



Industry Response to Government's Carbon Tax Question

Summary

Climate change is a serious global issue and has big implications for the North. That our diamond mines rely on a cold climate to support their seasonal ice road is one example of the exposure we have to climate change.

A carbon tax is one tool that is seeing increasing use by jurisdictions to reduce greenhouse gases locally, and it is worth investigating further to see what difference it might make in the NWT. There are other tools available and it would be helpful to understand their potential risks and rewards.

From a northern mining perspective, there are a number of facets of our industry that should be taken into consideration.

- Industry uses fossil fuels in the absence of viable energy alternatives;
- For a variety of reasons, our mines operate at a competitive disadvantage to southern mines. In addition, we are price takers and cannot pass increased costs on to consumers.

The Chamber of Mines would be pleased to assist the government of the Northwest Territories with further investigations – including into a carbon tax – to find the best path forward to decrease greenhouse gases in the North.

Introduction

The Government of the NWT has invited industry and other stakeholders to submit their more detailed thoughts on a carbon tax proposal, to augment discussions held at a workshop in October and a GNWT discussion paper distributed prior to that workshop.

On behalf of the minerals industry and its members, the Chamber of Mines submits the following thoughts on the potential effects on our industry. In essence, we recommend that more work be done to better understand the ramifications of a carbon tax and of other potential GHG-reducing tools, to ensure industry's and the NWT's needs are considered and protected in any final approach selected.

Challenging business environment

The minerals industry generates vital benefits through training programs, in supplying thousands of jobs, and in hundreds of millions of dollars in annual business spending, notably much of it is with aboriginal northerners and businesses. Companies also contribute significantly to communities through benefits agreements as well as corporate giving (donations) programs and initiatives. In so doing, the minerals industry is accountable for nearly half of the NWT's gross domestic product. If we are to sustain these benefits to the north, its residents, and to Canada, it is critical that we create the environment to sustain it.

Over the past 10 years, the NWT's competitiveness has fallen to one of the lowest in Canada. As a result, there are major regulatory improvement initiatives underway, as governments and regulatory bodies seek to make changes to provide investor certainty.

In addition, the NWT Government recognizes that the cost of living in the NWT is putting our economy at risk through its contributions to outmigration and reduced investment.

Proposing new taxes in such an environment should be done very carefully.

Establish principles

We believe that the Government of the Northwest Territories is supportive of maintaining and sustaining a strong and vibrant minerals industry for the benefit of northern residents, and that any actions which it considers will be done with that goal in mind.

Therefore, we believe it would be helpful and reassuring to investment certainty if the following *Principles* were established to guide government's work in addressing greenhouse gas reductions and climate change initiatives, including any possible carbon tax:

- Any actions considered to address climate change should be done with the understanding that it not diminish the investment attractiveness of the NWT to non-resource development;
- Taxes will be looked holistically and not in isolation;
- Any actions taken must demonstrably and technologically be able to lower greenhouse gas emissions;
- A combination of approaches will be assessed and a "stick" or penalty approach will be accompanied by a "carrot" or incentive;
- Credit be given to initiatives, actions and technologies that use fuel more efficiently, eg, a litre of diesel is burned at 75% efficiency in a diamond mine generator compared to only half that efficiency when the same litre of diesel is burned in a community generator.

Acknowledging our competitive disadvantage

While diamond mines in the NWT account for nearly half of the NWT's Gross Domestic Product, they manage to do so under difficult conditions that put them at a competitive disadvantage to the majority of southern mining operations.

As a result of lack of road infrastructure in the NWT, every year the three diamond mines must collaboratively construct their own seasonal ice road at an annual cost of around \$15 million.

With road access only available for approximately 2 months, the mines must purchase and store an entire year's inventory of supplies, including fuel, ammonium nitrate and cement to their sites. This working capital requirement adds significantly to the total capital investment in the projects and is tantamount to a resident having to buy an entire year's worth of clothing and groceries at one time.

The added lack of power infrastructure requires that mines produce their own power using diesel powered generators, require additional costs for equipment, manpower and systems to operate and maintain it, and not insignificant quantities of fuel.

As a result, mines must also invest significant moneys into facilities to store their annual inventory of explosive components, cement, fuel, etc.

In southern Canada, governments have invested in transportation and power infrastructure to support the healthy growth of their mining industry. They supply power for very competitive costs to support ongoing mine development that contributes to their economic and community health.

In comparison to the south, there is a significant cost premium to operate a mine in the NWT. The result is that southern jurisdictions are able to attract additional investment and to generate more opportunities from, for example, being able to sustain mining operations and to mine lower value mineral deposits.

Consider taxes together

Taxes are an important consideration for creating and maintaining an attractive investment regime for the non-renewable resource industry.

A tax change cannot be made in isolation; rather it needs to be understood within the context of the entire taxation regime.

We recommend that the GNWT study the potential effects of a carbon tax in the context of the entire taxation and royalty regime so as to understand potential effects on the overall investment attractiveness of the Northwest Territories.

Will a carbon tax be effective?

In selecting government systems to provide incentives for change, we must be sure that they will be effective at reducing greenhouse gas emissions.

Given the economic and operating characteristics found in GNWT, we are uncertain as to the effectiveness of a carbon tax in changing behaviours, simply because the system is relatively insensitive to price changes caused by a carbon tax.

We are not aware of any viable options to replace our reliance on diesel fuel to generate heat and electricity. With no viable options, applying a carbon tax will result in no appreciable reduction in greenhouse gas emission and therefore will simply become an added tax on our mines. This is a critical point. If there is no alternative to diesel fuel, a carbon tax will not change behaviour.

Further research should be given to alternative methods for using incentives for change.

In a revenue neutral approach that is being suggested, government has the ability to use and redistribute tax revenues to create incentives for change. There may be opportunities in the NWT for this and one potential area to find "carrots" may be in property and fuel taxes. The diamond mines are legislated to pay property taxes even though they receive no direct benefits from them. Since 2001, the three diamond mines have paid over \$90 million in property taxes. Over the same period, they have paid over \$65 million in fuel taxes. Some investigation could be done to use these taxes as incentives for change.

There must be more work done to investigate other alternatives or permutations to a straight carbon tax.

Industry is already doing much

For a number of reasons, the diamond mines in the NWT are already consciously working to reduce greenhouse gas emissions:

- Our mines are relatively new operations, with the first being constructed in the mid-1990s and the last in the mid-2000s. They incorporate many modern technologies to

operate efficiently. For example, while both the mines and most of our northern communities use diesel fuel to generate electricity, the mines do so at approximately 75% efficiency as a result of their capturing waste heat for their buildings. Diesel plants that do not capture waste heat operate at only half that efficiency.

- This raises a recognition that not all fuel burnt is equal and taxing each litre of fuel used in a diesel power plant would not acknowledge that some plants operate at twice the efficiency of others. We believe industry's investments in these higher efficiencies must be recognized in any GHG penalizing or incentive system.
- Operating mines in remote locations adds significant costs (as mentioned earlier) in buying annual inventories ahead of time, in transporting supplies over a purpose built road every year, and in storage infrastructure. These are all built-in incentives to reduce, recycle and reuse.
- The warm winter of 2006-07 reinforced this by raising the costs of materials further due to unexpected, higher air freight costs. As a result, mining operators naturally and willingly invoked fuel and energy conservation initiatives to further reduce operating costs. These initiatives live on today.

Recommended Next Steps

Climate change is occurring and the NWT will be one of the most affected areas. Society as a whole must move to a lower greenhouse gas emission pattern in conducting business. We support techniques that achieve that goal while taking into consideration local economics. Additional information is needed in order to determine the most effective mechanisms (e.g., carbon, cap and trade, etc.) to achieve this goal. In order to understand the appropriateness of possible mechanisms, we would like to see the following:

- A greenhouse gas emission profile that provides a current and forecasted greenhouse inventory for NWT so that we may understand where emissions originate;
- An emission reductions options list describing technologies or changes in operations that could be implemented in the NWT environment and an estimate as to their emission reduction potential and timeline for implementation given a range of pricing on carbon;
- A strategy for technology/operation implementation and how that balances against the greenhouse gas emission profile, commonly portrayed using 'wedge' diagrams.
- A discussion paper as to how, if a tax were implemented, the greenhouses gas emission reductions would be achieved, how the revenues from the carbon tax would be distributed, and the carbon tax's effect on the economy.
- An assessment of both incentive and penalty programs for promoting technology/operation implementation (e.g. carbon tax, cap-and-trade, participants in Western Climate Initiative, etc.) including how these programs may integrate with future Federal regulations and the economic ramification of each program.

This information would greatly enhance our ability to make more informed decisions about the application of emission reduction incentive and penalty programs and their effect.

We also believe that our way of doing business in the North is at significant risk because of climate change and that mitigation measures, although needed, will not be implemented soon enough to stop significant climate change. We would recommend that NWT begin to assess how climatic change will affect business and consider adaptation measures that will be needed to sustain a strong economy into the future.

Conclusion – More Work Must Be Done

Climate change is a serious global issue and has big implications for the North and our industry.

The NWT is a jurisdiction like so many others that must compete for investment, for people, for skills if we are to move any closer to being a “have” jurisdiction with an increased ability to look after itself by generating its own opportunities and consequent wealth.

Today, we know the NWT has fallen to one of the least attractive for mineral investment in Canada. Its high costs are also not helping attract the skills we need to advance. While work is underway to help change this, we must remain ever vigilant to ensure that we enter new initiatives that support our collective good work and our competitiveness.

The NWT and Nunavut Chamber of Mines is committed to assisting the government of the Northwest Territories with further investigations required to find the best path forward to decrease greenhouse gases in the North. We recommend that more detailed work be done to investigate benefits and risks to a carbon tax, to look at incentives as well as penalties, and to establish principles to ensure that the viability of our industry and our economy is protected while determining the best approach to reducing greenhouse gases.

A tall order to be sure, but one well worth the investment.

It will be good not just for our industry, but for all Northerners.
