



# **Roaring Ahead...For Now**

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**Saskatchewan Economic Profile and Forecast**

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# WESTERN CANADA'S ECONOMY

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### 1. Overview

Saskatchewan’s economy has been out-performing the national average rate of GDP growth over the past few years, and has recently joined the small group of “have” provinces in Canada. Boosted by soaring oil and natural gas prices, the provincial economy expanded in real terms by 3.4% in 2004—third behind Alberta and BC. Provincial finances are now in much better shape; in 2005, the province received its 13th consecutive credit rating upgrade and the government has revised upward its expectations for the size of the surplus for the 2005/06 fiscal year.

Other natural resources, particularly uranium and potash, are adding to the investment and service sector boom. Recent changes to the government’s tax system have boosted investment in potash mining and enhanced oil recovery (EOR). Balancing the resource-related activity, Saskatchewan has fostered a growing ag-biotech sector, an active scientific research community, a manufacturing sector at full capacity, and bustling service industries. As a result of this activity, non-residential construction activity, employment, and wages have also risen strongly.

Despite the reasonably strong growth over the past few years—and forecasts for similar rates in 2006 and 2007—Saskatchewan’s economy continues to wrestle with its own demons. Alberta’s red-hot economy and energy sector is tapping labour resources in Saskatchewan, creating serious labour shortages for several sectors in the province. Despite some notable progress over the last few years, there is general consensus within the business community that more needs to be done to lower taxes and streamline regulations. And while agriculture now accounts for less than 7% of provincial output, the disappointing prospects for traditional agriculture are casting a perpetual sense of gloom across the rural economy.

The Canada West Foundation is forecasting real GDP growth in Saskatchewan of 3.5% for 2005, with a deceleration to 3.0% in 2006 and 2.5% in 2007 if commodity prices soften. But with some significant structural changes in Saskatchewan—particularly adjustments to the province’s tax and regulatory environment—the longer-term prospects for the province are promising.

### 2. Saskatchewan’s GDP by Industry

Many people—even those within Saskatchewan—are surprised to learn how little agricultural production contributes to total provincial GDP. In 2004 (the latest year for which Statistics Canada data are available), agriculture accounted for only 6.8% of output (see Figure 2). Since this time, agricultural output has leveled off or declined while the rest of the economy has expanded (similar to trends in the other Prairie provinces). Agriculture in Saskatchewan now accounts for a smaller share of GDP than does manufacturing. However, agricultural income does form an important base for rural service providers and the province’s growing food processing sector.

Figure 1: Real Saskatchewan GDP at Market Prices Annual % Growth

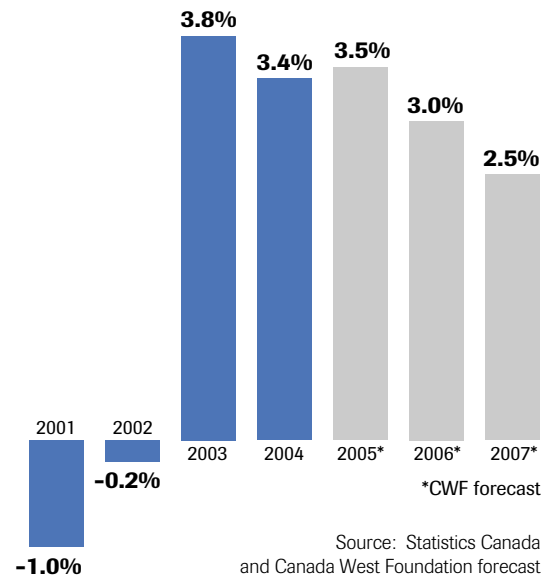


Figure 2: Saskatchewan GDP by Industry, 2004

	%	\$ millions
All Industries	100	30,497.1
Agriculture, Forestry, Fishing & Hunting	6.8	2,075.0
Mining and Petroleum	13.5	4,131.3
Manufacturing Industries	7.3	2,227.1
Construction Industries	5.7	1,730.0
Transportation, Communication & Utility	9.8	2,979.9
Wholesale and Retail Trade	11.5	3,506.3
Finance, Insurance, Real Estate and Leasing	16.7	5,100.8
Business Services Industries	6.4	1,946.7
Government Services Industries	5.7	1,733.5
Education, Health & Social Services Industry	11.3	3,436.2
Other Services Industries	5.3	1,622.1

Source: Statistics Canada CANSIM Table 379-0025

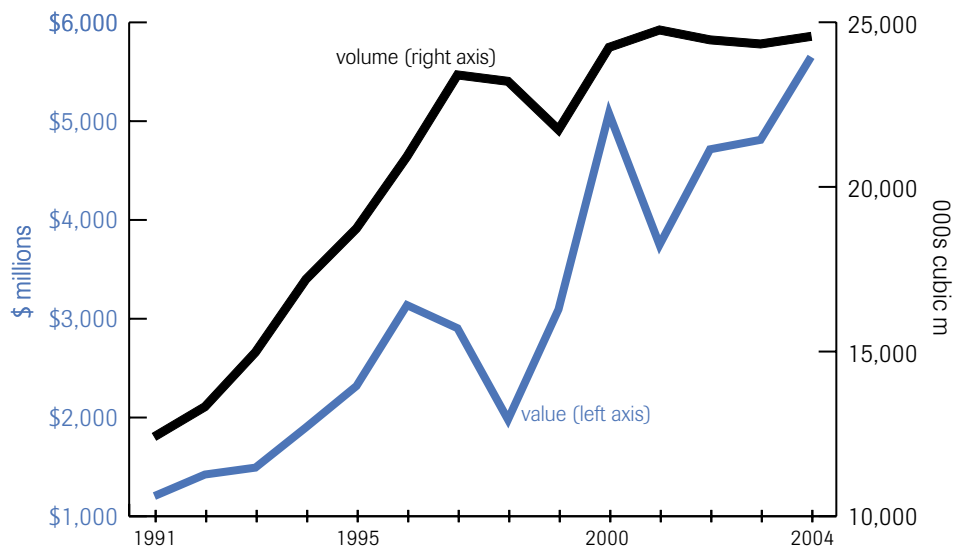
The largest segment of GDP is the finance, insurance, real estate and leasing services sector, accounting for nearly 17% of the value of Saskatchewan’s economy. Other large segments of Saskatchewan’s economy include mining and oil and gas extraction (13.5%), wholesale and retail trades (11.5%), and education, health and social services (11.3%). Overall, the composition of Saskatchewan’s economy is generally in line with those of the other Canadian provinces, particularly the resource-dependent western provinces.

### 3. Energy and Mining

#### Oil and Gas

Saskatchewan’s crude oil industry has grown strongly over the past decade (see Figure 3). With the development of new drilling technologies, a more favourable provincial royalty structure, and incentives for adopting horizontal drilling techniques, the volume of Saskatchewan’s conventional crude oil production has more than doubled from about 12.4 million cubic metres in 1991 to 24.6 million cubic metres in 2004. (In contrast, the volume of Alberta’s conventional crude oil production declined during the same period by about 33%.)

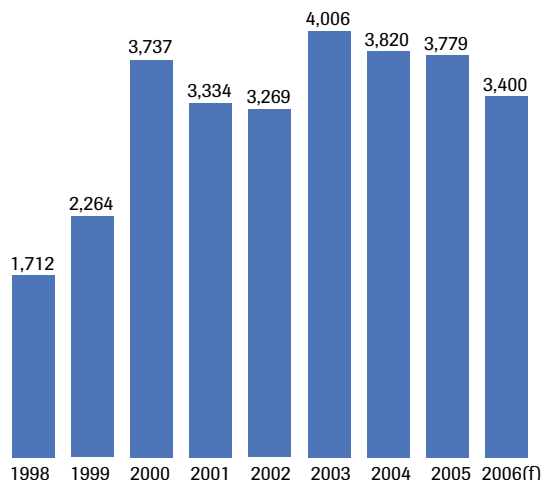
Figure 3: Value and Volume of Conventional Crude Oil, Saskatchewan



Source: Saskatchewan Bureau of Statistics, Provincial Economic Accounts (Historical Economic Indicators, Table 2)

There is also some natural gas production in the province, although it is relatively small. In 2004, production totaled 0.7 billion cubic feet per day, compared to Alberta’s production of 13.2 billion cubic feet per day (Canadian Association of Petroleum Producers).

Figure 4: Total Oil and Natural Gas Wells Drilled, 1998 to 2006(f) Saskatchewan



Source: Petroleum Services Association of Canada

Energy royalties accruing to the province have been a key reason why Saskatchewan has been able to balance its provincial budget—and indeed, run small surpluses. In November of 2005, the provincial finance department announced that the 2005/06 fiscal budget was \$873.4 million above the estimate made in the spring budget—most of that improvement was due to revenue from crude oil (\$500.8 million) and natural gas (\$123.4 million).

In March 2005, the province made major changes to the tax and royalty structure for enhanced oil recovery (EOR). The changes include a revised and simplified tax and royalty structure for EOR; a renewed and improved Saskatchewan Petroleum Research Incentive program (SPRI); and PST and fuel tax exemptions on substances injected into oil-bearing formations for EOR purposes. The changes reflect the outcome of discussions with industry on steps that could be taken to expand Saskatchewan’s oil production through EOR, and are being positively received. These changes can reasonably be expected to have a significant impact on maintaining Saskatchewan’s crude oil boom.

According to the Petroleum Services Association of Canada, the number of oil and natural gas wells drilled in 2006 is forecast to be down slightly from last year's relatively high total (see Figure 4). A major impediment to the continued growth of the industry is the rising cost of services, labour and materials. The day rate cost for a drilling rig, for example, has increased by about 30% over 2005. The cost of trucking transportation for crude oil producers and steel products has also dramatically increased. Labour availability is also a major concern as producers compete with projects in Alberta and elsewhere. This is constraining Saskatchewan's crude oil sector somewhat.

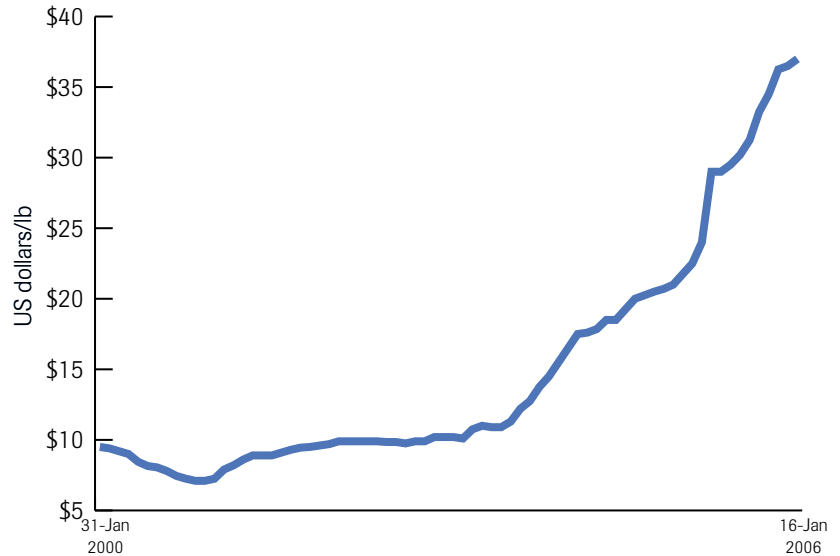
### Uranium

Saskatchewan is the world's largest uranium producer, accounting for about 30% of global uranium production. Prices for uranium, which generates 16% of the world's electricity, have risen rapidly over the past few years as stockpiles of the nuclear fuel have decreased and demand has increased for reactors being built in China and India (see Figure 5). Current prices are in the range of \$US 37.00/lb.

Uranium prices have been prone in the past to large swings, and there is no consensus as to where prices will go in the future. Some opinions suggest that, given increased demand coming from the new Chinese and Indian reactors, demand will stay solid and prices will continue to rise.

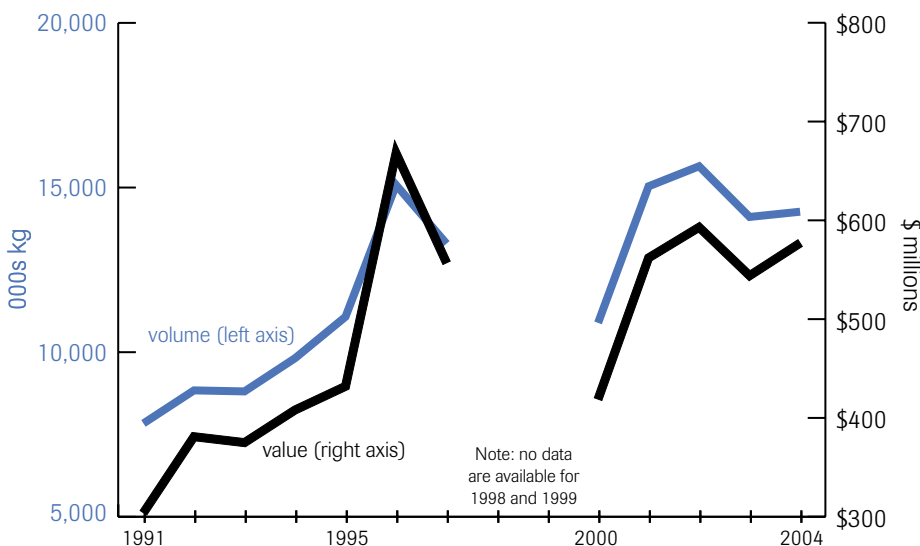
There may be additional upward demand if opinion strengthens that nuclear energy is one of the most effective ways to lower greenhouse gas emissions. Other more pessimistic forecasters point out that there are also many old reactors around the world that are scheduled to be closed over the next decade. The currently high prices will also bring on more supply (much of it from decommissioning nuclear weapons). This could push prices lower.

Figure 5: World Uranium Prices, 2000-2006



Note: Uranium does not trade on an open market like other commodities. Buyers and sellers negotiate contracts privately. Prices are published by independent market consultants Ux. Source: The Ux Consulting Company (www.uxc.com)

Figure 6: Value and Volume of Uranium Production, Saskatchewan



Source: Saskatchewan Bureau of Statistics, Provincial Economic Accounts (Historical Economic Indicators, Table 2)

Construction continues in 2006 on the Cigar Lake uranium mine, a joint-venture between Cameco Corporation and several smaller investors. The capital costs for the Cigar Lake project are forecast to increase by about 15% to \$520 million from \$450 million, largely due to greater than anticipated contractor rates driven by the high level of construction activity in western Canada, increased energy costs, and several additions to the scope of the project. Production could begin in 2007, followed by a ramp-up period of up to three years before the mine reaches full production of 18 million pounds per year.

Also, Denison Mines Inc. is currently seeking necessary regulatory approvals for the Midwest Lake deposit in which it is a shareholder. The company has stated that the market conditions are now favourable for putting the region into production.

## Potash

Saskatchewan is also a major world producer and exporter of potash. This mining industry employs approximately 6,000 people and generates \$370 million in royalties and taxes for the provincial government. Rising potash prices, new government tax rules, and announcements of investment activity have recently given a new shine to this commodity (see Figure 7).

In April 2005, the government of Saskatchewan modified the provincial mining taxes applicable to potash projects, including a 10-year base payment tax holiday on expansions of 200,000 tonnes or greater. The province is also providing a capital investment incentive to promote expansion of production.

In the spring of 2005, the Potash Corporation of Saskatchewan announced that it will re-introduce 1.9 million tonnes of idle production capacity in Saskatchewan. The Lanigan Phase I mill restoration will contribute an additional 1.5 million tonnes of annual production capability, while the Allan mill will contribute 400,000 tonnes per year. In total, the two projects will cost \$320 million. To reach its full capacity of 12.5 million tonnes, the Potash Corporation is also evaluating two smaller projects at its Cory and Patience Lake mines to more fully utilize their production capability. Cost estimates of these projects are in the range of \$140-\$150 million.

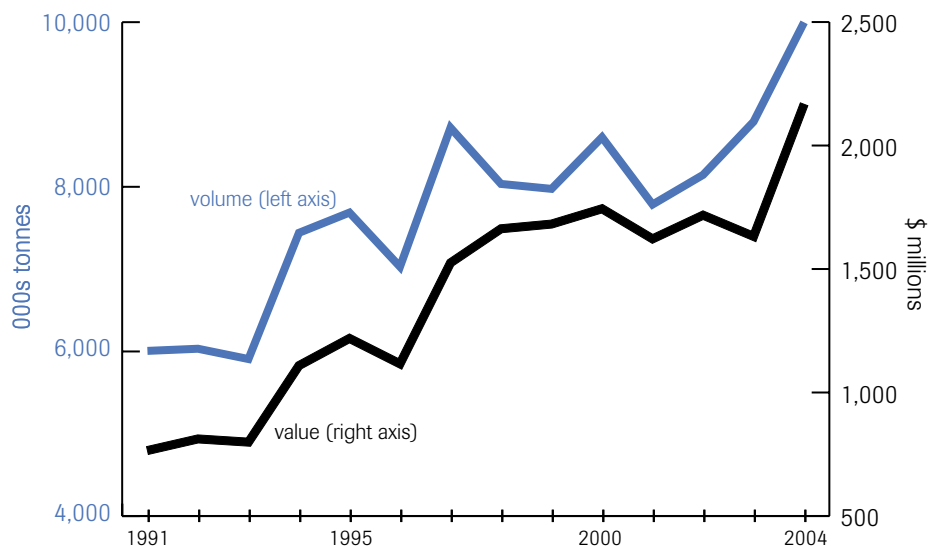
Aside from the traditional companies—the Potash Corporation and Mosaic (formerly Kalium Chemicals)—other large international players like Rio Tinto have recently expressed interest in the province's potash industry. Investments and mining of potash should continue to buoy the provincial output throughout 2006 and 2007.

## Diamonds

The area around Fort a la Corne, located northeast of Prince Albert, holds one of the largest kimberlite clusters in the world. So far, over 70 kimberlites have been discovered and most are diamondiferous. Sixty-three lie within the De Beers, Kensington Resources, Cameco and UEM joint venture area. A wide range of diamond grades has been identified in the region.

Although the area is years away from any commercial production, millions of dollars are being invested in exploration of the region. The level of exploration is expected to accelerate over the next few years, and the hope is that a diamond production industry on the scale of that in the Northwest Territories will be a reality by the end of the decade. Saskatoon is poised to gain economic benefits as a service hub for this ongoing exploration.

Figure 7: Value and Volume of Potash Production, Saskatchewan



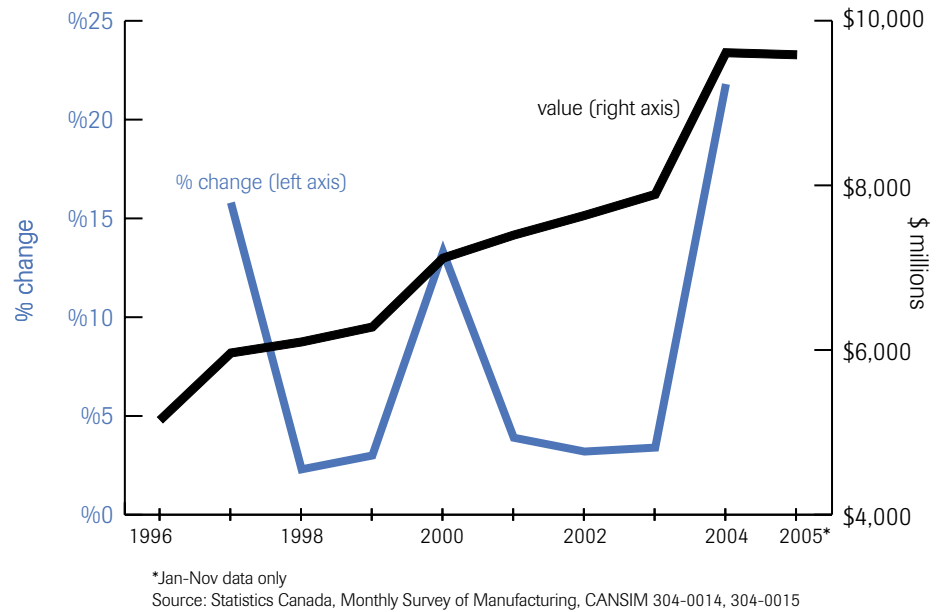
Source: Saskatchewan Bureau of Statistics, Provincial Economic Accounts (Historical Economic Indicators, Table 2)

### 4. Manufacturing

Manufacturing shipments from the province have expanded steadily, with a very large 22% jump in 2004 (see Figure 8)—the highest rate of growth in the country. Since 1996, the total value of shipments has increased from approximately \$5.1 billion to well over \$10 billion (estimated for 2005). For the most part, manufacturing in Saskatchewan seems to have withstood very well the sharp appreciation of the Canadian dollar over the past three years.

In the period January to November of 2005 (latest data available at time of writing), manufacturing shipments were up another 7.7% from the same period in 2004. The largest percentage gains in 2005 were in wood products (+18.2%), machinery (+10.4%), electrical equipment (+8.1%), and fabricated metal (+7.7%). The largest category of manufacturing in the province—food products—fell by 8.6% in the same 11 month period.

Figure 8: Value Manufacturing Shipments, Saskatchewan



Saskatchewan’s manufacturers should continue to perform reasonably well in 2006 and 2007. Despite the poor performance of agriculture in general (see Section 8), the province is growing as a centre for agricultural implements manufacturing, including Brandt Industries Ltd. and Degelman Industries Ltd. (both in Regina). These and other manufacturers are developing a niche in equipment related to western Canada’s specific dryland farming techniques.

In the summer of 2005, Maple Leaf Foods announced it will construct a \$110 million primary pork processing facility in Saskatoon and invest up to \$50 million in its value-added pork processing operations in the province. The new plant will replace the 65 year-old Mitchell’s plant in Saskatoon (which Maple Leaf had purchased through the acquisition of Schneider Foods).

This investment is expected to support up to 1,400 existing jobs in its Saskatoon operations, and will create up to 350 new jobs in the city, as well as other jobs in its value-added pork operations throughout the province. The new facility will process up to two million hogs a year when it is at full capacity. Construction of the hog slaughter and cutting plant is expected to begin in mid to late 2006, with production expected 18 to 24 months later. This will translate into an increase in food processing shipments in 2008.

### 5. “Life Sciences” and Scientific R&D

Saskatchewan has a growing hi-tech sector anchored in the “life sciences” sectors—bio-technology, pharmaceuticals, nutraceuticals, etc. The majority of this economic activity is centered around research at the University of Saskatchewan and the Innovation Place research park, along with the Regina Research Park at the University of Regina which includes the Petroleum Technology Research Centre.

This is complemented by R&D work being carried out at major research centres such as the province’s three Agriculture and Agri-Food Canada Research Stations, the Plant Gene Resource Centre, the National Hydrology Research Centre, and the National Research Council Plant Biotechnology Institute.



Over thirty bio-technology firms are located around these facilities including international giants like BASF Canada, Bayer CropScience Canada, Dow AgroSciences, and Monsanto. As well, smaller start-up companies like Philom Bios Inc. and Bioriginal Food and Science Corp. are also active.

Despite the success of some of these local start-up companies, the commercialization and economic wealth generation of the province's research has been limited. As with most places in Canada, small Saskatchewan companies often lack the venture capital and access to other seed money needed to take the research to the commercial stage.

Another major recent development in Saskatchewan is the \$173.5 million Canadian Light Source Ltd. Synchrotron, a high-speed particle accelerator that provides a world-class facility for physics, bio-tech, medical and other scientific research. A second phase of construction involving seven new research stations is expected to total \$16 million over the next three years.

The facility has indeed placed Saskatoon on the international map and has given some credence to the city marketing itself as "Canada's Science City." The Synchrotron was developed with capital from the federal government, the Saskatchewan, Alberta and Ontario provincial governments, several Canadian universities, and private investors.

However, for all of the positive attention and research money the facility has generated for Saskatoon, the full potential of economic benefits and spin-off companies related to the Synchrotron remains elusive. As with much of the research in the ag-biotech and life sciences, getting the research to the commercialization stage has proven to be an enormous challenge. Some critics suggest that the province lacks the correct policy, infrastructure, and competitive tax environment needed to foster the successful commercialization phase (although it should be noted that there have been many examples of successful commercialization in Saskatchewan as well, and more is expected as the Synchrotron matures beyond its formative years).

## **6. Film and TV**

As part of the province's ongoing attempts to diversify its economy, the provincial government has invested in The Canada-Saskatchewan Production Studios (also known as The Soundstage) aimed at stabilizing and providing a home for the province's existing indigenous production community, and to serve as a site to attract and recruit outside production. The facility, which opened in the spring of 2002, was an adaptive reuse of an existing heritage building and also reused half of a CBC facility that was about to be declared surplus property. The project was entirely paid for from public resources. These included a capital appropriation from the provincial government for environmental remediation and redevelopment of the former school building and grants from the federal government through Western Economic Diversification Canada, and conveyance of land and capital structures by the CBC to the project.

The facility is marketed and managed by SaskFilm, the provincial film authority. Total development costs for the project were \$8.9 million. The studio is home to the popular Canadian TV series "Corner Gas." The studio also hosted such films as "Tideland," "Just Friends," and "Scarecrow" over the past two years.

According to government estimates, the industry generated \$80 million in economic activity and created 850 full-time equivalent jobs in 2004 (latest data available). The government announced a set of enhanced incentives and tax credits in November of 2005, which are likely to result in further increases in activity in 2006.

The film and TV production industry is quite small relative to the total provincial economy. While the industry does provide employment opportunities and some diversification within Regina's economy, it is unlikely that the industry will become a major economic force in the province. Film and TV production is extremely footloose and will gravitate very quickly to where costs are lower and government tax credits are higher. All provinces (except Alberta and PEI) have a tax credit program for attracting film and TV production; lately, there has been increased competition among the provinces—including Saskatchewan—to offer the most generous incentives, and the industry is extremely sensitive to these offerings. While the benefits and diversification of film and



TV production are welcomed in the province, it has not yet proven itself to be a stable, sustainable industry without government support.

## 7. Construction Activity

The value of building permits issued in the first ten months of 2005 is up significantly over the same period in 2004. Gains in industrial construction (+72%), institutional and government (+50%), and commercial (+9%) more than offset the decreases in residential construction permits issued over the period January to October (-8%). Building permits issued for all sectors totaled \$738 million, up 9% from the same period in 2004.

Mirroring the fall in residential permits issued, residential housing starts also fell in 2005, particularly in the two main urban centres of Saskatoon and Regina. During the first three quarters of 2005, starts tumbled by 27% in Saskatoon and 30% in Regina over the same period in 2004.

Forecasts from the Canada Mortgage and Housing Corporation (CMHC) suggest stronger employment and in-migration in Saskatchewan will translate into a positive performance for the resale and new home markets in Saskatchewan. Housing starts will reach 3,500 units in 2006 (up from an estimated 3,250 in 2005) due to a rise in multiple family starts (CMHC forecast, Oct. 24, 2005).

## 8. Agriculture

The economics of traditional agriculture in western Canada have been trending downward for several decades, prompted by lower real grain prices and tougher competition from other countries with more favourable growing conditions and lower input costs. The cyclically dry conditions over the past several years in western Canada have only made the situation worse.

In spite of the dismal prospects for dryland agriculture, Saskatchewan's rural areas remain dependent on farm income. While total agricultural output in the province now accounts for less than 7% of total GDP (and is continuing to fall), much of the rural service economy relies on stable farm income.

Figure 9 shows that, for the first three quarters of 2005, farm cash receipts from crops fell 6% over the same period in 2004. The drop in cash receipts is most acute for three of the most valuable grain and oilseed crops—wheat (-33.9%), barley (-24.1%), and canola (-3.4%).

Livestock receipts were up a total of 16%, largely on the strength of a post-BSE crisis increase in cattle cash receipts of 36%.

The most promising future for agriculture in Saskatchewan is not traditional dryland farming (particularly of wheat and barley). However, perhaps because of political pressure, both the federal and provincial governments tend to support traditional agriculture through ongoing programs and payments.

Figure 9: Total Cash Receipts, Saskatchewan

	\$ millions Jan-Sept 2005	\$ millions Jan-Sept 2004	% change
Wheat, excl. durum	\$327.7	\$461.7	-29.0
Wheat, excl. durum (CWB payments)	\$81.5	\$157.5	-48.3
Durum	\$218.2	\$207.8	5.0
Durum (CWB payments)	\$69.2	\$66.6	3.9
Oats	\$65.6	\$52.4	25.2
Barley	\$123.1	\$162.2	-24.1
Flaxseed	\$82.2	\$71.1	15.6
Canola	\$522.5	\$541.0	-3.4
All other crops	\$796.1	\$711.1	12.0
<b>Total, all crops</b>	<b>\$2,286.1</b>	<b>\$2,431.4</b>	<b>-6.0</b>
Cattle	604.2	442.8	36.4
Calves	102.3	91.7	11.6
Hogs	232.4	250.3	-7.2
Other livestock	240	232.5	3.2
<b>TOTAL, livestock</b>	<b>1,178.9</b>	<b>1,017.3</b>	<b>15.9</b>
TOTAL direct payments*	1,008.7	781.6	29.1
<b>TOTAL CASH RECEIPTS</b>	<b>4,473.7</b>	<b>4,230.4</b>	<b>5.8</b>

\* Total direct payments include NISA payments, crop and hail insurance payments, income disaster assistance, and other government subsidies and assistance programs.  
Source: Statistics Canada and Saskatchewan Bureau of Statistics, Monthly Statistical Review

Two new grain-based ethanol facilities are expected to come on stream in 2006 with a combined production capacity of 155 million litres of ethanol per year. Husky Energy's 130 million litre plant in Lloydminster will be the largest ethanol plant in western Canada. These two facilities will help provide a somewhat larger domestic market for grain, but by no means will they stem the ongoing transition away from traditional agriculture.

More optimistically, there is room for a growing livestock and specialty crop industry in the province, particularly as it can complement the growing food processing, meat packaging, and nutraceutical manufacturing facilities in the province.

Figure 10: Employment in Saskatchewan

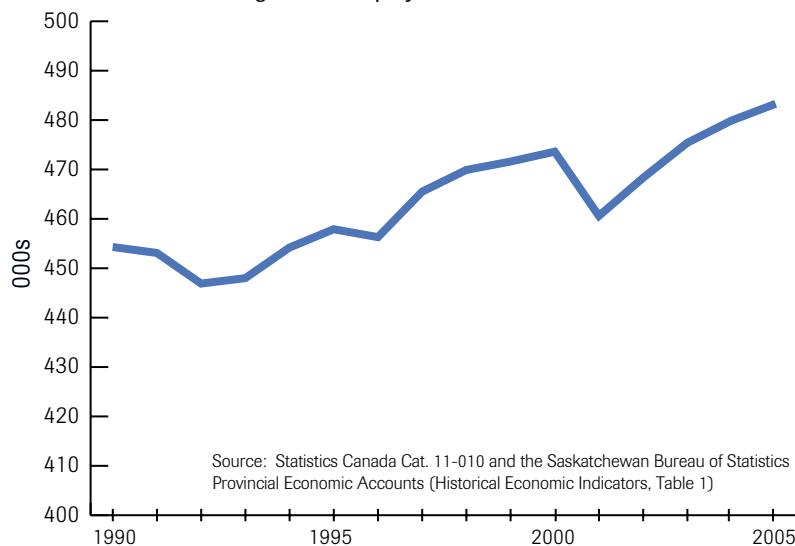


Figure 11: Average Hourly Wages, Saskatchewan

	Dec. 04 \$/hr	Dec. 05 \$/hr	% change
15 years and over	16.85	17.77	5.5
15 to 24 years	10.33	10.34	0.1
25 to 54 years	18.59	19.54	5.1
55 years and over	18.15	19.76	8.9
Men	18.32	19.55	6.7
Women	15.42	16.05	4.1
Full-time	18.06	19.06	5.5
Part-time	12.25	12.42	1.4

Statistics Canada CANSIM tables 282-0069 and 282-0073

## 9. Labour Market

Employment in Saskatchewan has grown steadily since 2001 (see Figure 10) and the province has enjoyed some of the highest rates of employment growth in the country. The unemployment rate—most recently at 5.3% in December 2005 (seasonally adjusted)—is traditionally among the lowest of the provinces and more than a full percentage point below the national average of 6.5%.

The growing levels of employment and the tightness of the labour market are being reflected in higher wages in Saskatchewan. In December 2005, the average hourly wage of employees had risen 5.5% above the rate paid a year earlier (see Figure 11). This increase is considerably stronger than the national average increase of 3.8%. The rate of increase was particularly strong for older workers, whose average hourly wage increased by nearly 9% over 2005. This is an indication of the growing shortage of skilled, experienced labour in the province.

Apart from the rising levels of employment and robust wage increases, there is much anecdotal evidence to suggest that there is a growing shortage of skilled labour in the province. For example, one of Saskatoon's largest manufacturers, Hitachi Canadian Industries Ltd., is having difficulties attracting and retaining qualified labour. The majority of Hitachi's workforce consists of skilled trades people such as welders and machinists. Competition with the energy sector in Alberta has made it extremely difficult for Hitachi to find qualified labour. The company is actively recruiting in the UK and other overseas markets as the local labour market cannot meet its current employment requirements.

As in Alberta and other provinces at the moment, the lack of skilled labour is a recurring theme throughout many of Saskatchewan's industries—mining, oil and gas, manufacturing, and business services. In many of these cases, the higher demand for labour is a result of a greater level of output and production. But making the situation far worse is the competition from Alberta where wages, taxes and opportunities are perceived to be more favourable. This lack of available labour is among the most serious impediments for the provincial economy in 2006.

## **10. Provincial Government Finance**

As indicated earlier, the provincial government is running a much larger surplus than expected so far in 2005/06. The latest update (Nov. 16, 2005) reveals an \$873 million improvement in the government's fiscal balance, mainly due to high oil and gas prices. At the time of this fiscal update, the government was forecasting a \$135.1 million surplus in the General Revenue Fund.

About 86% of the windfall improvement is being allocated to one-time or non-recurring items like the Academic Health Sciences Centre (\$100 million), additional funding for Regional Health Authorities (\$108.1 million), energy cost relief over the next two years (\$139.5 million), and additional funding for the Canadian Agricultural Income Stabilization (CAIS) program (\$84.2 million, bringing the province's total additional CAIS funding to \$159.2 million above the original budget).

The better-than-expected revenue performance is allowing the government to apply \$76.1 million to debt reduction. As well, the province will not have to transfer cash from its Fiscal Stabilization Fund to achieve a balanced budget.

In response to some concern that Saskatchewan's personal and business tax regime is hampering economic growth, in March 2005 the government commissioned the Business Tax Review Committee (BTRC) to examine the province's business tax regime and recommend areas of improvement to further boost the economy and spur job growth. The committee chair, Jack Vicq, submitted his report to the Finance Minister on November 24 of 2005.

Key among the committee's recommendations are: phasing out the general corporation capital tax, reducing the general corporate income tax rate to 12%, and increasing the small business limit to \$500,000.

The business community in Saskatchewan is mostly pleased with these recommendations and the government's stated commitment to their implementation. The recommendations are widely seen as critical steps in boosting the province's business competitiveness.

Another issue related to the province's fiscal situation is the national system of equalization payments that is currently under review. Because of Saskatchewan's growing natural resource revenue, the province has achieved "have" province status—that is, it is not eligible for equalization payments from Ottawa. However, the current review of the system may result in changes that would see a re-introduction of payments to the province (for example, if natural resource revenues are excluded from the calculation).

## **11. Potential Developments**

The capture and sequestration of CO<sub>2</sub> is a new development in Saskatchewan that is attracting some international attention. The process involves the separation of CO<sub>2</sub> from power stations and industrial wastes, and the injection of this CO<sub>2</sub> into geological storage underground until it has undergone a chemical transformation into water and rocks. Research at the University of Regina leads the world in these developments with a pilot industrial CO<sub>2</sub> separation facility, a very large CO<sub>2</sub> demonstration project tied to CO<sub>2</sub> injection into the Weyburn oil fields, and a clean coal demonstration project (likely to form the next power generating facility in the province). The implementation of Kyoto regulations could be a boost to this research and the feasibility of this emerging industry.

Energy giants EnCana and Apache have both engaged in significant new capital investments and groundbreaking approaches to CO<sub>2</sub> storage and enhanced oil recovery, which is boosting optimism that the carbon sequestration industry in Saskatchewan may eventually become a sustainable industry. The long-term success of these opportunities will remain contingent on the government maintaining a proper policy and regulatory framework.

There are several other ideas for major industrial initiatives in the province, most of them still in their infancy and “idea” stage. The feasibility of these projects is still unknown, but if these ideas are eventually realized, they would likely have a significant long-term impact on the provincial economy. Projects being discussed include:

- a uranium up-grader;
- a nuclear power production facility;
- a facility for uranium waste disposal;
- a heavy oil upgrading and expansion project;
- a bio-fuel development (i.e., bio-diesel and ethanol); and
- major irrigation expansions.

## 12. Conclusion


Saskatchewan’s economy is on fairly stable footing for now and growth is expected to outpace the national average. Resource prices are forecast to remain steady for at least the short-term. Saskatoon is particularly well-situated to act as the main service hub for investments into the uranium and potash mines, and for the ongoing interest in diamond exploration. A critical mass of activity is also starting to develop around the scientific research, ag-biotech sectors, and CO<sub>2</sub> sequestration—albeit starting from a low level.

As a result, the Canada West Foundation is forecasting real economic growth of 3.5% for 2005, with a deceleration to 3.0% in 2006 and 2.5% in 2007 if commodity prices start to ease.

But the current expansion could be in jeopardy if (when?) commodity prices slide. Some serious challenges lie in the path of sustained economic success.

The business community is especially challenged by the perceptions—real or perceived—that Saskatchewan has heavily biased, pro-union labour laws and labour standards board. This situation sends a negative message to potential business investors. Without a more business friendly tax and regulatory environment it will be difficult for the Saskatchewan economy to achieve significant growth from new investment. The implementation of the tax review committee’s recommendations would be an excellent start, but more needs to be done on regulatory issues.

The fast-growing Aboriginal population in the province provides both an opportunity and a challenge as industry learns to tap into its abundant labour supply. Some progress is being made, but much more work is needed to find ways of training young Aboriginal people and to meaningfully engage them into the labour force. This is not a trivial matter.

The current economic boom in Alberta (and to a lesser extent in BC) is also causing some significant challenges for the province, particularly the outflow of skilled labour. Even though there are excellent economic prospects in many of Saskatchewan’s sectors, the reality is that they are not on the same scale as developments in Alberta. The challenge for Saskatchewan is to view Alberta’s success as an opportunity to launch its own sustained economic growth. Once again, providing a competitive tax and regulatory environment is a pre-requisite for this to happen. 

# Coming Up NEXT

## The Transformation of Western Canada's Economy

by Todd Hirsch  
Chief Economist

International Trade  
Interprovincial Trade  
The Labour Force  
Post-Secondary Education  
Skills Development  
Energy Resources  
Non-Energy Resources  
The Knowledge Economy  
The Service Sector  
Manufacturing  
Venture Capital

**Western Canada's economy is currently the envy of the nation. Natural resource prices are booming, provincial government finances are in good shape, and our cities are growing. But what will happen tomorrow? What challenges lie ahead? How can the West take advantage of today's economic boom to prepare for the future? To help answers these questions, the Canada West Foundation is releasing a groundbreaking report on the western Canadian economy on **February 22, 2006**. The focus of the report is the transformations underway within major segments of the western Canadian economy. Where are we going? Where do we want to be? How will we get there?**

**Hard copies of the report are \$15. Order online at [www.cwf.ca](http://www.cwf.ca) or call 403.264.9535. An electronic version of the report will be available for free from our website on February 22, 2006.**

## About the Canada West Foundation

### **Our Vision**

A dynamic and prosperous West in a strong Canada.

### **Our Mission**

A leading source of strategic insight, conducting and communicating non-partisan economic and public policy research of importance to the four western provinces, the territories, and all Canadians.

Canada West Foundation is a registered Canadian charitable organization incorporated under federal charter (#11882 8698 RR 0001).

In 1970, the One Prairie Province Conference was held in Lethbridge, Alberta. Sponsored by the University of Lethbridge and the Lethbridge Herald, the conference received considerable attention from concerned citizens and community leaders. The consensus at the time was that research on the West (including BC and the Canadian North) should be expanded by a new organization. To fill this need, the Canada West Foundation was created under letters patent on December 31, 1970. Since that time, the Canada West Foundation has established itself as one of Canada's premier research institutes. Non-partisan, accessible research and active citizen engagement are hallmarks of the Foundation's past, present and future endeavours. These efforts are rooted in the belief that a strong West makes for a strong Canada.

More information can be found at [www.cwf.ca](http://www.cwf.ca).



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