

OPINION

A birthright squandered: How potash firms got rich and Saskatchewan got poor

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A person walks their bike through the downtown area during a snowstorm in Saskatoon on Nov. 8, 2020.

KAYLE NEIS/THE CANADIAN PRESS

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Saskatchewan owns one-third of world potash reserves. That puts the province in an enviable position. The market for potash, necessary for fertilizer production, seems assured as long as a growing world population needs to eat.

And one-third is a lot. To put that in context, Saudi Arabia, with only about 16 per cent of world oil reserves, dominates the world oil market.

It's therefore not surprising that companies extracting Saskatchewan's [potash](#) – Nutrien

[NTR-T](#) +0.06%increase, Mosaic [MOS-N](#) -0.04%decrease and K+S – make a lot of money. That's all the more so recently, when [Ukraine](#) war sanctions against the potash producers Russia and Belarus sent the price of the commodity skyrocketing.

To illustrate: In 2021 and in 2022, Saskatchewan's potash industry produced the same amount. In 2021, it received \$9-billion revenue. Because of a higher price for potash in 2022, revenue doubled to \$18-billion.

But does [Saskatchewan](#) look like a province that is home to such riches?

The provincial debt has doubled since 2008. To pay for the government's spending, the provincial sales tax burden on families and small businesses has doubled since then.

Twenty-six per cent of Saskatchewan children live in poverty, compared to a national average of 18 per cent. Social assistance rates have been frozen below Canada's official poverty line for many years. And cuts continue.

The result has been a dramatic increase in homelessness and the crime that accompanies a higher rate of poverty. Saskatchewan has the highest rate of incarceration, 215 per 100,000 compared to a national average of 127 in 2018-19.

I recite these gloomy facts not to trash my home province, a place where I live, which I love, and which I served for 12 years as a cabinet minister. I present these issues because they illustrate a decades-long problem.

The Saskatchewan government determines what the public receives for potash through royalties and taxes. Rightfully so, because the natural resource does not belong to those who extract it. It belongs to the province and its people.

But the government has not been obtaining fair value for years. The Saskatchewan Child and Family Poverty Report 2021 stated the provincial government's approach "seems to privilege private interest over public interest and over people."

Experts from across the political spectrum have cited problems with Saskatchewan's approach. Jack Mintz of the University of Calgary's School of Public Policy, one of the world's leading resource-tax economists, has authored

studies with Duanjie Chen stating the tax and royalty system is a “mess” and shortchanges the province.

Similar conclusions are reached in papers by economist and former New Democrat member of Parliament Erin Weir, and the University of Saskatchewan/University of Regina Johnson Shoyama Graduate School of Public Policy’s Jim Marshall, a former Saskatchewan finance official.

The government announced in 2015 that it would conduct a review of the situation, but never did so, accepting industry advice that no change was needed.

The problem is that the royalty and tax system was not designed to capture windfall profits. The reason is that few thought to do so. All throughout the time I was in government, the price of potash was relatively stable. In any year, the price never exceeded \$300 on average per metric tonne.

But in 2008, potash prices nearly tripled to \$740 per metric tonne (mt) from \$286/mt the year before and gross profits tripled from \$1.5-billion to \$4.5-billion. The increase in profit, the windfall of \$3-billion, was divided \$1-billion to the province and \$2-billion to the industry.

Yes, the province still got \$1-billion. But the 2007 Annual Report of the Potash Corporation of Saskatchewan (now part of Nutrien) stated the company was already “thriving” at the much lower earlier price of \$286/mt. Industry was already making a reasonable return on investment. The windfall should have gone exclusively, or at least in the majority, to the public.

Windfall profits are not earned through new investment, effort or risk-taking, but simply higher world price. The theory of economic rent is that if industry is making a reasonable rate of return, everything else should go to the resource owner.

The degree to which this principle has been contravened in Saskatchewan is egregious. In 2022, when the industry doubled its revenue on the same amount of potash produced (14.3 million metric tonnes), the windfall – the profit beyond the usual profit – was \$7.2-billion. Yet the province received only \$1.4-billion, with the rest taken by the industry.

These profits go outside Saskatchewan because few shareholders reside there. Since 2008, billions of dollars that should have gone to the people of the

province were left on the table. Saskatchewan now faces serious challenges, and that money would be game-changing.

The gross imbalance between corporate and public shares is reflected in the Marginal Effective Tax Rate (METR) of the potash and other industries in Saskatchewan – a high-level measure of overall tax burden for an industry.

Mr. Mintz and Ms. Chen point out that potash companies enjoy the lowest METR of any industry in Saskatchewan, between -0.4 per cent and 21 per cent. The METR for the oil industry is 37.1 per cent; construction 31.9 per cent; and wholesale trade and retail trade about 28 per cent.

A negative METR for Saskatchewan's potash industry occurred in 2022, when revenue doubled, but the overall tax rate fell from 19 per cent to 16 per cent. While most taxpayers know higher income brings a higher tax rate, that doesn't necessarily apply to the wealthiest and most profitable businesses in Saskatchewan.

The province's approach stands in stark contrast to that of Alberta Premier Peter Lougheed and Saskatchewan Premier Allan Blakeney in 1974 when world oil prices rose dramatically. Oil companies would receive a large windfall under the terms of their mineral leases. The Premiers took the position the unexpected windfall should belong to the public and retroactively amended the leases to make that happen.

As a Saskatchewan cabinet minister, I oversaw more incentives for economic growth – that is, more business-friendly measures – than any member of the current Saskatchewan government. I worked as a mining company executive for 12 years and served on the boards of both the Saskatchewan Mining Association and the Saskatchewan Potash Producers Association.

I worked with government colleagues to reduce personal income taxes by 30 per cent; to create a level playing field with Alberta for the oil and gas sector; and to give potash companies tax incentives, when there were no windfall profits, to encourage the refurbishment and expansion of potash mines. We reduced corporate capital taxes. We reduced the sales tax to 5 per cent, applied to about half the items now covered.

My record speaks for itself. No one is more in favour of a reasonable rate of return for business than I am. But the word "reasonable" does not include

giving Saskatchewan resources away or favouring big business over the people of Saskatchewan.

Windfall profits not arising from investment have nothing to do with “return on investment.”

Some critics, many from the industry, say increasing taxes on potash companies would cause job loss. But no one is advocating raising taxes during periods of low profitability. We’re talking about taxing skyrocketing profits.

At the same time as companies profess concern about jobs, Nutrien plans to automate mining and cut the work force in half. It has also outsourced dozens of accounting jobs from Saskatoon to offshore jurisdictions. No one favours job cuts in Saskatchewan, except possibly the companies themselves.

Let’s be considerate of investors and shareholders. But at the same time, let’s consider the needs of children to be fed and to have a quality education, and of people to have a roof over their heads.

Let’s be considerate of the need of working people and industries to have a tax system where everyone pays their share. Let’s reduce debt servicing costs we pay investment bankers and use it for the benefit of Saskatchewan citizens.

For many years, voices from across the political spectrum have offered expert advice to the government, identified a serious problem and offered a solution. The Saskatchewan government, rather than following the advice of independent experts, has relied upon advice from the industry itself.

When confronted by poverty, problems with health care, an education system crying out for more resources to prepare Saskatchewan children for a successful life, and a high rate of poverty, incarceration and homelessness, the wealthiest corporations operating in the province are undertaxed while government cuts back on the poorest of the poor.

The province should set aside the notion that what is good for big business is good for Saskatchewan and ensure its people benefit from their remarkable birthright: a potash resource so vast, rich and in demand that it could enable the province to build a model society.

Tickers mentioned in this story

<https://www.theglobeandmail.com/business/commentary/article-a-birthright-squandered-how-potash-firms-got-rich-and-saskatchewan-got/>