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Potash Producer Rejects Bid by BHP Billiton

By **IAN AUSTEN** and **MICHAEL J. de la MERCED**

OTTAWA — Rising demand for food from the fast-growing economies of the world has provoked a staggering \$38.6 billion cash offer for a Canadian [fertilizer](#) company.

The company, the Potash Corporation of Saskatchewan, on Tuesday rejected the overture from [BHP Billiton](#), the world's largest mining company. Yet the unsolicited offer, which would be the biggest takeover so far this year, raised investors' hopes of a revival in deals, bolstering stocks worldwide.

The major measures of the United States market rose more than 1 percent on Tuesday, as basic materials stocks led all sectors in the Standard & Poor's 500-stock index. The S.& P. 500 had its biggest gain in two weeks.

Amid the heady talk of mergers, economists and analysts cautioned against assuming that the offer was a clear signal that commodities were finally shaking off the effects of the global recession. Instead, the interest of the British-Australian BHP in Potash, the world's largest producer of potash, a crucial ingredient in most fertilizers, has more to do with global changes in food production and the peculiarities of the potash market, they said.

"Fertilizer, and in particular potash, is a particularly unique product," said Murray Fulton, an economist at the University of Saskatchewan. "What you have in the potash industry are a set of players that are able to control supply and price."

Rising standards of living and development in China, one of the world's largest consumers of fertilizer, and India are putting increasing pressure on farmers to produce more crops from a declining amount of agricultural land. Their most effective solution for increasing yields is commercial fertilizers from Potash and other fertilizer makers.

"Potash, for all intents and purposes, is food," said Vincent Andrews, the agriculture analyst for [Morgan Stanley](#). "Because without potash, you are not making corn and soybean, and without corn and soybean, you are not making chicken or beef, and that's what people want to eat."

Of the three main ingredients in most fertilizers, potash is arguably the most valuable. Nitrogen is produced from natural gas, and good quality phosphate deposits are found throughout the world. Potash produces all three ingredients in various countries.

When [food prices](#) spiraled upward in 2007 and 2008, prices for potash also surged. When the global recession hit and food prices sank, many farmers simply stopped using fertilizer or greatly limited its application.

William J. Doyle, the president and chief executive of Potash, said Tuesday that farmers who had not been using fertilizer recently were “mining the soil.” While farmers can get away with that for one growing season or so, crop yields decline sharply after that as the soil becomes depleted of nutrients.

Potash described BHP’s offer as an effort to exploit a downturn in the fertilizer market.

But by disclosing that it had received, and refused, the informal offer, Potash appeared to have effectively put itself on the block.

“This proposal, sorry as it was, has put a very bright, focused light on the value of Potash,” Mr. Doyle said.

BHP has made little secret of its desire to enter the generally lucrative market for fertilizers, in part because of the long-term trend for increased demand. It has bought several smaller producers in Saskatchewan, which has some of the world’s richest deposits of the mineral, and last year announced tentative plans to build a mine there.

Acquiring Potash would help BHP expand its geographical reach into developed countries and bolster its offerings beyond mining. BHP has also been under pressure from its shareholders to deploy capital and take advantage of its balance sheet, which does not carry a heavy amount of debt. BHP’s chairman, Jacques Nasser, a former chief executive of [Ford Motor](#), wrote in a letter to Potash’s board that the company’s proposal would be fully financed. BHP has hired [JPMorgan Chase](#) and [Toronto-Dominion Bank](#) as financial advisers.

Some analysts have speculated that another mining concern — like [Rio Tinto](#) or Vale of Brazil — may emerge as a rival bidder, though on Tuesday people close to BHP emphasized the strength of the company’s balance sheet and financing commitments.

At a meeting on Thursday, BHP’s chief executive, Marius Kloppers, handed Mr. Doyle a letter outlining the proposal.

BHP’s offer values Potash at \$130 a share, a 16 percent premium to its closing price on Monday. Potash’s shares trade mainly on the [New York Stock Exchange](#), where they surged 28 percent to \$143.17 on Tuesday.

BHP shares fell 3.5 percent by late afternoon in Australia on Wednesday, as investors fretted about the high cost of the potential acquisition. Moody’s warned that it was likely to put BHP’s credit rating under review for a possible downgrade if a formal takeover offer was made.

But the ratings agency also said that BHP’s long-term rating was unlikely to fall below A2, from

At now. An acquisition of a company like Potash, Moody's said in a statement, "would moderately enhance BHP Billiton's business profile, further increasing its asset and geographic diversity as well as substantially raising its presence in potash, which has solid medium/long term fundamentals."

BHP is likely to present a formal takeover offer to Potash's shareholders within days, said people briefed on the matter, who spoke on the condition of anonymity because they were not authorized to discuss the plan.

"I'm not saying that we're opposed to a sale," Mr. Doyle said. "We are opposed to a steal of the company."

Any sale of Potash will be politically charged in the company's home province. Royalties from potash mines account for a substantial portion of its government's revenues.

The company was formed by the provincial government in 1975 when it nationalized potash mines in Saskatchewan. While it sold its final interest in the company in 1989, provincial law still requires that the company be headquartered in the province.

Bill Boyd, the province's minister of energy and resources, said any buyer could fulfill that requirement by simply making the province the headquarters of its potash business.

While Mr. Boyd was confident that the broad public would not demand that Potash remain independent, he had no doubt that there would be controversy.

"Potash and public debate are not all that far apart in Saskatchewan," he said.

Ian Austen reported from Ottawa, and Michael J. de la Merced from New York. Cyrus Sanati contributed reporting from New York, and Bettina Wassener from Hong Kong.