https://news.vice.com/story/canadas-north-has-some-of-the-worlds-most-charitable-royalty-rules-for-mining-firms
2017/10/30

Northern Canada "could be as rich as Dubai" if mining industry paid more royalties, expert says

Canada's north has some of the world's "most charitable" royalty rules for mining firms

By **Ashley Renders** Oct 30, 2017

Kevin O'Reilly's jaw dropped when the northern politician read a report that was quietly posted on a government website earlier this month showing that the Northwest Territories is one of the "world's most charitable" places for mining companies.

The Member of the Legislative Assembly in Yellowknife had been criticizing the mining industry in the Northwest Territories for decades, but had no idea how bad it was until he read Andrew Bauer's report.

Authorities in the Northwest Territories commissioned the report from Bauer, a consultant with the U.K.-based Natural Resources Governance Institute, to determine if the government was meeting international standards for handling mining revenues. The results were not positive.

The NWT is one of the most "charitable" places in the world for mining companies due to the government's "generous deductions on royalties and corporate income taxes," according to the independent report.

The mining industry employs less than 7 percent of the NWT's workforce

Weak enforcement and tax avoidance measures have given the territory, which is larger than Germany and France combined and has a population of about 45,000, one of the lowest shares of mineral profits in the world, the report said.

"Given the resources and small population [of the NWT], there is no reason why everybody there shouldn't be living like they live in Dubai," Bauer told VICE News. Instead, profits are exiting the territory, the GDP has flatlined, the government is dependent on federal transfers and residents are vulnerable to the boom-bust cycle of mining, says Bauer's report.

The mining industry makes up nearly one quarter of the Territory's GDP, but the government is only collecting 20–30 percent of mining profits, says the report. Other countries, such as South Africa, Peru and Western Australia, collect 30–80 percent of their mineral profits. The $25 million that the government collected in corporate income tax, mainly from the resource sector, is referred to as "paltry."

When it comes to jobs, the mining industry employs less than 7 percent of the NWT's workforce, which is "about the same as transportation, tourism or construction sectors and less than the education, health or retail sectors." In fact, the mining industry provides "the smallest return per dollar of revenue for NWT residents," according to the government commissioned report, which was submitted by Bauer in May but only released to the public earlier this month.

The NWT is not unique, says Bauer. Experts “know full well that Canada, the United States and parts of the U.K. have some of the lowest tax and royalty rates for resource companies on Earth.”

The NWT is unique because it is at a critical juncture in its mining history. The NWT gained control over its public lands in 2014 through a process called devolution. Prior to 2014, the federal government controlled how mining happened and where the profits went.

“The government has to make sure that it’s balancing all of these things to make sure it’s not pricing potential mines out of business.”

The Territory has a rare opportunity to break with the past and write its own made-in-the-North mining legislation. To do that, the government needs to consider all of the evidence, said Wally Schumann, Minister of Industry, Tourism and Investment in a written statement.

“Critical perspectives are important to consider when working on new legislation—particularly in our case where regulations not tailored to our region were handed down by the federal government in the wake of devolution,” he said. “There is no such thing as negative inputs here.”

The good news is that there is ample opportunity for the government to collect money from mining companies and invest it in the public good, says Bauer’s report.

Early childhood education is one area that could use investment, says Robert Bromley, a former member of the NWT legislative assembly. A report commissioned by the government in 2015 shows that it would cost $21 million per year to provide universal, affordable childcare in the NWT. It's a significant cost, says Bromley, "but with the sort of revenue Bauer has in mind, it would certainly be possible."

David Ramsay, Director of Fortune Minerals Limited and the territory's former Minister of Industry, Tourism and Investment, worries that raising taxes and royalties could scare off potential mining investment.

"While I was minister we saw a lot of the investment dollars go to Nunavut and other jurisdictions, and that's something the government really has to get a handle on, attracting the investment back."

While the Territory has more than 13 percent of Canada's land mass, it only attracted 2 percent of exploration dollars between 2008 and 2013, says a discussion paper released by the government in August. Lack of roads and electricity in remote areas, as well as unsettled land claims with First Nations and Métis are often cited as issues that might scare off investors.

"The government has to make sure that it's balancing all of these things to make sure it's not pricing potential mines out of business. People won't even look here if they can't develop something in a cost-effective manner," says Ramsay.

"[Dubai] could have given all of its oil revenues away to companies…but instead, they built a truly impressive city that

doesn’t have to live off of oil anymore.”

Bauer says it’s possible for the government to take a bigger share of profits from mining companies without discouraging investment. To find this balance, the Territory should not be afraid to ignore what other Canadian jurisdictions are doing and look to its Northern neighbours, such as Finland, which has done a good job of balancing mining interests with the public good, and Norway, which has used its oil revenues to become one of the richest countries in the world.

While it may seem unreasonable to compare the NWT with countries like Norway and Dubai in the United Arab Emirates, Bauer points out these resource-rich governments weren’t always the economic powerhouses that we know them as today. Norway had a full-scale banking crisis in the 1980s and 1990s and Dubai was once a fishing village with a pearl industry, says Bauer. “[Dubai] could have given all of its oil revenues away to companies…but instead, they built a truly impressive city that doesn’t have to live off of oil anymore.”

The NWT government is not ready to make any decisions, but it will consider Bauer’s report when it sits down to create the new mining legislation, says Pamela Strand, Director of Mineral Resources for the Ministry of Industry, Tourism and Investment. The government will continue to accept comments from the public through its website, phone, email, mail and in-person meetings until December 1 and intends to submit a draft of the Mineral Resources Act to the Legislative Assembly in early 2019.

It will take courage to break away from the culture of giving resource companies whatever they want, says O’Reilly. In Canada, “we assume we’re going to lose mining companies if we don’t give them everything. Well, we have given them everything and the benefits have been lost.”

RUSSIA INVESTIGATION