Irlbacher-Fox: Gahcho Kué Economic Impacts and NWT Devolution

Posted by ***Stephanie Irlbacher-Fox*** *on* ***May 04, 2012*** *in* ***Articles, Lands and Environment, Stephanie Irlbacher-Fox***

Our NWT political correspondent, Dr. Stephanie Irlbacher-Fox, on devolution in the NWT, the Gacho Kué Impact Review Panel, and its economic impacts.

The Mise En Scene

On May 01, 2012, the GNWT tabled a report to the Gahcho Kué Environmental Impact Review Panel entitled, Evaluation of the Economic Impacts of the Gahcho Kué Diamond Project. The report

> focus is on the implications for gross domestic product (GDP), income, employment and government revenues in the NWT and Canada as a whole. This analysis measures the impacts on these variables and, unlike cost benefit analysis for example, does not address efficiency issues. (Page 2)

The report then goes on to list various economic statistics. They are pretty confusing, and if you are not an economist it is a bit of a slog having to look up different economic terms of art. The upshot of the report though is this:

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> the diamond mine will have a significant economic impact. Over the life of the mine, hundreds of jobs will be created, about $4 billion will be added to the national Gross Domestic Product (GDP). According to the report: "In the NWT, the total GDP impact would be about $150 million and 760 jobs would be created for NWT residents. About 85% of those jobs would be generated in the main construction years of 2015 and 2016 creating about 325 jobs per year. Given recent NWT employment levels, this would represent about a 1.5% increase in overall employment. (Page 5)

Do Gross Domestic Product Numbers Mean Anything?

Before I go further, explaining GDP is in order. An approximate definition of GDP is the market value of all the goods and services produced in a country within a specific period. It is used as an indicator of standard of living: the assumption is that if GDP goes, up, everyone's standard of living goes up. But not necessarily.

We know in the NWT that is not the case. Big mines, big resource extraction projects – their benefits accrue to some in a big way, but to most either in a small way or not at all. Here is the pecking order:

- The resource extractor: they pay royalties (the NWT has the lowest royalties in the world), and costs of production, then sell the resource at a profit. A mine is "economic" when they can make a profit at a level that is worth it to them.

- The Government of Canada: gets all of the royalties; gets all the corporate taxes, gets income taxes. They also hand out various corporate subsidies and tax benefits, but that is another story.

- The Government of the NWT: gets no royalties. They get some taxes, and can tax income on residents, and again on residents and non-residents alike through that lovely payroll tax salaried workers contribute to. They also hand out various subsidies and corporate tax breaks.

- Aboriginal rights holders: if the mine is in your traditional territory, its likely you will get an Impact Benefit Agreement (IBA). That will see several communities sharing yearly cash payments, job quotas, and training opportunities; maybe a few scholarships as well. Terms of IBAs vary.

- Dene Land Claim signatories: there is a provision in the Dene land claim agreements that entitle them to 7.5% of the first $2 million of resource royalties from the Mackenzie Valley each year, and a further 1.5% of additional resource royalties per year.

The problem with these big resource projects is that the circumstances of the NWT make economic impacts a bit uneven, and this is why GDP is not terribly meaningful an indicator. Many communities have high levels of unemployment, significantly limited telecommunications infrastructure, and education systems that are not producing grade 12 graduates who can function at a grade 12 level – when they graduate at all. Low graduation rates are endemic in communities suffering significant impacts of colonization and its policies: residential school, alienation from lands and cultures – and the host of other ongoing and enduring colonial shenanigans. So while this mine might require hundreds of workers each year over its eleven year life span, the GNWT estimates only about 30% of those jobs might be filled by Northerners.

With similar projects, Northern employment levels have hovered at about 26%, with

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preferential hiring in communities closest to the mine itself. Undoubtedly Yellowknife-based companies will reap a disproportionate benefit of economic opportunities created by the project, as will Indigenous peoples' governments who have settled land claims and have established and stable businesses in the Yellowknife region. So while GDP might go up, it is not necessarily any sort of accurate measure or prediction of whether and to what extent communities outside of Yellowknife will benefit.

Royalties and Taxes – Who Gets What?

According to the report:

> The Government of the Northwest Territories (GNWT) receives a significant portion of its budgetary revenues in the form of a Territorial Formula Financing Grant from the Government of Canada. Certain taxation revenue streams received by the GNWT are implicitly subject to various tax back rates, including many of the revenue streams that would be generated by the Gahcho Kué project. This can be expected to result in a clawback of some of the territorial government revenue impacts noted above.
>
> It is estimated that over 80% of the territorial government revenue impacts over the construction phase would be clawed back, resulting in a net impact of only $2 million for GNWT revenues [of an estimated $27 million per year]. Roughly two thirds of the territorial government revenues in the operating phase would also be clawed back. However, the net impacts on GNWT revenues would still be $99 million over the operating period, or an average of $9 million per year. (page 5)

According to the GNWT economic analysis, if the mine goes a head today without a devolution deal, the GNWT would make approximately $100 million over eleven years of the mine's lifespan. Canada would see over $1 billion in royalties and taxes; the Canadian GDP would benefit by an increase of about $4 billion.

The report then goes to point out that if the GNWT were to sign a devolution deal and Resource Revenue Sharing Agreement, the GNWT would net about $200 million over the eleven years.

So what's wrong with that?

I'll tell you what's wrong with that:

Under the current devolution agreement, Canada would transfer its land administration responsibilities and associated programs and services to the GNWT with about $65 million per year to pay for those responsibilities. By the GNWT's own estimate, that represents about $20 million dollars less than what those responsibilities, programs and services actually cost.

Under the current Resource Revenue Sharing (RRS) deal, Canada provides GNWT with the ability to raise an additional 5% of its Gross Expenditure Base (its yearly budget provided by Canada) up to a cap of $60 million. Its sort of complicated math, but to reach that cap, the NWT would have to approve lots of resource extraction projects. Under that same deal, 25% of the funds would go the "Aboriginal governments" (there are conditions attached to that sharing, too). So really if the GNWT says it will have an additional $9 million per year, under the RRS, it would actually only keep $6.75 million per year if it is sharing with the Aboriginal governments.

Which brings us to the next issue: Aboriginal governments, no matter what the extent of their service provision to their own members and the public under self government or combined Aboriginal/public government arrangements, are capped at sharing 25%. In a region like the Sahtu for example, if GNWT maxes out at its $60 million under the devolution deal, each Sahtu community would see at most, a few hundred thousand dollars per year. Under the current RRS deal, the self governments could be delivering the programs, and the GNWT would keep most of the money – under the current RRS there is no trigger to shift royalties to governments that might actually be providing government services.

But in a few years, the GNWT may be more concerned about servicing its huge debt anyways – instead of providing services to citizens. Overspending and white elephants like the Deh Cho Bridge have left the GNWT in a position where it has had to increase its borrowing capacity. So that $9 million per year (or $6.75 million if Aboriginal governments get a share) from Gahcho Kue will likely go to servicing debt, not maintaining or enhancing programs.

And finally – there are all those costs the GNWT economic impact report does not even raise. What will be the social, infrastructure and environmental costs of the project? Where is the economic analysis of that? Because government having to build and maintain roads and bridges, environmental management and monitoring (proposed gutting of the environmental management regime notwithstanding), increased demands on social, education and health infrastructure occasioned by all the inevitable influx of workers, or the mobility or negative and positive impacts of increased employment – all of that costs money. But the GNWT has not yet provided an analysis – or even a guess – about what those costs might be.

But maybe all that is besides the point. Because if we look at the disparity between what the newly transferred bureaucracy costs under the devolution agreement, and what Canada is giving GNWT to pay for it, over ten years that cost adds up to $200 million – the same amount the GNWT stands to make from the Gahcho Kue mine.

And that raises a bigger issue: to make up that yearly $20 million shortfall, GNWT will either have to cut back on land administration programs – many which relate to environmental management and Aboriginal rights and land claim implementation – or they will have to try to make as much money as possible through resource extraction. Increased resource extraction will be the most likely scenario for a government brought to its knees by the combination of an incredible debt load and increasing demands for programs and services occasioned by significant resource extraction's socio-economic and environmental impacts.

And one last thing: the economic analysis does not speak to the potential for the GNWT to realize its aspirational talk about establishing a heritage fund that will be there for future generations after all the resources are gone. Given all of the other pressures on the GNWT, is it likely to be established?

The Devolution Smokescreen and the Resource Royalty Scandal

Under the current scenario, the GNWT is at least not losing money every year on land administration. Based on the foregoing analysis, from a budget perspective, it does not make sense to take on devolution at a cost of $20 million per year. The other thing about this devolution deal: the RRS agreement, a deal struck under a royalty regime that sells resources located in the NWT extremely cheaply, is unreasonable.

An economic analysis done by experts for the Gwich'in Tribal Council demonstrates that this RRS bears no relation to the principles of equalization or fairness. The 5% GEB/$60 million cap combination makes little sense. But the GNWT has strategically positioned itself so weakly vis a vis Canada that it sees no way out. Instead of joining ranks with the NWT Indigenous governments and presenting a strong united front to insist on a deal that makes economic sense, the momentum generated by a growing bureaucracy built up around the devolution negotiations and implementation planning has captured our elected territorial leaders and convinced them that not just devolution – but this specific, poor devolution deal – is the only way forward.

The real scandal here though, is the royalty regime itself and associated corporate tax regime. The only hope for the GNWT has to expand its revenue raising capability after devolution is to raise the royalty rates or impose taxes on resource profits. The abject poverty that exists in NWT communities situated in the vicinity of diamond mines and oilfields is a national embarrassment, consistent with scenes painted by analysts such as Dambisa Moyo looking at the resource extraction situations under the most corrupt regimes in Africa.

And standing up to interests that would keep royalty regimes low is not unheard of: Sarah Palin, when elected governor of Alaska took on big oil interests and managed to establish a tax on oil profits that saw the state of Alaska placed in a budget surplus position. Peter Lougheed famously gathered together big oil interests in the same room when they balked at his raising of royalty rates in Alberta. The story goes that he settled their hash with a statement along the lines of: "Gentlemen, the oil in this province doesn't belong to you. It belongs to the people of Alberta."

In Norway, the government royalty rate is 90%, not a sliding scale maxing out at 5%; government contributions to their resulting heritage fund has secured the future of many generations to come. And guess what: even with a 90% royalty rate, resource extraction companies still show up. Clearly there are some leaders who would not sell their children's futures so cheaply.

The Gahcho Kue Economic Impact report should be read carefully by our Legislative Assembly members – and hopefully it will raise questions among them about the impacts of the mine that the report does not mention, and question how devolution will shape the NWT's future beyond narrow economic analyses uncoupled from the social and economic present and future of the NWT.

Footnotes
1. Moyo, Dambisa. 2009. Dead Aid: Why aid is not working and how there is a better way for Africa. Vancouver: Douglas and Macintyre.
2. http://wonkette.com/442030/alaska-republicans-kill-sarah-palins-only-legacy-taxing-big-oil
3. http://parklandinstitute.ca/media/comments/its_time_alberta_stopped_giving_away_its_oil/

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Geoff H

Interesting article. I hadn't completely kept up with the devolution issue since leaving the North, Nunavut, a few years ago so thanks for posting it. Just a couple of points, I'm not sure why you say the GNWT won't get any corporate income tax - "The Government of Canada: ...; gets all the corporate taxes". I would think the GNWT have to collect some simply because of how the business allocation formula works, though I'll bet it's small unless the company wants to fiddle the system, tax planning so-to-speak, so as to avoid corporate income taxes in some other Provinces or Territories in which it operates. Your points of GDP are great. I mean it is a useful number but only in an extremely broad sense. I get a hugh kick out of both GNWT & GN Finance Departments using it in there annual budget documents as some sort of indication that life is improving. Joseph Stiglitz likes to note that if you put more people in jail you'll get an increase in GDP. Also GDP not a great measure for any territory as I suspect they are all net exporters: see Stiglitz mentioning the difference between GDP & GNI - gross national income in a video clip on this page:

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Nick Falvo

Outstanding post, Stephanie!

I've just brought it to the attention of those who read the PEF Blog:
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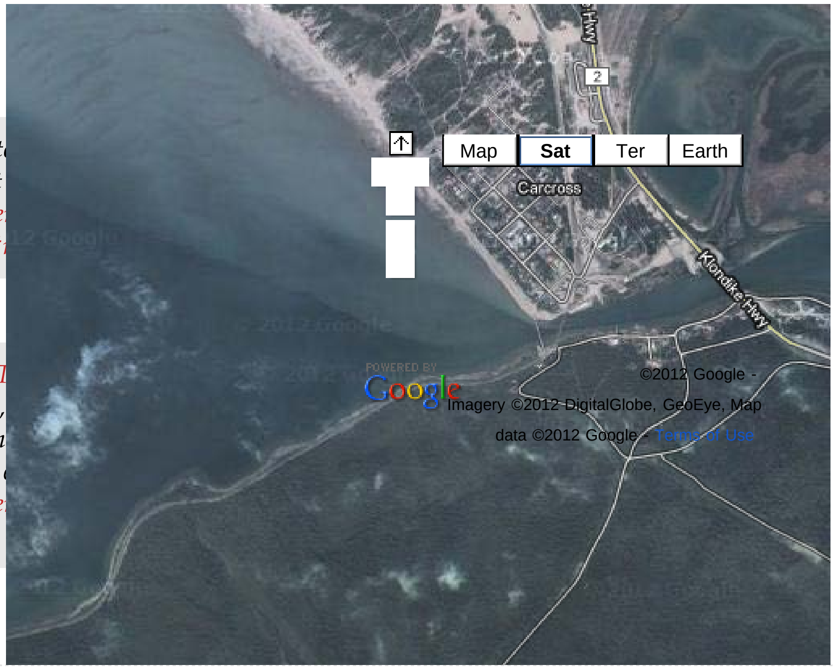

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