



**NWT & NUNAVUT
CHAMBER OF MINES**

October 2, 2008

Hon. Michael Miltenberger
Minister of Finance
Government of the Northwest Territories
Box 1320
Yellowknife NT X1A 2L9

Dear Minister:

Revenue Options Paper 2008

Further to your request for participation in the Revenue Options discussion, thank you for inviting our organization to participate in the Roundtable held September 23 and 24. After consultations with our mining and minerals exploration industry members, we have completed an analysis of your Revenue Options paper. The analysis is attached. The following summarizes its contents.

Assumptions

The paper makes some dangerous assumptions that are not accurate, painting a rosier economic outlook than we see. A dangerous mix of complex regulations, increasing costs, and less access to land holds the potential to seriously damage our industry and the significant revenues it generates.

Tax Increases

Tax increases of any kind should be avoided as they will add to the cost of doing business in the north and will increase the cost of living. The high cost of living is already forcing an ever-increasing number of people to leave the NWT; some to pursue other employment opportunities, some to live in the south while continuing to work at our northern mines. Increased taxes will exacerbate this situation.

The past 10 years has seen a significant number of businesses move to the north to work with our mining industry. Increasing taxes reduces their economic reasons for being in the north.

Since mining companies cannot pass on the cost of tax increases to their customers, any proposed increases will decrease project attractiveness. Increased corporate taxes or a new resources tax will further impede investment in northern mineral projects, already challenged by high costs, increasing alienation of land from exploration and lack of infrastructure.

Government Expenditures

Raising revenues is just half of the equation. The other half is cutting expenses. Our operating mines, also facing significant increases in the costs of mining, of fuel, of labour and materials,

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must themselves cut expenses to survive, as they have no option to increase revenues by passing the costs on to a globally-competitive marketplace.

Solid and proven economic theory teaches us that government should cut expenditures when the economy is strong, and increase them when the economy needs help. This is a time of unprecedented economic opportunity in the NWT and we currently enjoy an unemployment rate that is among the lowest in Canada. Now is a good time for government to reduce expenditures by reducing the size of the public service. Why does it require almost 10% of our population to administer our territory?

Other savings can be identified through program reviews and value for money audits performed by independent external agencies such as the Auditor General. The questions to consider: What can we do, stop doing, or do differently to cut costs.

The mining industry has already generated new revenues for government through significant property, fuel, corporate, personal, and payroll taxes. By providing new jobs, our industry has also allowed many residents to live without social assistance, reducing those government expenditures, while at the same time increasing government revenues through increased public housing rents. Some of our members have even helped government build new infrastructure at considerable cost savings. The new revenues we have generated far exceed any additional costs to government. Good money management should see government working within its means.

Developing a Northern Resident Workforce

Other means of encouraging the development of a skilled resident workforce should be considered. Some suggestions are detailed in the attachment such as relocation allowances, instituting an NWT labour mobility program, removing the long-term residency requirement for Student Financial Assistance and providing an NWT northern residents benefit.

Economic Vision

Despite the NWT's natural comparative advantage for non-renewable resources, mining investment is leaving. Lack of infrastructure, tremendously complex regulations, and the already high costs of working here are pushing investment away to other more attractive jurisdictions. Increasing taxation will not make the north a more attractive jurisdiction.

To turn this around requires leadership and vision. The Chamber would like to see the Government of the Northwest Territories create a vision for the future which would attract investment to capitalize on our natural mineral endowment to build a strong, sustainable mining industry well into the future. Such a vision would include low unemployment, high educational standards, environmentally sustainable ways of living in all our communities, and businesses flourishing by being the best in the world at mining in the Arctic.

The people of the Northwest Territories should not be relying upon a fond notion of a doubling of the economy based on projects not yet approved or ore bodies not yet discovered. Nor should northerners be contemplating returning to a government-based economy. We have to create the

future and this needs the proactive involvement of all stakeholders. To bring any vision to reality requires a firm plan based on realistic assumptions and a commitment from all participants to move forward.

In our current situation, this means involving the federal government as a key player in our planning and investment decisions. The Department of Indian Affairs and Northern Development remains our *de facto* mines ministry. It has a key role in regulation, land administration, negotiation of aboriginal claims and is a major investor through various programs. The federal government agenda is currently focussed on the north. As northerners, we must work together to capitalize on this opportunity.

With their land ownership and influence on land access growing, it also means involving Aboriginal governments in creating that vision.

Our territory needs major investment in roads, hydro and alternative energy sources if we are to expand or even sustain our fragile economy. With our small population, it is unrealistic to assume that we can finance this needed investment ourselves. The NWT has an opportunity to build on the federal northern vision and make it our own. The time has never been better.

Conclusion

To your government's question on whether increasing revenues is the correct approach, our industry concludes that the government needs to:

- live within its means by realizing savings over current expenditure levels in order to reduce the cost of living;
- encourage the development of a highly skilled resident workforce whose members are the best in the world at what they do; and
- develop a realistic and sustainable economic vision for the future around our non-renewable resources, by making the NWT an attractive economic investment destination.

Increasing taxes will not do that.

Yours truly,



Lou Covello
President

c Premier Floyd Roland
Hon. Bob McLeod, Minister, Industry Tourism and Investment

Attachment