here to rape and pillage Canada. BHP Billiton is an Australian company, an Anglo-Australian company actually. It wants to invest in Canada and work with Potash Corporation.

Solomon: But was there any sense that Potash would become a strategic resource? It wasn't in Canada's net benefit to let it go to BHP Billiton?

Danby: Well, that may be a decision of people here, but the potash has got to be sold somewhere. And you can't strategic resources forever, they've got to sold, marketed, developed, etc. And if the capital is needed to do that, you have a friendly country commercial operation, which is doing it solely on an economic and commercial basis.

Solomon: But, Brad Wall, the Premier of Saskatchewan, who very much wanted to reject this, but pointed out in 2001 Australia ruled out ... the Investment Review Board in Australia ruled out Royal Dutch Shell for buying Woodside Petroleum in Australia because it is a key resource to Australia. They said no to Royal Dutch Shell, why is that different to Canada saying no to BHP Billiton?

Danby: I don't know the details of that rejection back then, whether it was done on the same basis. But, it works on the logical principal that two wrongs don't necessarily make a right. If the Australian decision is wrong then, doesn't make the Canadian decision now right.

And I think that Canada ...Umm...I mean... It's actually ironic my doing this interview. Canada is a conservative free market government. We're meant to be socialists.

Solomon: You're the Labor Government.

Danby: [laughs] That's right. And we hope that our Canadian friends reconsider this because I think it creates an atmosphere around investment in Canada generally

And signs of tightening of the international market in a whole lot of areas during this global financial crisis replicate a bit what happened during the great depression and protectionism is not good for anyone.

Solomon: You're the Chairman of the foreign affairs committee there.

Danby: I am

Solomon: We're on the cusp of the G20. Leaders are meeting now in Seoul, South Korea. Our Prime Minister on his way right now. I'm sure yours is too. What signal does this send to the rest of the world about Canada in your mind?

Danby: Well it sends a signal that is happening in a few other places too, that the world trading organisation is closing down a bit, becoming a bit more protectionist. And this is a dangerous signal for the world. It up to the leaders of the world 20 to stand up to this restriction of world markets because it can only lead to less jobs, less prosperity for everyone.

Solomon: Could there be a backlash from Australia? I mean, I ask you that seriously, because if it was front page news does this affect Australian-Canadian relationships?

Danby: Well, I think we like you too much. But it doesn't mean that commercial interests in Australia won't try and pursue their interests as hard as possible. And so they should.

Solomon: So no negative impact on the foreign affairs front?

Danby: Well

Solomon: I mean, would diplomatic notes be going back and forth about this on your level?

Danby: I'm sure the Foreign Minister and the Prime Minister will speak to their appropriate equivalents in the Canadian government.

Solomon: Last question. Do you think decision has a chance of being reversed? That BHP sweetens the deal within their 30 days and that deal goes through?

Danby: There's a chance. I wouldn't discount the possibility that they might sweeten the deal. But from what I am told, domestic politics and tight political situation here is going to make it unlikely.

Solomon: Michael Danby, Australian MP, Chairman of the foreign affairs committee. We haven't really heard the Australian side of this. Very interesting. Thank you.

Danby: Thank you.

Solomon: Danby, saying of the G20, this might be raised between the Australian and Canadian leaders or foreign affairs ministers. We'll be watching that closely.

By the way, Michael Danby will be back with us later to talk about anti-Semitism. He's here in Canada for a global conference on anti-Semitism. Why is there a spike of it around the world. But his words about protectionism, on the eve of the G20, could be damaging to Canada as that conference starts and that brings us to our question of the day. Today we're asking you this: is Canada becoming to protectionist. Vote and contact us at CBC.ca/politics.