

Alternatives North

Submission to

Pre-Budget Consultation Session

**Standing Committee on Accountability and Oversight
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Appearances:

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Part 1

Thank you Mr. Chairman for the opportunity to present our views on the Territorial budget to you and the rest of the members of Committee. My Name is Suzette Montreuil.

As you may know, on many occasions in the past we have been invited to speak to the Minister of Finance about the topic both before and after the passage of the budget.

It is important to note that oil and gas corporations are among the largest and most powerful corporations in the world. In part their profits are high in Canada because of government subsidies to the industry. Between 2000 and 2003, oil and gas profits were 2.92 times higher than the all-industry average. The royalties and taxes oil and gas industries pay are also relatively low. The royalties and taxes in Canada are among the lowest in the world and the rates in the NWT among the lowest in Canada. In the mining industry, the taxation burden is less than for other industries and comparable to mining industries in other countries. We know that the diamond mining operations in the NWT are hugely successful financially.

There is an ongoing debate over what share of economic rent from resource extraction should go to the general public in the form of royalties and fees and what share should go to the private corporations that extract the resources.

When it comes to capturing adequate economic rents from resource extraction industries, ownership is the key factor. Jurisdictions such as Norway that support joint ventures and state-owned enterprises are clearly more successful at collecting economic rent for the public purse.

Outright public ownership of oil and gas operations may not be a realistic option in the NWT at this moment but it is still worth considering in the area of diamond mining. You must not scoff at this idea. Countries like Botswana follow this principle and see much better returns for their diamonds than we do. Rather than relying solely on a high fixed royalty rate, Botswana focuses on obtaining for the nation a significant share of the profits from mining operations. This is accomplished by requiring, in addition to a modest royalty rate, that the government be provided, at no charge, a portion of the equity in the mining operation. This has yielded government a significant share of the returns in highly profitable operations such as diamond mining.

There seems to be a fear that increasing taxes and fees will drive industry away. We can look to Saskatchewan as proof that this is not so. In 1971, the Saskatchewan government significantly increased royalty rates and fees from the range of 10 to 12 percent to 50 percent of sales by 1975. The oil was there, the prices were high and profits kept flowing, a situation that is similar to the one we are in today. The oil corporations did not pack their bags and leave and the volume of oil extracted continued to increase until the world recession of 1981. During this period, the royalties charged in Saskatchewan were consistently higher than those just across the border in Alberta, but this did not lead to a flight in capital.

To use a more current example, Venezuela recently dramatically raised resource royalties and is now demanding more national control over all resource development. Their president, Hugo

Chavez, was asked recently whether their action had discouraged investment. He replied that they were still practically having to fight off interested investors.

We also often hear the argument that royalties and fees need to be lower in the NWT because of our higher production costs. In a recent study by the Pembina Institute, they found that “Alaska obtained higher revenues from oil and gas developments relative to Canadian regions despite having higher production costs and comparable resource values”.

We understand that the process for obtaining more revenues from oil and gas or mining is complicated by our formula financing agreement and we understand the new terms for our agreement are not yet complete. If and when devolution arrives, we need to be ready to address the paltry nature of our royalty rates. Simply getting control of Federal royalties at their current low rate would not solve our financial worries. At the same time that we lobby the Feds for northern control, we should also be reminding the Government of Canada that they are giving our resources away.

Even with our current limitations, we still have several other options for raising revenue now including introducing an effective system of taxes and fees that would not be subject to federal clawback.

These include:

> A surtax on high-profit resource corporations

Norway has a 28 percent tax on profits plus an additional tax of 50 percent where there are “Situations of extraordinary profitability”. This tax is explicitly designed to capture excess profits from oil and gas companies. It could be used in the NWT for oil, gas and mining activities that meet the criteria of excessive profitability.

> A hydrocarbon or carbon production tax

Taxes on raw extraction are more objective than taxes on profits as companies have many ways of manipulating their profit margins. These environmental taxes also help to internalize environmental costs and support the polluter-pay principle. The revenue from such taxes can be used to invest in more environmentally friendly projects. Alaska has a tax on production that allows it to capture more of the economic rent that is available.

> A capital investment tax

Nine jurisdictions in Canada have a capital investment tax. The GNWT does not. In the same light, the GNWT should review its property tax mill rate to ensure you are capturing fair economic rent from industrial activity.

The GNWT would be wise to use a portion of the revenues achieved through such initiatives to establish a permanent Heritage fund. This would provide a tool that could help future generations mitigate against the boom and bust cycles inherent in natural resource extraction industry. Such a fund could also be used to help the Territories transition from fossil to renewable energy sources,

and provide a stable and long term revenue stream for public uses as resources are depleted. Without such a fund, government spending will mirror revenues and become dependent on the volatile and unpredictable prices of oil and gas and other commodities.

The AOC should strike a subcommittee that is charged with reviewing potential options for raising revenues. Alternatives North would be pleased to work on such an objective.

Northerners, to put it bluntly, are giving our resources away to corporations, many of which earn more profit in a year than the entire budget of our government. This we do against a backdrop of ever worsening social problems and statistic evidence that places us at the top for negative social indicators.

Oil and gas are finite resources, and if anything, will increase in value if left in the ground for the next generation. We need to be sure we do it right. There are serious environmental costs associated with oil and gas extraction and use, especially green house gas emissions and climate change. The industry is very capital intensive and profitable, and yet, in the end, it creates very few permanent jobs. So making the most of the economic rent from oil and gas is really the only benefit we can hope to gain from these activities.

On the diamond mining front, though the number of jobs created is higher, a fair share of the economic benefits that arise from this activity must come to governments so that we can afford to pay for the many services they and their workers require.

I would like to quote Eric Kerans from a study he did for the Manitoba government. “A developing nation, a province or a colony may be rich in its beginning but when that wealth is depleted through the poverty of its policies, nothing remains of the original endowment but the instability, dissatisfaction and political unrest arising from poorly conceived policies.”

Sources:

Budget Address, Northwest Territories 2004-2005, March 2005

“Bankrupting the North With Resource Extraction: A Royal Rip Off”. Cizek, Petr. June 20, 2003

“Natural Resources and Government Revenue: Recent Trends in Saskatchewan”, John W. Warnock, ISBN 0-88627-440-0

“When the Government is the Landlord: Economic Rent, Non-Renewable Permanent Funds and Environmental Impacts Related to Oil and Gas Developments in Canada: July 2004, Pembina Institute.

“Why Botswana Prospered”, Paper for Presentation at the Canadian Economics Association Thirty Fourth Annual Meetings, UBC, June 2005

Introduction to Part 2:

Thank you. my name is Ben McDonald. Ms. Montreuil’s comments give the context for what I am going to say. In a nutshell, Alternatives North believes that elected officials who say good

quality public services are not affordable are - to speak plainly - wrong. The only reason the GNWT may face a shortage of resources for needed services is due to a lack of political courage and will. Money is flowing out of the north at a prodigious rate. We may not have authority to charge royalties on the extraction of the non-renewable resources that underpin this outflow, but we do have many other options available to us for stem a “fair” portion of this flow for the benefit of northerners in all their communities.

This second part of the Alternatives North presentation, will be comprised of a section containing general comments about the overall strategy and priorities of the Government of the Northwest Territories, and of this committee. Following that, a number of more specific matters will be addressed.

PART 2 Section (a) - GENERAL COMMENTS

General Comment #1

The available planning documents suggest a lack of adequate focus on the looming impact of the Mackenzie Gas Project. Throughout the materials available as part of this Committee consultation exercise, one can see areas that no doubt result from efforts by the Legislature to get ready for this project. But what is being done is nowhere near enough. Ten years after the (now virtually inevitable) regulatory approval of this project, the Northwest Territories is going to be unrecognisable. There is going to be a huge influx of people leading to serious social disruption in our communities, as well as significant environmental damage. To date, the GNWT has been so much a cheer leader for this project that we fear there has not been sufficient attention paid to its attendant negative implications.

It is clear that the way the GNWT has decided it will “get ready” for this project is through public investment in physical infrastructure (roads, airports, etc.) that will facilitate its eventual development and operation. We need to take a broader and more realistic look at what we can expect from the project.

We recommend that this Committee pursue the creation of a special committee or working group mandated to realistically and critically look at readying the people and communities of the NWT for the coming project. There needs to be planning for, and investment in, health and social services infrastructure and programmes so that all northerners - including the poorest and least powerful in the smallest communities, can cope with the change that is coming. We cannot wait for the \$500 million in social infrastructure promised by the federal government if the project proceeds. By then it will be too late.

General Recommendation #2

The available background materials suggest that the Committee and Government are not taking

environmental and energy issues seriously. One only need to look at the news from across Canada and around the world - stories about droughts and floods, forest fires and mud slides - to know that something drastic needs to be done right now to try to deal with climate change. Current stated priorities intended to try to control the price of fuel in communities, or suggestions that hydro mega-projects can be pursued as long as the power can be sold, are simply not good enough anymore, however reasonable and important they may be on their own. The Legislature needs to start looking at the big picture.

The previous government spent two years developing an energy strategy. By the time the report saw the light of day it was so watered down that it was virtually meaningless and probably deserved to be put on the shelf upon which it now rests. But an environmental and energy strategy - one that provides for a good living standard for our people within the limits that nature will impose - is just what this territory needs.

We recommend that this committee insist that the government take environmental matters more seriously by making it one of its highest priorities. Thinking outside the box is going to be needed. For sure, a “business as usual” model for our future development is a recipe for real disaster.

General Comment #3

Alternatives North does not see in the current government plans a sufficient commitment to eliminate poverty in the NWT. As we have said before, calls for “self-reliant” people with the “opportunity” for a good life inevitably means that many will fall through the cracks. The GNWT needs a specific, comprehensive strategy to end poverty now. Although some who are presently marginalised may be able to rise to self-reliance by the simple provision of opportunities, not everyone will. Non-punitive, non-stigmatised support and transfer payment programmes forming a tightly woven social safety net are what is required.

There are also short term fixes that must be implemented. First and foremost, you must stop the shameful clawback of National Child Tax Benefit Supplement. Alternatives North has made this recommendation repeatedly. It punishes the weakest among us. For a fuller discussion of this issue, I draw your attention to the brief prepared by Alternatives North for Minister Dent in February 2004.

Finally, income support rates provided for food need to be increased immediately, and provision should also be made for the purchase of basic necessities such as phone service, toiletries, personal care items, etc.

PART 2 Section (b) - OTHER COMMENTS

I will now move on to a discussion of specific elements of the priorities and objectives of the GNWT, and of this Committee, as found in the discussion materials distributed. I will first address matters found in the general discussion materials distributed by the Committee. Then I will comment on parts of the Committee Report on Progress on Committee Priorities and Objectives dated June 2, 2005.

In the document entitled *Where does the GNWT's Money Go?*, there are a couple of sections that draw comment.

1. The proposed Centre of Expertise for infrastructure financing and leveraging

Alternatives North has serious reservations about the long term value of most public-private partnerships. This is especially so when the service or operation being P3'd is a core public service. Alternatives North rejects outright the privatisation of water and sewer services, of roads and highways, of community recreation facilities, etc., regardless if that contracting is camouflaged as a public-private partnership. There are two reasons for this stance.

There is a lack of hard evidence to show that P3's provide real cost savings to the taxpayer over the life cycle of a P3'd facility or service. To ensure their quality and accessibility such services must remain completely and directly under the control of responsible elected governments.

Instead of spending \$125,000 to establish an agency designed to foster what is effectively nothing more than privatisation of public services, the GNWT should be establishing programmes to ensure communities are well enough financed that they can deliver for their citizens. Direct funding programmes could be paid for through taxes on resource extraction industries and the most affluent northerners, by the sale of bonds or other instruments to northerners or to others, or by other means.

Alternatives North does acknowledge that the arbitrary borrowing limit imposed on the GNWT by the federal government must be changed but maintains that there is still room within the current fiscal framework for creative solutions to community needs for capital and services that are much better and more desirable than a programme dedicated to arranging P3's.

2. Funding to the Bureau of Statistics for cumulative effects analysis

Alternatives North endorses this initiative. So-called General Progress Indicators or General Wellness Indicators must replace the crude use of the Gross Domestic Product as an indicator of social and economic value. There are a variety of such indicators presently under development by agencies and governments in Canada. Rather than reinvent the wheel, the GNWT should assess existing options with a view to participating in the continued development of the model that seems most appropriate to our needs.

3. Protecting the Natural Environment

A couple of the spending initiatives under this category are efforts by the government to protect the environment from future gas and mining developments. Alternatives North believes that industry, not the taxpayer of the Northwest Territories should be funding these initiatives. We have already mentioned general ways by which funds could be collected from industry. We also recommend that the GNWT consider the implementation of fee-for-service regimes when it can be shown that a programme is being undertaken for the benefit, or as result of a specific industry-driven need.

To address the specific Priorities and Objectives of the Committee and Government, I will now turn to the June 2005 Progress Report.

1. Restructuring the GNWT's Internal Human Resource Service

Labour affiliates to Alternatives North generally endorse this initiative. Although some services that involve the need for a higher level of expertise (benefits administration, pensions, etc.) would benefit from centralisation, others, such as recruitment, may not. We encourage the GNWT to consult closely with the Union of Northern Workers about issues that will arise during implementation.

2. A Reconsideration of Past Reports and Recommendations on the GNWT's Affirmative Action Programme

This review is overdue. "Revising policies," however, may not be as important as creating well-designed and well-funded programmes to assist members of disadvantaged groups to acquire and then hold on to employment in the public service. "Wishing" for a representative public service is not going to make it happen. Twenty years of experience show this to be true.

3. Cost/Benefit Analysis of Business Incentive Policy

Alternatives North encourages this analysis to be done. We also draw your attention to the brief on the Policy submitted by Alternatives North during the last review. It contains commentary still relevant today.

4. Increased Investment in Early Childhood Development Programmes

Alternatives North endorses the present campaign to have the funding available under federal childcare programme increased to better meet the needs of northerners. The present formula is simply unacceptable.

This being said, there are still improvements in the existing programme that should be made regardless of federal support payments, including:

- Change O&M funding for childcare centres so that they are funded on a programme basis with the amounts based on the total number of spaces available rather than on daily attendance. The current regime harms centre viability by penalising them when children don't attend (for various legitimate reasons). Centres are running too close to the line to suffer unforeseen revenue drops in this way.
- Funding formulae must be sufficient to allow the recruitment of qualified staff in small communities.
- Aurora College should be funded to offer an early childhood certificate/diploma programme that includes courses on the management of centres. There may be an opportunity to deliver such programmes on a co-op basis, with the students' work experience time also serving to provide needed expertise and support to existing centres. Such a programme would need funding to support students while they were on their work terms.
- Change the *Daycare Act* so that all licensed centres must have at least one certified Early Childhood staff member. A programme to assist the centres to achieve this goal may be required.

5. Increased Investment in Trades and Apprenticeship Programmes

It is not unreasonable to expect larger projects and operations in the North to assist in the development of our people by making apprenticeship opportunities available to them. Incentive programmes could be devised to achieve this end but Alternatives North believes that other, more appropriate tools may exist. Tenders for government work involving the use of tradespersons should incorporate a requirement that apprentice positions be created. The number and nature of the apprenticeships could be adapted depending on both the size and needs of the individual project, and according to the forecast needs of the territorial labour market. The GNWT should implement the same programmes when negotiating with resource extraction companies before giving them the right to exploit northern resources.

Territorial affirmative action programmes should have application in such situations.

6. Development of a Hydro Project on Bear River

In its report, the Committee offers "cautious" support for the proposed Bear River mega-project. It is not clear on what considerations the apparent reservations may be based. Alternatives North sees this proposed project to be in the "more of the same" school of thinking about economic development. Mega-projects mean mega-disruption to people, to communities, to wildlife and to the environment. There has not been sufficient public discussion of alternatives to this sort of development. Support for them should be withheld at this time even if customers for the power can be found. Alternatives North understands that there is a need for development - probably even

hydro development - to provide for the livelihood of northerners. It is not convinced, however, that mega-project developments are the best alternative.

7. Affordable Electric Power

There are two ways that a given good or service can be “affordable”. One is by price control mechanisms; the other is to put sufficient resources into the hands of the consumer that he or she can pay the true cost. When it comes to the provision of goods and services that can and should be conserved, including electrical power, it makes sense that market mechanisms, i.e., higher prices, are allowed to come into play. Of course, electrical power is an essential service in the modern world and it must be treated as such. No household should be deprived of it because they can’t afford to pay. But rather than a straight subsidy to reduce energy prices below their true costs, the Committee should consider recommending a creative programme that helps out consumers and encourages conservation. Why not put the necessary funds into the hands of consumers in a way that allows them to keep extra benefit should they reduce consumption and conserve? This might be achieved at no greater cost than traditional price subsidy programmes, including the existing Hardship Allowance programme. Suggestions for workable programmes could be made.

8. Establishment of Addictions Treatment Centres

Alternatives North acknowledges that there are too many northerners suffering from addiction to drugs or alcohol. But rather than spending money on the bricks and mortar of treatment centres, a better solution may be to provide more support resources in communities. This may mean more social or youth workers, more addictions counsellors, better housing programs, projects that result in meaningful work, etc. Taking troubled individuals out of their normal milieu, “treating” them, and then returning them to the situation that originally led to their difficulties seems counter-productive. The social investment recommended here also seems to be fully in keeping with the first of the New Priorities and Objectives developed by the committee in its April 2005 planning workshop:

> Increased programming for drug and alcohol addictions rehabilitation and treatment

9. New Priorities and Objectives

In a couple places in the documentation priority is given to

> Oversight of public service growth, particularly in light of the impact of future self-government implementation.

Although we can understand the reasoning for this objective, Alternatives North cannot endorse it. Depriving northerners of currently needed public services because the ultimate delivery of the service may devolved to an Aboriginal government in the future makes no sense. If the service is needed now, it should be provided now - full stop. Should there be a need for organisational change in the future, the GNWT has all the tools it needs to deal with it at that time. This objective

should be deleted.

10. Missing priorities

> Literacy

The GNWT must make overcoming illiteracy in Northwest Territories a separate priority.

> Information and Communication Technologies Infrastructure

One of the means by which the GNWT might be able to foster high quality employment in smaller communities is through the provision of broadband services. The Committee should identify such an objective as a priority. Although not directly on point, the government's recently announced choice to decentralise to the local communities the decisions about how to spend available special infrastructure money means that infrastructure, such as that involving ICT, will be that much harder to implement. Alternatives North is not suggesting that the planned distribution to communities of the currently available \$35 million should be reversed. We do want to make the point, however, that some critical community infrastructure can and will only be made available through territory-wide initiatives. ICT is but an example.

Concluding Comments:

Alternatives North commends the Committee for its initiative to consult with citizens early on in the budget review exercise. Assuming that the input that has been provided in this presentation is the sort that was desired, the background information distributed was useful in providing a focus. As long as citizen advice is incorporated into decision making, Alternatives North recommends the continuation of the process.

Before closing we would like to make one further point. When preparing this presentation, Alternatives North found that certain of the stated government priorities may be of sufficient importance to us in the future that we would like to be able to make further interventions. These areas include (at a minimum):

- > the review of Boards and Agencies*
- > the review of the Housing Corporation and certain housing programmes*
- > the review of the Workers' Compensation Board and Act*
- > the review of the Residential Tenancies Act*

As these and other matters in the materials and presentations develop, we hope that we will be given the opportunity to provide input, and that we have the resources necessary to respond when we're asked.

On behalf of Alternatives North, and Ms. Montreuil, thank you for this opportunity to assist you in your deliberations.