

BUSINESS VIEW

Summer 2005

Greater Saskatoon Chamber of Commerce

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Hike in Minimum Wage without Personal Tax Cuts Helps Politicians, Hurts Low Income Workers

The provincial government's recently announced minimum wage increase will have the opposite of its intended effect for the low income workers of Saskatchewan.

The research evidence is clear: minimum wage hikes harm the groups they are intended to help. Research studies have found that, on average, a 10 percent increase in the minimum wage reduces the rate of employment among 15 to 25 year-olds by one to three percent.

Kent Smith-Windsor, Executive Director of the Greater Saskatoon Chamber of Commerce agrees. *"A far better way to improve the lives of lower income earners is through raising personal tax exemptions. Low income earners would experience the benefit of more take home pay, without the reduction in employment choices."*

The Greater Saskatoon Chamber of Commerce has examined several of the dozens of studies researching this issue, which consistently demonstrate that high minimum wages reduce employment opportunities for young and unskilled workers. Raising minimum wages change the dynamics of the labour market, making higher minimum wages unlikely to raise the aggregate incomes of many low income workers, as the wage increase is offset by lower aggregate employment levels. The government forced wage hikes are likely to reduce employment opportunities, thereby reducing the opportunity and incentive to become a skilled employable person. A more effective way to

transfer income to those in need is through direct cash subsidies via the tax system, as opposed to imposing a price that distorts the workings of the labour market.

In addition, other adverse effects are produced, including reduced on-the-job-training, fewer benefits, higher school dropout rates, and reduced levels of skilled development which ultimately lead to lower levels of future productivity and lower standards of living.

Raising the minimum wage allows politicians to appear to act in the interest of the poor, yet the costs of the minimum wage are borne by those who are unable to find work at the higher wage due to reduced employment levels, and by firms who must reduce their employment levels to accommodate the change.

Smith-Windsor commented that while minimum wage increases are politically popular, they do not result in more job opportunities. The result is fewer job opportunities. Statistics Canada Labour Force statistics show that from May 2000 to May 2005, Saskatchewan lost 5,000 jobs. Yet over that time, approximately 70,000 young people graduated from Saskatchewan high schools. Smith-Windsor stated, *"Recent provincial labour policy changes and the minimum wage increase will make it harder for those young graduates to find opportunities in our province."*

The provincial government's policy priorities are out of step with reversing Saskatchewan's haunting youth exodus.



Photo Courtesy of Stuart Kasdorf Photographics Inc.

The President's View

by Jack Brodsky



On June 21, the Greater Saskatoon Chamber of Commerce presented a paper entitled *Building a Business Tax System to Attract Investment and Grow Jobs* to the Saskatchewan Business Tax Review Committee headed by Jack Vicq. As you know, the committee has been charged with studying business taxes in our province, an area that is near and dear to the hearts of all businesses and business organizations. We initially understood that the Committee was going to study just the tax mix and would not consider the tax levels for business in Saskatchewan. However, the Minister of Finance has recently assured us that the Committee will consider business tax levels as well.

Unfortunately, the committee is not looking at resource royalty rates. Since our province and our economy are so reliant on our mining sector, and as royalty rates quite simply make up a serious part of the cost of doing business for a mining company, it seems to me that they are missing something.

Our royalty structures are very complex. Recent changes in royalties (which further complicated the structure) encouraged our potash mining companies to announce large expansion projects. This is good thing, but we need to take a hard look at royalties for all resources and create something that is much simpler and that will have mining companies make these expansion announcements without needing to negotiate new royalties.

Kent Smith-Windsor who authored the paper (with a great deal of assistance by Carmen Manderscheid) made the presentation on our behalf. The paper is very well done and presents some excellent opportunities to the Committee and the province that we know will do exactly what the title of the paper suggests, attract investment and grow jobs. This paper is available to you through the Chamber's website.

Over the years your Chamber has created a number of research papers. They are all very well done and loaded with thought provoking information, ideas and solutions. Topics include, the cost of Saskatoon saying "no" to the Warman uranium refinery, the impact of the Kyoto Accord, Saskatoon's south downtown, and health industry opportunities for Saskatchewan.

When you go to the Chamber website to take a look at the presentation made to the Business Tax Review Committee, take a look at the other papers available and maybe print some off to read when you get a chance.

I hope everyone is having a great summer. With all the rain and now all the sunshine our province is more green and beautiful that it has been for some time.

Maple Leaf Foods Announces Major Pork Processing Expansion in Saskatchewan

Maple Leaf Foods (TSX:MFI) recently announced that the Company will significantly expand its fresh and value-added pork processing operations in Saskatchewan through construction of a state-of-the-art fresh pork processing plant and related value-added investments.

"This investment in Saskatchewan reinforces our strategy of establishing a network of world-class meat processing operations to meet growing consumer demand domestically and around the world for premium quality innovative pork products that are made in Canada," said Michael McCain, President and CEO of Maple Leaf Foods.

Maple Leaf will construct a \$110 million primary pork processing facility on 35 acres in the Marquis Industrial area 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 purchased through the acquisition of Schneider Foods. The plant currently processes 17,000 hogs per week and is operating at full capacity. It is highly integrated into the Schneider Foods procurement and production chain, with over two-thirds of its production supporting other value-added meat operations, and plays an important role in supporting the Saskatchewan pork industry.

"Maple Leaf, through its Mitchell's Foods subsidiary, has a long and proud history in our province," Saskatchewan Premier Lorne Calvert said. *"The company is building on that legacy with this major and long-term investment in one of our key economic sectors. Through its continued commitment to Saskatchewan, Maple Leaf is helping drive major growth and jobs in our hog production and pork processing industries."*

The new plant will process 20,000 hogs per week on a single shift basis with the capacity to expand to 40,000 hogs per week on a double-shift operation. This new state-of-the-art facility will meet rigorous quality and product specifications for value-added fresh pork and specialty products. It will complement the Company's higher throughput pork plant in Brandon, which will continue to focus on value-added processing for domestic and global markets. Maple Leaf continues to support a double shift expansion at its Brandon plant based on international market growth for high quality pork.

"Major investments like this do not occur every day, and with the future expansion that is to come with Maple Leaf Foods, it means a positive atmosphere for all, not only in Saskatoon, but surrounding communities as well," said Saskatoon Mayor Donald Atchison.

Maple Leaf, the Province and the City of Saskatoon are proceeding to execute a definitive agreement. Design and engineering work is underway, and construction of the hog slaughter and cutting plant is expected to commence by mid-late 2006, with the hog slaughter operation commissioned approximately 18 to 24 months later.

This investment will support up to 1,400 existing jobs throughout Maple Leaf's primary and value-added pork processing operations in Saskatoon, and is expected to create up to 300 to 350 new jobs in a double shift hog slaughter and cutting plant. It will also generate new jobs in the Company's value-added pork operations, and through driving growth in the Province's feed, hog production and related service industries.

Federal Equalization: Saskatchewan's Request for Equity

Equalization was first introduced in 1957 as a relatively simple federal program that considered only three provincial revenue sources and determined a province's eligibility to receive Equalization on how it stacked up against Canada's two wealthiest provinces at that time - Ontario and British Columbia.

However, over the years, the federal Equalization program became more complicated and is now a complex maze of formulas, calculations, assumptions, proxies and adjustments that is fully understood by only a small number of bureaucrats and academics throughout Canada. About \$10.9 billion in Equalization payments will be paid out in the current year, with Manitoba receiving about 15 per cent of total benefits, Quebec receiving about 44 per cent of total benefits and the Atlantic Provinces receiving about 35 per cent of total benefits. Saskatchewan will receive less than one per cent of total Equalization benefits.

Saskatchewan's eligibility for federal Equalization payments depends largely on the state of our natural resource revenues - when these revenues are high, we receive little or no Equalization, but when they are low, our province qualifies.

This situation is the result of how this federal program treats our natural resource revenues. For example, when Saskatchewan's energy sector generates a dollar of provincial revenue, our Equalization payment declines by almost a dollar. This means that Saskatchewan residents do not materially benefit from the financial rewards of energy developments in the province. What makes this situation worse is that other provinces eligible for Equalization benefit through higher Equalization each time Saskatchewan generates resource revenues.

This situation is largely the result of a major change in the Equalization program that occurred in 1982 when the federal government decided to fully include non-renewable resource revenues in the formula and move to a five-province standard that excluded Alberta - Canada's largest energy producer.

These changes were primarily introduced to control the federal cost of Equalization and to ensure that Ontario and Alberta would never be eligible to receive program benefits.

However, these changes also caused significant collateral damage to Saskatchewan, as our province experiences a significant decline in our net gain from energy developments after the negative effects of Equalization are factored in. In some years, this Equalization effect, referred to as the clawback effect, is larger than Saskatchewan's energy royalties, resulting in a net revenue loss for our province from these developments.

To illustrate, Saskatchewan's clawback rate for its energy revenues in 1981-82 was 30 per cent, which left our province with 70 per cent of our energy revenues for reinvestment. In 2001-02, the clawback rate was 103 per cent. This meant that Saskatchewan saw a negative financial return from our non-renewable energy development for that year.

Saskatchewan has long argued that high clawback rates on Saskatchewan's energy revenue are unfair. Had the Province retained 100 per cent of its energy revenues over the past ten years when eligible for Equalization, over \$4 billion in additional federal transfers would have been received by Saskatchewan. This money could have been reinvested into provincial economy, with the result

that Saskatchewan could move away from a reliance on Equalization.

The recent signing of new offshore energy agreements will guarantee 100 per cent retention of offshore energy revenues for Newfoundland and Labrador and Nova Scotia and provide an estimated \$2.6 billion and \$1.1 billion, respectively, over the next eight years. These new agreements can also be extended for a further eight years, which would further add to the benefits being provided to these provinces.

These agreements should be supported as they recognize that non-renewable resource revenues are one-time in nature and should be retained by the rightful provincial owners of those resources to strengthen their economy. This is the principle that should be highlighted in the new offshore energy accords and it should be applied fairly to all regions of our country.

Newfoundland and Labrador and Nova Scotia now have a wonderful opportunity in which to reinvest these one-time sources of revenue to achieve a level of self-sufficiency that could not otherwise be attained through the existing Equalization program.

Saskatchewan should expect no less. Since 1982, most of the financial rewards from the extraction of non-renewable resources flow out of Saskatchewan through Equalization while the high cost of managing and regulating this sector of the provincial economy continues.

Retention of non-renewable resource revenues would ensure that the provincial royalty and taxation regimes are competitive to encourage new exploration and development in the province. This is no small challenge when one looks west at our province's chief competitor who is unaffected by Equalization clawbacks. It would also provide the financial ability for Saskatchewan to address the issue of business taxes.

The importance of Equalization to address fiscal disparities between provinces should not be understated. However, the existing program is ineffective in achieving the federal constitutional commitment of ensuring that all provinces can deliver reasonably comparable levels of public services at reasonably comparable levels of taxation.

Saskatchewan should receive the same opportunity to fully retain our non-renewable resource revenues as Atlantic Canada, through the immediate negotiation of a Saskatchewan Energy Accord. There is no reason for different treatment of energy revenue between provinces. The federal commitment to a broad-based review of Equalization over the coming months is a positive undertaking. An independent expert panel provides an excellent opportunity to accomplish an effective reform of Equalization if its membership is prepared to challenge the status quo and look for creative new approaches.

All Chamber members are encouraged to be active in supporting a fairer Equalization deal for Saskatchewan. There are two upcoming opportunities for members to get involved. First, we should make our voices heard with the federal government to express our concern over the current treatment for Saskatchewan's natural resource revenues. Second, we should take our case for fairness to the recently appointed federal panel on Equalization when it visits our province.

Submitted by: Saskatchewan Finance



Food for Thought

by C.M. (Red) Williams

Where is the Feed Grain?

In a recent series of meetings I attended the issue of feed grain supply became the issue to resolve. As world grain prices have dropped the acres devoted to barley, wheat and oats have dropped as well. The result is that, except for Saskatchewan, we in Canada are close to, or are already in, a feed grain deficit position. Ontario and Quebec have heavy intakes of US corn, as does Manitoba and Alberta. Some would respond that it serves the Americans right if they want to export cheap subsidized corn so Canadians can capture the added value. The trouble with that hypothesis is that the finished cattle and hogs, and weaner pigs that eat that corn, then go into the US to compete with similarly fed animals. It doesn't take many small protectionist regulations by the US to tip the balance heavily in favor of their sectors.

The other side of the feed grain supply argument is either build our production acres back up, (but farmers have already shown that is not viable because of low prices), or increase the yield per acre so the total returns increase. This is where we run smack into regulations, because plant breeders assure us that if they are able to register the new varieties they will produce 100 bushels per acre of grain more suited to industrial use.

This is no small issue because we have opportunities that will grow on an enlarged supply of feed grains. Cattle and hog feeding are the most obvious, but ethanol and biodiesel production are knocking at the door. To put it bluntly, the system put in place a century ago to support the hard red spring wheat exports is not paying the bills any longer, but is in the way of projects that would benefit from changes to grain grading.

Saskatoon – Canadian Leader in Economic Growth

Conference Board of Canada's "Metro Outlook - Summer 2005

The growth forecast for Saskatoon is predicted to be 4.2% in real gross domestic product (GDP) in 2005, according to the *Conference Board of Canada's Metropolitan Outlook - Summer 2005* report. This is an increase from a solid gain of 3.7% in GDP growth last year. Of the cities measured in this report, Saskatoon ranks number 1, leading Canadian cities in economic growth in 2005.

"Saskatoon's economy has remained consistently solid and the Conference Board of Canada's forecasts for 2005 shows Saskatoon as a Canadian leader in economic growth," said Ted Mitchell, Chief Executive Officer, SREDA.

According to Mario Lefebvre, Director of the Conference Board's Metropolitan Outlook Service, "The Saskatoon economy is on a roll. The city's economy has been a model of consistency, with employment growth averaging 1.8% per year over the past 12 years. The forecast predicts that employment growth will be even stronger in 2005, coming in at 3.5%."

The unemployment rate is expected to fall to 5.4% from 6.2% in 2004. According to the Conference Board's report, job growth was stable last year, increasing by 1.3% or 1,500 net new positions.

The manufacturing sector is expected to continue to expand by 8.1% in 2005 following growth in this sector by 20.7% in 2004.

The Conference Board report gave Saskatoon an economic structure rating of 0.93. Economic Structure is a measurement of economic diversity, indicating that Saskatoon is one of the most diverse cities in Canada.

Source: SREDA Media Release, June 17, 2005

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Federal Government Urged to Reinstate Corporate Tax Relief and Reveal Financial Picture - Canadian Chamber

The Canadian Chamber of Commerce is calling on the federal government to make a commitment to reintroduce the tax cuts that were cancelled as a result of the Layton-Martin \$4.6 billion spending deal in April. In a letter to Finance Minister Ralph Goodale, the Canadian Chamber also asked the government to open the books and clarify Canada's fiscal situation. (Letter available at www.chamber.ca)

The Canadian Chamber noted recent statements by the Prime Minister and by the Industry Minister both of whom indicated that the government was committed to cutting taxes. However, it has not introduced any significant tax relief for individual Canadians and it has done the opposite for corporations by removing promised future tax relief.

Speaking on behalf of Canada's largest and most representative business organization, Jim Westlake, Chair of the Board of the Canadian Chamber of Commerce, stated that, *"our members are deeply worried that these massive new spending commitments will squeeze out any future substantial debt reduction and will leave the government with little or no room to provide meaningful tax relief of any kind."*

When the corporate tax relief was introduced in the February budget, the government claimed that this was necessary to keep Canada competitive and to attract investment and entrepreneurs. The government then cancelled this relief when it struck the revised budget deal with the NDP. The Canadian Chamber is urging the government to put forward an amendment to the revised budget to reinstate the corporate tax relief.

The Canadian Chamber also called on the government to present a complete financial picture to Canadians as soon as possible. *"Without a fiscal update, we are flying blind when it comes to Canada's finances with only vague assurances from the government that it will be able to balance budgets in the future,"* added Nancy Hughes Anthony, President and CEO of the Canadian Chamber of Commerce. *"Until Canadians are given all the facts and figures, we have every right to fear that we are flirting with future budget deficits given the government's excessive spending."*

Figuratively Speaking ...

Compiled by John MacIntyre

- Percentage of Canadians who are willing to provide their postal code to marketing companies over the phone, according to EDS Canada: 61
- Percentage willing to provide their address: 54
- Percentage willing to supply their bank account numbers: 12
- Percentage who are willing to supply account passwords: 10
- Percentage by which the number of identity theft organizations increased in Canada from 2002 to 2003: 63
- Percentage of business travelers who admitted to falling asleep in a meeting due to sleep deprivation, according to a new survey conducted by British Airways and Research International in recognition of National Sleep Awareness Week: 25
- Percentage who felt they were less productive after traveling: 70
- Percentage who had a presentation go badly or lost business as a result of poor sleep due to air travel: 20
- Percentage of Canadians who feel they have a sense of having succeeded in life: 60
- Percentage of Quebecers who feel they have succeeded: 61
- Percentage of Albertans who feel they have succeeded: 54. In Saskatchewan: 60. BC: 56
- Percentage of people who believe that e-mails should be considered "official records", according to a ZyLAB North America survey of government organizations: 100
- Percentage who claim to have trouble locating e-mails -- even though they are considered records: 44
- Percentage who say they do have an e-mail policy in place: 65
- Rank of Ontario, Alberta and Saskatchewan as the provinces having the highest exports per capita from 1999-2002, according to Statistics Canada: 1, 2, 3

Greater Saskatoon Chamber of Commerce

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The Human Resource Centre of Canada for Students is part of the Government of Canada's Youth Employment Strategy.



Dynamyic Hiring Climate Expected for Saskatoon

Saskatoon area employers expect a booming hiring pace for the 3rd quarter of 2005, according to the latest Manpower Employment Outlook Survey.

Survey data shows that 50% of employers plan to hire for the upcoming quarter (July to September), while 3% plan to reduce their workforce, stated Ted Castaneda of Manpower's Regina office. Another 47% of the city's employers expect to maintain their current staffing levels.

"Saskatoon's 3rd quarter Net Employment Outlook of 47% is a significant increase from the same time last year when the Net Employment Outlook was 24%," said Castaneda. *"It is a decrease from the previous 3 months when the Net Employment Outlook was 57%. However, a bullish hiring climate is still indicated for Sasaktoon area job seekers."*

Nationally, employers in the Mining sector report the most robust results for July to September 2005 period with a Net Employment Outlook of 38%. Employers in the Wholesale & Retail Trade and Public Administration sectors anticipate a healthy 3 month period with Net Employment Outlooks of 24% and 20% respectively, once seasonal variation are removed.

"The Net Employment Outlooks for the 1st three quarters of 2005 are the strongest consecutive projected Net Employment Outlooks since the 1st three quarters of 2001, once seasonal variations are removed," said Deborah Bakti, spokesperson for Manpower Canada.

Source: Manpower Media Release, June 14, 2005

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Biotech to Outpace Pharma, Says Deloitte

The boundary between the pharma and biotech industries will become increasingly blurred over the next 10 years, with the latter enjoying stronger growth.

According to a white paper released recently by the Life Sciences and Health Care practice at Deloitte, which was developed in collaboration with the Economist Intelligence Unit, the fastest growth will be seen in Asian markets.

"Widespread pressure to lower prices, along with increased competition, will speed up consolidation and convergence in the sector. Firms can no longer rely on internal resources to achieve their objectives," said Stuart Henderson, life sciences partner at Deloitte.

He said companies must establish a 'new ecosystem' through acquisitions, mergers, alliances and exploratory relationships in emerging markets. A viewpoint that is backed up by a survey published in the report which found that 92% of life sciences executives expect further consolidation in the next decade, with 82% expecting 'significant M&A activity'.

Most survey respondents expect biotechnology revenue to grow in excess of 15% annually over the next 10 years, compared to less than 10% growth for pharmaceuticals, mainly on the back of greater innovation from small, young biotech companies.

Consolidation and pharma-biotech convergence will stem from pressure - from consumers and governments - to slow the growth of health care costs.

More than 70% of survey respondents said stricter regulation of drug pricing and reimbursement will have the biggest negative impact on the industry in the next decade. Established firms will face strong competition from emerging markets, as companies in these markets evolve from outsourcers and generic drug producers to become formidable competitors.

Asian life sciences markets will expand faster than those of the USA and Europe, according to the white paper. Roughly half of survey respondents believe revenue growth in China and India will exceed 15% a year over the next decade, outpacing growth rates in the USA, Japan and western Europe, which are projected to increase at 10% or less annually, held back by pricing resistance.

The recent decline in the industries' reputation is a matter of great concern to the executives. A third of survey participants believe erosion of corporate reputation will affect long-term revenue growth and a lower proportion were worried it could result in more government regulation.

Source: *in-Pharma Technologist.com*

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Members in the News ...

Wardrop Engineering Inc. is celebrating its 50th Anniversary. The company is reflecting on its contributions to some of the world's most significant endeavours - from the International Space Station and mapping of the human genome, to managing radioactive waste, safely, and developing award winning infrastructure projects. In addition, **David Kelly, P. Eng.**, was recently awarded the prestigious honour of being named *Engineer of the Year* by the Saskatoon Engineering Society, and Wardrop has been honoured as a recipient of Shell Canada's prestigious national *Vendor Excellence Award*.

Saskatchewan Young Professionals and Entrepreneurs

(SYPE) recently announced the winners of their second annual *Silver Spade Awards*. **Pamela Lynn Ait-Allaoua** of Tot's Café was awarded the *Young Entrepreneur of the Year Award*, and the *Young Professional of the Year Award* was presented to **Merin Coutts** of Shaw Cablesystems Inc. The *Mentor of the Year Award* went to the **Regina and District Chamber of Commerce**.

Employees of **Teachers Credit Union** recently unveiled their new identity - **TCU Financial Group (TCU)**. While the Teachers Credit Union was originally formed in 1952 to serve only teachers, the credit union has now grown to include members of all professions. TCU Financial Group also launched their new slogan, *"We'll help get you there."*

The **Saskatoon & District Industry Education Council** and the **Saskatoon Construction Association** were recently presented with the Saskatchewan Labour Force Development Board *Training for Excellence Award for Education Partnerships* at the 11th Annual Training for Excellence Awards for the Summer Youth Internship Program. The program acts as a catalyst in bringing together parents, teachers, government and industry to invest in the workplace of the future.



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2005 / 2006

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The Greater Saskatoon Chamber of Commerce offers our members discounted rates on the most comprehensive, up-to-date employee and management compensation and employment practices surveys from Western Compensation & Benefits Consultants.

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The Greater Saskatoon Chamber of Commerce has arranged for compensation surveys to be available to Saskatoon employers. Western Compensation & Benefits Consultants (WCBC) is comprised of compensation and benefit professionals with significant regional, national and international experience.

From now thru September, WCBC is collecting data for surveys that will be released in October 2005. Participants save between 40% and 70% on the cost of the surveys. This is on top of the discount you receive for being a Chamber member!

For more information on participating in the surveys or if you need data now, please contact Linda Reid at Western Compensation & Benefits Consultants, (800) 781-2411, (604) 683-9155, Fax (604) 687-2315 or e-mail linda_reid@wcbc.ca.

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