

## Saskatchewan: A lot more than wheat

**Potash Corp. may be the darling of the stock market, but Saskatchewan is riding more than just soaring commodities prices**

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**SASKATOON** — Grant Isaac, when he left, never thought he'd be back.

Hailing from a family of sports broadcasters out of Regina, Mr. Isaac studied economics at the University of Saskatchewan in Saskatoon. After finishing his masters, he and his wife moved to England, where Mr. Isaac did his PhD at the London School of Economics. A world of opportunity was at hand.

But they chose, in 2000, to return. Sensing change, sensing possibility, sensing something percolating, the spirits of their forebears, pioneers who made a life out of a hard land, in the middle of nowhere.

"Everything just seemed to be pointing in the direction of change," Mr. Isaac remembered of the emerging ambitions of his home province this week over a coffee in Saskatoon.



Real estate agent Larry Stewart is being kept busy with the Saskatoon real estate boom

### **Potash Corp. of Saskatchewan**

Now the young dean of the Edwards School of Business at the university – named after Murray Edwards, the Regina-born, Calgary-based energy billionaire – Mr. Isaac has a wide vantage from which to watch Saskatchewan enjoy a boom. And, yes, for some locals, with memories of good times that too often turned sour so quickly, there is the dead weight of fear – can it really last?

But the boom, Mr. Isaac said, hasn't even really started.

"People are talking about it in the present tense – but it's not even here yet," Mr. Isaac said. "The boom is still coming."

This province, with a population only a bit higher than it was in the 1920s, is enjoying the best times of its century-long history, riding multiple booms in commodity prices. Government, once so central to the economy, has stepped back and instead embraced a more business-friendly agenda, including corporate tax cuts.

Predicted to lead Canada in economic growth this year, Saskatchewan is a land of food and fuel – feeding North America, and the world. It is the country's second-largest oil producer. It leads the world in uranium. And its grains are more valuable than ever.

"The world needs lots of what we have," Mr. Isaac said. "For the most part, we're in uncharted waters. And when you've gone through tough times, you learn how to develop a competitive edge."

The long road to success – and the possibility that the real ride is just beginning – is embodied by **Potash Corp. of Saskatchewan Inc.**, headquartered in an 11-storey downtown office building in Saskatoon. It is a modest home for the world's biggest potash producer and the fifth-most-valuable name on the Toronto Stock Exchange. Worth \$58-billion – the stock has nearly tripled in the past year – Potash Corp. ranks behind only Research In Motion Ltd., EnCana Corp., Royal Bank of Canada and Manulife Financial in market capitalization.

Bigger than every energy company but one. Bigger than every financial services company but two.

## Potash?

Potash, the commodity, not the company, lies below much of southern Saskatchewan. First discovered in the 1940s when people were drilling for oil, it is mined to produce a sizable fraction of the world's fertilizer.

Potash strengthens plant roots, improving their ability to retain water, making them hardier and generating more bushels per hectare. It is fuel for food: Corn, wheat, soybeans.

And those foods, like potash and oil, are at record prices, buoyed primarily by global demand for food coming from richer and ever-growing populations, as well as the added demand from biofuels and the spread of meat eating, as the new middle classes in China and other emerging economies add steak to their plates.

Saskatchewan is the Saudi Arabia of potash, producer of a quarter of the world's supply. And like oil, potash has never been more profitable. Bill Doyle, chief executive officer of Potash, was feted as “the fertilizer king” on CNBC earlier this year and delivers a tempered but powerfully bullish message to investors: Profits are soaring.

“And we believe we're at the front end of it,” Mr. Doyle told investors at Bank of Montreal's global fertilizer conference this month in Toronto.

Profit was \$1.1-billion in 2007, Potash's fourth-consecutive record year, up more than 70 per cent from 2006. The company says it can more than double profit this year and burst through the \$2-billion mark. Such growth has turned Potash into an unlikely market darling, with its stock carrying a lofty tech-like valuation comparable to that of the little BlackBerry maker out of Waterloo, Ont.

Potash, the company, not the commodity, has been preparing for this moment for two decades. It was a Crown corporation, owned by the province, that was set free in 1989 with a \$300-million initial public offering.

Like oil and other commodities, potash rides booms and busts. Booms sow the seeds of busts as new production is rushed to the stage to take advantage of rising prices. Slowly but surely, supply drowns demand. It happened in the 1960s. Another peak was reached in the late 1970s and early 1980s.

“We've seen the bad times, for sure,” said Wayne Brownlee, Potash chief financial officer, who grew up in Biggar, Sask., the son of a railway conductor. Saddled with a “crazy” provincial and federal marginal tax rate of around 85 per cent, Potash began carefully making the moves that have made Mr. Doyle today's fertilizer king.

Mr. Brownlee, who became chief financial officer in 1999, helped lead expansion and business development. And over several rounds of negotiations with the then-NDP government in Saskatchewan, including promises to invest more in the province, the company's marginal tax rate fell substantially, now sitting a bit below 50 per cent.

## Price control

The key challenge for Potash, from the start of its public life, was to exert influence on the price of its principal product to escape the boom-bust cycle. The fertilizer game is one played by only a few players. So Potash, already a heavyweight, began to consolidate available assets in Canada and picked up stakes in foreign producers in Israel, Jordan and Chile and a key potash distributor in China.

With every bit of additional girth – 13 deals worth about \$1-billion over a decade and a half – Potash's price-controlling muscle grew. Instead of producing as much as possible during booms, the company sought to influence price by matching its output to demand by carrying excess capacity or idling existing capacity.

Reminds you of a certain Arab oil producer?

To augment its revenue streams and insulate earnings from potash price swings, the company also diversified into related fertilizer businesses, phosphates and nitrogen holdings. Potash spent about \$1.7-billion in 1995 and 1997, underpinning its position as a top producer today of both those commodities.

Now, with potash prices – and those for fertilizers in general – soaring, Potash is plowing money back in to Saskatchewan. The majority of the company's planned \$5-billion expansion will be in the province. By adding capacity to existing mines, Potash aims to increase production capacity by almost 50 per cent by 2012 to 15.7 million tonnes a year from 10.8 million in 2007.

At Lanigan, east of Saskatoon, the first major addition of 1.5 million tonnes is set to come on in the next several months, with \$400-million spent to refurbish a mill idled in the mid-1980s.

At Cory, just outside of Saskatoon, \$900-million has been invested to add 1.2 million tonnes of production capacity.

In New Brunswick, a new \$1.7-billion mine is being built to open in 2011 to add two million tonnes.

And at Rocanville, east of Regina, a two-million-tonne expansion costing \$1.8-billion is planned to be ready in 2012.

Judiciously adding production, as prices and profits are rising, has added to the allure of the Potash story for investors. The combination of market dominance, higher prices for the products and significant additional production has cast a bright spotlight on Potash, even if the company might not be well known among average Canadians or even the typical business page reader.

“When you're not based in Calgary, when you're not in Toronto, and you're not a retail product, then I think you don't get the camera attention all that much,” Mr. Brownlee said. “And frankly, I think that's okay.”

## Population Growth

In 1901, less than 100,000 people lived in Saskatchewan. By the end of the 1920s, it was nearly one million. But the Depression was a vicious blow, from which the province never fully recovered – until now – with the population breaking past the one million mark.

There's a sad kind of joke people here tell, that during the past couple decades, the province's biggest export was its people (and mostly to Alberta).

Murray Edwards, raised and schooled in Regina, was one. His grandparents had been homesteaders in the province and imbued him with an “attitude of getting things done and being creative.”

He studied law at the University of Toronto before returning west, but to Calgary, not Saskatchewan. At the age of 28, with \$100,000 of his own money and several partners, he founded what would become the country's second-largest oil and natural gas producer, Canadian Natural Resources Ltd., one of many oil patch success stories powered by Saskatchewan brains.

"The only real opportunity at the time was Alberta," Mr. Edwards said. "There was a period, what you could call the challenging years, where the province's confidence was struggling. Now you're seeing that pioneering spirit re-emerge."

The province may still be seen mostly as rural agriculture place but its economy is far beyond that antiquated image. Mining, oil and natural gas, and manufacturing make up about 20 per cent of the economy, and are triple the size of the farming business, according to the Saskatchewan Institute of Public Policy at the University of Regina.

Oil is particularly hot. The province produces more than 400,000 barrels a day, almost as much as Alberta, excluding the oil sands. And the Bakken play in the southeastern area of the province, unlocked in the past couple years by advances in drilling technology, is on fire, promoted as the second-largest oil field ever found in Canada.

On Thursday, the government announced that energy explorers continue to flood the provincial treasury, chasing opportunities in the Bakken and spending an off-the-scale \$266-million at this month's auction of new exploration rights. The previous record for an entire year, reached in 2007, was \$250-million.

"This level of interest is unprecedented and speaks to the optimism about the economic prospects of both our province and our No. 1 industry," said Bill Boyd, Energy Minister, adding that royalties in the province are stable, taking a quiet but deliberately competitive stab at Alberta, where royalties are rising.

Saskatchewan, unbelievably, is on pace to bring in more dollars for new exploration rights than Alberta this year, which has never happened before.

Crescent Point Energy Trust, the leading Bakken producer, figures it could spend as much as \$5-billion over a couple decades of drilling. This year, Scott Saxberg, Crescent Point CEO, forecasts industry spending of \$800-million in development dollars, with about half of the money invested by his company – big dollars for a small province.

"A year ago, we thought we had 80 or 90 per cent of the pool," Mr. Saxberg said. "As we drilled step-outs, it expanded the play dramatically."

## **Major Exploration**

Saskatchewan has become a land of exploration, of explorers. According to the Saskatchewan Mining Association, about a half billion dollars has been spent searching for new finds in the past two years, with half going to uranium and a third to diamonds, seen by many as a potential major future industry.

And while it's a commodities-fuelled boom, Saskatchewan is about more than raw resources.

On the grounds of the university in Saskatoon, Canada's only synchrotron – a cyclic particle accelerator – is housed in a massive silver structure the size of a football field. Owned by the University of Saskatchewan and funded by several Canadian governments and universities, the machine was completed several years ago and is a critical tool for research in fields ranging from health sciences to communications technology.

Located nearby, POS Pilot Plant Corp., started about 30 years ago by the federal and provincial government to research new agriculture techniques, has a waiting list for its services.

The lab is a regular stop for multinationals such as Monsanto that want to test new products or methods, and also for domestic firms such as CV Technologies Inc. of Edmonton, the maker of Cold-fX, and startups like Bio-Extraction Inc., a Toronto company building an advanced canola crushing facility in Saskatchewan.

“You've got to translate what you can do in a lab to an industrial scale,” said Paul Fedec, head scientist at POS.

The drivers of the boom, to date, suggest that it has room to run, as Mr. Isaac forecasts. Because of global food demand, and annual production falling short of that hunger, forcing the world to draw on stored grains, the outlook for fertilizer and Saskatchewan wheat appears as solid as one can hope for in a commodity business. The same for oil – and unlike heavier lower-grade oil typical in Alberta and parts of Saskatchewan – the oil coming out of the Bakken is the kind that sells for \$110 a barrel. With record dollars just now piling in for new exploration rights, the real economic action is still ahead.

## Will The Boom Last?

“Can it last? Sure, it already has. And we expect it to continue,” said Craig Wright, chief economist at Royal Bank. In a report looking at growth across Canada published this month, Mr. Wright called Saskatchewan the new “it” province – evoking language of the latest Hollywood starlet – and predicted Saskatchewan will lead economic growth in Canada this year.

“Saskatchewan is the new Alberta,” Mr. Wright said.

The province ranks first on a long list of economic indicators – very much like Alberta in recent years, Mr. Wright said, and optimism among the populace is tangible, making more money and spending more. Retail sales growth of nearly 10 per cent leads the country, as does growth of personal disposable income in the same ballpark.

In real estate, the response has been dramatic, stoking Vancouver-Calgary-Toronto-like madness. Saskatoon, a pleasant city of about 200,000 – the province's largest – is going off the hook. On the business side, Colliers McClocklin reports that industrial vacancy “fell below the 2-per-cent mark for the first time in recorded history during the second half of 2007 and is predicted to continue well into 2008.” The residential market is just as wild, with prices up more than 50 per cent – a leap made after prices had already been ticking up.

“There's no doubts – ‘Should I buy? Is the market going to crash?’ – they're totally, 100 per cent optimistic,” said Larry Stewart, broker-owner of Re/Max Saskatoon. “It's different from Toronto, where people are wondering what's going on. Even in Calgary and Edmonton, people are about to buy but think, ‘Well, let's just wait to see what happens.’ Here they're not. They know what's going to happen over the next year. They know it's going to go up.”

And it's still not absurdly expensive, as Calgary has become and Vancouver remains. An average three-bedroom house in Saskatoon goes for about \$320,000 and a condo for \$200,000.

Another sign, for Mr. Stewart, that things can last: Young locals are trading up, moving into larger homes.

“They're in for the long haul, they're not thinking of moving at all,” Mr. Stewart said. “And their friends are thinking about moving back.”

More students are staying, too. Among graduates from the business school at the University of Saskatchewan, two-thirds remain in the province, up from half.

However, like Alberta, like any place making a leap, the problems of prosperity percolate. A shortage of skilled labour is about to become a major problem. And infrastructure – roads, schools, hospitals – is an issue.

Government in Saskatchewan, which traditionally has played a central role in the economy, is still a key actor. The NDP, which ruled for 16 years, was unseated last November by the more conservative Saskatchewan Party.

But the NDP started to make business-savvy moves this decade, cutting taxes, easing red tape and providing incentives to businesses to take risks.

And while the Sask Party looks like a move to the right from the left, it has ended up being more of a continuation of things the NDP had started. Last month, the Sask Party's first budget focused on spending necessary dollars to keep pace with the burgeoning boom.

The province billed its budget as “ready for growth,” adding \$235-million of new spending on infrastructure to a base of \$594-million. The budget document, like the Energy Minister this week, took a veiled but specific swipe at Alberta, which due to poor planning finds itself woefully behind in infrastructure development.

“Saskatchewan's time is now,” the budget stated. “We must ensure we have the infrastructure to support a growing economy and a growing population, so we can avoid the problems associated with rapid growth experienced in other jurisdictions where investment in infrastructure has fallen behind the pace of growth.”

For Mr. Isaac, dean at the business school at the U of S, building to further capitalize on already-good times is exactly the kind of confidence he sensed was possible in his home province when he and his wife returned from London.

The province, in choosing to spend, has decidedly stepped into the 21st century, leaving the harvest-what-you-can mentality behind. A jurisdiction that finds itself flush, Mr. Isaac said, can do one of two things:

“You can either believe that you're at the top of the cycle and it's time to harvest the results.

“Or you can believe it's possible to sustain the growth.”

## Fuelling the world's crops

As global demand for fertilizer grows, potash is becoming a key commodity

### WHAT'S POTASH?

Potash is a general term for various compounds of potassium; it is a key part of modern agricultural fertilizers. It is also used in the production of soaps, glass and ceramic products.

### 18TH CENTURY ROOTS

A form of potash was produced by early settlers as a source of extra income. After land was cleared, hardwood not otherwise required was burned. The settlers used the ash to make lye which was boiled to create potash.

### GLOBAL PRODUCTION

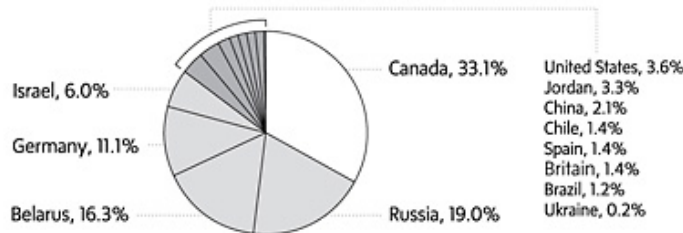
In 2007, Canada accounted for one-third of world potash production\*:

### CANADIAN POTASH

The potash deposits that lie beneath southern Saskatchewan were formed more than 350 million years ago when an ancient Devonian sea evaporated.

It was in Radville, Sask., during the early 1940s that companies drilling for oil discovered the potash resource. The reserves in Saskatchewan are enormous. In 1983, a mine was opened in Surrey, B.C.

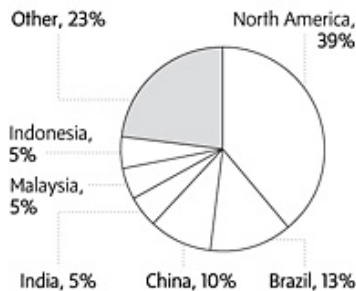
The majority of mines in Saskatchewan extract the potash by sinking a shaft and digging out the material. A small number of operations use the solution mining method.



### POTASH CORP.

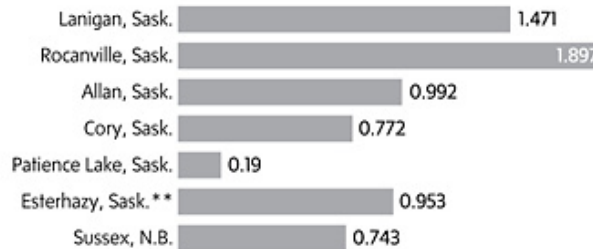
Based in Saskatchewan, Potash Corp. is the world's largest producer of potash. Almost all potash sales (91%) are to fertilizer customers, the remainder is sold for feed or industrial use.

### Sales volumes by region



### Production

(million tonnes KCl)



\* Estimated \*\* PotashCorp's mineral rights at Esterhazy are mined by Mosaic Potash Esterhazy Limited Partnership  
 RICHARD PALMER/THE GLOBE AND MAIL 66 SOURCES: SASKATCHEWAN INDUSTRY AND RESOURCES, NATURAL RESOURCES CANADA, U.S. GEOLOGICAL SURVEY, POTASH CORP.