

The Progressive Economics Forum » Unrest in Bill's Republic of Doyle

<http://www.progressive-economics.ca/2011/11/01/bill-doyle-potash/>

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PotashCorp CEO Bill Doyle waded into Saskatchewan's election campaign on Friday with [an op-ed](#) in the province's two largest newspapers. It was accompanied by a paid advertisement from PotashCorp in Saskatoon's *StarPhoenix*.

The company got some free advertising in Regina's *Leader-Post* through Bruce Johnstone's [column](#), which repeated Doyle's op-ed. The Saskatchewan Party is [parroting](#) the [same lines](#).

In response to Doyle, former Member of Parliament and PotashCorp director John Burton has [an excellent op-ed](#) in today's *Leader-Post*. I have [the following op-ed](#) in today's *StarPhoenix*.

UPDATE (November 2): Political columnist Murray Mandryk is [mildly amused](#).

Room to alter potash royalties

By Erin Weir, *The StarPhoenix*, November 1, 2011

Potash royalties are a major election issue. In his viewpoint article, [Tax, royalty rates boost growth](#) (SP, Oct. 28), PotashCorp CEO Bill Doyle argued that his company pays about 30 per cent of profits in royalties and taxes.

However, lumping together royalties and corporate taxes does not change the conclusion that Saskatchewan should raise potash royalties.

According to the Energy and Resources Ministry's latest [annual report](#), the province in 2010 received only \$263 million from \$5.6 billion of potash sales. By comparison, the government received \$306 million from \$2.2 billion of potash sales [in 2004](#). Since the industry produced less potash in 2010 than it did in 2004, the entire \$3.4-billion increase in annual sales reflected higher prices for potash.

The [NDP platform](#) modestly assumes that an improved royalty regime could collect at least one-fifth of this windfall profit.

The Saskatchewan Party opposes any royalty increase.

The above revenue figures include Saskatchewan's Crown royalty and potash production tax. These potash-specific charges, which can be considered "royalties," amounted to just five per cent of potash sales last year.

Doyle boosted this fraction to 30 per cent by adding federal and provincial corporate taxes to the numerator. He also reduced the denominator to potash profits from potash sales.

His approach implicitly assumed that the value of Saskatchewan's potash, beyond mining and transport costs, belongs to private operators. From that premise, 30 per cent might seem like a reasonable tax rate.

But potash belongs to the people of Saskatchewan, even if the mining companies are private.

In effect, the province is giving 70 per cent of the return on its potash to these multinational corporations, and a further portion to the federal government.

Saskatchewan can, and should, keep a larger share.

A closer look at corporate taxes reinforces the case for higher royalties. The only remaining component of Saskatchewan's [corporate capital tax](#) is the resource surcharge, which has been cut to three per cent of resource sales, from 3.6 per cent in 2006.

Profits in excess of royalties, the surcharge and other deductions are subject to corporate income tax. Saskatchewan has cut the provincial rate to 12 per cent, from 17 per cent in 2006. Ottawa is slashing the federal rate to 15 per cent next year, from 29 per cent in 2000.

As potash prices quadrupled, corporate tax rates fell. If royalties and corporate taxes are viewed as a package, recent corporate tax cuts leave additional room to increase royalties.

Because royalties are deducted from profits in calculating corporate income tax, each additional dollar of royalty revenue reduces bottom-line corporate profits by 73 cents, provincial corporate tax payments by 12 cents and federal corporate tax payments by 15 cents.

In other words, higher Saskatchewan royalties would not only collect a fairer return from potash mines, but also transfer some revenue from Ottawa to the provincial treasury.

Doyle wrote, "Saskatchewan is still the highest tax jurisdiction in the potash world." The Saskatchewan Party also made this statement in its [platform document](#) and in the provincial leaders' debate.

Unfortunately, repetition is not a form of evidence.

They have presented no publicly-available comparison to potash royalties in other jurisdictions. The corporate income [tax rates](#) of other potash-producing jurisdictions, such as the United States (40 per cent), Brazil (34 per cent), Spain (30 per cent) and Germany (29 per cent) exceed next year's combined federal-Saskatchewan rate (27 per cent).

Saskatchewan has the world's richest potash reserves and is close to the world's largest potash market – the American corn-belt. The only [reserves](#) of similar size are in Russia and Belarus, which lack Canada's infrastructure and political stability. There is no credible threat of the PotashCorp or other North American fertilizer companies decamping to the former Soviet Union.

As potash prices skyrocketed, the government kept royalties flat and cut corporate taxes. No evidence has been offered to support assertions that Saskatchewan levies the world's highest royalties and taxes. On the contrary, the province is well positioned to negotiate a better return from the extraction of its potash.

- Weir is an economist with the United Steelworkers union, which represents most of Saskatchewan's potash miners.