

It's in the eye of the beholder

By Bruce Johnstone, The Leader-Post February 19, 2011

Last week, a Bloomberg News reporter was in town from Toronto to hear Bank of Canada deputy governor John Murray speak on the issue of commodity prices.

Actually, he was here for the question and-answer period that followed- about 10 or 15 minutes- which gives you an idea of the importance financial markets and financial media place on the unscripted remarks of BOC senior officials.

In any event, the reporter asked me if Premier Brad Wall was still basking in the glow of his recent victory in preventing the hostile takeover of Potash Corp. of Saskatchewan by BHP Billiton.

When I suggested the premier had done a good job of convincing the Harper government of the strategic importance of potash, the reporter remarked that it was ironic that PotashCorp would be considered "strategic" when the company that owned the entire Toronto Stock Exchange (TSX) was about to be swallowed up by the London Stock Exchange.

That got me to thinking about what is "strategic" and what isn't.

While the federal government has said it will review the friendly takeover, er, merger of TMX and LSE, "strategic importance" is not one of the criteria Industry Minister Tony Clement will use to approve or reject the \$7-billion deal.

Then this week I interviewed Bob Haber, who, aside from being part-owner of the Boston Celtics, is the author of *Go Canada: The Coming Boom in the Toronto Stock Exchange & How to Profit from It*.

It turns out that, through the mutual funds he manages, Haber is also a part owner of the TMX and questioned whether the deal was a good one for shareholders of TMX.

As far as Haber was concerned, the merger of TMX and LSE is strictly a business deal and should be judged on whether it benefits shareholders or not. Other considerations -such as its strategic importance to Canada -was of no concern to the native Bostonian.

Of course, whether the TSX is owned by a Canadian company is of strategic importance to Dwight Duncan, Ontario's finance minister, who fears loss of control -and loss of jobs -to London.

Duncan is also concerned about the amount of control that the ruler of Dubai would have in the merged company. (As it turns out, he would have the largest single stake, but not controlling interest, in the new venture.)

For his part, Haber is a little bit uneasy about the TMX-LSE merger, but he seemed more concerned about Canada losing PotashCorp, as it has Falconbridge, Inco, Dofasco, Stelco, Alcan and umpteen other mining, metals and resource companies over the years.

In fact, Haber's book refers to PotashCorp as the "OPEC of potash," adding that Saskatchewan "could supply world demand at current level for several hundred years."

The point here is that "strategic importance" is very much in the eye of the beholder. Perhaps, the closer you are to something, the greater its "strategic importance" becomes.

This is not to say that Duncan, or other members of the McGuinty government, or anyone else for that matter, shouldn't be concerned about the proposed takeover, uh, merger of the TSX with the LSE.

The Investment Canada guidelines specify that the takeover or merger must be of "net benefit" to Canada -it says nothing about the "strategic importance" of the target company to Canada.

Strategic importance should be considered by Investment Canada in any review of a potential takeover or merger of large (\$300-million plus) Canadian company.

As Haber points out in his book, Canada and the resource and commodity stocks that make up 50 per cent of the market cap of the TSX, are going to be hot, well, commodities in the next 10 or 20 years.

By definition, that means that some, if not all, of those companies, including the company that owns the TSX, could be considered strategic.

We in Canada and particularly in Saskatchewan have the good fortune to be in the 'sweet spot' of the coming commodities boom that's being driven emerging market economies, like China and India.

It would not be very strategic to allow other countries to pick the cream of the crop before the harvest comes in.

- Bruce Johnstone is the Leader-Post's financial editor.

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