

The Assembly met at 8 a.m.

Prayers

## ORDERS OF THE DAY

### GOVERNMENT ORDERS

### ADJOURNED DEBATES

### SECOND READINGS

The Assembly resumed the adjourned debate on the proposed motion by the Hon. Mr. Lane that **Bill No. 20 — An Act respecting the Reorganization of the Potash Corporation of Saskatchewan** be now read a second time.

**Mr. Lyons:** — I thank you very much, Mr. Speaker. First of all let me say I want to welcome all the people who today over their corn flakes and oatmeal are watching in. I know there'll be thousands of people across the province waiting with bated breath to hear the stimulating and informative debate that all members of the House will contribute in this historic debate.

And, Mr. Speaker, as I left off last day, I had just begun an economic analysis, or to lay out some of the factors of the components which constitute an economic analysis pertinent to the development of the Potash Corporation of Saskatchewan in particular; in general, of course, the development of the potash industry in Saskatchewan, all of which are crucial, all of which are crucial in the arguments for both sides in this debate.

The government side of this debate, to put it in a nutshell, and I'll deal with that a little later on, but to put it in a nutshell for now, is that the investment of the Government of Saskatchewan in the mid-1970s in the potash industry was a bad investment economically. That's their debate; that's their argument.

Our argument was that to the investment in the potash industry in Saskatchewan by public of Saskatchewan was a good investment, was a crucial investment for the development of not only the Potash Corporation of Saskatchewan but in fact was a crucial investment for the development of the well co-ordinated, well regulated, strong, healthy, and vibrant potash industry internationally, to put Saskatchewan on the map, to put Saskatchewan on the map as one of the major players in the world potash industry, Mr. Speaker.

That's the thesis. That's the thesis that we're putting forward. On that level — if the debate were to be solely on that level, which it's not, but that's the crucial level, I would submit — that if that debate was on that level then we have to look at all those economic factors which enter into the kind of decision making that was made in the mid-1970s, the kind of performance undergone by the Potash Corporation of Saskatchewan, on the one hand in abstract from other criteria, but more importantly, more importantly, to both members . . . or members on both sides of this House, to judge economically the performance of the Potash Corporation of Saskatchewan, both as internally, in a micro-sense, but also as a

macro-sense, that is within the economy as a whole.

So in order to begin the process of that analysis that we're putting forward today, Mr. Speaker, I want to deal with a number of factors of production that are extremely pertinent to this debate over the privatization of the potash industry here in Saskatchewan, the privatization of the Potash Corporation of Saskatchewan. And those economic features all are — well as I had said earlier on, will be dealt with in a more or less technical fashion. While it doesn't make for stirring debate — are important, each and of themselves to look at, at least in a general way, each of those factors.

And so what I want to deal with today in this debate are the questions of the availability of supply, that is, the deposits that exist here in Saskatchewan, their structure geologically, because their geological structure in fact is an important factor in production and gives certain advantages to the province for the provincial potash industry.

I want to deal with in a more full way than I did last time on oligopolistic features of the potash industry, internationally, but more specifically here in Saskatchewan, and the role that the Potash Corporation of Saskatchewan played in the development of those particular features and the effect that those oligopolistic features had in terms of structuring both the market, but also structuring the internal development of the potash industry itself, because those particular features, I think, not just myself but many economists think are what is crucial in terms of some of the economic activities of the Potash Corporation of Saskatchewan.

I want to deal with the cost of production itself, and the cost of production itself is a matter of some debate, but there appears to be a growing consensus at least among the literature of those economists who have dealt with the potash industry, that in fact there are ways of determining the factors of production both here in Saskatchewan, as between Saskatchewan and other producers, and also within Saskatchewan as between mines.

And of course, as anybody who's worked in the potash industry in this province knows, one of the items which is always touted about at the bargaining tables between the potash workers and the management of the potash companies, whether it's the Potash Corporation of Saskatchewan or any of the other potash producers in the province that the costs of production, the factors of productions are numbers which can be well known — at least the hourly costs of production. There are other factors which I'll get into that change the actual numbers in regards to the hourly cost of production of potash here in Saskatchewan, both for the Potash Corporation of Saskatchewan, both for the Potash Corporation of Saskatchewan and for all the other potash producers.

I'm going to deal a little bit with the methodology of that as well, the origin of the methodology upon which the analysis is based, because as I said earlier on, there is that growing consensus, and I'm going to describe in a little bit of detail — not much — that particular methodology, because if there can be that kind of agreement over what constitutes the cost of production figures, then the

comparison between the arguments of the government over the question of privatizing the potash industry, and we in the opposition over keeping the potash industry in this province in public hands as common property of the people of Saskatchewan, we can have some objective determinant to deal with that particular question.

As well, I want to deal in a general way with the transportation costs of potash in Saskatchewan. Transportation costs play, of course, an important role in the development of the potash industry in the province, so much so that in the development of the Potash Corporation of Saskatchewan the Government of Saskatchewan invested in rolling stock on the railway and developed it to try to cut and integrate the production and transportation costs.

As I said, that's a . . . particularly vis-à-vis our international competitors, the whole notion of transportation costs in the potash industry plays a key role.

Then I want to get into, basically get into some technical arguments regarding elasticities of demand and in elasticities of pricing of potash based on some factors which are both peculiar to Saskatchewan on the one hand, but are also structured by the nature of the world potash market on the other. Because ultimately in terms of the projections for the future of the Potash Corporation of Saskatchewan this kind of economic analysis is the crux of the question.

Let's put it in another way . . . to put it another way: if in fact, as the members opposite have said, that the potash industry in this province is an extremely cyclical market, both internationally and domestically — but the domestic market for all intents and purposes is much less important than the international market — if there is the markets out there which are extremely volatile, like there are for example in oil — and we've seen some of the oil or pulp and paper, or wood products, the kind of volatility in the potash industry — then their argument has more validity. I didn't say it's valid, but it has, I think, more validity.

If on the other hand, as we contend, that there have been two major cyclical movements in the potash industry since the development of the Potash Corporation of Saskatchewan, then the argument that puts forward, particularly by, and I say the member from Regina South who referred to this many times in his particular presentation on this, that it was because of that cyclical nature of demand and cyclical nature of price that has forced the government to try to somehow distance itself from the potash industry to cushion, if you like, the government's exposure.

And I say this as the member said himself, that it's not the government as some abstract entity, but the people of the province of Saskatchewan's exposure from the vicissitudes of the world market because of that volatility, then I think that the member from Regina South had better take a second look in terms of the basis upon which he makes those statements.

Because I think, and I will, as I get to the questions of price and demand elasticity, Mr. Speaker, that I think that we

will be able to prove empirically, based on the analysis and research that have been done by resource economists who have studied this industry in great detail, prove that those two factors, those two economic factors, technical though they may be, show exactly opposite from what the member has said.

And I will attempt to get into that and develop the arguments vis-à-vis certain design parameters and econometrics. That is, there are methods of economic modelling that can in fact develop those comparisons and develop that demand structure and price structure.

(0815)

As well, Mr. Speaker, I want to deal today with another factor which is a subset, if you like, of demand, but in fact is a technological innovation which is occurring in agriculture on a global scale, something which will affect demand. That is what I would call agricultural practice, and the change or the apparent change and growing tendency between exhaustive agriculture, on the one hand, and intensive agriculture; or as some people call it, extensive agriculture on the one hand and intensive agricultural practices on the other.

And then I want to finish this particular part of the economic analysis up with a look at the cyclical history that I referred to earlier in terms of demand, not just on the relationship of demand but in fact the actual events, if you like, historical events regarding price and production in the potash industry in Saskatchewan, with particular reference to the Potash Corporation of Saskatchewan.

And those factors, Mr. Speaker, those seven particular factors I would say are the determining factors in developing any analysis of the potash industry that anybody with any pretensions at all to speaking on an economic analysis had better address. The member from Regina South talked about some of those factors. I don't agree with his conclusions, and I don't agree with his conclusions for the very fact is that I think that the member is either misinformed or hasn't taken the time to look in fact at the potash industry of Saskatchewan as a whole. It's not something that you can deal with in a 10 or 15 minute political diatribe, but in fact has an economic component which, as I submit earlier, has been crucial to the people of this province.

Now, Mr. Speaker, in saying that, I'd earlier opened on with a little bit, tiny little bit of the history of the potash industry. I'm not going to go over that history, except to say that the primary factor of potash, and one of the reasons that we can do the analysis that we're going to delve into — and again I apologize in advance for its boring quality, because technical analysis is never an exciting subject for many people. However, there are those out there that I think want some facts and figures to support the arguments that they're making in regards to the potash industry.

As I said before, Saskatchewan and the potash industry of Saskatchewan and the Potash Corporation of Saskatchewan is dealing with a good which is homogeneous, which has a character economically that intrinsically, that is to say, that the end product is

homogeneous, has the same characteristics internationally as it does provincially. I dealt with that, and I'd also dealt with the question of Saskatchewan, the ore grades here in Saskatchewan, in the sylvinitic deposits. And I also dealt with the basically . . . the comparison between the ore bodies and ore grades in Saskatchewan and the ore bodies and ore grades in countries like the Soviet Union, the German Democratic Republic, and France.

So, Mr. Speaker, where that leaves us, if you like, is to get into the analysis is this, is that first of all that the structure of Saskatchewan potash deposits play, itself, a key role in both the development of the industry here in Saskatchewan, and also in terms of the production costs of potash and particularly production costs of potash here vis-à-vis the production costs of potash somewhere else in the world.

As a result of this favourable geology, I would submit, and many others have submitted, that Saskatchewan has the lowest production costs, that is, the lowest direct production costs of any potash producing nation anywhere in the world; that there are no other, are no other potash producers or regions that have the kind of structural geology which gives us that low cost.

Mr. Speaker, to describe it, and because it affects not just the way in which we extract potash — although that's obviously part of it, and I'll deal with that — it also affects in fact the way that we in Saskatchewan have developed our topography and the way that the physical geography, or I should say the human geography, the topographical geography and the demographical geography of Saskatchewan has developed. That's to say that there is a belt, Mr. Speaker, of potash mining towns in Saskatchewan that stretches from Saskatoon and west of Saskatoon along a line down through Lanigan all the way down to Esterhazy and Rocanville.

And that line is a north-west, south-east tending line. And it's there not because people thought it would be good to build a potash mine in Esterhazy because they liked Esterhazy so much — although Esterhazy is indeed a fine town, and will send, we're sure, a New Democratic member of the legislature after the next election — but the mine was built in Esterhazy or Rocanville or at Lanigan and the other places because of the nature of the structure of the geology.

If I can describe it, the geological structure of potash in Saskatchewan is like a giant plate; it's like a giant eating plate, if you like, that is tilted at an angle. The edge of the plate closest to the surface is to be found on that north-west, south-east tending line. Again, we have to look at it as sort of a three-dimensional figure.

You have a massive, massive deposit of potash sort of in this shape, with the end of it, the end that's closest to the surface, or the side of it that's closest to the surface, because it does have those round features — and if you look on the map, you can see how it curves around, particularly in the south-east part of the province, around the Rocanville area — but the area that the deposit is closest to the surface is in the north along that line.

And of course, what that does is make that area of the province the most favourable for potash mining because it requires less capital investment to develop the extraction of the potash. And the initial capital investment which has played a great role in this particular debate is, of course, very important, as it is in any industry. The less capital investment that's required, the less overall borrowing costs and carrying costs you have to take with you as the months and years roll by, that is, that the less cost there is to the industry as a whole in terms of that particular economic factor.

And because we have this massive deposit of potash, which some have estimated to be 4,000 years, based on the annual rate of usage at this . . . with a 2 per cent increase per annum, which would give us, I think, over the 4,000 years roughly an 8,000 per cent increase in terms of demand, which may or may not be realistic, given the amount, just the very amount of arable land that's available to us.

But given the technology 4,000 years from now, who knows? And I know some members here are saying, who cares? But be that as it may, if you want to make projections in an industry, that's the kind of projection that's always nice to have when you know that you've got the availability of supply that will last you well beyond any reasonable expectation for the productive life of not only just a particular mine or industry, but in fact, given the way that human history has unfolded, that in fact, you know, a country or a civilization — there's not too many countries or civilizations that are 4,000 years old — but anyway, 4,000 years from now, if there are people left on the earth, if we're granted that length of time, there will be people producing potash in Saskatchewan.

Now in producing that potash, there is the cost factor. And this is, if you like, the relationship between the structure of the geology and the cost factor. I had earlier referred to Mr. W.F.Sheldrick, an employee of the World Bank. Mr. Sheldrick has written several papers regarding the production costs. I'd just like to refer to them for members . . . for the benefit of members opposite, because they're available, that any members can get.

He's written actually a great many papers on this. He's a resource economist of some renown, but in 1978 he wrote for a publication called *The World Potash Survey*, which is a publication of the World Bank, and it was a working paper number 293, in which he did some cost estimating, cost per tonne estimating, KCl.

Also in 1983 he wrote another paper and I'll refer to that a little bit later but I'll give the reference right now so as not to be accused of total plagiarism. In 1983, Mr. Sheldrick wrote a paper called "Investment and Production Costs for Fertilizers." And that was a paper presented to the Food and Agricultural Organization, the organization affiliated with the United Nations, at their meeting in Rome in 1983. And I'll deal with some of the conclusions Mr. Sheldrick reached on that in a minute.

In '83, in the paper I refer to, Sheldrick estimated that the average cost per metric ton of potassium chloride, KCl, potash, produced in Canada, for a mine with a capacity of — I want to make sure I've got it right — 1.36 million

metric tons of KCl, was \$24 per tonne, per tonne. That's the t-o-n-n-e — tonne. And that's \$24 in 1982 American dollars, to try to develop that constant dollar figure. That was for the operating costs of the mine — \$24 per tonne, KCl, for the operating costs of the mine and the refinery before depreciation and taxation.

Production costs, including taxes and depreciation, according to Dr. Sheldrick, are about \$40 U.S. 1982 dollars per tonne KCl. So we have a factor of \$16 U.S. in '82 based on the actual, or above and beyond the actual extraction costs.

Now in developing Sheldrick's analysis ... or developing Sheldrick's cost production figures and in dealing with it, other economists in Canada have taken issue with some of his costs. They say that the capital costs are lower. And in developing that analysis — and here we'll get into a little bit of a debate between economists, but it's important because I think that out of that we'll give some idea of what the real world is like.

Dr. Olewiler, Nancy Olewiler from Queen's University, who I referred to previously in this pamphlet called "The Dominant Government Firms in Oligopolistic Industry: the Case of Saskatchewan Potash." Dr. Olewiler and Dr. Frank Flatters have developed a model based on a couple of mathematical functions and equations which produce a curve to develop cost comparisons. I'll get into the methodology in a minute of that, because it's getting in the way of what I want to say.

But Dr. Olewiler says that for Saskatchewan, low cost mines capable of producing between 450,000 and 600,000 tonnes of K<sub>2</sub>O per year, average costs would be between \$24 and \$21. The dollar figures are different from Dr. Sheldrick's, but we'll get to that because there's a constant we'll refer to in a minute and put everything in proper perspective.

(0830)

For a larger operation — in other words she's dealing, first of all, that was the cost for a small mine which in classical economic terms would increase the per unit cost of production, based on the economics of scale — for a larger operation between 500,000 and 800,000 tonnes per year, the average cost would be somewhat lower.

The costs that Dr. Olewiler uses are real costs reported in real terms, and she uses what's a common methodological practice called a deflator. She's deflated by the Canadian selling index price or price index for all manufactured materials with the base level in 1971 being 100. I know that in 1981 the deflator was ... the base level was changed by Statistics Canada. But she's reduced everything in order to compare apples with apples, which is what we have to do in an economic analysis, to that base level of 1971. We're back to that deflator constant.

Now the costs for potash production — and this applies to the Potash Corporation of Saskatchewan, Mr. Speaker, because of the time period that Dr. Olewiler dealt with, the cost that she is dealing with includes all mine and mill operating costs, and remember, exclusive of taxes and depreciation.

Remember earlier on, I just had mentioned a few minutes ago that the costs estimated by Sheldrick was around \$24 per tonne, '82 U.S., exclusive of taxation and depreciation. Olewiler, using the '71 deflator, has it between 14 and \$21 Canadian. And if you reduce the '82 U.S., taking exchange rate into account — the history of the exchange rate vis-à-vis the Canadian and American dollars — and reduce it to the '71 deflator, you'll find that Sheldrick's costs come somewhat close.

If the mine and mills in Dr. Olewiler's analysis were operating at full capacity, which is again another factor in trying to develop an economic analysis of the potash industry, average costs would be between 12.50 and \$20 in 1971 Canadian dollars, which is quite a price spread as you can appreciate — about an \$8 per tonne price spread.

Again that relates to the type of mine, which forms another factor in developing that economic analysis. Or to put it another way, that price spread is between \$30 and \$48 per tonne K<sub>2</sub>O, which reduces again to the KCl standard that we talked about earlier on, from \$18 to \$30 per tonne KCl in 1982 U.S. dollars.

So using that constant deflator, we find that we can move back and forth between Sheldrick's analysis, Olewiler's analysis and the analysis of some of the other people, particularly the group that was working on the potash industry in the Economic Council of Canada.

The Economic Council of Canada has had a long and abiding interest in the performance of the Potash Corporation of Saskatchewan and has reached certain conclusions which I will deal with much later on in my speech. But I just want to say that their figures are not my figures; these are not original figures, but they're figures that ... it's a compilation of work done by other resource economists.

Now, Mr. Speaker, some studies suggest that, and claim as we have done, that Saskatchewan's production costs are lower than those of any other producer. One of the people or one of the agencies which has made that claim, in other words, which supports the notion of comparative advantage, which I believe all members opposite should believe in, given that they are free enterprisers and should understand Dr. Ricardo's analysis of comparative advantage. Anyway, we'll deal with that.

But an energy, mines and resources study, and that's energy, mines of resources of the department here in Saskatchewan, study of potash — and this was a study carried out by that government over there, by your government, Mr. Speaker, the government that presently occupies the front benches in the Government of Saskatchewan — that the energy, mines and resources study of the potash industry estimated that operating costs per tonne KCl in 1978 dollars were about 14 to \$16 for Saskatchewan compared to 22 to \$24 for U.S. producers and for over \$30 — and these of course are 1978 dollars — for American producers.

In other words, we have a perfect example in economic terms of what Ricardo, one of the founders of the market

economics, would love to sink his teeth into because on the one hand in Saskatchewan, according to the government, it costs between 14 and \$16 in 1978 for production of Saskatchewan; when you deal with the European competitors, you have a price structure, at least a production cost figure which is almost double, and in some cases more than double the cost of the productive mines here in Saskatchewan.

Again, using the deflator and then reinflating those dollar figures to \$82, in order to use it with the Sheldrick comparison, these figures would come to \$21 for Saskatchewan, \$33 for the U.S. producers — and again, that's based mostly on the production in the New Mexico area — and \$43 for the European. In other words, 21 to 43, low cost to the high cost.

A — and I was going to say perfect, but there is no perfect examples in economics — but it's as close to a perfect example as one can get to deal with the notions of comparative advantage and how the law of supply and demand should operate if in fact the law of supply and demand were to operate in the manner suggested by both Ricardo and Smith. Unfortunately, the reality for the free enterprisers has been the exact opposite when we look at this a little further.

Now in 1978, which is the paper I'd earlier referred to, Dr. Sheldrick also did some analysis of the New Mexican potash industry in terms of the cost of production in New Mexico, and Dr. Sheldrick reported that operating costs for a typical New Mexican potash deposit at about \$21 per short ton of potassium chloride, and that translates to \$23 per tonne — the t-o-n-n-e — or about \$33 per tonne of K<sub>2</sub>O.

According to Dr. Olewiler and Dr. Flatters, in studies of a more recent origin — as I say, that was 10 years ago — some more recent estimates by people who are knowledgeable in the industry put U.S. costs much higher than these figures, estimates, for example, of between 60 and \$77 per tonne of K<sub>2</sub>O in 1984 U.S. dollars.

Mr. Speaker, I would suggest that that is probably a figure which is closer to the actual figure, and that that figure is closer to the actual reality of the costs of producing 1 tonne of potash out of the New Mexican mines.

Now this becomes very significant in this debate, Mr. Speaker, let me tell you, because if we're talking about a difference of between 20 to \$40 per tonne of potash — because that's what these figures suggest — then there should be no way in which anybody in the world should be able to compete with the Saskatchewan potash producers, and there should be no way, there should be no way . . . (inaudible interjection) . . . Well the member from Kinistino wants to get into the debate, and is quite welcome to.

There is no way, Mr. Speaker, that any of our competitors should be able to deal with Saskatchewan potash, at least on the basis of cost of production figures. And what surprises me, Mr. Speaker, is that those figures are figures from the Saskatchewan department of mines and energies . . . (inaudible interjection) . . . Energy and Mines.

Those are figures readily available to this government, and those are figures which the government has not used once in this debate. They have not used that economic argument once in this debate because they know very well, Mr. Speaker, that the economics of comparative advantage will not support their argument.

They know very well that Saskatchewan is the producer and has that particular advantage. And despite that knowledge they're willing to sell off the industry in Saskatchewan to foreigners; they're willing to turn over our major comparative advantage in terms of natural resources — that one thing which we have here in Saskatchewan which makes us stand head and shoulders above every other producer of potash anywhere else in the world.

Now as I said, when you have a price spread of between \$21 in Saskatchewan and \$77 per tonne . . . pardon me, it will be \$33 . . . no, it's \$77 per tonne in New Mexico, you can see the kind of immediate advantage we have. Between 77 and 23 . . . 21, excuse me, there's a fair difference of \$56 per tonne. And even if you want to act on a much more conservative basis in terms of the analysis and lay it at \$50 per tonne, well that's still a \$30 per tonne comparative advantage, and I tell you that's the kind of advantage that we on this side of the House aren't willing to give up to American-dominated potash corporations.

Now I'm going to deal with the other factors of production cost, Mr. Speaker, because one of the things that we here in Saskatchewan don't have as an advantage compared to other potash producers is our location and our centrality to markets. But I'll deal with that in a much more full way when I deal with the whole structure of transportation of potash and how it affects the decision to set up the Potash Corporation of Saskatchewan in the first place. But there are some other things that obviously have to be factored in, too. Not only is it the fact that we've got potash close to the surface, and high-grade ore, and we're able to pump out the potash at a relatively low operating production cost, there are other factors.

There's a factor, including depreciation, and most economists use this as a depreciation figure of 5 per cent per annum in dealing with any particular mine, which would give a mine a life of about 25 years, when you start doing the reverse compounding, if you like, of the way that depreciation operates.

There's the cost included for insurance, local taxes. There's a 15 per cent capital charge, and I'll deal with where that 15 per cent capital charge comes with in a minute. And there are some other costs associated, including, of course, the freight rate charges which I'll deal with.

(0845)

Based on the inclusion of those charges, the 5 per cent for depreciation, local taxes, 15 per cent capital charge, that is . . . And I'll explain the capital charge. There's 15 per cent added to every tonne of potash produced in order to cover the initial capital costs and the ongoing capital

costs; that is, the cost of borrowing the money to build the mine in the first place, and the cost of what interest charges may come out.

And that's a reasonable sum, by the way, 15 per cent. I don't think anybody on that side is going to — the member from Regina South certainly won't — but a 15 per cent capital charge is not unreasonable as a factor to develop the analysis that we're putting forward. And if it's not a reasonable figure to use, then I suggest that other members from that side of the House come up with an economic analysis which would challenge that.

Anyway, based on the inclusions of those economic factors, Mr. Speaker, Dr. Sheldrick has come up with about an average cost of \$83 per tonne KCl or \$50 per tonne K<sub>2</sub>O for this hypothetical Canadian mine. Because what he did was he took the potash industry in Saskatchewan, looked at a number of relevant figures, including . . . what he did is basically . . . It would not be fair to say he just averaged the figures, but he set up a model based on the reality of all the existing mines here in Saskatchewan and then developed a hypothetical mine to develop these production costs from.

In other words he took the higher end and the low end range of production costs, with the exception, I should say, of the mine at Belle Plaine, because there's another factor that enters into that.

The calculations that he used are based on a total investment in this hypothetical mine, and the mine, as I said before, has a 1.364 million tonnes capacity, KCl. Now the hypothetical investment in the mine — and as it turns out in reality, it was a little high — was about \$386 million in 1982 U.S. dollars.

So what Dr. Sheldrick has done is said, well okay if we're going to build a mine here in Saskatchewan, this hypothetical mine, right, these are what the costs are going to be for production; this is what the costs are going to be for depreciation, taxation, and so on and so forth. Right? This is what it's going to cost us based on a mine with that kind of capacity. And again, as I earlier had mentioned, it was based on the actual mines that exist here in the province of Saskatchewan.

Now as I said, Mr. Speaker, that historically real capital costs for mines in the province have been lower than this figure of \$386 million. To get an idea of what those capital costs actually consist of — and here of course I want to get into a little bit, if you like, of the partisan debate, because the members opposite have consistently accused the Blakeney government of investing in holes in the ground of no value and of not producing one extra job in the potash industry, facts which they know to be blatantly untrue — but to get an idea of what it costs to expand capacity, in other words what the capital costs are, I've got some data regarding the mine at Lanigan, the PCS operation at Lanigan, and Kalium's Belle Plaine mine.

Now we have the two different types of mining processes here in Saskatchewan. As you know, there's the pit method, the shaft method, which is a conventional, if you like, conventional form of mining, not the open pit but the

. . . with the pit-head and underground mining, and then the Belle Plaine operation which is a solution mining operation which is unique, but both of which can be analysed in terms of the capital cost required to expand their facilities.

And both, thanks both to the former government and the present government, have undergone expansions, and have undergone expansions supported by parties of both sides. So partisan political rhetoric aside, in the case of Lanigan for example, the expansion which was initiated during the high point in the potash cycle of the Blakeney government, was also supported as the cyclical downturn occurred after 1980, and was supported when the present government came to office.

And it was done based on the following. At Lanigan the capacity looked at for expansion was between 1.022 to 2.928 million tonnes of KCl. This again is in the modelling. And it was the modelling that was related to the expansion plans which were undertaken at the Lanigan mine. The cost estimate for it at this time, and I'm dealing of course in 1983, the cost estimate for the project in 1985 was \$435 million Canadian. It's basically more than double the productive capacity of the mine. And that's for Lanigan.

So you have right there an historical reality of a project, the expansion of the Lanigan mine at the Potash Corporation of Saskatchewan which cost a certain figure — \$435 — and which resulted in the increase in excess capacity, or . . . pardon me, resulted in the increase in capacity of a certain tonnage, and you're able to divide the tonnage into the capital costs to come up with a real figure.

And that real figure is lower than Dr. Sheldrick's, but none the less is close enough not to invalidate what . . . certainly not to invalidate what . . . certainly not to invalidate what Dr. Sheldrick has been saying about the mines in Saskatchewan.

Now Kalium, which operates the solution mines here in the province, had at this time, had a plan to increase its rate of capacity by about 25 per cent to a total of 1.089 million tonnes of K<sub>2</sub>O. According to an economist, Edward Chorley, in 1984, who's developed some of the analysis for that particular expansion, he estimated costs would be in the vicinity of \$100 million.

Now what this means of course is that the capital cost per million tonnes of KCl ranges from \$221 million at Lanigan, which is, we saw . . . the figure Dr. Sheldrick used was 386 million, but the expansion costs ranged from 221 million at Kalium to 228 million at Lanigan. Or to put it in the deflater terms and to put it in the apples to apples comparison, 368 to \$380 million tonnes of K<sub>2</sub>O, which is pretty close to Dr. Sheldrick's figure of \$386 million per million tonnes K<sub>2</sub>O as a projection.

So in dealing with the production costs and dealing with the validity of the numbers that I'm putting forward in the argument, Mr. Speaker, I want to say that the modelling done by the economists that I'm referring to, when compared with real life, have been extremely close, have been extremely close. And one of the things that has

occurred in the potash industry — again, it would be one of its unique features — is the ability to be able to do that kind of modelling and economic analysis based on, first of all, the nearness to us, if you like, historically, but secondly, based on advances in technology and advances in the mathematical ability to construct functional forms upon which production costs, constant production costs can be plotted.

In the case of the kind of production cost modelling that we're dealing with here today, those forms were first suggested in . . . I wouldn't say first suggested because mathematicians have made suggestions before that these kind of things can be done. But in 1981 Dr Fuss and Dr. Gupta came out with functional forms that related to constant cost figures of production and they basically are — and this is for those who are interested in the methodology and the mathematical modelling — the basically large U-shaped price constant cost curves. In other words, you plot along a certain axis of the costs and variability of factors, and you can develop the kind of equations which lead to that plotting based on those firms.

I don't have any intention, Mr. Speaker, of getting into that particular portion of the debate other than to say that here in Saskatchewan Dr. Gupta himself has done a lot and is internationally known for that kind of mathematical work.

As I had mentioned earlier, not only are we going to deal with the question of depreciation and the local taxes and other variables related to the cost of production, it's also important when dealing with Saskatchewan potash, and an economic analysis of Saskatchewan potash, to deal with transportation charges.

Now in the potash industry, because the nature of the commodity itself, in that it is bulky and it's also heavy, that the transportation costs can be high. There's a very simple rule in dealing with the costs of transportation of any good or commodity. That is, the bulkier it gets, the more it costs. The most high cost items for transportation are those items which are bulky without weight. And the third, or the lowest cost items are, in general economic terms, are those goods which have lots of weight but are very, very small in size.

So the more you reduce the size and increase the weight, the per unit cost of transportation goes down. And I see that the member from Regina South agrees with that, that that's a commonly accepted way of looking at transportation costs.

Or another way to put it for those who are watching here this morning, it costs a heck of a lot more to ship a grain auger than it does to ship a tonne of lead. And I know the member wants to know how much a tonne of lead costs, but I figure he can figure that out.

Anyway, Mr. Speaker, within that context of that understanding of transportation costs, I want to deal with a comparison, because if it enters into the total price that are charged to the customers of potash, and that includes the Potash Corporation of Saskatchewan obviously, and

how Saskatchewan fares in regards to this particular factor . . . In the United States the production cost range per tonne of  $K_2O$  was between 65 and \$71 per tonne  $K_2O$ . It varied a little bit from the 61 to \$77 here. But the source I'm using here is from the Saskatchewan Department of Energy and Mines, so it was done, the study done in 1982. The actual numbers, while they may be a little different, the ratios between the producers remain the same, remain constant to today.

In the United States the production cost range, potash was between 65 and \$71. The domestic freight charges per tonne  $K_2O$  were between 26 and \$27 per tonne — again this is 1982, and the cost has increased for all these — which provides a total cost, freight on board, of 91 to \$98 per tonne  $K_2O$ .

Eastern Canada, production cost range was between 75 and \$85. The domestic freight charges . . . and just watch the difference between here, for example, and the charges to the New Mexican producers, in New Mexico it was between 26 and \$27 per tonne.

In eastern Canada, because of its proximity to the sea and hence to the cheapest form of transportation which is sea transportation, which is shipping, the cost per tonne f.o.b., or the cost per tonne for domestic freight charges is between 8 and \$10, for total costs of freight on board of 83 to \$95 per tonne.

(0900)

In the Federal Republic of Germany the production cost ranges between 80 and \$90 per tonne, the domestic freight charges are between 15 and \$15 per tonne, and the total cost of freight on board is between 95 and \$115 per tonne.

And so you're beginning to see, just on those three producers, and we'll deal with a few more, Mr. Speaker, but on those three producers, the great variability in freight costs and how it affects pricing. And of course the pricing is the thing which is of the primary concern to the buyers of potash, those who want to buy our product. And of course this is the kind of numbers which are extremely relevant in a debate of this kind in regards to the economics of selling off the potash corporation or privatizing it.

In France the production cost range is between 90 and \$100 per tonne  $K_2O$ , domestic freight charges of between 20 and \$25, with a total cost of 110 to 125.

So you get a cost structure, for example, between eastern Canada of 83 to \$95; in France, 110 to \$125. So we're beginning to develop some significant price spread advantages for eastern Canada, let alone Saskatchewan, because we'll get to that in a few minutes.

Spain, 80 to \$95 cost production, \$6 per tonne  $K_2O$  domestic freight charges. You compare that with the \$26 and \$27 per tonne costs of freight charges, domestic freight charges in the United States, and you already see that Spain which has a little bit higher cost of production at the mine head has a significant advantage in terms of dealing with the costs of production . . . or the freight

advantage. That leaves a total cost between 86 and \$101 freight on board.

The United Kingdom, the cost 90 and 95, domestic freight charges here at the incredible — at least it seems to us — incredibly low rate of between 4 and \$5 per tonne, which hardly increases the total cost at all in regards to the final selling price.

The Soviet Union, with the very low production costs of between 50 and \$55, has domestic freight charges of between 15 and 20, with the total cost between 65 and \$75.

So now you're beginning to see where our major competitors lie. The U.S.S.R. with \$65 production costs versus the minimum production costs of \$91 in the United States of \$110 in France. So you can begin to see who we're really competing with out there in the world potash market and why it is so crucially important that we not sell off the Potash Corporation of Saskatchewan, that we in fact utilize that competitive advantage.

In the German Democratic Republic, again the same production costs as in the Soviet Union, the same type of freight structure, 15 to \$20 and between 65 and \$75. And so it's no wonder that the GDR is one of our major competitors.

Israel, which is developing its potash resources under public ownership through a public company, has a production cost range of between 68 and \$83. It has domestic freight charges which again by our standards are incredibly low, 6 to \$7, 74 to \$90 freight on board.

And Jordan, again another country which is developing its potash reserves under public ownership with public company, with the support of the public, production cost range is \$75 to \$90; domestic freight charges, much lower than we face, of \$9 and \$10, with an f.o.b. of 84 to \$100.

Now in Saskatchewan, how do we fare when you factor in transportation charges for the selling price of potash? Well Dr. Sheldrick, both Dr. Sheldrick and the Potash Corporation of Saskatchewan estimate transportation costs at about \$31 per tonne KCl. That's in 1982 U.S. dollars f.o.b. (freight on board) Vancouver. Transportation costs from Saskatchewan to the major U.S. markets vary between \$42 and \$62 per tonne KCl according to the Potash Corporation of Saskatchewan in 1983 in 1983-84 Canadian dollars. And of course that depends on the type of transportation.

At the low end of the scale in terms of cost structure you find the unit train concept plus barge — barge in terms of dealing with the shipping down the coastline. While the most expensive method of shipping potash . . . and that accounts for the price variability of 42 to \$62 and that's a fair, you'll admit, Mr. Speaker, that certainly is a fair differential in cost structure, a \$20 differential. And that's because the most expensive way of shipping potash is single railway cars direct to the purchaser of potash.

So on the one hand we have the mass, if we're going offshore to Japan or we're going to sell offshore to India or

China, the cheapest way for us to ship it is via the unit train out the door . . . and a barge out to Vancouver or down the east coast of the U.S., while the most expensive way is to send it down to Georgia — that's what the figures that I read — by cars direct to the purchasers of the potash from the fertilizer companies in the United States.

Now when you factor in these transportation charges from Saskatchewan, it does amazing things to our cost per tonne total. In terms of KCl, it raises it to up around \$114 per tonne, and that includes the capital charge of \$32 which we'd mentioned earlier. Without the capital charge the average cost comes up to about \$71. In other words, that's . . . when you take the operating costs minus the capital charge and add on the transportation charge too, it works out to be about \$71 per tonne of potassium chloride.

Now in dealing with this fact, Dr. Sheldrick and the PCS, the Potash Corporation of Saskatchewan, they do not include provincial and federal taxes in these cost of production figures, and they do not include provincial and federal taxes for a reason well known by members of the . . . by the government opposite.

Because in doing analysis of the Potash Corporation of Saskatchewan, it's important to realize and important that all people in this province realize that because the Potash Corporation of Saskatchewan is a Crown corporation it is exempt from paying the kind of taxation in regards to federal and provincial taxes — well at least in regards to federal taxes — than do the private sector mines.

And this enters into part of the history of the potash creation or the creation of the Potash Corporation of Saskatchewan and one of the constitutional arguments that this side is putting forward in the retention of the mines, which we will deal with at some length at a future date.

But suffice it to say that not only does it increase the bottom line revenues to the people of Saskatchewan by maintaining PCS as a Crown corporation, it also cuts the cost of potash to those who buy potash, because those taxes don't have to factor into the cost of production.

In other words, Mr. Speaker, just if we're dealing with the straight moral issue here, what it does is help Saskatchewan utilize its natural resources at the lowest possible cost to the people of the world who need food and who need to grow food, by maintaining the Potash Corporation of Saskatchewan as a Crown corporation.

Just on that level alone, because the Indians or the Chinese or the Japanese or the Singaporeans or those areas, the Indonesians, or wherever the expanding markets for potash happen to be in the developing countries of the world, they have to use less of their capital reserves, foreign currency reserves, to buy Saskatchewan potash than when PCS (Potash Corporation of Saskatchewan) is a Crown corporation than they do when the Potash Corporation of Saskatchewan as a privatized . . . and is seen legally as a private company, private sector firm.

Some members opposite may take issue with the fact that I refer to a privatized PCS as not a Crown corporation . . .



are at least going to try to make the efforts that will have all the appearance and the reality of a Crown corporation. But we'll deal with that particular legality because basically it's going to become a legal and constitutional issue rather than an economic issue. So I'll leave that for the time being.

Now, Mr. Speaker, I mentioned that the tax advantage that Saskatchewan producers enjoy, at least the production of PCS, and the dramatic changes that have occurred in the tax regime over time, we'll deal with that when we get to some of the other economic indicators or economic factors coming into play with why we shouldn't privatize PCS. But at this point let's just say that the transportation charges and built-in taxation regimes can limit the ability of foreign market and foreign customers as well as foreign producers to compete with Saskatchewan in certain markets because that's been the historical result of those particular factors.

Let's deal a little bit if we can now with some of the nature and structure of the markets for Saskatchewan. Because the markets for Saskatchewan, I'm not going to deal with the overall structure in an in-depth manner other than to indicate the general features of the market and the general features as it relates to demand and price structuring and elasticities.

Now the market for Saskatchewan potash, Mr. Speaker, as you probably know, consists primarily of two central regions: one is the United States, and the other are the Pacific Rim countries. And for the sake of economic analysis, I think that there is some benefit in looking upon them as not only just geographically distinct but having certain economic features which make them distinct in terms of how we go about pricing and how we go about producing in Saskatchewan; that the structure of the market, the international markets, or the markets are sufficiently different that each of them, if you like, produces a different response in the productive capabilities and the productive cycles.

And in fact, historically that is seen to have been true. And I'll explain that in a minute because that will deal, once again, with one of the central economic arguments that the members opposite are putting forward, that there is this extreme volatility in the international market-place which requires an arm's-length relationship between the potash corporation and the people of the province in terms of financial exposure.

As you know, Mr. Speaker, only about 5 per cent of potash that's produced in Canada is consumed domestically, and that's because of the nature of our soil structure and the nature of agricultural . . . I guess, basically, the nature of our agricultural development.

In any particular year, if one were to deal in general terms, typically 70 per cent of the potash which is produced in Canada and which is produced in Saskatchewan goes in exports to the United States, and that in itself is targeted primarily to the mid-west grain belt, corn and grain belt.

(0915)

Now because of the nature of the agricultural practices

that occur in the United States, Mr. Speaker, the demand — here I'm going to get a little bit technical, if you'll excuse it — the demand for potash within the confines and parameters of the North American market-place is relatively inelastic. In other words, that market which we service with 70 per cent of our production does not have either the capacity, the ability, or the will if one were to, I guess, give markets certain human qualities — I can't remember the word for that right now but I will in a minute — that that portion of the market cannot either absorb increased potash production nor can it, on the other hand, afford to dramatically reduce its consumption of potash if it wants to maintain the same level of production of agricultural products, if you like, at a constant level.

So in other words we're not going to be able to increase our markets in the United States much more than we already have, nor is the United States going to be able to, unless there is a fundamental change in the way in which agricultural practices are carried on in the United States, be able to over the long term . . . (inaudible interjection) . . . Well, I will . . . that over the long term, based on past practice will there be a decrease.

**An Hon. Member:** — Does weather play a role?

**Mr. Lyons:** — Now the Minister for Energy and Mines raises an interesting point and I will prepare to answer that question. The Minister for Energy and Mines asks, does weather play a role? Mr. Speaker, obviously weather plays a role. It's a good point raised by the Minister of Energy and Mines with the following exception — that that weather is a conjunctural phenomena in the United States as it is in Saskatchewan. There are good years and bad years. And when you're dealing with demand and supply, what you're doing, Mr. Speaker, is dealing with long-term markets, long-term planning and not short-term, day-by-day, or in fact month-by-month kind of economic slipshodness which is exhibited by that minister who asked that question.

Because it is precisely that kind of short-term, narrow-range thinking, of thinking my goodness gracious, the world is coming to an end because there's a drought this year, that you don't look five and 10 years into the future to develop a key industrial component of our economy which is potash. It's precisely that kind of narrow-range thinking, which includes this silliness of privatization of the potash industry, which has got Saskatchewan into the financial mess that it presently finds itself.

So yes, Mr. Minister, weather does play a factor. It plays a conjunctural factor, but it is not in economic terms a determining factor. It is not one of the primary determinants; it is not one of the overarching parameters which deals with economic planning. And I think that you and the rest of your front-bench friends had better get that in your heads, because as I said before, the demand is relatively inelastic within the North American market. On the one hand they're not going to buy much more potash from us; on the other hand, they're not going to utilize less potash unless there is a fundamental change in their agricultural practices.

I would say, Mr. Speaker, that we cannot foresee any fundamental change; we cannot see any tendency towards fundamental change in the North American market. We can't see any fundamental change in the way in which American farmers carry on their farming.

And if the members have information to deal with that, I'd certainly want to hear it. And yes there is a drought, and low price structures cause a drop in demand, but that doesn't mean that real demand, that is in terms of when the drought quits and prices rise, that that demand won't be there again. There is that stability of demand in the North American market which absorbs our 70 per cent of the potash market.

What may affect it in the long term more than weather or in fact any other factor, I would suggest, Mr. Speaker, is the free trade agreement which now leaves Saskatchewan open to charges of dumping and other charges and of subsidizing an industry, and which I think forms the basis of the reason, the real reason why the privatization mania that has swept reason, swept all reason out of the minds of the members of the government. And we'll deal with the free trade agreement a little later.

Economically speaking, there is some proof done by economists to suggest that what I'm saying is, in fact, is and has been historically true. Dr. Olewiler, who I've referred to before, has done a great number of studies in potash markets, both individual markets, but also how they relate to each other in terms of combinations through her econometric modelling.

In the North American market, using her econometric model, she has found that the long-run demand curve and price inelasticity — I guess inelasticity is the best word that I can use; use; it's a technical term to denote an inability to either stretch or contract, or to expand and contract, based on external confines and based on an internal intrinsic — that based on this structure of the North American market that, again, the demand curve for Saskatchewan potash, Canadian potash in North America runs around .36.

I say .36 — members may ask .36 of what? Well when you . . . it's a factoring process: the smaller the number, the greater is the elasticity. Now the basic reason for this inelasticity of demand lies on the heavy use of chemical fertilizers per acre or per hectare of arable land.

To put it succinctly, the more intensively that land is cultivated, the greater the need for fertilizer. I mean, that's the basis of the green revolution. Every farmer on both sides of this House knows that to be true. Not only does it increase costs, but also it increased yields and it increased the long-term viability of not only the individual farming unit, but in fact the long-term viability of the soil, provided that the fertilizer and the method of application don't result in long-term harm to the soil.

Now having said that and saying that that is one of the intensive agricultural practices in the United States has given a certain structure to 70 per cent of our potash production, what does that mean for the other component of the market, or the other market, if you like?

Because I am of the opinion that in fact that we have two markets for potash.

That means for the major offshore markets, first of all, for Saskatchewan, historically have been countries like China, Japan, India, Belgium, Korea, Australia, with increasing amounts going to other Pacific Rim countries, and that forms the second. And that is the future, I would suggest, Mr. Speaker. And I think every other member in this House would agree that the future for the development of our potash industry in Saskatchewan is based on that offshore, that foreign market.

Now unfortunately to prove that point, I'm going to have to refer to a relatively lengthy list of statistics which I will read in a few minutes that show from '73 onwards that that in fact to be the case, that while the North American portion of the potash market has remained relatively stable, and here we're talking in terms of demand, that the offshore market is that market which has both the potential, but also contains that portion of the argument put forward by the government members, that we find in the offshore market, which represents 30 per cent of our potash production, that it's in that market where both price and demand volatilities and elasticities are to be located.

The question we face then, that immediately comes to mind, is if that is the case and if that is the future of potash, do we want to get ourselves and structure ourselves into a market which has that kind of demand and price volatility with the exposure of the people of the province of Saskatchewan?

That's the economic question. That's what the economic question that I believe that ultimately the members opposite are asking. We will answer that, but we will answer that because the answer to that is based on the historical development of PCS and the change that occurred with the change in management and the direction given to PCS after 1982.

Now one of the problems in dealing with this portion of the economic analysis in regards to offshore demand and how it relates to the future of the Potash Corporation of Saskatchewan in particular is that the estimation for demand offshore becomes more an art than a science in a lot of ways.

Although there have been tendencies, and one can look at statistical . . . one can use statistical developments of what's happening offshore and what is going to be the demand for Saskatchewan potash in the next 5, 10, 15 years, there are several limitations in terms of dealing with this.

The primary limitation, quite frankly, is, in order to develop what I would call a relatively scientifically firm ability to project what demand is going to be, to introduce those factors into the econometric model.

You have to know what the farmers in China or in Indonesia or in Malaysia or in those areas in the Pacific Rim to which our potash is going to be directed, what those farmers are going to be doing; and to ask ourselves what those farmers are going to be doing, requires a fair

degree of crystal ball-gazing.

The reason is this. And if you'll allow it, because it relates directly to the projections for demand and hence the future of the potash corporation, but the reasons, Mr. Speaker, for the problems in forecasting that demand lay in the social structure of a whole number of countries, agricultural based countries in the Pacific Rim, that have a social structure based on almost precapitalist economic and agricultural production.

(0930)

We've all seen the picture in India where you have the Indian peasant with his oxen or his water buffalo, wearing his loin cloth, and a wooden plough, framed by the nuclear power plant in the background. Well that kind of uneven development economically and socially is even more prevalent in the other countries of the world that aren't nearly as technologically advanced, if you like, as India, and with that kind of backward social structure which results in one of two ways of farming practices.

One is the feudal form of agricultural practice where you have the large land owner and the landless peasant and landless serf out there, without an ability to change the way in which farming is carried on, that the farming decisions are made not by those who till the land but those who own the land, which have resulted in a backwardness, economically, for a great many of those countries, because those who own the land in those countries don't want to invest . . .

**The Speaker:** — Order, order. The points the hon. member is making may be of interest but I believe that he's, quite frankly, out on the edge of relevancy and I ask him to bring it back a little closer to the topic.

**Mr. Lyons:** — Thank you very much, Mr. Speaker. Thank you very much. The point that I am making is this: is that the demand for potash, in economic terms, is going to be an extremely important question that we all have to face — it doesn't matter who forms the next government, right — that that's going to be as relevant, if you like, as who controls the potash industry in this province. And that demand for potash is going to be structured by basically what happens with the agricultural practices in other countries. In other words, they are structured by factors beyond our control.

And what I'm just trying to outline to the Assembly, in order to make it even more relevant, Mr. Speaker, is the fact that unless there is an agrarian, massive agrarian reform in the Pacific Rim countries, agrarian reform which unleashes the productive capabilities of the farmers who actually till the soil in the Pacific Rim countries, in order to allow the kind of capital investment in agriculture, in other words, the change from extensive agriculture to intensive agriculture, then the volatility in that Third World, that offshore developing market, will remain.

Now there's been a great number of economic studies done to suggest that there is what they call the price elasticity and demand elasticity in those offshore markets. The reason is, of course, is that in many developing

countries farmers have relied on non-chemical forms of fertilizing practices, using animal wastes, etc., etc., human wastes, to fertilize the land. And one of the reasons that's been of course is linked directly to the fact that they don't have the foreign exchange to be able to buy Saskatchewan fertilizer. So foreign aid doesn't necessarily end up as a give-away; in fact directly relate to the increase in the utilization of Saskatchewan potash in those offshore countries.

These results, by the way . . . and when I say that it's less developed countries versus more developed countries, in some senses we're dealing with a notion of per capita income. And when you deal with that notion of per capita income, a country like Ireland, which has a fairly low per capita income, much more lower than Belgium, doesn't necessarily have a greater elasticity of demand — and the Minister of Trade can relate to that. For example, if you compare Ireland with a lower GNP (gross national product) than Belgium, you will find that the price elasticity for Ireland is .81, which is fairly high, while that for Belgium is .15.

On the other hand, you take a country like Japan which has a high per capita income relative to other Pacific Rim countries, and you have a price elasticity approaching that of Ireland of .77, while those of Korea and Mexico are around .3.

The point of all this is, Mr. Speaker, the point of all this thing is that until there is a change in the Pacific Rim countries, in the developing countries in their agricultural practice, you will have that volatility. The point that I will make is that that change is occurring, that the historical development of agriculture in the developing countries shows that to be true. And it doesn't matter whether it's done through what economists would call command economies or market economies, the basic point is that at some point in time you will find that there is the internal structures of those countries which will buy Saskatchewan potash will have to change their agricultural practices.

And that's not just a limit to the way that the economy is structured in those countries, I suggest, Mr. Speaker. You will find an increase in the demand for potash in the developing countries and a demand for a long-term contractual relationship between Saskatchewan potash and the Potash Corporation of Saskatchewan, which is the nub of this particular part of the argument, because the primitiveness of the agricultural practices carried out in those countries are going to end up forcing those countries to buy Saskatchewan potash.

In other words, there is only so much arable land that can be mined and farmed extensively. You know very well some of the slash and burn practices that are going on in the Amazon in which farms rise and fall every four or five or six years. Because after the extensive agricultural practice of burning all the terrain forests, at some point in time they run out of rain forest and they run out of land and there is no productivity left in the soil, so that the environment itself, the environmental shaping will in fact increase the demand for Saskatchewan potash in the Third World.

Now the economic ramifications of this are considerable, if in fact we can deal with two markets in the sense of, not geographic sense, but in the sense of the overall way in which the market is structured. You may find that in fact some form of price discrimination is a feasible alternative or is feasible in itself. And that I will deal with later in some of the options then that are open to PCS.

But if there is a price differential between North America and between the offshore markets that is not accounted for but doesn't relate directly to difference in transportation costs which I've outlined earlier, then the ability to discriminate by price becomes not only a technically feasible operation, but in fact becomes an economic option which opens its doors to potash here in Saskatchewan.

The reason has been is . . . that I say that is because the argument of the government that to shield ourselves from the price volatility requires that we divest ourselves of the equity in the Potash Corporation of Saskatchewan, is an option, but it's probably the worst of all possible options in dealing with that phenomena.

And I know that, like my colleague, the member from Moose Jaw North, I would never accuse the Conservatives of being stupid — short-sighted perhaps, mean-spirited always — but they have enough brains there in that caucus and in that party, that what I'm saying is not new material in the sense of it's new to the legislature and it's new in dealing with this debate, but it's not new to them. Because when they talk about, as the minister, the member for Regina South did, about the cyclical nature of the potash industry, not only are they trying to create an impression; they're dealing with only a small segment of reality and that's 30 per cent segment as I related earlier.

How they deal with that is the debate. This is what this debate is all about. There is historical, ample historical evidence to prove that potash prices seem to, in the offshore market, have the volatility; that they are priced higher offshore during the boom times and that during the times of the cyclical downturn, they are priced lower, lower to the core market, the core market being the North American market.

I think that there are certain economic consequences that arise from that, and part of the reason, I would suggest, Mr. Speaker — and here where we begin to start folding some of the economic factors together — has been the pricing structure which international marketing agencies of potash, including Canpotex, have carried on their activities historically.

**An Hon. Member:** — It's a terrible point.

**Mr. Lyons:** — The explanation . . . well the minister says it's a terrible point. I suggest that it's not. I would say that in fact that unless somebody opposite can stand up to say that potash operates in a free market environment — which it doesn't; it operates in an oligopolistic environment, the prima facie evidence of which is the existence of Canpotex and various and sundry suits launched against the different governments of Saskatchewan, for the supposed creation, alleged

creation of cartels and of price fixing, that the Minister of Mines is exceedingly aware of — that contrary to economic reasoning which would suggest that the offshore price should be lower during times of expansion in the potash industry and higher during times of contraction based on supply and demand, if that's how supply and demand works, unfortunately . . . not unfortunately, but what we have is the exact opposite.

And it's because of agencies like Canpotex which have entered into contractual arrangements with producers . . . or, pardon me, between producers and consumers, plus the changing nature of the potash market over the past several years.

Let's put it this way, when demand in North America is lower, Canpotex ships potash which is surplus to the North American requirements to the offshore markets. That's the downturn. The effect of that, of course, is to drive prices lower. They have put more potash out there on the market. During the booms . . . No, it's not a question of selling too much or a question of selling too little . . . (inaudible interjection) . . . If the minister would listen, I'm not trying to be overly partisan in this speech, I'm trying to be in fact lay out what we on this side consider to be the salient economic points in a decision, a major economic decision that you have been part of making.

(0945)

Well, if the minister — Mr. Speaker, if you'll allow me for one minute — if the minister would perhaps listen a little bit to the argument and realize that what we're saying ultimately is this: that the benefit of Saskatchewan, the greatest benefit of Saskatchewan will accrue to the people of this province when there is long-term economic planning in the potash industry as there will be throughout all sectors of the economy, because then you cut out Saskatchewan's vulnerability to the slings and arrows of outrageous economic fortune by which this problem has been buffeted by the supposed free capitalist market-place since its founding. And that's why the wheat pool was set up.

The wheat pool was set up specifically to try to deal with the gouging that took place in the grain industry. The potash industry of Saskatchewan and the Potash Corporation of Saskatchewan is in essence the same type of economic structure to shield and to accrue the greatest benefit of potash that can come from the potash industry to accrue to the people of the province. And that's what it's about.

If you have another agenda, Madam Minister, if you have another agenda other than that which can accrue the greatest benefit to the people of Saskatchewan, if you have that other agenda, then perhaps you should tell the people of the province what that agenda is. But what we're trying to deal with is what mechanism in the potash industry can produce the greatest benefit for the people of the province, and that's a legitimate debate.

We're saying that in making those kind of economic decisions, the rationality can enter into it, and that the rationality consists of an economic analysis of those relevant factors. And if you want to challenge the relevant

factors that I'm putting forward, if you think that either figures are out to lunch . . . if you don't think the figures are correct, well, then if the figures aren't correct in terms of production costs, you better produce figures that are different from mine because this comes from your own department, Madam Minister. Those figures come from your own department.

So if the figures are incorrect, if the analyses are incorrect, then you have an obligation to stand up and get into this debate at a future time, in fact, to deal with it in the manner that we're dealing with it, which is, okay, here's the economic basis that we're putting forward. But don't say, don't impute motives in terms of the debate saying that now you're producing too much; now you're producing too little. That's not the question.

The question of potash production and the structure of production of potash is developed through the nature of the markets for potash. If you don't think that I'm describing those markets accurately, then you go and describe them the way that you want to describe them and then let the economists in this province take a run at me or take a run at you.

Now, Mr. Speaker, as I said, in terms of the history of the Potash Corporation of Saskatchewan, when markets are weak, you find the tendency for prices to drift downwards, and you find the tendency of the potash producers, including those in the United States, to try to sell more of their potash production offshore. That's natural and perhaps the minister disagrees with that. I think that I can prove that historically and empirically, and if she wants me to I will. I think she does and I'm going to do it.

The effect of that, if you like, flooding the offshore market with potash is to have a decline in the price and then, particularly given the way that PCS operates, which is to try to maintain an average production in the mine so you don't have the high lay-off and low lay-off cycles . . . And by the way, I will get into this a little later, Mr. Minister.

You will see that the Potash Corporation of Saskatchewan was able to do that without significant variance, statistically significant variance from those of the private potash producers, but with enough of a variance to be able to smooth out the bumps in the road in the potash industry in Saskatchewan. And they were able to do that precisely because it had objectives. It included in its mandate objectives other than how many dollars on the bottom line.

Now as we dealt with, given the oligopolistic position of PCS in the market of course, when PCS lowers its price to the offshore producers you will find the other producers — nationally, in Saskatchewan, but also internationally — you will find those producers following suit.

That of course has all the characteristics of a cartel, or I suppose operates not much differently than the oil companies have been operating, particularly in the last little while, gouging Saskatchewan consumers with abnormally high gasoline prices.

As I said, part of the reason was of course the nature of the market and the contractual arrangements entered into by, in historical terms, Canpotex, the marketing agency.

Contract prices are generally valid for a period of up to six months, and I say generally because there have been significant variations from that. And not just the Canpotex, Mr. Minister; contract prices in terms of potash sales you will find, particularly among the American producers, that that in fact is their normal method of operating, and this contractual period of time results in the divergence between North American and offshore prices.

In other words, given a stable environment, given a relatively stable demand and supply situation, the two prices, North American versus offshore, would be the same, adjusted for of course the difference in transportation costs that I outlined earlier.

However, given the cyclical nature of market economies . . . as you very well know, the market economies have contained within themselves by their nature are cyclical. We find that price divergences, the parting of the ways in regards to price in the two markets . . . (inaudible interjection) . . . Just a minute . . . may occur temporarily or may in fact become, the temporariness may become of a permanent nature. That, of course, is a total stupid way of putting it. Let's say, what had been temporary then becomes permanent.

Mr. Speaker, I understand the member from Moose Jaw North wants to do an introduction, so I'll yield.

**The Speaker:** — Well why is the member from Moose Jaw North on his feet?

**Mr. Hagel:** — Mr. Speaker, I seek leave of the Assembly to introduce some guests in your gallery, Mr. Speaker.

Leave granted.

## INTRODUCTION OF GUESTS

**Mr. Hagel:** — Thank you very much, Mr. Speaker. Mr. Speaker, to you, and through you to all members of the Assembly, I would like to introduce 12 very special guests who are seated in your gallery this morning, Mr. Speaker. We have visiting us in the Assembly this morning 12 students who are enrolled in the adult basic education program at the Saskatchewan Institute of Applied Science and Technology in Moose Jaw.

This is not a typical student visit, Mr. Speaker, in that our guests today in your gallery have come from six different countries, and I would like to welcome them here.

Mr. Speaker, the guests that we have with us have come to Canada, all of them just recently have immigrated from their native countries — countries including Cambodia, Poland, Guatemala, Vietnam, El Salvador, and China.

Mr. Speaker, we are very pleased to welcome our guests, not only to the Assembly here today to see the democratic process of our country and our province in action, but we also very much welcome you to our country. Mr.

Speaker, these students are largely studying English as a second language and for work place purposes, and they're enrolled in a course that began on July 17 and will conclude on about December 1.

They're accompanied today, Mr. Speaker, by their instructor, Ken Konoff. I will be meeting with them in about five or 10 minutes for pictures and refreshments, and then the opportunity to visit and discuss their visit to the Assembly, plus any things that they may like to talk about from what they've seen here. I will also be very interested in learning some of their experiences and understanding why they chose to make the very, very significant decision to leave their native countries and to come to our country of Canada.

Having said that, Mr. Speaker, I would ask all of the members of the Assembly to extend a very, very warm welcome, and would the students please rise and be recognized in the Assembly.

**Hon. Members:** — Hear, hear!

**Mr. Shillington:** — If I could just add a very brief word, Mr. Speaker. Most immigrants who come to Saskatchewan actually come to Regina, and they study in my riding, and thus I usually have the honour of introducing people who come to this country.

And I want to just take this opportunity to do so now and just say to the students, I know the English language may appear to be a difficult thing to learn. For those of you whose first language thing to learn. For those of you whose first language is Spanish, it's difficult enough. If your first language is an Asian language, it's much more difficult.

However I can say to you that a decade from now the average income of the naturalized Canadian is 15 per cent higher than the average income of the native Canadian. So that your language difficulties in due course will count for not much; your energy and enthusiasm counts for a great deal. I wish you the very best in this new country.

**Hon. Members:** — Hear, hear!

## ADJOURNED DEBATES

### SECOND READINGS

#### Bill No. 20 (continued)

**Mr. Lyons:** — Thank you very much, Mr. Speaker. I too want to add my words of welcome to the guests in the Assembly today. I want to extend my sympathy that the nature of the debate is not of a more stimulating quality or fiery quality as has been the custom in this Assembly particularly over the last months. I notice in the countries that their guests come from that the right of the freedom of speech is denied in those countries. And I can think of the country of Guatemala which is under a brutal right-wing dictatorship . . .

**The Speaker:** — Order, order. I appreciate that the hon. member would like to make many comments, however as we said before, I don't believe we should draw our

guests into debate. Welcoming them is certainly acceptable, and not only acceptable but the courteous thing to do. But let us not go much beyond that.

**Mr. Lyons:** — Suffice it to say, Mr. Speaker, that one of the elements of the democratic process is the freedom of speech, and what we're seeing here today is an expression of the freedom of speech.

**Some Hon. Members:** Hear, hear!

**Mr. Lyons:** — Anyway, if we can get back to the debate.

The contracts, of course, that are referred to are kind of futures contracts that are common — 6 month duration. And because of the structure of the contracts in the potash industry in those future contracts, what you find is that because of the cyclical nature of market economies, that you'll find contracts which are maturing at different points in time, have different expiry dates on them, and that you will find the tendency, as I earlier laid out, for there to be price elasticities as between the foreign and . . . the offshore, I should say, and the North American markets, that in practice what has happened and maybe to the detriment, I think, of the overall development of the industry somewhat — not at a great extent, but somewhat — is that the opportunity to price differential . . . to develop price differentiations may be somewhat limited.

(1000)

In other words, because the implications of that are obvious to anybody that's thinking about it, that on the one hand if you have the ability to price differentially because of demand, you're able to enter into different types of long- and short-term contracts which are to the advantage, quite frankly, of the producer, both in terms of the short-term advantage — and particularly as it pertains to the North American market — but the long-term advantage in developing a stable marketing relationship with the offshore countries.

Now linked to this question of demand of course is the question of the income, the ability for those countries to be able to consume. And in doing an analysis of the potash industry, people like Dr. Flatters, Dr. Olewiler, and some of the other economists that I've mentioned, have developed some models of projection based on income statistics where in those models you will see countries like New Zealand, Japan, Korea, and Mexico, all with . . . ending up with about the coefficient of about 0.55. And as part of the variables, I may say part of the variables that, again methodologically speaking, part of the variables that is entered into this model is the question of measure of arable land under cultivation.

Because what's happening, Mr. Speaker, and I raise this particular point, is that in dealing with the Potash Corporation of Saskatchewan, the ability to do some forecasting is not out the window. We are not under, as the members opposite would like to suggest, totally, totally at the mercy of variables and factors beyond our control or beyond our quantification, or of that matter, qualification. That in fact we have the ability, we have the ability right here in Saskatchewan and in Canada to develop the kind of economic projections that you can

make some rational decisions . . . upon which you make some rational decisions.

As I said earlier, one of that is arable land. We know for example in Japan and Mexico that there is a significant, what's been deemed a significant elasticity of land that can be put under intensive agricultural practice. Of course that means that the potential for increasing sales to Japan and to Mexico is there provided that certain structural changes are made in those agricultural practices. Well we know that . . .

**The Speaker:** — Order, order. Now the hon. member in his remarks is going to have to indicate how his remarks pertain to the Bill under discussion. I realize he's discussing the potash industry and agricultural industry in general, as it relates to the economic aspect of it, but he's going to have to relate his remarks to Bill No. 20. He has been doing that from time to time, but I don't think he's been making it clear enough.

**Mr. Lyons:** — Okay. Thank you very much, Mr. Speaker. Thank you for your ruling.

As I said before, the relevance of economic forecasting as to what's going to happen with the Potash Corporation of Saskatchewan is at the heart of the debate that we're undergoing. The government opposite is saying that we don't know what's going to happen out there. We can't tell what's going to happen out there. There's this incredibly cyclical market that we're trapped in. There are these economic tides and currents that none of us can deal with. That's their position.

On the other hand we on this side of the House are taking the position that that's not true. We're saying that there are forecasting mechanisms available, and I'm providing a series of examples of those that says that it is foolhardy . . . nothing more than foolhardy nonsense to sell off the Potash Corporation of Saskatchewan, given what is going on in places like, for example, Japan and Mexico, in which the tendencies towards the substitution of extensive agricultural practices to intensive agricultural practices is under way. That's very simple.

In other words, there's going to be a greater demand for potash in the future. That's our position. There will be an increasing demand for potash in future. There are market mechanisms available, based on the structure of the markets that I'm talking about, based on the agricultural practices I'm talking about, that will in fact benefit all of Saskatchewan people if we don't sell off our potash assets to foreign powers.

That's the point; that's the argument that I'm making. What I'm trying to do is back up that argument, Mr. Speaker, with the economic analysis that supports that position. And I think that the Minister of Mines understands that very well. Perhaps if I could put it in less technical terms and some more general terms the minister will be able to grab it.

Let's put it this way. One would expect that over time — that is as the years pass by, not whether this particular country's hit with this particular drought or monsoon — but over time, that many of the developing nations that

we either sell potash to now, or form a potential market for in the future, will change their agricultural techniques.

As I said earlier, it is doubtful that the exhaustive practices will be undertaken that land will be farmed intensively. And if it's so, and if the land elasticities that I just mentioned in the case of the variables for . . . I guess I didn't mention them actually.

In the case of Japan, you have an extremely high ability to go from exhaustive . . . or from extensive to intensive agriculture. According to Dr. Olewiler and Dr. Flatters and according to the World Bank and according to the Food and Agriculture Organization, all of which I would suggest aren't necessarily supportive of our political position in his debate, but according to their economic analysis, there is a high coefficient — in the case of Japan, 3.13 in Mexico, 1.13 respectively — in terms of the ability for those countries to change from their agricultural practices.

And what that means, Mr. Speaker, what that means for us here in Saskatchewan is that there is going to be a market and a stable market and a developing market for potash offshore whose market structure will change, as it did in the historical development of the use of potash as a fertilizer in North America.

In other words, what's going to happen is because as the demand for food increases, the demand for fertilizer increases, the more extensive agriculture increases, there will be less of an elastic demand configuration to the offshore market, and that that market will then begin to approach the kind of configuration which we understand and deal with in the North American market, to which we presently sell 70 per cent of the potash production here in Saskatchewan.

And if that is so, and I happen to believe that this will be the case, and it's not going to happen overnight. I mean, I don't think anybody on this side of the House is suggesting that this is going to be an overnight phenomena. We're talking about long-term economic tendencies and trends here to develop a resource of which we have a 4,000-year supply. So I'm dealing with it on that level in terms of what's happening out there in the real world.

The real world is going to use more potash. And because they change their agricultural practices to require that need for more potash, then we have got to link, I would suggest, Saskatchewan's potash markets or the producers of potash in Saskatchewan to develop those kind of links which will ensure us that as those internal markets change in the Japans and Mexicos of the world, that we are there, we're out there in front, we've got the relationships built up, we've helped develop that market internally within those countries by supplying potash to them at and in a manner in which the present market dictates.

Well what is the nature of the dictation of those markets for potash, and why do I say we've got to keep the Potash Corporation of Saskatchewan and not sell it off to foreign interests?

Well the government makes the argument, Mr. Speaker, that China or Japan — there were four or five or six countries — India, all of which would be interested in buying 25 per cent of the potash corporation, or whatever, each of them buying 25 per cent so that they sell off 125 or 150 per cent of the potash corporation.

But leaving the Premier's hyperbole aside does it make economic sense even to the most conservative, narrow, bottom-line business person in this province, does it make any kind of economic sense is when you see a growing demand for your product, and you can produce your product cheaper than anybody else can, and you will be able to structure the market to ensure the greatest benefit for you as a producer — with a little bit of foresight, planning and rational approach to the subject — does it make any kind of economic sense to sell off your firm to those who are in fact going to provide that demand and who will ultimately then be able to set a price which benefits not the producer, but benefits in fact the consumer of that product?

In other words, Mr. Speaker, it's like saying to the farmers of Saskatchewan, the dairy farmers of Saskatchewan, look, let's give the consumers of dairy products in Saskatchewan the right to determining the price structure, give them ownership of Dairy Producers Co-operative and of the dairy farms, give them part ownership and let them help determine what the price structure is going to be for the dairy products.

Well you know very well, Mr. Speaker, that those who consume those products are going to say, well we need milk and cheese and dairy products at the lowest possible price we can get it. Now where does that leave the farmer? Where does it leave the farmer? Well it leaves him heading out the door, I can tell you that. It leaves him heading out the door because pretty soon he doesn't have the operating . . . the capacity to develop his herd. He doesn't have the operating capacity to develop his farming operation because the surplus which would accrue to the farmer has been zipped off, has been not produced because of artificially low pricing structures.

And artificially, I use that term in the sense of what constitutes, based on the ideology of the members opposite, based on what would constitute normal pricing practices within this hypothetical free market that we're supposedly dealing with, which I think I've proven doesn't exist in the potash industry.

Potash analysts around the world have generally estimated the overall demand for potash to be increasing at roughly the rate of 2 per cent per annum. I would suggest, and I think there's developing consensus among those analysts that those figures are low, that in fact that given the changing nature of agricultural practices in the developing countries, that the demand is going to be substantially higher, not for North America, not for North America . . . and I want to make that clear, that in fact that the demand has probably reached its level here in North America, but the offshore market, that that demand is going to grow.

And as that demand grows, so does the inelasticity of that demand, that the inelasticity there, then you become

much closer to the structure of a kind of stable market environment that we face in North America, the movement towards equilibrium.

(1015)

Now as I said earlier, Mr. Speaker, the government has tried to paint a scenario of the structure of potash markets to be extremely volatile. That is, one year the prices are up and the next year the prices are down and the third year the prices are somewhere else going round and round. And that just is not true empirically or historically. There has not been that kind of volatility in the potash industry that the members opposite would imply.

In fact, since potash markets in Saskatchewan and in Canada have begun to have been developed, there have been two major cycles in the potash industry. The first downturn, if you like, the first time in which potash took a beating occurred in the 1960s just as the first wave of new mines in Saskatchewan began to come on stream. There was a very easy and simple rationale for that, based on the logic of supply and demand.

As I indicated earlier, the 10-year period between '62 and '75 with the take-over of the potash industry of Saskatchewan, turned Saskatchewan from a nobody to a somebody in world potash circles.

When Saskatchewan mines began to come on stream, what we saw then during the '60s was a precipitous price crash based on the considerable excess capacity which had been developed in Saskatchewan. And that had a certain number of both economic and political consequences, which I'll deal with a little down the road.

But between '62 and some time '73, '74 — and I must say that this was a little bonus given to the Blakeney government during the '70s, and I don't pretend that it wasn't — but by the end of 1973 anyway what you saw was a recovery from that excess capacity. It was recovery based on an increase in demand both in North America, but the development of offshore demand.

In other words, more people wanted to use potash and there was enough mines around that were able to produce potash not without excess capacity, but enough mines around that the potash was being produced, and at capacity, so that prices began to rise.

From that point, from both the end of '73 until the start of this decade, producers in Saskatchewan, PCS included, because PCS as you know was formed in the mid-70s, experienced a whole number of years of rising prices. And if I can find it right here, Mr. Speaker, I will deal with those rising prices — I don't have it right now so I'll deal with it after the lunch break — rising prices which resulted in, quite frankly, enormous profits to all producers of potash here in Saskatchewan, but elsewhere throughout the world.

What that rise did, and here's the member from Qu'Appelle-Lumsden likes to refer to this time and time again, what that rise in potash prices did over that period of time, which was a roughly seven- to eight-year cycle of time, produced a number of things, one, primary, being



the plans for expansion of the potash industry, an expansion which was supported by all political parties, New Democratic Party as well as the Conservative Party.

That plan for expansion included both the Potash Corporation of Saskatchewan and hence the Lanigan expansion. And I've yet to hear the Minister of Finance, the member for Qu'Appelle-Lumsden, stand on his feet and try to deny that that Lanigan expansion was a good thing, because he knows very well that it was not only a good thing, that it was his and his government which supported that Lanigan expansion. And we have quotations from the annual reports of the Potash Corporation of Saskatchewan, the member from Yorkton in particular who talked about what a good thing it was to expand productive capability for the potash corporation at Lanigan.

And if the minister ever dares try to deny that, if the minister ever dares try to deny that, it would be a very, very interesting, interesting little conundrum he's placed himself in in regards what he himself said before the expansion. And no, although as I said before I haven't heard him get up and say that this expansion of Lanigan, an expansion which produced a great many new jobs, by the way, Mr. Speaker, an expansion which increased the productive capacity of the Potash Corporation of Saskatchewan, an expansion which lowered the cost of production because of the increase in the economy of scale . . .

Be that as it may, that by the early 1980s, plans were afoot for expansion in the potash industry. However — and this was the Tory government's bad luck — they were faced with a world-wide recession that began to unfold, although it actually had begun to show its first real signals in North America in 1980.

But by the time it rolled over Saskatchewan in 1981 and 1982, you had a recession, you had falling land prices, land prices which were not, as the government said, linked to the land bank so much as it was linked to the other factor, which was a fall and a long-term fall which worries everybody that is concerned about Saskatchewan, let me tell you, Mr. Speaker, and that is the long-term downward tendency for farm commodities, which will be the killer of any government and any economy in Saskatchewan unless it is dealt with. And it can only be dealt with — and I think we all agree — on a national as well as international scale.

**The Deputy Speaker:** — Order, order. I can't really see the relevance between long-term agricultural prices and the Bill that is before the House being debated. I'd ask the member to keep his comments on the Bill that's before the Assembly.

**Mr. Lyons:** — Thank you very much, Mr. Speaker. I think that the relationship between the price of fertilizer and the relationship between long-term agricultural commodity prices, they're pretty direct. One does not need a master's or a doctorate in economics quite frankly, sir, to see that. Because if the farmers don't have the money in their pockets to buy the fertilizer, and since potash is a fertilizer and we're dealing with the long-term future of the potash industry in Saskatchewan and the Potash Corporation of

Saskatchewan, boy, if it's hard to see that link, then I would suggest to members that they'd better go out and read a little primer.

Because if there is not the recovery, and as I said earlier, and the Minister of Energy and Mines agrees, that if the conjunctural factors, which are the drought, aren't overcome, but more importantly, if the commodities factor isn't overcome, if the price for agriculture products . . . then there is going to be a destabilizing of the potash market, particularly throughout North America.

Now the effect that it has will be more significant in Saskatchewan based on our dependence, if you like, on the North American market for our potash. The North American market is the core market, and the agricultural stability in North America is a key component in maintaining the stability of the potash market, that 70 per cent which goes towards North America.

And if I may be allowed to return to the little bit of historical analysis that we face in regards to the creation of the Potash Corporation of Saskatchewan, because these factors all entered into the setting up of PCS in the first place.

In 1981 we had falling land prices which affected agriculture, we had following commodity prices which has become structural and which is worrisome to anybody with any kind of sense at all, we had government programs in the United States, and I know the members opposite in the United States, and I know the members opposite are very interested in the kind of subsidy programs in the United States, but they were government programs that didn't necessarily just subsidize the cost or the price of an agricultural commodity. What it did was in fact was based on the acreage . . . was taking acreage out of production you're going to be using less potash, Mr. Speaker.

So you had a government program in the United States which did damage structurally to the price mechanisms for agricultural commodities, but more importantly in terms of the potash debate, the U.S. government subsidy program took that acreage out of production which reduced the effective demand for potash internally within the North American market, that 70 per cent. And that has had, and has undoubtedly had an overall effect on the price structure for Saskatchewan potash, and for overall demand for Saskatchewan potash.

So in that sense, in that sense when the members opposite, the government opposite raise concerns about U.S. government subsidy supports for American farmers in terms of . . . at least in terms of the acreage, that I go a long way down the road with them on that supporting them in trying to deal with that because it affects the potash, but also it affects and it becomes a gross distortion of anybody's morality. And why would you take arable land out of production when you have people starving around the world. You know, there's something obscene about that.

Economics aside, you know, we have the potash here to be able to be used to grow food, and why any government would take arable land out of production when people

are starving is total insanity. And in fact I think it's the kind of insanity that characterizes the great free enterprise country to the south of us.

Now as well there's another factor entered into the drop in the potash production. Remember what we're talking about. We're talking about the cyclical nature. The government has said that the potash industry is extremely volatile—it's up, it's down, it's up, it's down. We're saying, no, if you look at the history of the potash industry in Saskatchewan that there's been two cycles. Up until '81 . . . pardon me. From '62 to '73 a fall, based on consumption. From '73 up to '81, a rise in demand, long-term—we're talking long-term tendencies—in '81 until lately, a fall.

Another factor in that has obviously been the high interest rate policies pursued by the central banks in both Canada and the United States, and its impact throughout the economies.

A fifth factor in the slump in '81, that hit in '81, was the recovery of export production by our major competitor in the Soviet Union, and that had a particular effect on Saskatchewan's potash productions. We had in 1981-82 a fairly major increase in the productive capacity of the U.S.S.R., at least the export capacity of the U.S.S.R.

(1030)

We have . . . and for all intents and purposes, a flooding of the potash market which resulted in a fairly healthy price decrease, or a fairly unhealthy price decrease for potash.

During this period of time, the people who were most affected by it, Mr. Speaker, were the potash producers in Saskatchewan. Of all the producers internationally, those who suffered the most was the Potash Corporation of Saskatchewan, but also the other private potash producers. And what is interesting in that when the slump hit, particularly the absorption of those cuts, 83 of 84, that PCS, as I shall show later on, was able to weather the storm in terms of fewer lay-offs, of a more planned rationalization of its internal operation, and its ability to maintain production not in any artificial way because of several structural factors built into the very nature of PCS itself compared to the private potash producers.

Quite frankly, 1982 and 1983 have been deemed disastrous years for the potash industry in Saskatchewan, and unfortunately we in Saskatchewan bore the brunt of that particular disaster. Our market in the United States, primary market, we face stiff competition and challenges from the offshore foreign suppliers, foreign suppliers who, understanding and responding to the changing nature in overall international demand, basically entered into a price cutting operation which resulted in legal action being taken against them.

Now the response at that point in time, to the betterment of the Potash Corporation of Saskatchewan, was this. First of all, in New Mexico, the potash industry there sought trade remedies and restrictions on foreign suppliers from outside North America. And in doing so, in making those moves through U.S. Department of Trade and Commerce, you saw a recovery of the potash market, or

the beginning of the recovery in '84 and '85, which is not to say that the levels for the price of potash reached the levels that were obtained in the '79 to '81 period. And as I said, I will be dealing with the pricing of potash and its relationship to the production of potash in a statistical manner after the lunch break.

So far from the extreme volatility which the members opposite try to paint as being the primary component of the potash industry on a global scale, what we're seeing, in fact, is a relatively stable industry with the cyclical characteristics common to all industries which operate in market-driven economies. There's nothing unusual about it. In fact, we would suggest that because of the . . . and I would strongly argue that because of the oligopolistic features, because there's a near monopoly on potash production, or that potash is produced by relatively few producers, and then there's an inherent price fixing mechanism at work—it's, if you like, a market-based price fixing mechanism—that, in fact, the potash industry in Saskatchewan is much better off and is more relatively stable—and again, empirically that can be proven fairly stable—and again, empirically then can be proven fairly easily—than the quasi-anarchistic nature of potash production in the United States. As I said, one of the features of oligopoly in Canada in terms of the potash, and which the Potash Corporation of Saskatchewan obtains, is the offshore selling mechanism, in this case Canpotex.

It's interesting to note that the country which has sought more government restriction and more government intervention in regards to the international potash market, the one country in the world that characterizes that has been the United States, and they do it because they don't have that oligopolistic feature to their potash industry that others do, which is not to say that there is not price fixing among producers in the United States, or any form of pricing arrangements, to use less emotive terms.

Now what does this mean in terms of our projections for the future and how we would see it? Well some people in the potash industry are extremely optimistic about the future. They make the argument that there are no good substitutes for potash, although the actual internal ingredients in the mix—the nitrogen, the phosphorus, the phosphates, and the potassium—can be varied somewhat depending on the climate.

Excuse me, I've got a toad in my throat.

Other analysts, however, are less optimistic. They argue that a combination . . . And here's where the judgement call comes in that we all have to make, each one of us as member of the legislature, but each one of us as citizens of Saskatchewan have to make in terms of the judgement call. And people make decisions and sometimes those decisions are wrong.

How many farmers in this province have made a decision not to buy crop insurance and then that was the only year in 50 years that they were hailed on, right?

**An Hon. Member:**—How many?

**Mr. Lyons:**—Some, some. Somebody made a wrong decision, okay? It's not to argue against not doing it, it's

just to say that sometimes you make decisions that are wrong, or planting crops which may not suit the particular growing season. Nobody knows what the particular year's going to be.

But be that as it may, people make decisions but they try to make decisions on the best information that's available to them. So this is not an esoteric debate at all, Mr. Speaker, this is the debate over making decisions of the future of the potash industry in this province.

As I said, some people are optimistic; other people are less optimistic. Some people say that there is an excess of potash production coming on stream globally, that the combination of the developments of the potash deposits in Palestine, or in Jordan and Israel, combined with the opening of new deposits in Brazil, combined with the productive capacity still available in the Soviet Union, make for a lowering of the overall base price, if you like, of potash; that this demand . . . or this capacity combined with a weak demand based on . . . well first of all in North America, the most intensive agricultural nation in the world, that that demand will not recover because through a combination of factors, one which are discussed at the Uruguay round of GATT (General Agreement on Tariffs and Trade) negotiations in terms of trying to deal with the agricultural pricing, commodity pricing.

That demand won't be there because there's going to be low prices for agricultural products on a persistent and long-term basis; that the demand in the United States market for example, will keep — and this is what the pessimists, if you like, argue in the industry — they say that potash prices will remain relatively low well into the 1990s. When I say relatively low, it's relative to the heyday of the '79-81 year, the '79-81 years which saw the highest prices for potash ever, on a global scale, and its resulting good impact here in Saskatchewan. So that enters into the fact . . . that is a key factor in this debate.

Something that's beyond our control but that we do have influence, however, Mr. Speaker, in determining the future of the potash industry in Saskatchewan is this, and that is U.S. agricultural policy. If the U.S. kicks out price supports for agricultural commodities, if U.S. Congress does away with those subsidies and that kind of mechanism, sales for Saskatchewan potash will be seriously affected. The reason of course is obvious.

So we are caught in a conundrum, if you like. On the one hand, those who argue on the government side the price support mechanisms are doing irreparable harm in terms of commodity prices are right, but the elimination of those subsidies are going to have a detrimental effect on potash sales in Saskatchewan because it will directly affect the ability of U.S. farm producers to be able to buy Saskatchewan potash.

That's the conundrum that we find ourselves in because 70 per cent of the market in the United States, and that's something that any government in Saskatchewan or any government in Canada is going to have to deal with. How you, on the one hand, maintain that intensive agricultural practice which requires a fairly heavy cash outlay through fertilizer which will deal with . . . which will directly affect the future of the Potash Corporation in

Saskatchewan, how you deal with that question, and at the same time deal with those same policies which are detrimentally affecting our other, our major industry, which is agriculture.

So I don't envy any government whether it's Conservative or whether it's New Democrat after the next election having to deal with that. But I think that the open and honest discussion of these economic problems, while they may not be the most exciting politically, certainly have the kind of long-term effect, or require the kind of long-term co-operative solutions that we have to enter into. Because not only do we have to deal with the question of U.S. economic policy, and the U.S. economic policy internally as it affects agriculture, we have to deal with countries like Jordan and Israel and Brazil who have historically maintained a position in the market which is nothing more than a cost-cutting and a price-cutting to the consumers of potash, particularly in the North American market.

In order to compete for their share of that market with their increase in productive capacity, one can assume, I think quite rightly, that those particular countries will go ahead and compete with that kind of aggressivity on the international market through the use of price cutting. I mean, that's what it is. They're out there; they're going to try to undercut every other competitor in the potash industry, and not just Saskatchewan, other competitors on the international scale. So the debate that we're into here, if this scenario is true, is how we deal with it.

(1045)

See I don't think it's . . . because personally, and I'm not going to try to claim to be an expert in this potash analysis or anything else; that's not what we're doing. But it seems to me that the truth of the matter lies somewhere between . . . or what was going to happen is somewhere between the optimists' scenario that prices are going to rise and everything's going to be rosy based on the increase in demand, and the pessimists' scenario that prices are going to be kept as historically low levels and, you know, we're all in for a real rough ride.

I think it's another combination of factors. The problem that we've got here in Saskatchewan is twofold. One is, how do we bring order into the international potash production marketing? — or put it another way, how do we develop an OPEC (Organization of Petroleum Exporting Countries) for potash, at last an OPEC type of structure for potash in order to return the maximum benefits to Saskatchewan?

But secondly, because there's the other side to that which is the moral side, if you like, is how do we keep potash prices, if we develop that kind of mechanism, low enough so that those countries who are moving from extensive to intensive agriculture are able to afford our product. Again, that's one of the central economic problems that we're going to face, whoever forms the next government.

And our argument, Mr. Speaker, our argument based on those two questions, one internally related to the North American market and with some question of subsidies but the other one, in terms of the long-term "plan

d'efficace," comme ont dit en français, en niveau de conception (Translation: effectual plan, as one says in French, a level of conception) — there is a method seen to develop an international plan for the production and distribution of potash on a global scale which will result in returns for the producers and benefits for the consumers. Because that's the kind of rational approach that we socialists would advocate and did advocate through the creation of Potash Corporation of Saskatchewan, to try to develop our resource for the best interest of not only us, but of the world. You know, why should we?

And before I get into some other parts of the factors that led to the creation of the Potash Corporation of Saskatchewan, I want to pose these questions, because it seems an appropriate time to do so. That having looked at these economic factors of production, of doing that general analysis that we've gone through, the question is, is why should we be subject or why should we see ourselves merely as subject of history, or I should say as objects of history, rather than the subjects of history? Why should we see ourselves as being somehow put in a small little boat, tossed on the mighty seas of international trade, cast about by the winds and the tides and the currents, trying to bail the boat out and keep afloat? Why should we see ourselves that way when we have the opportunity to see ourselves as captain of a ship which can lead all of humanity into a better future, based on increased food production to do away with the number one cause of misery in this world and the number one cause, which is hunger? Why should we?

**Some Hon. Members:** Hear, hear!

**Mr. Lyons:** — Mr. Speaker, in dealing with the Potash Corporation of Saskatchewan, I mean it was no — the term "flagship of the industry" is certainly not a misnomer, but a flagship of more than just producers in Saskatchewan, the conception, the putting together of the ideas of how we utilize potash for the benefit of us all, all our brothers and sisters around the world, given that in fact we sit on this resource by accident rather than design, has a dimension to this debate which is economic, which I submit is economic, which is a factor that affects the bottom line.

Because if you approach, as the government does, and as the government has argued that there are economic factors way beyond the control over which we cannot do anything and thence we have got to divest ourselves of the potash corporation to somehow shield us from those violent changes in the economic landscape, if you see yourself that way, that sees yourself as nothing more than an object of history; that really we can't effect change, and really we can't do anything.

And that by the way, Mr. Speaker, I would suggest, is fundamentally a psychological trait of conservatism and of the Progressive Conservatives; is that fundamentally they believe that when it comes to potash, as it comes to everything else, that they can't effect change, that they can't make things better because things are the way they are. That's what they're saying.

I don't think all members that sit in that caucus believe

that, by the way. I know there are other people who know that they can do the kind of social and economic planning that is needed. And some of them have entered into that social economic planning, and they have put, in fact, the privatization of potash in that context. But in terms of the economic ability to effect how we market potash and how we produce potash, I would suggest, Mr. Speaker, that we are not mere objects of history, that we can be the subject of history. Not that we individually, each individually, can do much to effect a change, but that collectively, co-operatively; and if you take that approach in terms of the potash industry, and if the potash industry, PCS, takes that approach in regards to the other producers, and the other producers when got together takes that approach in regards to the consuming nations of potash, you then begin to develop the economic basis for the brotherhood and sisterhood of man that we all like to talk about. Because ultimately it's hard to be somebody's brother and sister when they're trying to take the last crust of bread out of your hand.

And that's how the economics and the morals and the politics of this dimension of this debate come together. It's on that level is that economic and rational economic planning in the potash industry can affect the way people relate to themselves as individuals, that nations relate to themselves, and that we all can develop a better world — that's if you believe that we can develop a better world.

Mr. Speaker, we on this side believe that we can do that, and we believe that the answer on an economic . . . in terms of the economic analysis, based on those factors that I've outlined that led to the . . . that have helped lead to the creation of the formation of the Potash Corporation of Saskatchewan, can in fact form the basis for a rational economic policy.

But, you see, in order to say that what I have said is not either realizable or is not true, it's incumbent upon the members opposite — and this has perhaps been one of the reasons why they've been reluctant to enter into the debate — that the economic factors to deal with those economic factors that I have laid out . . .

I'm not pretending to be the world's best economist in regards to the potash industry, or the world's worst, because I'm not a potash economist. But what we do have is that a collective ability on this side of the House is to put together information and to look at that information and rationally discuss that information and say, look, this is right and this is wrong. It's called dealing with the facts, right?

**Some Hon. Members:** Hear, hear!

**Mr. Lyons:** — And I'm sure, Mr. Speaker, I'm sure that when the collective heads of the Conservative caucus put together that they too are going to be able to deal with the facts. Well the Minister of Energy and Mines disagrees with me on that fact, right? You know, I don't know whether there's . . .

**An Hon. Member:** — I never said I disagreed.

**Mr. Lyons:** — Well excuse me, Mr. Speaker, I don't want to impute any kind of motives or any kind of reaction from

the Minister of Mines so I will withdraw that, other than just to say is that when I said that, she laughed. And I thought maybe she was laughing at her other colleagues. If she wasn't then . . . if she was laughing at what I said, then I take it that she disagrees with me — it's even worse.

Be that as it may, Mr. Speaker, be that as it may, I think it's time that somebody — that after I finish — that it's time that somebody on the Conservative side of this legislature in the dispassionate manner that I've attempted to lay out, try to deal with some of the economic arguments that we've put forward.

Let them try to deal with the questions of our comparative advantage. Let them try to deal with why you would throw the comparative advantage out the window, the comparative advantage that those great free enterprisers across the way, you know, those free enterprises, you've got to understand. Go and read your own sources. Go read Ricardo. Go read what he says about comparative advantage on why you have woollens in England and wine production in Portugal, right? Go read Ricardo. Go read your own history, right?

Because what you don't do, and what no nation ever does, and what Ricardo and Adam Smith and all those great trumpeters of the capitalist ideal said is you don't throw away comparative advantage, you know. And that's what they're doing when they privatize PCS, Mr. Speaker. They're throwing away comparative advantage.

**Some Hon. Members:** Hear, hear!

**Mr. Lyons:** — And, Mr. Speaker, it's incumbent upon somebody on that side of the House to deal with the comparative advantage in terms of the oligopolistic features of the potash industry enjoyed by PCS, and how privatizing, how selling equity in PCS strengthens that oligopolistic feature which has produced some long-term stability into the potash industry, and why the privatization . . . how that's going to benefit that. Is it going to benefit, or in fact, is it going to lessen the advantages that are produced through that particular economic feature of potash here in Saskatchewan?

It may well be, Mr. Speaker, it may well be that the government's intention to sell off the Potash Corporation of Saskatchewan to foreign investors really means that they're going to sell off 5 per cent to this company that is interested in potash production, and another 5 per cent to that potash industry which is put in production . . .

**The Deputy Speaker:** — Order. Why is the member on his feet?

**Mr. Wolfe:** — I ask leave to introduce some guests.

Leave granted.

## INTRODUCTION OF GUESTS

**Mr. Wolfe:** — Mr. Deputy Speaker, I'd like to introduce to you, and through you to all members of the Assembly, Mr. and Mrs. Calvin Kirby from Rockglen. I'd ask all members of the Assembly to welcome them to the House.

**Hon. Members:** — Hear, hear!

## ADJOURNED DEBATES

### SECOND READINGS

#### Bill No. 20 (continued)

**Mr. Lyons:** — Thank you very much. As I was saying, Mr. Speaker, I'll just leave with this thought. It may be the economic contention of the government that to strengthen the oligopolistic characteristics of this Potash Corporation of Saskatchewan and that type of market, characteristic or unique somewhat to the potash industry as a whole, that by selling off shares to other potash producers that you have in fact created the cartelization of the potash industry that I've talked about. That, Mr. Speaker, by the way, that is a valid argument to make. I don't think it's correct, but it's a valid argument to make because there are certain advantages to do that in terms of co-ordination.

(1100)

I don't believe, however, Mr. Speaker, that that's what they're thinking about at all. Because I think, in terms of the Potash Corporation of Saskatchewan in dealing with the oligopolistic features, what they intend to do is to turn it from a flagship internationally into a wrecked ship, the same way that the wrecked ship of New Mexican potash industry is sitting there floundering trying to make a go of it when they can't because they did not . . .

**The Deputy Speaker:** — Order, order. It being 11 o'clock, the Assembly is recessed until 1 p.m.

The Assembly recessed until 1 p.m.