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# Biggest Mideast Takeover at Risk as Turmoil Upsets Region

By Jonathan Ferziger and Alisa Odenheimer on November 07, 2012

The Arab Spring may prove one of the biggest hurdles to Potash Corp. of Saskatchewan Inc.'s $13.5 billion takeover of Israel Chemicals Ltd. (ICL) in what could become the biggest acquisition ever in the Middle East, government officials and analysts said.

Israel Chemicals' minerals are harvested from the salt-rich Dead Sea along the border with Jordan, and Israel is concerned that foreign ownership would hinder its ability to defend the boundary should unrest in the kingdom boil over, said Richard Gussow, a senior analyst at DS Securities & Investments Ltd. in Tel Aviv. Israel's Defense Ministry would be less likely to share intelligence with a foreign company, as it now does with Israel Chemicals, he said.

Potash Corp., which owns 14 percent of Israel Chemicals, would become the world's biggest producer of the mineral compound used to make fertilizer if the acquisition is approved. The Canadian company also has a 28 percent stake in Arab Potash Co. (APOT), Israel Chemicals' Jordanian competitor, whose factories face its own across the Dead Sea.

"Any time you're dealing with a foreign presence in control of your border, alarm bells are going to ring at the Ministry of Defense," Gussow said by telephone on Nov. 6. "The fact that Potash could control companies on both sides of the border could also make them kind of nervous."

The unrest that began in North Africa nearly two years ago has deposed the leaders of Tunisia, Libya and Egypt and unleashed a civil war in Syria, which borders Israel to the northeast. Along Israel's southern border with Egypt, gunmen operating out of Sinai killed eight Israelis in August and a Sinai natural gas pipeline owned by the joint Israeli-Egyptian East Mediterranean Gas Co. has been repeatedly bombed.

## *Security Concerns*

Concerns about security are among the biggest hurdles to the purchase of Israel Chemicals, according to a senior government official who spoke on condition of

anonymity because the acquisition is still being discussed. Joshua Hantman, a Defense Ministry spokesman, declined to comment. The Israeli government can veto takeover bids and Gussow said the chances of the acquisition going through are "low."

Jordan is a concern for Israel because most of its 6.2 million people are of Palestinian heritage and many harbor resentment that they became refugees after fleeing or being thrown out of their homes in pre-1948 Palestine and the West Bank. Jordan fought two wars against Israel before their 1994 peace treaty, which many of its citizens opposed.

## *Peaceful Protests*

While Jordanians have rallied for democracy, including a constitutional monarchy and an elected government, the country has managed to keep anti-government demonstrations peaceful compared with unrest in Syria and Bahrain.

The Israeli-Jordanian peace treaty has proved durable since it was signed by Yitzhak Rabin and King Hussein, both now dead. The current leaders of both countries support the treaty, which has held up even as ties deteriorated over Israel's use of Amman in a botched 1997 political assassination and the killing that year of seven Israeli schoolgirls by a Jordanian soldier.

Israel captured the West Bank and east Jerusalem from Jordan in the 1967 Middle East war and built Jewish settlements that now house about 500,000 Israelis, amid 2.8 million Palestinians.

## *Jordanian Shakeup*

"Egypt and Jordan have been the cornerstones of Israel's regional policy because of the peace treaties," said Benedetta Berti, a research fellow at Tel Aviv University's Institute for National Security Studies. "Now you have the Arab Spring, refugees pouring in from Syria, an economic crisis. All these things are shaking up the kingdom and are a great concern for Israeli leaders."

Prime Minister Benjamin Netanyahu has been recruiting foreign shareholders for some of Israel's biggest companies, including Bezeq Israeli Telecommunications Corp. (BEZQ) and Bank Hapoalim Ltd. He discussed the possible acquisition with Potash Chief Executive Officer Bill Doyle last week.

If Potash Corp. does acquire Israel Chemicals, controlled by the Ofer family's Israel Corp. (ILCO), it would control about 25 percent of global production capacity, according to data compiled by Bloomberg. Shares in the company, Israel's biggest business by market value after Teva Pharmaceutical Industries Ltd. (TEVA), have climbed 18 percent this year, beating the 13 percent increase in the benchmark TA-25 index of the Tel Aviv Stock Exchange's biggest companies.

## *'Not on Agenda'*

Officials will make recommendations on the bid after reviewing a detailed application to be submitted by Potash Corp., Finance Ministry Director General Doron Cohen said on Nov. 2. Bill Johnson, a Potash spokesman, declined to comment.

The proposed offer by Saskatoon, Saskatchewan-based Potash is "not on the agenda," the Finance Ministry said in a Nov. 1 statement. The ministry said it has "professional reservations" about the transaction and vowed the government "won't allow any deal that endangers or impairs the economic and environmental interests of Israel and its citizens."

Finance Ministry civil servants will meet Potash representatives later this month to discuss the possible merger, a ministry official said yesterday, speaking anonymously because of the matter's sensitivity.

The 86 percent of Israel Chemicals that Potash doesn't already own has a market value of about 51.4 billion shekels ($13.2 billion) based on yesterday's closing share price, which would make a deal the world's largest agricultural chemical acquisition, data compiled by Bloomberg show.

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