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## Foreign investment in Canada

# Not so fast

## The government puts the kibosh on a bid for PotashCorp

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WHEN BHP Billiton, the world's biggest mining company, announced a \$40 billion hostile takeover offer for PotashCorp in August, few expected the business-friendly government of Stephen Harper to get in the way. Being the world's largest producer of potash, an ingredient of fertiliser, is hardly strategic. And to reject the Anglo-Australian firm's bid would send an unwelcoming message to foreign investors, upsetting Canada's business leaders, who had asked the government not to intervene.

However, Mr Harper was put in a bind when Brad Wall, the premier of PotashCorp's home province of Saskatchewan, asked him to block the deal. Once Mr Wall had lined up support from four other provincial leaders, all three opposition parties in the national legislature, and a few dissident executives, the government buckled. On November 3rd the industry minister, Tony Clement, said that Canada planned to reject the bid. In the past 25 years, the country has shot down only one other foreign takeover, a case involving satellites and space missions that was vetoed on grounds of national security.

BHP Billiton has 30 days to plead its case before a final decision, and Mr Clement said that Canada's investment law prevented him from explaining why the deal was not "likely to be of net benefit to Canada" until then. But opposition leaders quickly pointed out that approving it was not likely to be of net benefit to the minority government of Mr Harper's Conservative Party, which depends on mps from Saskatchewan, Alberta and Manitoba. The premiers of all three, as well as Quebec and New Brunswick, opposed the deal. Mr Harper knows how much damage one angry premier can do. In 2008 Danny Williams of Newfoundland and Labrador campaigned against the federal Conservatives over a funding dispute, depriving them of any seats in his province.

Just a few years ago, the Conservatives approved a bundle of foreign purchases of natural-resource companies, including Inco and Falconbridge, two nickel miners, and Alcan, an aluminium maker. But back in 2006-07 a commodity-fuelled growth spurt kept economic nationalism at bay. Since then, Canadians have been hit by the world recession and disappointed by unfulfilled promises from foreign firms—the government is suing US Steel for failing to honour job and production guarantees it made when buying Stelco, a steelmaker. As a result, warnings about foreigners gaining near-monopoly control over a national resource have more resonance.

Moreover, Mr Wall's professed fondness for free markets was apparently surpassed by his solicitude for the provincial purse. According to a study that was carried out by the Conference Board of Canada, a think-tank, the deal would cost Saskatchewan an estimated C\$200m (\$198m) a year in tax revenues, because BHP Billiton could write off a C\$12 billion potash mine it is developing in the province.

BHP Billiton could still sweeten its bid. The company said in a terse news release that it was disappointed and was reviewing its options. A Russian buyer recently expressed interest, although the government would probably reject an offer from that quarter too. A stronger contender might be a group of aboriginal Canadians who say they have amassed a \$25 billion war chest from foreign investors and pension funds, which could "recapitalise" PotashCorp as a stand-alone company. They would not only enjoy automatic regulatory approval, but could also file for an injunction to block rival bids in defence of their indigenous treaty rights.

No matter who controls the company, however, the damage to Canada's reputation as a place to do business is done. Now that the Conservatives have joined the protectionist bandwagon, investors have lost their chief ally in Ottawa. Other countries will doubtless be more welcoming.

The Americas

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