



# *Alternatives North*

Dennis Bevington, MP Western Arctic  
P.O. Box 1986  
Yellowknife, NT X1A 2P5

March 27 2008

**RE: Alternatives North's comments on *Diamonds Are Forever: Our Mines Are Not***

Dear Mr. Bevington:

Alternatives North (AN) welcomes your efforts to begin a public discussion about the role that diamond mines should play in the North's development. The matter is one of great public interest and we are pleased to see an effort to broaden the debate in a way that is based in serious and realistic analysis.

By way of a general observation, AN believes that your effort would have had more strength and utility if it had been couched in a sustainability assessment framework. Such an approach would likely have proven to be more helpful in the long run and may have led to even better results that were more consistent and comprehensive. A greater focus on how to better distribute current benefits and to build a more sustainable economy - with a contribution from diamond mining - would have yielded more recommendations and perhaps a strategy towards sustainability that included a permanent or heritage fund. In many countries, heritage funds have served to maintain the value of publicly owned natural resources when they are monetarised through development by private corporations. Appropriate changes to formula funding arrangements and/or a devolution agreement that properly promotes and rewards self-sufficiency would support such funds. AN would have appreciated seeing both this methodology and this direction in your work.

Secondly, although the discussion paper is a good start, AN suggests that there is still much more analysis to be done about the diamond industry and its costs and benefits for residents of the Northwest Territories (NWT). We encourage you to continue your efforts to get this work done before the diamonds are gone and it is too late.

And our final general comment: while many of the recommendations may lie squarely within the authority of the Government of the NWT (GNWT), AN believes that the federal government has a large role to play in this area. Your report would have been stronger and more helpful in advancing the debate had it spelled out these responsibilities more clearly.

Specific Comments:

Our careful and critical reading of your discussion paper has led us to make the following series of specific observations:

- A plain language summary or even an Executive Summary would have been helpful in reaching a greater number of residents.

- Page 5, second paragraph references 'high taxes' as a challenge mentioned by the industry. There is no evidence to support such a claim. Independent work and analysis conducted by the Department of Indian Affairs and Northern Development (DIAND) and by others, shows that the economic rent (taxes and royalties) from NWT resource development is relatively low compared to other jurisdictions in Canada and the world. Diamond mining in the NWT from the two major mines first in production is particularly profitable. These mines were able to pay off their capital construction costs in as little as 2-3 years, a phenomenally short period for any mining project. We acknowledge that production costs are increasing as the mines shift to underground production but the best diamonds have already been mined from Ekati, leaving diminishing opportunities to institute a fairer economic rent regime.
- In the third paragraph on page 5 you rightly draw attention to the fact that the NWT economy is becoming ever more dependant on the diamond industry. In the view of AN, northerners deserve to understand the outcomes that have been experienced around the world when an economy becomes unbalanced due to large resource extraction industries. This so-called "resource curse" is well documented but rarely mentioned by governments and the proponents of individual projects and industries. In our view, your paper would have been stronger had it detailed these impacts.
- Page 6, the focus appears to be on improving northern resident employment. Some greater analysis of the northern labour force would have been helpful as we are of the view that it has largely been maximized already. There may be some opportunities to provide some better regional distribution of employment but there are other ways to build sustainability through permanent funds or reinvestment of economic rent into more sustainable economic activities. Specifically, AN questions the wisdom of allocating any resources to the encouragement of more immigration to the NWT, especially of workers for employment in non-renewable industries. It is better in our view to regulate the labour demands of industry so that existing northern labour can meet it. Not only would this strategy bring benefits to northerners, it should also serve to stretch out the life of mines.
- Page 7, some analysis of the erosion of the Northern Residents Tax Deduction against the consumer price index would have been helpful to support the claim for an increase.
- Page 8, first bullet mentions that the NWT has lower health care premiums than other jurisdictions. In fact, the NWT does not have any health care premiums. Some examples or analysis here would be helpful to impart how worrying the current situation is, such as the fact that there are apparently 1200 more health cards extant than there are residents. One must also wonder whether any of these "phantom" northerners are counted at all when the federal per capita grant allotment is calculated, and if so, the risk they represent to the GNWT's fiscal situation if they are to be removed.
- Page 9, a ratio of one apprentice for every skilled tradesperson is mentioned as a target. Is this an industry standard and practicable?
- Also on page 9, in the second full paragraph, it is asserted that "[t]he use of contractors cannot be discouraged..." AN agrees, just as your paper observes, that the use of sub-contractors by employers is often (if not primarily) to arrange affairs so that workers are paid less. Contracting out, in fact, is a common way by which employers co-operate to more intensively exploit the labour force. A government concerned about the interests of working people could – and should – discourage contracting when this is the goal.
- Page 10, while some improvements to the education system are discussed, a concerted strategy is required, including the establishment of a new university that is so obviously needed in Yellowknife. AN believes that from a policy perspective, the

public sector, using public resources, is obliged to provide education to the population. Job training, on the other hand, while often properly delivered through public institutions, should be funded in major part by the industries that benefit from the service. The more directly and specifically an industry benefits from a certain training program, the more directly and specifically it should pay for it. For greater clarity, corporate income and other taxes, as well as royalties, pay for education; fees or special taxes should pay a significant portion of publicly provided job-training programs.

- Page 11, there is no analysis of possible shortcomings of the current rough diamond supply agreements and capacity of the NWT. Considering their cost to government and apparent problems, this is a serious gap. Although we agree that there should be efforts towards diversification and secondary industries, they should be realistic given the labour costs in places such as India and other diamond cutting and polishing centres. Certainly we do agree that a high-end decentralised diamond jewellery industry that builds on the artisan traditions in the NWT deserves greater attention.
- Page 12, in the first paragraph, the campaign for pay equity uses the phrase "equal work for equal pay." Unions and women's organizations have found this designation doesn't offer justice to women. Instead, pay equity has come to be defined as "equal pay for work of equal value." This is the terminology utilized in the federal human rights sector.
- Page 13, reporting some successful examples and solutions where women were, in fact, encouraged and promoted in the mining industry would have been helpful, for example, building on the lessons learned in places such as Voisey's Bay and northern Saskatchewan.
- Page 14, no evidence is presented to support the views of industry that water licensing is an overly onerous process. The industry is not responsible for "training" Board members for the Mackenzie Valley Resource Management Boards as this is done by the Boards themselves. The Boards work together reasonably well given the inadequate support provided by the federal government.
- Page 15, there are also legal requirements for benefit agreements under the Nunavut Land Claims Agreement. Although DIAND plays the major role in Board recommendations requiring Ministerial approval, the consent of GNWT is also required wherever they may have jurisdiction or an interest.
- Page 16, although most provincial governments may have a working relationship with the mining industry, the public is often excluded. That is one of the advantages of the current regime in the Mackenzie Valley, if it was properly funded and implemented. We agree completely that there needs to be a much stronger role for the public interest in setting and monitoring the rate and scale of mineral production to maximize NWT benefits but some details on how this might be done, or examples from other jurisdictions where it has been tried, would have been helpful. For example, the Newfoundland and Labrador provincial government insisted that the Voisey's Bay mine not operate as an open pit, high-grade operation, and required Inco to process some of the ore within the province and to develop new technology locally.
- Page 17, the mining royalty regime was reviewed by DIAND in 1996 just prior to the opening of the Ekati diamond mine. The major change resulting was to finally get rid of the three-year royalty holiday at the beginning of a mine. Otherwise changes were 'revenue neutral'. There was no serious effort at the time (or since) to raise any additional funds for the public purse.
- Page 17 box, part of the problem is that there is no clear 'regulator' over the life of mine plan. The current system is totally market and operator driven the interests of which are often at odds with those of the public. Although the GNWT may make

"claims with the federal government for compensation from their windfall royalties and taxes," such a statement does not recognize two facts. One, the current economic rent regime for diamond mining is totally inadequate. Two, the GNWT has the power to levy its own taxes to ensure a fairer capture of economic rent but has refused to exercise its jurisdiction in the public interest. The discussion paper should have acknowledged these points and suggested measures for GNWT to begin to capture a fairer share of revenues such as a mining or resource tax, a capital investment tax or other measures.

- Page 18-19, there is no guarantee that a provincial style regime for mining will do anything to improve the capture of economic rent. In fact, GNWT has had continuous opportunities to put in place a better rent capture regime but traded this off for weak commitments to supply rough diamonds in the hope of developing a secondary industry. As further evidence, in the case of another resource extraction industry – oil and gas, GNWT gave the industry a shameful "letter of comfort" and failed the public interest in its cheerleading for the Mackenzie Gas Project during the environmental assessment process. GNWT has also not articulated any coherent vision, goals or principles related to devolution that encompass sustainability or notions of the public interest. Some discussion of the potential for, and possible models of, a permanent or heritage fund would have been helpful in this section of the paper too.
- Page 20, references to Aboriginal claimant groups should be replaced with Aboriginal governments. So-called 'claims' have largely been settled and should be referred to as agreements or rights.
- Also on Page 20 is a discussion about the prospect of using hydro for the diamond mines rather than continuing with diesel. From a climate perspective this alternative does seem to have merit. AN wishes to make the observation that in our zeal to make this transition to a cleaner fuel that we should not end up effectively offering a further subsidy to the industry. We may want them to convert to hydroelectricity but not at any cost. If the mines are going to utilize another public resource in their operations, they should be charged a fair price for it. These will be complicated negotiations, and they should go ahead, but they need to be pursued soberly, and with the public interest always in mind. Ultimately a regulatory or legislated solution might be required.
- Page 21, while we agree that a national diamond strategy is probably a desirable goal (indeed a general industrial strategy – one that could incorporate diamond mining - is long past due) some basic elements or listing or details of what such a strategy might contain would have been helpful.
- Page 22-23, as a general comment regarding recommendations there is no sense of priorities or timing among those listed. Some monitoring and a formal reporting of progress would also be helpful. The role of the federal government could have been spelled out more clearly. Our specific comments regarding the recommendations are below.
  - Re: Recommendation 6 – AN acknowledges that a solution to the Territories' housing crisis is needed, for the general population as well as for mining industry employees. We are concerned, however, that the means contemplated for phasing or staging the solution is elitist, apparently offering housing to those likely to have the highest incomes, such as managers and skilled trades people.
  - Re: Recommendation 7 – AN would like to enhance this recommendation with the thought that the development of innovative hydrogen-powered underground mining equipment might represent an opportunity for an enhanced research institute as has been discussed recently.

- Re: Recommendation 8 – Earlier in this letter we described our concerns with the rapid transfer of mining controls to the territorial government. We understand that the government is democratically controlled but we nevertheless have concerns that it has shown insufficient concern regarding the trade offs between resource extraction industries and the public interest. Therefore, although we endorse the recommendation it is done with serious reservations that it will take us out of the pan into the fire, unless there are significant changes.
- Re: NEW Recommendations – There must be immediate action taken to start to set aside for future generations a reserve or permanent fund that is built from economic rents on current resource extraction industries.

As stated at the outset, we do appreciate your efforts to create a debate about diamond mining in the NWT. As you say in your paper, the production process now underway in the industry is nothing like that which was contemplated during the planning and permitting stage. We believe the issues you raise, augmented by some of the thoughts we offer above, need prompt attention before it's too late.

Sincerely,

A handwritten signature in black ink, appearing to read 'Shelagh Montgomery', written in a cursive style.

Shelagh Montgomery  
For Alternatives North