

Exploiting Saskatchewan's Potash: Who Benefits?

By John W. Warnock



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Exploiting Saskatchewan's Potash: Who Benefits?

In August 2010 the Board of Directors of the Potash Corporation of Saskatchewan (PCS) announced that the largest mining company in the world, Australian-based BHP Billiton, had made an offer to shareholders to purchase the corporation. The Board announced that it was “insulted” by the low offer of \$130 per common share. For the next three months the political and economic debate over the possible takeover dominated the province and financial markets. At \$38.6 billion, it was portrayed as the biggest proposed foreign takeover of a Canadian corporation in history.

The debate over who should own and control PCS was prescribed by our political and economic leaders, with the strong support of the mass

media. Most people seemed to believe that PCS was owned by the people of Saskatchewan or at least by Canadian investors. One public opinion poll suggested that a third of the people in the province believed it was still a Crown corporation. Few people knew that it was now a major fertilizer corporation, with two-thirds of its sales coming from its phosphate and nitrogen branches in the United States. Even the political leaders seemed reluctant to admit that the real head office was in Chicago, not Saskatoon.

Completely left out of this debate was the central issue: who should own and control the potash industry, and who should benefit from the exploitation of this non-renewable natural resource? Not even the opposition New



Democratic Party (NDP) was willing to make this question part of the discussion. All of this was not surprising. The Saskatchewan Party government, headed by Brad Wall, was a strong supporter of the rights of big business and foreign investors. The leader of the NDP, Dwain Lingenfelter, had been Deputy Leader and a key member of the inner cabinet of Roy Romanow's NDP government in 1994 when they completed the privatization of PCS and opened it up to majority U.S. ownership. Lorne Calvert's NDP government then greatly reduced the royalties and taxes on the potash industry in 2003 and 2005. The NDP leadership continually demonstrated its reluctance to broaden the debate.

Since the election of Margaret Thatcher's Conservative government in the UK in 1979 and Ronald Reagan's Republican administration in the USA in 1980, big business and the political right have pushed hard to reverse the democratic thrust of the general policy direction that developed after the end of World War II. The goal has been to return to the original classical liberal political economy, based on the primacy of the free market and free trade.

The neoliberal package of privatization, deregulation, cutting back the social welfare state, the introduction of regressive tax systems, etc. was imposed on less developed countries and the former state socialist countries by the World Bank, the International Monetary Fund, the World Trade Organization and the various other institutions under the control of the governments

of the industrialized First World. But these policies widened the gap between the rich and the poor. While they certainly worked for big capital, they have worsened the lives of the majority of working people and the poor. The political pendulum is now beginning to move back towards the democratic alternative.

Around the world people and political movements are once again raising the issue of ownership and control of natural resources. Countries which rely on the exploitation and export of natural resources have been moving to capture more and more of the value of these commodities for their own people. In contrast, in most of the advanced industrialized countries — and the Anglo-American countries in particular — remain committed to enhancing the profits of private interests. There is no reason why the people of Saskatchewan must remain chained to such neoliberal policies. The move to increase the political and economic power of big business, transnational corporations and finance capital is once again being confronted by popular demands for the expansion of political, economic and social democracy.

There is no good reason why the people of Saskatchewan cannot once again move towards a more democratic approach to the exploitation of our natural resources, one which places the highest priority on trying to capture as much of the economic rent as possible for the benefit of the people of Saskatchewan.

Resource Rents Today

We live today within the world capitalist system. Private ownership of land is the norm throughout the world. But in general territorial states still retain ownership of other natural resources. Prior to the onset of capitalism, land and resources were held in common for the use of all. With the rise of capitalism and liberalism in Europe there was the shift to private ownership with the large majority of the population excluded from ownership. The liberal capitalist system of private ownership of land and resources was spread throughout the world via colonialism and imperialism. With the subsequent revival of the democratic tradition, we have seen a shift back to the principle that the development and use of natural resources should benefit the people as a whole and not just the few (see Appendix).

In Canada the Crown theoretically holds natural resources for the people as a whole. Under the British North American Act, the ownership and control of natural resources was given to the provinces, who establish the rules for their development. The general principle is that when private corporations want to extract and use these natural resources to make a profit they are to pay for this right through a compensation to the general public. This payment is not a business tax but is known as a royalty. This is the prevailing democratic view.

The original liberal theory of economic rent, still used today, was that created by David Ricardo in *Principles of Political Economy and Taxation* (1820). Ricardo held that under a truly competitive capitalist economy, economic rent would not occur. With respect to mining he argued:

Mines, as well as land, generally pay a rent to their owner; and this rent, as well as the rent in land, is the effect, and never the cause of the high value of their produce.

If there were abundance of equally fertile mines, which any one might appropriate, they could yield no rent; the value of their produce would depend on the quantity of labour necessary to extract the metal from the mine and bring it to market (quoted in Richards, 1987).

However, this is never the case in the real world. The quality of minerals in nature varies greatly. Often there is imperfect competition, evidenced in the establishment of cartels, monopolies or a system of price leadership by a major producer, all of which create uncompetitive markets. In these situations, poor or high cost mines operate and still make a profit. Under these circumstances, the poor mines can produce no rent as *they can only generate the usual profit* for all capitalist investments. However, the more efficient mines will then produce *a surplus or excess profit*, a profit above the general average for the society, and liberal economists call this a rent. Ricardo referred to this as a “differential rent.”

Yet, if we look at the history of the potash industry in North America, the formal potash cartel created by Ross Thatcher’s Saskatchewan government in 1967 artificially raised the price and restricted the production of potash from the most efficient mines, which were in Saskatchewan. The marginal mines in New Mexico were allowed to maintain production and make a profit. The mines in Saskatchewan, even though they operated well below capacity, were able to produce a rent or surplus profit for their owners. One of the supposed purposes of royalties and taxes in the mining and mineral industries today is to try to capture for the general public this rent or surplus profit. In reality, the general rule is that most of the rent is captured by private investors and not the true owners of the resource.

Thus royalties are different from business taxes in general. Royalties are a cost of production for those corporations in the business of extracting and processing natural resources. They are a payment to the state for the use of a natural resource which belongs to the people as a whole. They are normally deductible from income or corporation taxes as a cost of doing business. They are different from other corporate taxes, which generally apply to all corporations.

Resource royalties take several forms. The historic approach has been a flat rate on the quantity of the mineral extracted. This is the form of royalty commonly used in the coal industry, a flat rate per tonne of coal mined. The problem with this approach is that the royalty does not keep pace with the rate of inflation. Many countries today require private corporations to give an in-kind share of the resource extracted to the state for it to sell on its own. In the oil industry, 50 percent is common.

A second approach to paying royalties is in the form of an *ad valorem tax*, a percentage of the value of sales paid to the state. However, this can be difficult to measure, particularly when a large proportion of transnational corporate sales are intra-corporation transfers. These are not true market transactions and the pricing has been used by such corporations to maximize profits in low tax jurisdictions.¹ Transfer pricing remains a common problem for governments today.

A third approach is a royalty based on the value of the profits earned through the exploitation of a natural resource. It takes the form of a percentage of a corporation's reported net profits. While this appears to be just a corporate tax, it is included in the structure of royalties assessed. This "royalty-tax" is used today in Saskatchewan for the potash industry. However, it is the norm that governments do not have ready access to the financial records of private corporations.

Through "creative accounting" they may be able to reduce their declared profits and their royalty payments.

Many large corporations make use of off-shore 'dummy' corporations in tax havens to hide profits. The Enron case was a classic example. It created 2,800 subsidiaries, 881 of them outside the United States, including 692 in the Cayman Islands alone. Dummy corporations were created in the 55 most infamous tax havens, and the corporation avoided paying taxes to the U.S. government (Komisar, 2004). In his study of the oil and gas industry, Oystein Noreng concludes that a form of income tax on transnational corporations operating in the field of natural resource extraction is "an ineffective way to capture economic rent" because they all engage in cross-subsidization of activities and projects (Noreng, 2002: 180).

A fourth approach has been the creation of government-controlled marketing boards. In the past these have been used in Alberta and British Columbia in the mineral industries. All sales of a commodity are accomplished through the board, and the government can take a share of the sales or volume sold as a royalty.

Finally, there are state-owned corporations which operate in the resource sector as independent corporations or as joint ventures with private corporations. These are very common in resource extraction countries and provide the best and surest method for collecting economic rent. Canadian corporations operating in less-developed countries regularly participate in partnership with state-owned industries. For example, Saskatchewan-based Cameco, mines uranium in Kazakhstan in a joint venture with the state owned uranium corporation, which owns 40 percent of the operation. In addition, Cameco also pays royalties and taxes back to the government of Kazakhstan.

¹Transfer pricing are the rates or prices that are utilized when selling goods or services *between* company divisions and departments, or between a parent company and a subsidiary. The transfer pricing that is set for the exchange may be the original purchase price of the goods in question, or a rate that is reduced due to internal depreciation.

The Political History of Potash in Saskatchewan

Saskatchewan has always been seen as a hinterland area and economy within the Canadian territorial state. Geographically, it is part of the interior plains of the North American continent. John A. MacDonalD's National Policy envisioned the Canadian prairies as an agricultural zone, where European settlers would labour hard and produce a profit for the agribusiness sector of the economy, based in central Canada.

For the people of Saskatchewan, the hinterland status was all consuming. Urban centres must have hinterland areas to provide food, energy, natural resources and to absorb environmental pollution. Rural agricultural areas also provided new labour for the industrial working class, centred in urban centres.

Within the Canadian prairie region, Winnipeg developed as the regional centre for transportation and wholesale distribution, food processing and manufacturing. Later, with the discovery of large pools of oil and gas in Alberta, Calgary and Edmonton grew while Saskatchewan remained the agricultural hinterland region. Following the creation of Saskatchewan as a province in 1905, governments and political parties of all stripes have desperately sought ways to diversify the economy. Manufacturing was limited to small local operations. Some efforts were made to establish fishing and forestry operations. Coal was developed, but was limited to local use. Everyone saw natural resource development as the key to economic diversification. The question was how would they be developed?

The Populist Tradition

Across the prairie grain belt land taken from the indigenous people was declared state land and then distributed to white European settlers through the *Homestead Acts*. The largest social and economic class by far was the small farmer, the independent commodity producer. Farmers mobilized both politically and economically to resist their perceived exploitation by finance and industrial capital (Conway, 1994; Warnock, 2004).

In Saskatchewan, the Co-operative Commonwealth Federation (CCF) was formed as an alliance between the more radical farmers who were in the United Farmers of Canada and the Independent Labour Party of Saskatchewan, led by M.J. Coldwell and T.C. Douglas. Along with the Farmers' Political Association, they formed the base of the Farmer-Labour Group, the precursor of the CCF in 1934, calling for the nationalization of the railways, utilities and the development of natural resources by state-owned enterprises.

In 1944, the CCF was elected to the government of Saskatchewan. The party had a strong group of socialists who pushed for the public ownership of natural resources and other more radical policies. This faction was always opposed by the elected leadership of the party and the majority in the caucus, which took a far more moderate and pragmatic approach (Eager, 1980; Brown, 1997; Warnock, 2004).



The Douglas Government and Natural Resources

Despite inheriting a very large provincial debt, the CCF government was determined to implement progressive legislation. Under Tommy McLeod, the Economic Advisory and Planning Board undertook a major study of the potential for industrial development. It reported that less than one percent of the families in Saskatchewan had incomes above \$10,000, meaning there was little to no sources of capital to be found in the province. Thus the government would have to depend heavily on co-operatives and credit unions to mobilize small savings and borrow on the capital markets to finance diversification (McLeod and McLeod, 1987).

After a struggle within the party, it was agreed that the CCF government had no alternative but to seek private investment for the development of the oil industry and other minerals. They would not nationalize existing private resource operations but would attempt to raise royalties to try to capture more of the economic rent for the general public. Nevertheless, private business interests argued that raising royalties and taxes would scare off investors. So despite the progressive egalitarian values of the CCF party and its government, the strategy for economic development did not stray too far from conventional practice. The government provided

research, mapping assistance, and tax and other incentives. Prospecting was heavily subsidized, with infrastructure provided for by the province, including road construction and airfields, public utilities and subsidized natural gas and power.

To further encourage the development of natural resources, the CCF government also introduced very low taxes and royalties for mineral extraction industries, including a range of tax expenditures, resource depletion allowances, accelerated depreciation, and tax holidays. This followed a trend throughout Canada, where taxation of the resource extraction industries was well below that of other business industries. As Hugh Aitken pointed out, this was a key characteristic of the Canadian version of state capitalism (Aitken, 1951; Murray, 1978).

Developing the Potash Industry in Saskatchewan

Potassium chloride (sylvite) — which supports plant growth and enhances the uptake of other key nutrients, including nitrogen and phosphate — is one of the three most important fertilizers used in agricultural production today. Given the growing world population, and the steady disappearance of good agricultural land due to urban expansion, countries have been forced to boost agricultural production through the expanded use of fertilizers and fossil fuel subsidies.



The general consensus is that the demand for potash will steadily increase over the foreseeable future.

As early as 1942 companies drilling for oil discovered that Saskatchewan had significant potash resources. The potash salt beds were formed in the Devonian period when the Elk Point Basin, a large inland sea, covered the Canadian prairies. While the potash beds are also found under Manitoba, North Dakota and Montana, the deposits in Saskatchewan are best situated for commercial exploitation. The unprocessed ore has the highest grade anywhere in the world, ranging between 25 and 32 percent potassium chloride, compared to only 15 percent in Russia, the next largest producer. The Saskatchewan reserves that can most easily be retrieved account for about fifty percent of the world's reserves, enough, some argue, to provide for global need for the next 1,000 years (Prud'homme, 1997; Richards, 1987; Warnock, 1974).

Despite Saskatchewan's rich deposits, it would be foreign interests that took the lead in their early development. In Europe, German mines had created a virtual monopoly market for potash. In the United States, mining companies in New Mexico created a cartel that managed potash production and prices. The American companies would be the first to invest in Saskatchewan.

In 1954 the Potash Company of America, one of the firms from New Mexico, began sinking a shaft at Patience Lake, near Saskatoon. They had major problems due to the presence of the Blairmore formation, a water-bearing stratum through which the shaft had to penetrate; it took several years to solve this problem. In 1957 the International Minerals and Chemical Corporation (IMC) began to construct a new mine at Esterhazy, Saskatchewan. Kalium Chemicals began a solution mine in Belle Plaine in 1964, and between 1967 and 1970 seven more new mines were built.



The CCF government was keen on developing the industry, and party policy encouraged control by a provincial Crown corporation. The main problem, of course, was a lack of capital. It would have to borrow the money in the national and international markets for any state development, which government advisors concluded would be difficult. In addition, the government feared that it would not be able to find the technical expertise necessary to operate the mines. There were offers from Germany and France, which had considerable experience with deep potash mining, but these offers were rejected.

There was also the fear of the U.S. government and the potential for retaliatory trade measures. As the bulk of the potash would be exported to the United States, the high grade of the ore in Saskatchewan would inevitably undermine the much weaker industry in New Mexico and Utah. In response, the U.S. government could impose anti-dumping duties or quotas on potash imports from Saskatchewan.

Others have argued that the Cold War atmosphere after 1948 put a damper on any potential for "socialist" development of potash in the province as anti-communist hysteria and rampant red-baiting contributed to the reluctance by the Douglas government to undertake policies that might be deemed 'too radical.' The Douglas government took the position that the province

should not undertake what was considered to be a significant economic and political risk (Richards, 1987; Warnock, 1974).

The Douglas government could have tried to develop the industry through joint ventures. But even this approach was deemed to be too politically risky. It could have invited in the German or French industries, but both were state owned and operated (Warnock, 1974). The government concluded that foreign capital could not be enticed to invest in Saskatchewan unless there were significant “incentives” put in place. To accomplish this, all new potash mines would not have to pay any royalties during the first three years of operation. The government also guaranteed a very low royalty rate, amounting to only three percent of sales, until at least 1977. Indeed, until 1975 the royalties received by the province were between only one and four percent of sales.

There were other significant subsidies offered to investors. For the first three years of operation, the mines were exempted from provincial and federal incomes taxes. They were also granted accelerated depreciation rates. The Saskatchewan government hoped that after three years of operation investors would in fact recover all of their original investment.

In addition, there were the direct and indirect subsidies provided by taxpayers. These included special low rates for electrical power and natural gas provided to the mines. Infrastructure for the mines were given priority, with roads to the mines paved while public roads remained gravel. Due to the need for significant amounts of water, the province also constructed a canal system, pipelines and reservoirs for use by the mines (Warnock, 1974; Murray, 1978).

However, these extensive subsidies and giveaways also contributed to significant overinvestment in the industry in the period between 1962 and 1970, when the tenth mine began operation in the province.

The Formation of the Potash Cartel

The NDP was defeated in the 1964 provincial election, and the opposition Liberal Party formed the government that year. While Ross Thatcher, the new premier, campaigned for “free enterprise” as opposed to “socialism,” little changed between 1964 and 1971. There were a few small privatizations, but no attack on the major Crown corporations or the tradition of CCF state supported capitalism.

The potash industry continued to expand under the Liberals. The wide-ranging concessions offered by the provincial and federal governments continued. Premier Thatcher extended the low royalty rate to 1981. He was surprised, however, to see how little the province was earning from the industry. The potash royalty rate of \$.60 per ton was deemed to be too low, and the province was receiving no royalties from half of the existing potash mines. When the companies demanded that the province build a water diversion project from the South Saskatchewan River, at a cost to the government of \$25 million, the Liberal government responded by introducing a new 40-cents-per-ton production tax (Eisler, 1987: 171-2).

Saskatchewan potash production rose from 1.3 million tons in 1962 to 7.2 million tons in 1969. But a world ‘glut’ of wheat had developed, farm income had fallen drastically, and farm use of potash declined significantly. Thus, the price of potash on the world market fell, and a number of mines in New Mexico and Saskatchewan were on the verge of shutting down.

Ross Thatcher came to the conclusion that the only solution would be the establishment of a “rationing” system, where all mines were given a production quota and a minimum price would be established. The model was the ‘conservation’ boards created in the United States to manage the oil and gas industries in Texas and Oklahoma.

Saskatchewan Potash Mines

Company	Initial Production	Capital Cost (\$ millions)	Productive Capacity (short tons K2O)	% Total	1971 Quota	% Total	Ownership and/or Control
International Minerals & Chemical Corp	K-1 1962	65	1,280,000	27.9	1,050,473	28.9	100% International Minerals & Chemical Corporation (U.S.)
	K-2 1967	60	1,050,000				
Kalium Chemicals	1964	60	937,500	11.3	401,973	11.1	50% PPG Industries (U.S.) 50% Armour & Co. (U.S.)
APM Operators	1968	80	912,700	10.9	404,099	11.1	40% Borax Holdings (UK) 40% Texas Gulf Sulphur (US) 20% Swift Canadian (US)
Central Canada Potash Co.	1969	89	900,000	10.8	437,566	12.1	51% Noranda Mines (Canada) 49% CFF Industries (US)
Duval Corporation of Canada	1968	80	732,000	8.8	310,110	8.3	Pennzoil (US)
Sylvite	1970	70	732,000	8.8	297,541	8.2	34.7% Anglo-American Corp (S. Africa)
Cominco	1969	65	720,000	8.6	264,356	7.2	55.5% Canadian Pacific Investments (Canada/UK/US)
Alwinal Potash of Canada	1968	60	600,000	7.2	240,000	6.6	50% Mines de Potasse Alsace (France) 50% Wintershall/Salzdettfurth (W. Germany)
Potash Company of America	1965	62	460,000	5.5	219,882	6	Ideal Basic Industries (US)

Source: John W. Warnock, "Potash in Saskatchewan: Keeping it Safe for the Multinationals." *This Magazine*, Vol. 7, No. 4, January 1974, p. 9.

Similar legislation existed in New Mexico. These boards established production quotas in an attempt to end cutthroat competition. What was conserved was not so much the natural resource, but the ability of all companies in the industry to make a profit. They were legal combinations in restraint of trade.

The Potash Conservation Board (which later became Canpotex) was created by the Thatcher government, a classic cartel based on the 1938 Oil and Gas Conservation Board in Alberta. The floor price of potash was raised from \$12 per ton to \$33 per ton. Saskatchewan mines were to produce at 40 percent capacity while the New Mexico mines were permitted to operate at 80 percent capacity. The agreement was approved by the producing corporations in both jurisdictions as well as the trade unions that represented their respective workers (Eisler, 1987: 244-9; Richards and Pratt, 1979: 49-58; 202-10).

The primary beneficiaries of the cartel were the U.S. companies. By 1972-3, U.S. potash exports were up 45 percent while Canadian exports were down 6.7 percent. Employment in the Saskatchewan mines peaked at 2,836 in 1970 and then began to decline. A 1971 study by the U.S. Bureau of Mines concluded that the Saskatchewan cartel allowed the companies operating in Saskatchewan to earn an average annual return on investment of 29 percent. In its first year of operation, Sylvite reported a profit in spite of the fact that it was only operating at 41 percent of capacity (Warnock, 1974).

The New Social Democracy

The New Democratic Party under the leadership of Allan Blakeney was returned to office in the 1971 election, winning 51 percent of the popular vote and a large majority of seats in the legislature. In the area of natural resource development, times had changed. Almost all



of the major industrialized countries had state owned oil companies. The governments in the oil producing Third World had achieved their independence from colonialism and were demanding and getting a 50-50 split on the economic rent from production. Public opinion in Canada followed this trend.

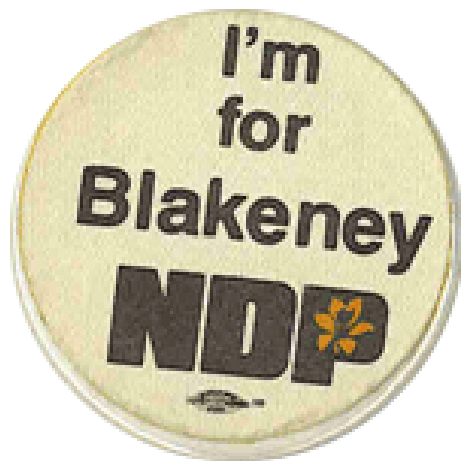
The push for government intervention in the mining and mineral industries was aided by the report by Eric Kierans for the NDP government in Manitoba. He revealed the historic subsidies given by the government to these industries, their high profits compared to all other major industries in Canada, and the very low taxes and royalties collected by the federal and provincial governments. Given the ability of the large transnational governments to shift profits and capital, and use "creative accounting" in reporting their financial status, he recommended that provincial governments use government agencies for exploration, create Crown corporations for development, and increase taxes and royalties (Kierans, 1973).

In 1974 the federal government introduced legislation which denied resource extraction corporations the right to claim provincial royalties and taxes as deductions when filing federal tax returns. The potash corporations responded by announcing they were canceling expansion plans and demanded that the province reduce taxes and royalties. The Blakeney government said it would look at the issue but only if the

corporations disclosed their financial data to the Ministry of Finance. The corporations refused.

The Douglas government had set very low royalties on potash, amounting to about three percent of gross sales. As John Richards has pointed out, these royalties barely paid for the public services that the province provided to the mines. To get around this, and increase the share of economic rent going to the people of Saskatchewan, in October 1974 the Blakeney government announced a new “reserve tax,” similar to a property tax, where a tax rate was imposed on the assessed value of the potash reserves held by each corporation. Royalties rose from 3.8 percent of potash sales in 1974 to 20.7 percent in 1975 (Richards, 1987: 126-8; Gruending, 1990: 138-44).

The provincial election of 1975 returned the NDP to government. A court challenge brought by Central Canada Potash was ruled in its favour on the issue of the new NDP tax regime for the industry. The potash corporations responded by announcing a capital strike and refusing to pay the new reserve tax, directly challenging the democratic authority of the provincial government.



The Move to State Ownership of Potash Production

Within the NDP there had been significant debate on the question of state ownership of the potash industry. Party resolutions called for a move in this direction. The platform for the 1971 election declared that an NDP government “would consider the feasibility of bringing the potash industry under public ownership.” In the campaign for the 1975 provincial election, the party platform declared that the NDP “planned to speed up direct government participation in exploration for and development of potash and other hard-rock minerals to achieve a greater measure of public ownership of these resources and industries.”

However, during the political campaigns the leadership of the party did not play up these proposals. There had been little public debate on the issue. But internally the Blakeney government and its key advisers had been discussing among themselves the possibility of nationalizing the industry. They were under attack from the potash industry, business interests, the federal government, and challenged in court. There were many within the NDP who argued that the best way to solve these challenges to their authority would be to nationalize the industry. The premier and the party caucus were stunned by the decision of the potash industry to refuse to pay taxes imposed by the government. The issue was crucial: who had sovereignty in the province, the elected government or the transnational corporations?

However, the NDP had done little to mobilize public opinion on the issue. Public opinion polls showed that the Blakeney government had not convinced the majority that public ownership was necessary. Given the sustained attack from the political right, they compromised on the issue and only nationalized 40 percent of the industry. The NDP government felt the need to demonstrate to the business community that they were not a socialist government, but that they

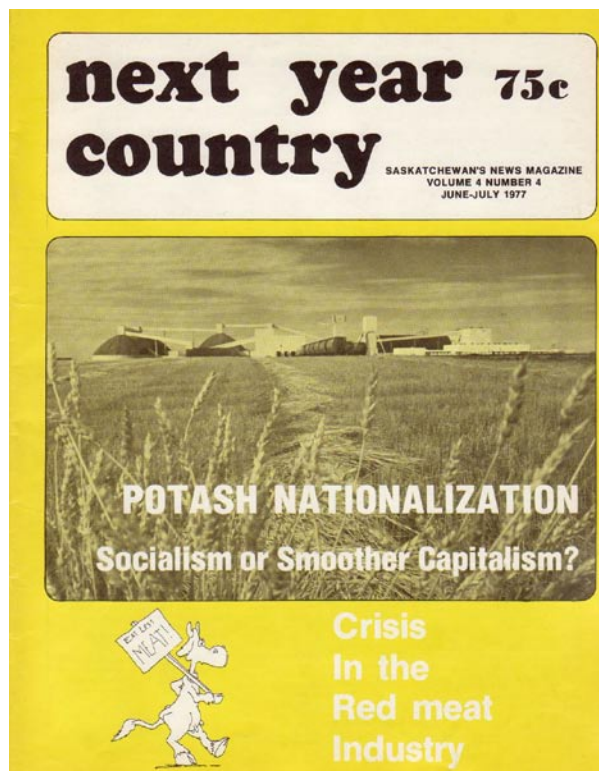
would not cave in to corporate blackmail either. In the Throne speech in November 1975, the NDP government announced that it intended “to acquire the assets of some or all of the producing potash mines in the province” (Gruending, 1990: 140-8; Richards, 1987: 127-30).

The key to the success of the nationalization was the level of compensation. There were three proposals debated within the government. The first was to pay full replacement value, based on the assessment of the cost of building a new mine. Under this option the nationalization of all ten mines would have been \$1.4 billion. A second option was to set the price at the depreciated book value of the investment in property, plant and equipment. This was estimated at \$565 million by the potash industry itself.

However, the Blakeney government decided instead to opt for a price based on “fair market value,” an estimate of what they thought the existing mines would have brought if sold on the open market. This was the formula included in the implementing legislation.

Originally the potash corporations strongly opposed the announcement by the Blakeney government that they were going to nationalize some of the mines. The first nationalization was the Duval mine, owned by Pennzoil of Texas. The original investment in the mine was \$80 million. The Saskatchewan government paid the U.S. corporation \$128.5 million. Pennzoil was overjoyed. As Dennis Gruending reminds us, with this payment the corporate opposition to the nationalization virtually ceased. The lawsuits were dropped. It seemed like they all wanted to be bought out. The stated “fair market value” was around 93 percent of replacement value. The price paid by Saskatchewan’s taxpayers produced a windfall profit for the private investors (Gruending, 1990: 149-50).

Buying 40 percent of the industry cost the province \$525.6 million, an unnecessarily large debt



that the newly-minted Crown corporation — Potash Corporation of Saskatchewan (PCS) — was forced to accept. By 1979 the NDP negotiated a new taxation system with the remaining private producers that reduced their taxes and royalties by around 25 percent (Richards, 1987:124-30; Anderson, 1984: 84; Richards and Pratt, 1979: 267-72; Burton, 1997: 68-9).

Even with the large debt imposed by the provincial government, the limits on production set by Canpotex, and after paying provincial royalties and taxes, PCS remained profitable. Dr. Nancy Olewiler, a resource economist at Queen’s University, prepared a study of the nationalization for the Economic Council of Canada. She concluded that between 1978 and 1981, the return on investment ranged between 21 and 34 percent. She concluded that PCS “added large sums to the provincial revenues well beyond what the mines PCS purchased would have generated through provincial taxes if they had remained in the private sector” (Olewiler, 1984).

As the largest potash producer in the world, PCS was the price leader and had begun to use that power. They announced projects to expand production capacity with a goal of managing the world price for potash. In contrast to the private potash corporations, they wanted to develop long-term contracts with countries so that they could better plan the expansion process. In 1981 PCS announced that it was going to quit Canpotex, the offshore marketing agency used collectively by the Saskatchewan-based potash corporations. They created their own international marketing agency, PCS International, and planned to use their competitive advantage to increase their share of the world market. As the world's lowest cost producer, they would be able to reduce the price of potash and make up the difference through a greater share of the market. Some would say that is Economics 101.

The development of PCS had been restrained by the private potash firms. The use of their existing capacity was being held back by the private firms dominating Canpotex. In Canpotex, each mining company had one vote, regardless of the volume of potash it produced. While PCS provided 60 percent of the potash sold abroad by the marketing agency, and had the largest reserves by far, the private firms regularly joined forces to outvote PCS and to put it at a competitive disadvantage (Richards, 1987: 128-130; Gruending, 1990: 148-50; Anderson, 1984: 77-80; Burton, 1997: 67-77).

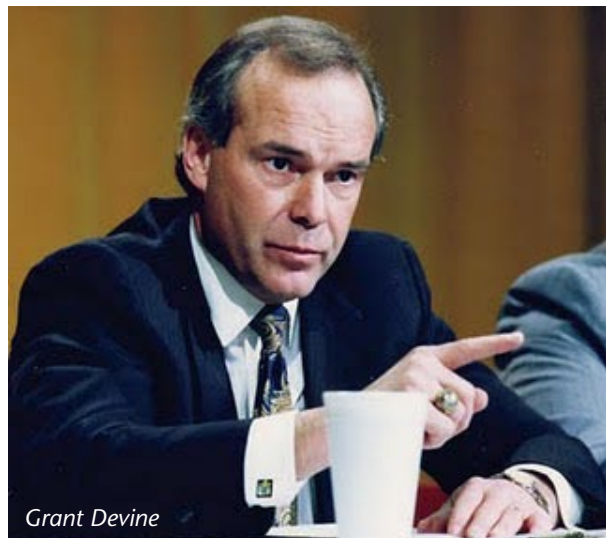
Once it became clear that the Potash Corporation of Saskatchewan had capable management and could effectively do the job, all while paying taxes and royalties, nationalization ceased to be a significant political issue. By 1978 public opinion polls indicated 60 percent support for the nationalization. In that year the Blakeney government, while expanding public ownership in other areas of resource development, won re-election (Gruending 1990: 150).

Privatization Under the Devine Conservatives

Grant Devine's revived Conservative Party swept into office in 1982, promising to replace the NDP's supposed 'socialism' with free enterprise. The Conservatives were enamoured with Margaret Thatcher's government in the United Kingdom and followed suit by launching a broad attack on Keynesian economic and social policies and the labour movement. They pledged to get the government out of any economic development that could be run by the private sector on a profit-making basis.

In keeping with this philosophy, potash royalties were reduced in the first term of the Devine government. The share of sales going to the government fell to 5.4 percent, well below the 25 percent during the Blakeney era. Returns increased slightly to 6.6 percent during the second term of the Tory government. These low royalties and taxes allowed private investors to re-capture the majority of economic rent — surplus profits — from the extraction and sale of this key natural resource.

In partnership with the Fraser Institute, the National Citizens' Coalition and the Institute for Saskatchewan Enterprise, the Devine Conservatives formed an alliance with the Adam Smith



Grant Devine

Institute in the United Kingdom. They brought Madsen Pirie and Oliver Letwin across the Atlantic to Saskatchewan to help draw up a plan for change. The key to Margaret Thatcher's successful privatization was to sell the state owned enterprises and assets for significantly less than they were worth. Before they were privatized the taxpayers would cover their debts. This would ensure that there would be an adequate number of private investors. The goal of the Devine government was to repeal the expansion of the public sector that had developed under the Blakeney NDP government (Biggs and Stobbe, 1991; Pitsula and Rasmussen, 1990; Brown, 1999).

The Devine government began the process of privatizing PCS by cancelling the plan PCS had made to expand capacity, drop out of the cartel, and do its own marketing. The Tories required PCS to remain in the Canpotex marketing cartel. Always outvoted by the private companies, its designated share of production allowed it to operate at only 67 percent capacity while the private firms were operating at 88 percent. Under the Tories, PCS' share of sales had been cut from 59 percent to 42 percent. At the same time the Devine government forced PCS to heavily invest in expanding its production capacity at its Lanigan mine. To no one's surprise, PCS started to lose money for the first time. In 1988, as the world's largest potash corporation, it produced 5.1 million tonnes, despite its installed capacity of 8.6 million tonnes.

The common narrative in today's provincial media is that the Devine government's privatization "rescued" the failing PCS Crown corporation. However, it is important to remember that the Devine government did their utmost to limit the ability of PCS to continue as a successful operation. Indeed, this was a well-known stated objective of the government.

In 1988 and 1989 the plan by the Tory government to privatize the Potash Corporation of

Saskatchewan developed into a major political issue with growing public debate on the true value of the Crown corporation. The options for setting the price for the sale of PCS were the same as those discussed at the time of nationalization.

First, there could be compensation to the province based on full replacement value. In 1985 Kilbourn Engineering had determined the figure for a proposed new mine in Manitoba (which was never developed) at \$600 million in 1989 dollars. John Douglas, a Chicago fertilizer expert, argued that this would mean that the true value of PCS was over \$2 billion.

Second, there was the depreciated book value of the corporation. The auditors of PCS listed its depreciated fixed assets at \$1.114 billion. Douglas stated that the true value of PCS was "much greater than the official value of the assets." These were all viable operating mines with many years of full production capacity left.

Then there was "fair market value." When the Devine government issued its prospectus for the 35 million common shares offered in November 1989, the share price was set at \$18. This meant that the government had decided that the fair market value of PCS was \$630 million (Warnock and Checkley, 1990: 11-3).

Despite the handicaps that were imposed on PCS, the Crown corporation was a valuable asset for the province. When the Tories came to power in 1982, PCS had reported \$414 million in profits with a book value of \$963 million. The province held an equity position of \$732 million and had a long-term debt of only \$88 million. Between 1976 and 1988 it paid royalties and taxes to the provincial government totaling \$372 million and paid a dividend to the province of \$228 million (Charlton et al, 1996: 3).

Following the model of privatization borrowed from Margaret Thatcher's government and the Adam Smith Institute, Saskatchewan taxpayers would be called upon to pay down some of

PCS Fixed Assets as of June 30, 1989

Land	\$20,215,000
Buildings & Improvements	431,106,000
Machinery & Equipment	690,411,000
Plant under construction	5,214,000
Mine development costs	198,012,000
Equipment under capital lease	107,928,000
Total	\$1,452,886,000
Less accumulated depreciation & amortization	338,724,000
Current fixed assets	\$1,114,162,000

Potash Corporation of Saskatchewan (Purchase Prices)

Cory Division	1976	\$128,500,000
Rocanville Division	1977	144,000,000
Lanigan Division	1977	76,500,000
Allan Division (PCS 60%/Saskterra 40%)	1978	85,800,000
Esterhazy Division (Mined by IMC Corp)	1978	85,000,000
New Lanigan Operation	1987	575,000,000

Source: John W. Warnock and Shauna Checkley, "The Potash Rip-off." *Briarpatch Magazine*. Vol. 18, No. 10, December 1989, p. 12.

the debt of the state owned corporation before it was sold off to the private sector. This would make the share offering even more attractive to private investors. In 1987 the Devine government made a debt for equity swap with PCS totaling \$662 million. This saved the corporation around \$60 million a year in interest payments. The long-term debt of the corporation was reduced to \$100 million. Just before privatization the Devine government had PCS pay \$106 million to the provincial government, the equivalent of its net income for 1988.

The legislation authorizing the privatization of PCS included some restrictions and conditions. No person or private group could hold more than 5 percent of the voting shares of the new privatized corporation. The province would retain a minority shareholder position. In addition, non-residents of Canada were not to own more than 45 percent of the common shares. The head office was to remain in Saskatchewan, at least three board members were to be from the province, and the majority of the board members were to be Canadians (Charlton et al, 1996: 5).

The resulting Potash Corporation of Saskatchewan Inc. (PotashCorp) has proved quite successful for its new private owners. Profits have been very high and retained earnings allowed for expansion of production and the purchase of other potash mines in Canada and abroad. In 1995 Texasgulf was bought for \$832.6 million and the phosphate division of Occidental Petroleum Corporation for \$291.5 million. The following year they paid \$563.3 million to purchase Arcadian Fertilizer, entering the nitrogen market. Traditionally, the potash producers in Saskatchewan have maintained around 40 percent excess capacity, with PotashCorp having by far the largest share. This has helped PotashCorp keep its position as “swing producer” in the industry and to threaten potential high cost competitors (Stone, 2004).



The Saskatchewan NDP Embrace of Neoliberalism

Roy Romanow was elected as the new leader of the NDP following the party's defeat in the 1986 provincial election. Uncontested for the position, Romanow represented the right wing of the party, as the left declined to advance a candidate.

While in opposition, the NDP had developed a progressive Keynesian policy in preparation for the 1991 election. They had the strong support of the Saskatchewan Coalition for Social Justice and the Saskatchewan Federation of Labour. In the debates in the legislature over the privatization of Crown corporations, the NDP regularly pledged that they would buy back or expropriate assets sold by Grant Devine's government (Pitsula and Rasmussen, 1990: 49).

A position paper prepared by the NDP caucus denounced the Tories for reducing royalties on resource extraction and pledged to make this sector of the economy “pay its fair share” to the province. In the 1991 election campaign individual candidates pledged that the party would regain control over the privatized natural resource corporations, but tellingly, Romanow made no such promise (NDP Caucus, 1991 January).

The first budget in May 1992 revealed the political direction of the new NDP government. The first priority would be balancing the budget and reduction of the debt. There were cuts to education and health, offloading to the municipalities and school boards, and higher sales taxes. There was no recognition that a substantial cause of the large deficit was the decision by the Devine government to cut royalties and taxes on the resource industries. The new fiscal direction of the Romanow NDP was even praised by the ultra-conservative Fraser Institute. This shift in direction was strongly opposed by the Saskatchewan Federation of Labour and the Saskatchewan Coalition for Social Justice (Brown, 1999: 51-61; MacKinnon, 2003: 59-96).

Later in 1992 the NDP government released its position paper on economic development, entitled *Partnership for Renewal*. According to the paper, Crown corporations would not be used for economic development, although some joint ventures might be supported. There would be no attempt to re-gain control over the former Crown corporations privatized by the Devine government. The emphasis would instead be on structural support for private investment and on economic and tax incentives. In reality, the NDP government's policy in the resource sector continued the policy direction begun by Grant Devine's Tory government (Brown, 1999: 51-61; McKinnon, 2003: 74-8; Warnock, 2003; Weir, 2004).

The Romanow government did not raise the royalties and taxes on the potash industry. Indeed, they boasted about their general commitment to the reduction of the rate of taxation on corporations, small business and the upper levels of income earners. Potash production expanded, the world price for potash increased, and sales of the commodity rose to over \$1 billion per year. With the higher prices for potash, royalties and taxes rose to 7 percent of sales in the first term of government, rose to 10.1 percent in the second

term, then fell to 9.5 percent during the third term.

In December 1993 the NDP government sold 579,000 shares of PotashCorp for \$27 per share. In April 1994 the government sold its final shares in the Potash Corporation of Saskatchewan and removed the provisions that non-Canadians could not own more than 45 percent of the stock. Restrictions that limited the percentage of stock that could be owned by one party were also lifted. By 1995 U.S. ownership of PotashCorp had risen to over 80 percent (Charlton et al, 1996; PotashCorp Annual Report, 2009).

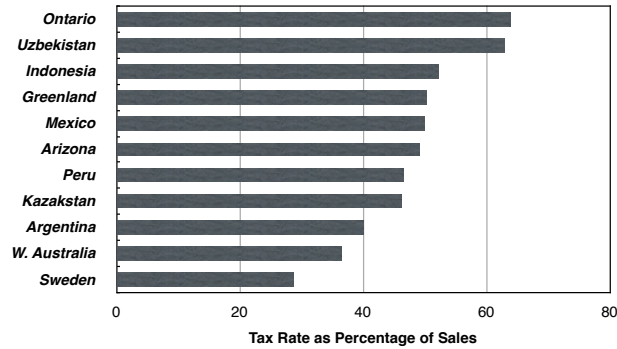
A study by four academics for the Saskatchewan Institute for Social and Economic Alternatives concluded:

With the transfer of assets to the privatized corporation, there was a loss to the Province of Saskatchewan of \$441.5 million. This was the amount by which the book value of net assets transferred to the Potash Corporation of Saskatchewan Incorporated exceeded the value of the shares received by the province (Charleton et al, 1996: 6).

In 2000 Roy Romanow announced that he was going to step down as leader of the NDP. The party had a leadership campaign, and in February 2001 Lorne Calvert, a long time MLA and cabinet minister, became premier. He continued the neoliberal policies of the Romanow government.

In 2002 Calvert's NDP government introduced a six-year mineral exploration incentive program which would aid the potash industry. Right before the 2003 provincial election Calvert announced changes in the royalty and taxation regime for the industry. The province would eliminate the profit tax on new potash sales. Furthermore, the government introduced a new procedure for faster capital write offs to attract new investment. The next day PotashCorp announced that they

World Mining Royalties and Taxes



Source: World Bank. *Mining Royalties: A Global Study of the Impact on Investors, Governments and Civil Society*. Washington D.C., 2006 (figures are derived from a copper mine financial model with the tax systems in over 20 nations applied to it).

would spend \$80 million to expand capacity at its Rocanville mine.

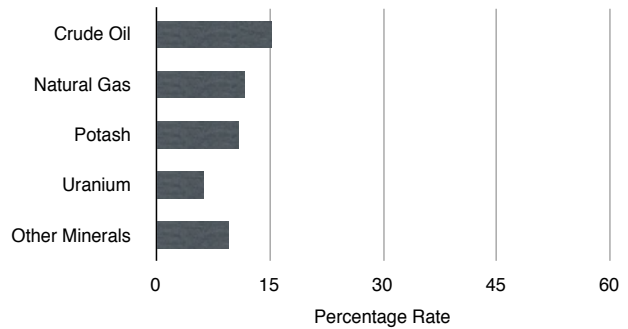
Between 2000 and 2009 the value of sales of potash totaled \$27.2 billion. Over that ten-year period total royalties and taxes paid to the province came to \$2.947 billion. Thus royalties and taxes paid averaged 10.8 percent of sales. That is certainly not an excessive amount; particularly in comparison to the royalty rates of other national jurisdictions (Saskatchewan Ministry of Energy and Resources, 2009-10 Financial Overview).²



Lorne Calvert

The Calvert government in April 2005 announced additional cuts to royalties and taxes. Profits above the 2001-2 average sales/tonnes were no longer subject to the profit tax. In addition, they introduced an accelerated depreciation rate of 120 percent on

Average Rate of Royalties and Taxation: Saskatchewan Resource Industries, 2000-2009



Source: Industry of Energy and Resources Annual Report 2009-2010

new capital expenditures. The same day the three Saskatchewan potash corporations announced plans for expanding their capacity (*Leader Post*, April 12, 2005, B-4).

The effect of these reductions has been a boon to PotashCorp. In their 2004 Annual Report, they noted that “Our long-term investors have enjoyed a cumulative return of 629 percent in the 14 full years since we became publicly traded, compared to the [fertilizer] industry average of 89 percent over the same period of time.” Between 1995 and 2003, their shareholder returns were five times that of the industry average. The shareholder return in 2003 was 38 percent (www.potashcorp.com).

The Potash Industry Today

The NDP government was defeated in the 2007 provincial election. The new Saskatchewan Party government, headed by Brad Wall, continued the province’s tradition of very low taxes on the mining and mineral industries, declaring the province was once again “open for business.” In

²The royalty and taxation system in place in Saskatchewan is quite complex. There is a base payment tax, potash profits tax; Crown royalties are paid for potash extracted from Crown lands, and various tax holidays (See Bout and Chiang, 2008).

December 2009 the Wall government announced a special tax deduction for potash mines for every new office job that was created in the province.

During this period, the provincial economy was booming while most of North America was facing recession. Economic growth was the highest of all provinces. The labour force and employment were growing. The average wage in Saskatchewan finally rose to the national average. The housing market was booming.

Mining industries are very capital intensive and employ fewer people than most other private industries, Crown corporations or government departments. Thus the mining and oil and gas extraction industries in 2008 accounted for around 25 percent of Saskatchewan's gross domestic product and 32 percent of gross fixed capital formation. The industry accounted for around 40 percent of the value of all provincial exports, and 15 percent was the potash industry alone.

Despite this contribution to the province's economy, this does not translate into an equivalent benefit on the employment front. In 2009 there were 24,600 people employed in the mining and mineral extraction industries, accounting for only 4.7 percent of all people employed in the province. The wages, salaries and supplemental income accounted for only 8 percent of the total provincial labour income (Saskatchewan Bureau of Statistics, December 2009).

With the exit of Lorne Calvert from the leadership of the party in 2008, Dwain Lingenfelter emerged as the new leader of the provincial NDP. Lingenfelter had been the Deputy Leader of the NDP when Roy Romanow was premier, a key member of the inner cabinet, and played an

important role in the process of completing the privatization of the Crown resource industries, including the Potash Corporation of Saskatchewan. In 2000 he resigned from the NDP government and took a job with Nexen Corporation in Calgary. Nexen had bought Wascana Energy, created from the privatization of the Saskatchewan Oil and Gas Corporation.

In August 2010 there was the announcement that BHP Billiton, based in Melbourne, Australia, was making a bid to takeover the Potash Corporation of Saskatchewan, Inc. It offered \$38.6 billion (U.S.) for the corporation, which worked out about \$130 per share of common stock.

The top management and the Board of Directors of PotashCorp rejected the offer, saying that it "was substantially undervalued." BHP is the largest mining corporation in the world, with revenues of \$50 billion in 2009, compared to \$4 billion for PotashCorp. BHP is in the process of developing a large, new potash mine at Jansen, Saskatchewan, which it has reported will cost \$12 billion and take seven years to build. BHP revealed that it had negotiated a deal with six banks to put up the cash for the buyout and claimed that it would be able to repay one half of the loan in one year (*Globe and Mail*, August 21, 2010, p. 4).



Who Should Own and Control Saskatchewan's Potash industry?



Premier Brad Wall and the Saskatchewan Party government soon expressed concern over the possible takeover of PotashCorp by BHP Billiton. When they announced the bid in August, BHP stated their intention to pull out of Canpotex, the potash marketing agency, and sell potash by itself. Marius Kloppers, CEO of BHP Billiton, told the *National Post* on September 21, 2010 that “our preference would be that — in such a market — we stand in front of our own customers, run our mines at full capacity and take the market price of the day.” Canpotex would be “transformed from a seller of product into a logistics provider.” He added: “none of our businesses, potash included, are what I would call businesses where there is a suspension of Economics 101. Free markets work. Supply and demand works.” Ironically, this was similar to the strategy that PCS, as a Crown corporation, had announced in 1981 (*Leader Post*, September 22, 2010, D-1).

Under the present system of royalties and taxes, such a strategy could result in a drastic drop in government revenues. Premier Wall told the press in early September that one option would be “rejigging the royalty structure so that payments

are linked more directly to the volume of sales rather than the price, as they are now.” But the Saskatchewan Party government “would prefer not to significantly alter the royalty structure” (*Leader Post*, September 4, 2010, F-1). Further complicating matters for the Wall government was the reaction of the public to the proposed takeover. Public opinion was strongly opposed to a potential takeover by BHP Billiton. A poll done in Saskatchewan found 55 percent opposed to the takeover, 22 percent were indifferent, 10 percent were unsure and only 14 percent were supportive. Moreover, most people at the time believed that PotashCorp was a Canadian-owned and controlled corporation (*Leader Post*, August 27, 2010, D-1).

The management at PotashCorp declared that it was seeking other possible buyers for their company. It was recognized that the state owned Chinese enterprise, Sinochem, was also interested. The Saskatchewan Party government feared such a takeover, believing that as a major consumer of potash, they would implement a policy of full production with lower prices. Under the current royalty and tax system, this could also lead to a loss of provincial revenues. Thus, the Wall government contracted with the Conference Board of Canada to prepare a report on the Potash Corporation of Saskatchewan Inc. and the possible BHP takeover. They were also instructed to look at the impact of a buyout by a Chinese government firm (*Globe and Mail*, September 3, 2010, B-3).

At the same time, the Wall government asked Investment Canada to review the possible takeover. Investment Canada was created in 1985 by the Conservative government of Brian Mulroney

to replace the Foreign Investment Review Board. Investment Canada's goal was to *promote* foreign investment in Canada, with foreign takeovers of Canadian firms always considered a "net benefit" to Canada. Since it was created, Investment Canada had considered 1,637 takeovers and approved all but one (Bloomberg News, *Leader Post*, November 1, 2010, A-1).

From the beginning the Wall government was concerned that if Investment Canada approved the takeover, any conditions imposed would not be implemented. That has been the reality of the recent major takeovers of Canadian corporations during the tenure of Stephen Harper's Conservative government, including Inco by Vale of Brazil, Falconbridge by the Anglo-Swiss firm Xstrata, and Alcan by the UK firm Rio Tinto. All cut Canadian jobs, closed mines, and cut promised spending. In the worst case, U.S. Steel took over Stelco in Hamilton and shut it down altogether (*Globe and Mail*, October 5, 2010, B-1).

The other major potash producers are Russia and Belarus. In August the two largest Russian companies, OAO Silvinit and OAO Uralkali, merged under the control of billionaire Suleiman Kerimov. It was announced that they are going

to market their output through Belarusian Potash Co. Along with Canpotex, the Russian and Belarus companies manage the output and price of world potash. Together they have 80 percent of the world's potash sales. What would happen to Canpotex if BHP chose to market potash on its own? How would this affect the other two Saskatchewan potash corporations, Mosaic and Agrium? These were important questions for the people of Saskatchewan that the BHP takeover bid would raise (Bloomberg, *Leader Post*, October 5, 2010, D-1).

Report of the Conference Board

The Conference Board of Canada issued its report on October 1, 2010. While the Board is well known for its pro-business orientation, and was expected to back the position taken by the Wall government, the report proved to be quite useful. Many facts about the Potash Corporation of Saskatchewan were finally revealed to the general public.

Ownership. Few people in Saskatchewan really knew much about the ownership and control of PCS. In fact, one early public opinion poll reported that 23 percent of those surveyed believed that the Potash Corporation of Saskatchewan Inc. was still a Crown corporation (*Leader Post*, August 27, 2010, D-1). Since it was privatized in 1989, the national ownership of PotashCorp has varied from year to year. U.S. ownership of the corporation rose to a high of 80 percent after Roy Romanow's NDP government sold the province's final shares. It dropped to 25 percent in 2001 and today stands at 38 percent. Canadian ownership currently stands at 48 percent with the remaining stock owned by other foreign interests.

But as the Conference Board pointed out, 89 percent of the shares of common stock today are held by institutions like pension funds and investment funds. The Board reported that

2009 Net Income Comparison (\$US millions)

PotashCorp	988
ICL	724
Yara	613
Uralkali	451
CF Industries	449
Mosaic	414
K+S	403
SQM	372
Agrium	366
APC	281
Terra	153
Intrepid	71

Source: 2009 PotashCorp Annual Report

PotashCorp “is a widely held company that is owned mostly by foreign-based institutional investors.” But these institutional owners do not take an active part in the management of the corporation (Conference Board Report, pp. 2-4).

The Board of Directors has a management role, but normally they follow the directions set by the corporation’s senior management. The Board of PotashCorp today includes William Doyle, the Chief Executive Officer and President and two other senior people from Chicago. Of the eight Canadians on the board, four are from Calgary and two are from Saskatchewan.

As the Conference Board concludes: “Our previous research on M&As [mergers and acquisitions] suggests that senior management is key to setting the direction of the corporation. Although the Board approves management strategy, senior managers formulate this strategy and execute it on a day-to-day basis.” They add that “the headquarters are the decision-making centres of companies” (Conference Board, p. 22).

From the beginning of privatization, PotashCorp has been dominated by senior management from Chicago, with the key people having histories with IMC Global, a major U.S. fertilizer corporation. These include Chuck Childers and William Doyle, the only two presidents and CEOs of the privatized PCS. Of the fifteen top senior executives of PotashCorp today, nine are U.S. citizens and most live in the Chicago area. The “head office” in Saskatoon employs 200 people as does the other office in Northbrook, Illinois.

It makes more sense today to have the head office in Chicago than at the time of the original privatization. PotashCorp has extensive holdings in the United States, primarily in the phosphate and nitrogen areas. Thus the Conference Board could conclude, “the company is substantially a U.S.-based company.” They also describe it as “a North American corporation with Saskatchewan operations” (Conference Board, pp. 23-25).

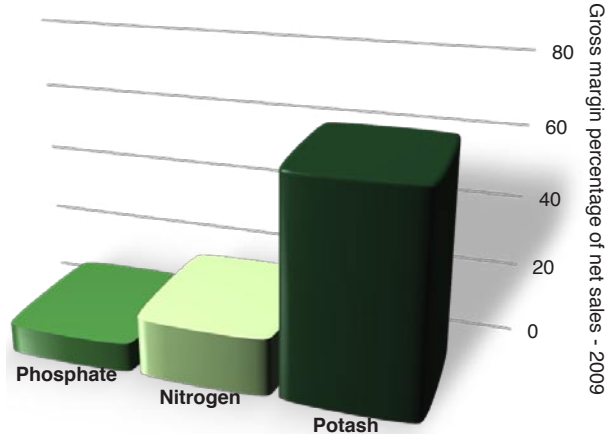
Therefore, Stephen Harper was not far off the mark when he commented in the House of Commons in October that the issue was “a proposal for an American-controlled company to be taken over by an Australian-controlled company.” However, that opinion was quickly attenuated by the mood of the public as well as the position of Wall government.

Operations. Many people believe that PotashCorp is still a potash corporation. But this is not the case. In 1995 PotashCorp bought the agricultural chemicals division of Occidental Chemical Corporation and Texasgulf Inc. From these it created PCS Phosphate. The phosphate division of the corporation, primarily in North Carolina, accounted for 31 percent of sales in 2009. It has no operations in Canada. In 1997 PotashCorp bought Arcadian Corporation and created PCS Nitrogen, based in Trinidad and four other U.S. facilities. In 2009 the nitrogen division accounted for 32 percent of sales. Thus in 2009 potash accounted for only 37 percent of corporate sales (Conference Board, p. 19).

In 2009 PotashCorp reported that it employed 5,136 people, which included 2,507 in the United States, 2,212 in Canada and 417 in Trinidad. Of the Canadian employees, 1,677 worked at the five mines in Saskatchewan — the rest in New Brunswick. Of the \$633 million wages and benefits paid by the corporation, around \$170 million went to employees in Saskatchewan. The company reports that labour accounts for between 20 and 25 percent of the costs of production. (Conference Board, pp. 28-9)

However, potash has been most important to the financial success of the corporation. The gross profit margin for potash in 2009 was 60 percent versus only 16 percent for nitrogen and 8 percent for phosphate. For the corporation as a whole, potash contributed 71 percent of the corporation’s total profits, by far the largest contributor to earnings (PCS Financial Review, 2009, p. 9).

Potash Margins Superior



Source: PotashCorp Annual Report, 2009

Over 2007-09 sales of PotashCorp averaged \$6.219 billion. The gross margin averaged \$2.038 billion, or 32.8 percent of total sales. Over those three years provincial and other mining taxes averaged \$235.7 million, or only 3.4 percent of sales. Income taxes averaged \$525.5 million or 8.4 percent of sales. From this it seems fair to conclude that the corporation is certainly not over taxed (PCS Annual Report, 2009 accessed at www.potashcorp.com).

Beginning in 2005 PotashCorp began a program of expanding production at its existing mines in Saskatchewan and New Brunswick. This is designed to almost double the operational capacity to 17.1 million tonnes by 2015. An investment of \$7.31 billion will produce an additional capacity of 10.11 million metric tonnes (MMT). In contrast, BHP Billiton stated that its new mine proposed for Jansen Lake would have a capacity of 8 MMT at a cost of \$12 billion (PCS Financial Review, 2009, pp. 20-1).

The potash industry is very important to Saskatchewan. Over the past ten years, the volume of production has gone from 8.6 MMT to 10.3 MMT. Sales have increased from \$1.744 billion to \$7.378 billion. The price per tonne has risen from \$202.7 to a high of \$727.1 in the boom period of 2008. But royalties and taxes

have averaged only 10.8 percent of sales, well below the levels of the past. With very high profit levels, and relatively low taxes, it is no surprise that investors from around the world have rushed to PotashCorp and driven up the price of the stock.

The main story of the development of Saskatchewan's potash industry certainly must focus on the decision of the provincial governments after 1982 to privatize the industry. This was part of the general trend toward implementing the world wide neoliberal order. Of course the position of the political right was no surprise. They had always been aligned with the corporate sector, which was the driving force behind the political economy of the Thatcher/Reagan school. What was surprising was the decision of the social democratic parties, supposedly the representatives of the working class and the poor, to jump on side.

What was the cost to the people of Saskatchewan when our representatives in government privatized the Potash Corporation of Saskatchewan and reduced the royalties and taxes that they paid? Erin Weir, senior economist for the International Trade Union Confederation, observes that the mines that made up PCS as a Crown corporation are still the primary source of the potash today, accounting for 80 percent of the production capacity of the now private corporation. With potash accounting for about 70 percent of the company's very high gross margins, these mines "still provide at least 55 percent of overall profits today." Weir argues "the costs of privatization exceeded the benefits by between \$18 and \$36 billion."

Weir further argues that Lorne Calvert's NDP government gave the potash companies "misguided royalty holidays." Between 2005 and 2008 the tonnage of potash extracted and sold did not increase in Saskatchewan. The price increase alone gave the company \$4.7 billion more than in 2005 (Weir, 2010).

The Alternative: Democratic Ownership of the Potash Industry

The debate over the future of the Potash Corporation of Saskatchewan Inc. has been limited to the issue of which private interests should control the potash industry in Saskatchewan. There has been little to no discussion of the most important issue: who should own and control the economic rent received from the extraction and use of Saskatchewan's natural resources?

The context of the debate and discussion has been quite clear. Primarily, it has been a private decision made by interests representing the owners of capital. All our political leaders contend that the only role for the government in this case was that represented by Investment Canada, which has the power to rule against a takeover of an existing Canadian company.

In the past, Investment Canada has taken the position that a takeover of a private Canadian company by a foreign corporation is a private business matter. On only one previous occasion had they ever rejected a proposed takeover. Yet, their decision on November 3, 2010 was to block the takeover of PCS by BHP Billiton. No details were given as to the reasons that they ruled that the takeover would not be of a "net benefit" to Canada. They appeared to have left the door open to BHP to sweeten the deal and go back to them within thirty days. The Australian corporation stated that was what they planned to do.

However, Stephen Harper's government then made it clear that the final decision had in fact been made, and BHP Billiton conceded defeat. Premier Brad Wall emphatically declared that

potash was a "strategic resource" for the province, different, for example, from uranium. Public opinion was quite clear on the issue. Opposition came from both the federal NDP and Liberal parties. A poll of business executives done for the *Globe and Mail* found 50 percent were opposed to the takeover. A number of prominent investment managers stated that they did not want to lose another Canadian corporation from the shrinking list eligible for their Canadian equity funds.

The only major interest groups that supported the BHP takeover were Canadian farm organizations. The Canadian Federation of Agriculture opposed the potash cartel that artificially raised fertilizer prices. High potash prices, they argued, also encouraged higher prices for phosphate and nitrogen fertilizers. There was no net benefit to farmers or consumers when fertilizer prices were increased by oligopolies (*Western Producer*, November 11, 2010, p. 86).

The consensus opinion was that the Harper government backtracked on its position on foreign ownership in this case fearing that a failure to block the takeover would result in the loss of some of Saskatchewan's Conservative Members of Parliament in the next federal election.

Nevertheless, this decision was made within the rules set by the neoliberal approach to resource ownership and control in effect since the governments of Margaret Thatcher in the UK and Ronald Reagan in the USA. The rules have been enforced by the Washington Consensus, the policy package imposed on many less developed countries by the institutions of the World Bank,

the International Monetary Fund, the U.S. Agency for International Development and the World Trade Organization. The neoliberal approach represents a major swing to the old classical liberal order, where men who are the owners of property have the right to set policy.

However, there is a swing back to the pole of democracy going on at this time in history. So far it has been largely limited to the former colonies in what used to be called the Third World. In the area of development and use of natural resources, there is a clear movement towards public ownership and control. The democratic approach insists that natural resources and resource rents should support the interests of the general public and not mainly special private interests.

In Saskatchewan we witnessed a swing towards democracy under the governments of T.C. Douglas, Woodrow Lloyd and Allan Blakeney. Since then there has been a swing to the right, towards the traditional liberal order, under the subsequent provincial governments. It is time now for a swing back to the pole of democracy. In the case of the present status of the potash industry, there is another road to follow.

A Democratic Approach to Potash Development

Natural resources are a free gift from nature and belong to all. In the vast majority of countries, natural resources are considered a national resource, in Canada they are owned by the people of the provinces. This is the historic democratic approach to the question of who owns natural resources. Ownership is by the community as a whole. Natural resources in Saskatchewan belong to all generations. Royalties from their use should be placed in a Heritage Fund and invested in long-term development projects. It should not be consumed as general revenues by a provincial government. The best model here in

the developed world is Norway, not the Anglo-American tradition.

The provincial government should re-establish the Saskatchewan Mining and Development Corporation to allow the province to take equity positions in natural resource development projects. This worked very well during the period of the government of Allan Blakeney. It works well in many other countries.

Royalties should be raised so that they represent the economic rent, or excess profit, that comes from the extraction and use of our natural resources. PCS as a Crown corporation paid royalties and taxes to the provincial government. The potash industry in Saskatchewan today produces enormous economic rent, most of which is captured by private investors. Remember that PotashCorp's gross profit margin for potash in 2009 was an *astounding 60 percent*. Why should the owners of the private mining corporations operating in Canada be granted a return on investment that is far higher than can be found in any other industry? Even under the classic liberal view of resource development, investors in mining corporations should not expect a return on investment that is exorbitantly higher than the general average.

How can we bring about these needed changes? Ideally, the provincial government should create a commission, with a full mandate, to examine the resource royalty and tax situation compared with other political jurisdictions. Why is it that royalties in Saskatchewan are far lower than they are in other countries dependent on resource extraction and export? What would be a more appropriate level of royalties? We need all the facts in order to make the right decision.

We know that the people of Saskatchewan did not get fair compensation for the sale of the Potash Corporation of Saskatchewan when it was privatized between 1989 and 1994. An independent commission on natural resources

could examine the conditions of the sale of this valuable public asset and calculate the cost to the Saskatchewan taxpayers. This should be a major factor in deciding what compensation should be paid to the present owners in any re-acquisition of this provincial asset.

The high value of the stock of the Potash Corporation is mainly due to the fact that over the past 25 years royalties and taxes have been very low, profits have been high, and large retained earnings have allowed the company to purchase other corporations, expand production capacity, and maintain its position as the dominant firm and world price leader. If the economic rent captured by the owners of PCS today were reduced to the level of a normal profit, the price of common shares of stock would fall significantly.

The threat that was posed by the possible purchase of PCS by BHP Billington was greatly exaggerated and would not have seriously affected the operation in Saskatchewan. The mines would remain here as well as the management necessary for their operation. The centre of management power of PCS is in Chicago, with the CEO and key top management. While some of the 200 jobs that are presently in Chicago might move to Saskatoon, for private shareholders, it simply does not matter where the head office is located; the key is the profitability of the company. As Jeffrey Simpson noted in the *Globe and Mail*, "... if Saskatchewan were really concerned about local control, it would've never sold the Crown corporation, or later, its remaining shares" (*Globe and Mail*, October 29, 2010, A-19).

The main concern expressed by our political leaders is that BHP announced that it would follow its corporate strategy, using the dominant market position of PCS to expand production and capacity, and let the market ultimately determine the price. BHP originally stated that they would reject the present system of oligopoly, where Canpotex and the Belarus-Russian alliance sets the world price and shares production. The

competitive capitalist strategy put forward by BHP would actually be welcomed by many farmers around the world, including Canada, who face abnormally high prices for fertilizers. Lower prices would be offset by increased production that could bring increased employment. Royalties could be changed from the present system, which is a small percentage of profits, to a tax on the volume of production. This has been proposed by a number of economists and even suggested by Premier Brad Wall.

The province could also create a Saskatchewan Natural Resources Conservation Board. This could be used as a marketing agency, similar to the Energy Conservation Board which existed in such a form in Alberta and British Columbia. It could replace Canpotex. Its operation would not necessarily be limited to potash. For example, it could re-establish in a new form the old Saskatchewan Timber Board. A conservation board would have the ability of overseeing the development and marketing of all of the province's natural resources.

What could be done to restore Saskatchewan's equity position and management control of the potash industry? Where could they possibly get the capital to buy back majority control? There is still a clear option. China's Sinochem stated that it would like to purchase around 15 percent of PotashCorp in order to block a takeover by BHP; they proposed an investment of around \$8 billion. As a minority partner in a joint venture consortium China agreed to give the major shareholders, which could be the province of Saskatchewan, control over corporate strategy. Chinese firms participate in joint ventures as minority owners around the world and in Canada. Other businesses, financial interests and sovereign funds also indicated interest in participating in some form of a partnership consortium in a new PotashCorp (*Globe and Mail*, September 3, 2010, B-3; Bloomberg, *Vancouver Sun*, October 7, 2010; *Globe and Mail*, October 8, 2010, A-1).



How would the government of Saskatchewan finance its own participation in such an undertaking? One alternative approach has already been proposed. The Industrial and Commercial Bank of China, the world's largest bank, agreed to help finance a partnership with Sinochem. The government of Saskatchewan could borrow the money from the bank and pay it back over a thirty-year period. The annual payments would come out of profits from the potash industry. The *Globe and Mail* reported:

"If Chinese authorities decide to back a potash offer from Sinochem, financing for the massive bid is unlikely to be an issue. Industrial and Commercial Bank of China, the world's largest bank by market capitalization, is expected to anchor a consortium of lenders for a potential white knight offer" (*Globe and Mail*, October 8, 2010, A-20).

It should be remembered that the Chinese government is making investments in resources around the world. It is quite normal for them to offer the host country a 50 percent ownership stake in any resource development, in addition to paying high royalties and providing other foreign aid assistance. Its approach to dealing with the less developed countries dependent on the export of natural resources has been quite different from that of the former imperial powers and their large corporations. The oil industry is a good example.

Others interested in participating in a separate consortium (partnered with Sinochem) to make a bid for the purchase of PotashCorp have been reported in the mainstream media. These include Teck Resources, the Indian state owned iron ore miner NMDC, the Ontario Teachers' Pension Fund, Singapore's sovereign wealth fund Temasek, the Alberta Investment Management Co., the Canada Pension Plan Investment Board as well as a Russian consortium headed by PhosAgro.

The cost of taking control of the PotashCorp mines in Saskatchewan could be significantly reduced by selling the corporation's phosphate and nitrogen operations, as has been proposed by many analysts. These two branches of the corporation have an estimated value of between \$12 and \$16 billion. Agrium Inc. has already stated that it is interested in buying these assets (*Leader Post*, August 31, 2010, D-1).

The new management of a Saskatchewan-controlled joint venture might also be interested in selling the other non-Saskatchewan interest of PCS. These include the potash mine at Sussex, N.B. as well as the 14 percent interest in Israel Chemicals Ltd., the 28 percent interest in Arab Potash Co. Ltd in Jordan, and the 32 percent interest in Sociedad Quimica y Minera (SQM) in Chile. Presumably they would want to keep the 22 percent ownership of Sinofert Holdings Ltd., a fertilizer distribution subsidiary of Sinochem.

The Conference Board of Canada, as a general promoter of the interests of big business, warns us that any attempt to increase royalties and taxes would be "bad policy" and discourage foreign investment. But this ignores the advantages of investing in Saskatchewan and Canada. In general, Saskatchewan has a very good, efficient infrastructure, government and university support systems, a highly qualified labour force, a very good construction industry, stable and predictable democratic governments, and taxes on businesses that are considerably lower than they

were 40 years ago. Our potash resource is the largest in the world, with the highest quality ore and extensive capacity and potential and quite low production costs. The existing mines still have the potential for further brownfield expansion. The cost of expanding the capacity of existing mines is significantly lower than the cost of constructing any new potash mines anywhere.

Investing in the potash industry is not an inherently risky business given current trends. World population is growing, good agricultural land is disappearing, and the demand for potash to increase agricultural production is steadily rising. What is needed is a different policy direction in Saskatchewan, one which once again puts the first priority on the efficient and sustainable use of our non-renewable resources for the benefit of all the people of Saskatchewan.

We might conclude by considering the words of Eric Kierans, then professor of economics at McGill University and former president of the Montreal Stock Exchange. While the recommendations he

made to the government of Manitoba were some years ago, they remain valid today:

It is not a question of capitalism or socialism. It is simply searching for the better way. In any event, one cannot nationalize what one already owns and it is clear that the province owns its own resources. What must be determined is the manner in which one can gain the highest returns from that wealth, both now and in the future. This is not a matter of questioning the rights or sanctity of private property. The issue of proprietorship has long been settled. It is public.

To be satisfied [solely] with the new jobs created and to forego the surpluses and profits inherent in the development of its own endowment is hardly the mark of a strong and mature government. It accepts the role of "hewers of wood and drawers of water" for its people when they are capable of much more. That role provides wages and salaries and little else (Kierans, 1973: 1-2).

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Appendix

Natural Resources: The Struggle Between Democracy and Liberalism

For thousands of years human beings lived in small communities, commonly referred to by anthropologists as “band societies.” These were all egalitarian, democratic societies, based on the principles of reciprocity. Given this long history, one could argue that this is the normal social structure for human beings. The basic moral principles of these societies were altruism and solidarity, with land and natural resources held in common.

In these democratic societies there were distinctions for personal property, but there was no concept of private property in the means of production as we would understand it today. Everyone had access to natural resources and was guaranteed adequate food, clothing and shelter. Customs, rules and moral codes were established on the basic democratic principle of utilitarianism. Political decisions were made by popular participation. Anthropologists have noted that in these societies, sharing among the group increased when there was a shortage of food or a threat of starvation.

In all these societies, land and natural resources belonged to the people as a whole. The different communities often had territories where they operated, recognized by others, but even here there was no strict territorial notion of ownership. These band and tribal societies have been held up as the earliest examples of democracies. The fundamental value was the recognition of the equal worth of all human beings (Fried, 1967; Hindess and Hirst, 1973; Lewellen, 1992).

Unequal Access to Land and Resources

Change started to come with the neolithic revolution, the development of modern agriculture. Through the use of improved staple crops, the introduction of draft animals, and the use of irrigation, those who farmed the land were able to produce an economic surplus. The storage and distribution of cereal grains, in particular, allowed for the development of a social division of labour.

For the first time we see the creation of social classes, the fundamental division between the political, religious and economic elite, who had some form of special use rights over land and resources, and the majority who were the producers: serfs, slaves, peasants, peons, or independent farmers who paid a tax or those under debt bondage, etc. It was common that the producing class was forced to surrender 50 percent of the crop that their labour had produced. This was called “rent,” surrendered supposedly in exchange for the right to have use of the land. However, in reality this was a system of appropriation of the “surplus labour” of the agricultural producers, producing over and above what was necessary for the survival of the producing family.

In these new hierarchical societies, where the farming classes were grossly exploited and often faced starvation, the political state became necessary in order to enforce the social division of



labour. With clear class divisions, laws and rules were established and implemented by the dominant classes. The military, the penal system, and the death penalty became central characteristics of these states where gross social inequality was the norm. Rebellions by the producing classes had to be contained. While access to land and resources remained unequal, the concept of individual *ownership* was virtually non-existent. As territorial states were developed, land and natural resources became state property — to be allocated by the ruling political elite. (Harris, 1977; Balandier, 1970; Krader, 1968)

In Europe after the fall of the Roman Empire, the decentralized political system led to the development of the feudal system of ownership and use of land and other resources. Local lords and tenant farmers had rights to land; the serfs paid a rent to their landlords, in the form of products, labour time and then later money. But there was no private ownership of land, and serfs had rights to the use of land.

The shift to private ownership of land and resources came during the early rise of capitalism, the period commonly referred to as mercantilism, roughly between 1500 and 1750. Mercantilism was characterized by the rise of the territorial state, the development of the modern state political system, and the expansion of European imperialism and colonialism around the world. The territorial state became the new owner of all

resources, and the absolutist kings and queens granted land and other natural resources to privileged individuals.

Land Rights and Imperialism

The Norman invasion of 1066 began the process of establishing a more centralized political order. William the Conqueror laid claim to all of England by the *right of conquest*. As the absolute sovereign, he then allocated all the land of the country to a special group of aristocrats. These lords in turn granted land use to other subsidiary lords, then down to the tenants who actually did the farming. Peasants had the right to land use, for which product and services were rendered as rent. But there was still no concept of private ownership of land; lords could not buy and sell land and resources as if they were private property. The Crown still held absolute property rights.

Nevertheless, the landlords continually strove to increase their control over the land. Parliament originated as an instrument by which the landlords used their political power to gain the right to private ownership of land and resources from the absolute monarch. By the 17th century men with property had used their complete control of parliament to establish a new legal system which granted them private property rights. Whereas the feudal system had been based on relationships between persons, the 17th century saw this replaced by the capitalist concept of the exchange of things (Hindess and Hirst, 1975; MacPherson, 1962; Vogt, 1999).

The other major development in Europe over the mercantile period was modern imperialism and colonialism. England and the other major European nation-states embarked on extensive military assaults around the world. This involved not only the subjugation of the majority of the people of the world but also the imposition of absolutist colonial regimes. In all the conquered

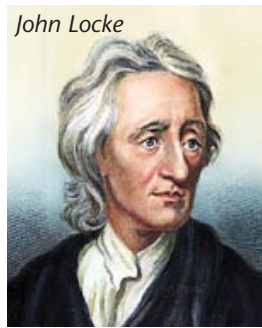
areas of the world, which included almost all of the non-white and non-Christian peoples, the colonial powers ended all systems of common ownership of land and resources. As one political economist noted, these acts of piracy “signalled the rosy dawn of the era of capitalist production.” Not only did the imperial states seize all land and resources, individuals and their families arrived from Europe bent on grabbing “free land” from the indigenous populations (Weaver, 2003).

Those of us who live in western Canada know this from our own history. On May 2, 1670 the British Crown created the Hudson Bay Company and gave the company “the sole trade and commerce of all these seas, straits, bays, rivers, lakes, creeks and sounds ... that lie within the entrance of the straits, commonly called Hudson Straits and the possession of all such lands and territories not already possessed by other subjects or the subject of any other Christian prince or state.” The mercantile corporation was declared to be the “true and absolute lords and proprietors of the entire territory.” It mattered not who already inhabited this land.

Liberalism and the Right to Steal Land and Resources

The European monarchs had no problem justifying their conquest and domination of other peoples around the world. These people were described as barbarians, non-Christians, and were by definition inferior. The Europeans were bringing Christianity and civilization. It took a while for the Church in Rome to determine that the non-white people around the world were actually human beings. The Church then decided to end the practice of indiscriminately killing these people and instead classified them as slaves and serfs to work in agriculture, forestry and mining.

Some English capitalists, however, felt the need for a moral justification for seizing other people’s



land and resources and ending their freedom. The most influential defence of the new capitalist imperialism was set forth by John Locke (1637-1704), generally considered to be the founder of liberalism

and liberal political economy. He set down the ideological justification for individual rights, the right to own private property and the justification for imperialism and colonialism in *The Second Treatise of Government* (1690) and *Some Considerations of the Consequences of the Lowering of Interest and Raising the Value of Money* (1691).

Locke argued that England had the right to seize land abroad as their settlers and business enterprises would be productively using the land and resources. Land not under cultivation by the indigenous population was considered “waste land” and could be seized at will. But Locke went further in advancing the liberal view of private property. Since the indigenous populations of North America cultivated their lands in a collective or democratic manner, Locke argued that they had no claim to it. Under the principles of liberalism, those who farmed could establish a legal claim only if the land or resources were used on an individual basis; it had to be enclosed and fenced off by individuals. Since this was not the case in North America, new local governments, enterprises and settlers were free to take any land that was being used by the indigenous populations.

Equally important to establishing the liberal capitalist view of private property, Locke argued that those individuals and enterprises which seized land and natural resources did not require the consent of others or the community in general. North America was “wilderness” or “vacant space” and any use of the land by colonizers would be a beneficial improvement. He also stressed that it was not necessary for

those who seized these lands and resources to pay any compensation to the general public. Furthermore, the indigenous populations could only claim the right to use the land and resources if they were selling their product on the world market.

Finally, Locke argued, government was needed to establish rules to defend the rights of the owners of private property. This was, according to Locke, the first task of government. It is only logical that those who participated in politics, those who could be classed as “citizens,” and who could therefore vote and hold a seat in parliament, be limited to men who own property (Arneil, 1996; Macpherson, 1992).

The Democratic Reaction

The traditional liberal view of ownership and control of natural resources by a small group of men did not go unchallenged. Over time we have seen the struggle to revive the democratic tradition. In the political area, men without property mobilized in a broad fashion to achieve rights equal to those who had property and the right to form trade unions. Those who were slaves struggled to achieve freedom. Non-whites fought to obtain the same rights as whites. Colonized peoples took up arms to achieve independence from the European empires and establish their own governments. Women continue to struggle to be recognized as persons with equal rights with men.

As this view of democracy spread across the world, the majority who did not own private property in the means of production took political action, formed political parties, formed governments, and pushed for economic and social rights and greater equality. Part of this broad democratic struggle has included the demand that natural

resources belong to the people as a whole. Elected governments, with sovereign power, can redefine ownership and how resources are developed and used. It is clear that in the period since the rise of capitalism and liberalism, the central political struggle around the world has been between the supporters of the liberal order of privileges for the few and those who support the democratic value of equal rights for all.

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