



## Backgrounder – October 2, 2008

### GNWT Revenue Options Paper 2008 Response by NWT & Nunavut Chamber of Mines

#### Assumptions

We would like to point out some questionable assumptions contained in the short summary of the paper:

Page 3 “The NWT economy is expected to keep growing as major resource projects such as the Mackenzie Gas Project, construction of other oil and gas fields *and new diamond mines proceed.*” (italics ours). We are unaware of significant investment decisions that have been made that would lead directly to the development of new diamond mines, or any other mines, for that matter. The current cost structure, regulatory regime and the lack of transportation infrastructure have led to a climate of uncertainty that hinders investment. Exploration expenditures in the NWT have fallen in spite of a world-wide commodities boom.

Page 6 “Another general corporate tax increase could give the impression that the NWT is not a stable or predictable place to invest”. Some companies have already come to that conclusion. The 2007/2008 Fraser Institute Survey of Mining Companies lists the NWT fourth in Canada (behind Quebec, New Brunswick and Yukon) where the taxation regime means that companies would not consider investing in that jurisdiction.

Page 9. “Given the significance of the resource sector to the economy of the NWT, *the costs to the government of resource development...* (italics ours). We simply do not believe that new resource development activity results in a cost to government. We would like to see your government develop an independent cost/benefit accounting that includes new fuel, property, corporate, personal income and payroll taxes and also the attendant reduction in social program costs and increased rents to government. We are most concerned that continuation of the costs myth has led to a “We like development, BUT...” attitude on the part of government that is reflected in many government policy documents and statements by ministers and officials. We feel that this has fostered an element of fear of resource development in our communities that will continue to hinder future development of our industry, which has been the number one industry in the NWT since the days of the fur trade. Much of this fear is fostered by environmental concerns (often expressed by GNWT officials) that harkens back to an era of environmental laissez-faire throughout the world. Our modern mines are much different and operate to the highest international standards for environmental stewardship. We believe that this ambivalent (and sometimes negative) attitude works counter to the

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policy the government should foster of responsible economic growth for the benefit of all residents.

### **Revenue Options**

We are concerned that the paper is concerned with only one side of the Revenue/ Expenditure equation. Our member companies all regularly look for ways to reduce costs as well as increase revenues. We expect government to do the same.

Some possible initiatives that government should undertake:

1. Program review. Some questions to consider:

- are we doing the right thing? Is it achieving the expected outcomes? Can we do it more effectively and efficiently? Can we stop doing it?

2. Value for Money Audits

Some may be carried out internally but the Auditor General should be asked to do an overall audit of government programs and operations from a value for money standpoint.

The objectives would be to lower the costs to government and thereby lower the cost of government.

3. The GNWT once had an employee award program which rewarded employees who identified savings opportunities. The program should be restarted.

4. Explore possible means of encouraging people to relocate to the NWT. These should be considered as a last resort as they involve expenditures on the part of government. The most effective means to encourage in-migration is lowering the cost of living and promoting the benefits of our northern lifestyle. Some initiatives to be considered:

- relocation allowance
- mortgage assistance
- a GNWT northern resident's benefit
- remove long term residency requirement for Student Financial Assistance

5. The government should consider programs to assist and encourage immigration but the program should be mindful to balance this with continued programs to encourage northerners to obtain the skills necessary to enter the workforce.

6. The government should do everything it can to lower the barriers to private land ownership. The unfulfilled desire of obtaining a cottage lot is often stated as a reason to move out of the NWT. In addition, private ownership encourages the owner to add value to a property and thereby increase the value of the community.



7. The government should institute a labour mobility program to allow NWT residents in areas of underemployment to access jobs in other regions. This would be self-financing to government when consideration is given to the positive effect of reducing social assistance, increasing rents in social housing and the income tax collected.

A discussion of the proposal is detailed on the Chamber of Mines website:

[www.miningnorth.com/http://www.miningnorth.com/docs/LabourMobilityNorthMarketsMarch23.pdf](http://www.miningnorth.com/docs/LabourMobilityNorthMarketsMarch23.pdf).

### **Real Economic Growth**

We believe that the GNWT needs to quickly focus on encouraging and supporting real economic growth rather than seeking inflationary tax hikes. Here's why:

1. Costs are already high in the NWT and the rates of some increases are staggering. The latest Statistics Canada report for Yellowknife shows increases of 10.5% in shelter costs, 5.7% for transportation and a staggering 39.6% for fuels. The last is a serious challenge for mining as our operations use diesel in vast quantities for operations and for power generation. Our remote operations and the exploration sector are major user of all modes of transportation. In addition, the high cost of living affects our ability to attract and retain staff.
2. The diamond mines currently account for about half of the NWT GDP. In 2009, most of the capital investment in diamond mine infrastructure will have been completed. Mine production will peak in about 2013 or 2014. After that, activity, purchases and employment levels will begin to decline as production rates slow and the reserves are reduced and begin to be exhausted. It is important to the residents of the NWT that this peak be extended as much as possible. We hope to provide benefits to northerners beyond this generation. This can be accomplished by new exploration and reducing costs and thereby extending the life of existing mines. New or increased taxes will work counter to this.
3. Consideration should be quickly given to highway construction, hydro development and alternative energy sources such as nuclear power generation as means to reduce future costs and develop the northern economy. This would tend to reduce mining costs and extend the benefits that are currently enjoyed from diamond mining. History shows that infrastructure developed to serve industry lives on to serve communities. The NTCL barge system, Taltson hydro and Great Slave railway are some examples. The mining industry should be a key component of government planning input for these key infrastructure investments. Improved infrastructure could allow us to develop new mines offering different products to a resource-hungry world such as zinc, silver, copper, gold, bismuth, cobalt, iron, coal, uranium and rare earth metals.
4. Besides extending the life of the existing mines, the GNWT needs to play a key role in encouraging investment and removing other roadblocks to exploration. Currently, the regulatory regime is an overriding impediment to exploration. It is complex, inconsistent and costly for junior mining companies to negotiate and we

can provide current and specific examples of exploration programs which are not going ahead for reasons other than environmental. Low-impact grassroots exploration programs are now routinely referred to costly and time-consuming environmental assessment. The fate of the independent prospector in the NWT is doubtful as he or she simply cannot comply with demands for \$18,000 "consultation" meetings in communities. While the problem is not of the GNWT's making, your supportive input into the Northern Regulatory Improvement Initiative would assist industry in moving the process forward quickly. By encouraging exploration investment we could extend the number and variety of mined products to help us diversify our northern resource sector. In spite of a world-wide commodities boom, exploration expenditures are down in the NWT. This is unconscionable when one considers that the NWT is rated 19<sup>th</sup> of 69 jurisdictions world-wide in terms of mineral potential.

5. Another impediment to exploration investment is Parks and Protected Areas. These initiatives would declare vast areas of the NWT off limits to mineral and petroleum development. Currently, existing and proposed Parks and Protected Areas occupy 27.9% of the NWT. By way of comparison, this represents about twice the area of all three Maritime Provinces (N.S., N.B. and PEI). The next highest Canadian jurisdiction has about 10.4%. Alienation of this land from prospecting and mining will severely limit the ability of our industry to continue to provide the economic benefits currently being enjoyed by residents. When we consider that all the mines that exist or have existed in the NWT and Nunavut occupy about 3/1000<sup>th</sup> of 1% of the land, it seems that we are using a sledge hammer to swat a fly. The GNWT is a partner to the PAS and has considerable influence with the National Parks proponent through the MERA process. We ask that the GNWT immediately review the long term cost benefits of such land alienation. There are alternative means of protecting our rich and important natural heritage.

We wish to underscore our contention that the first priority of the GNWT is to examine ways to reduce the cost of government. In spite of our large area we find it difficult to reconcile that it requires almost 10 per cent of the population to administer the territory. We believe that a 5% cut to expenditures should be achievable through increased efficiencies that might be identified through program reviews. Privatization should be considered when it results in savings or improved efficiency. We believe that northerners faced with 40% fuel price hikes (and that's just Yellowknife!) will understand a bit of government belt tightening. The current labour market provides an excellent opportunity for staff affected by GNWT reductions to find excellent well-paid jobs in the north.

### **Economic Vision**

In spite of the importance of the mining industry, the government has developed no vision for its future. A Resource Development Strategy published several years ago was prepared without a single interview with mining industry people. The GNWT "National



Diamond Strategy” was announced to the northern diamond producers without any prior consultation and took many months of time-consuming, costly and unproductive meetings and discussion to repair. Infrastructure planning continues to ignore the needs of the industry that can offer sustainable benefits. The Chamber of Mines participated for several years in the NWT Business Coalition but when investment decisions were made about transportation infrastructure, we got a bridge we didn’t need or want that will add millions to our operating costs. Statements by the former Premier in opposition to a road through the Slave geological province ran counter to the stated interests of the mining industry. Why can’t Yellowknife be sold as a bedroom community for new mines in western Nunavut? Why can’t our NWT businesses be encouraged to seek new markets in Nunavut? Who is better equipped, skilled and organized to benefit from new developments in the north? All we need is a road north and a “Can Do” attitude.

There must be a new era of cooperation between the GNWT and our industry. The government needs to look beyond its borders and realize that it is part of the global sphere for opportunities, for markets, for labour, for costs of supplies and equipment and for competitiveness.

While we understand some of the GNWT’s frustrations with the slow pace of devolution; until it happens, the government needs to work along with the Department of Indian Affairs and Northern Development to develop and communicate a vision of support and encouragement for the mining industry. Resource royalties are only a part of the picture.

We also recommend that the government engage in further consultation with some key northern industry and business decision-makers such as the CEOs of our operating mines, our major northern transportation companies, CEOs of some petroleum companies and the business heads of aboriginal corporations. We would hope that increased consultation with business leaders will generate a vision for our economy that is sustainable and will benefit all northerners.