BHP Bets On Crop Boom With Hostile Potash Bid

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SYDNEY (AP) -- BHP Billiton's hostile $38.5 billion takeover offer for one of the world's biggest fertilizer producers, a bet that developing nations will drive a farming boom, could get the Australian iron ore miner involved with yet another commodity prized by China -- potash.

In what is likely just an opening salvo, BHP on Wednesday reacted to Potash Corp. of Saskatchewan's dismissal of its bid as "grossly inadequate" by going directly to shareholders with the $130 a share offer. BHP said it was offering a 20 percent premium to the closing price on Aug. 11 -- the day before BHP's first approach to Potash directors.

BHP is better known for digging up iron ore and shipping it to resource-hungry manufacturers in China, India and elsewhere. But potash, a key fertilizer ingredient, also is mined and is a big global business dominated by Belarus Potash Co. and Canpotex Ltd., which represents Saskatchewan potash producers.

As the world's population grows, more food is needed and more fertilizer to grow crops. Demand for potash, a potassium compound also used in industry, is getting a boost from the global economic recovery and rising demand from emerging giants China and India -- the main markets for potash, along with the U.S. and Brazil.

The International Fertilizer Industry Association predicts global demand for fertilizer in 2010-11 will rise by 4.8 percent to 170.4 million metric tons.

That makes the proposed acquisition a big growth opportunity for BHP -- particularly because the share prices of fertilizer makers, including Potash, are relatively low after demand faded during the global recession.

"BHP's got tons of cash at the moment," said Austock Securities senior client adviser Michael Heffernan in Sydney. Potash "looks like it's cheap compared to where its price has been in the past. ... BHP is being a bit opportunistic about it."

Credit Suisse analysts predicted Potash may accept a bid based on a 50 percent premium, and said in a report they expect BHP to make a revised offer in the coming weeks or months. Other analysts said BHP rival Rio Tinto may be contemplating a counter offer.

The Potash bid is BHP's first major takeover attempt since it abandoned its $68 billion takeover of rival Rio Tinto in 2008. China, already disgruntled about the high prices it pays BHP, Rio and other Australian resource companies for iron ore, was a vocal opponent of the deal, fearing it would give BHP even more power over prices.

Relations between Australia and China faced additional strain last year after four

Rio Tinto employees were arrested in Shanghai on charges of stealing commercial secrets. Rio later fired them after they confessed to taking bribes from Chinese steel mills in return for preferential access to iron ore supplies. They were convicted and sentenced to prison.

With potash, BHP would be entering another industry that regularly butts heads with China over prices. Contract talks between Canadian potash producers and China broke down this year after Beijing demanded a price much lower than the producers were prepared to accept.

BHP could be required to win approval from Chinese anti-monopoly regulators for a possible acquisition because Potash owns a 22 percent stake in Sinofert Holdings, Ltd., China's biggest potash producer and fertilizer importer.

When deciding whether to approve takeovers, China's government looks at companies' worldwide operations and market share and has ordered companies to make changes in operations abroad to win approval for acquisitions.

In 2009, China required Panasonic Corp. and Sanyo Electric Co. to sell off some battery production assets in Japan to win approval for a merger, on the grounds that their goods were sold in China even though they were made abroad.

Out of 140 proposed mergers reviewed under China's 2-year-old anti-monopoly law, regulators rejected one -- Coca-Cola Co.'s proposed acquisition of Chinese fruit juice maker Huiyuan -- and imposed conditions such as selling off assets on five others, according to the Ministry of Commerce. Those six cases all involved foreign companies.

BHP shares closed down 4.4 percent at 38.42 Australian dollars ($34.59) on the Australian stock exchange Wednesday.

AP Business Writer Joe McDonald in Beijing contributed to this report.

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