

Is the NWT Getting Enough From Mining?



Alternatives North

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Presentation Outline

- Regulation of NWT Mining
- Benefits from Mining
- Mining Revenues
- Transparency
- Fairness
- Review of the Mining Fiscal Regime
- Questions and Answers



Regulation of NWT Mining

- Indigenous governments own some pockets of subsurface lands, federal government retains some land largely for conservation where mining is not permitted
- GNWT is now the land manager for the vast majority of public lands since devolution in 2014
- *Mineral Resources Act* passed 2019, regulates mining rights and royalties, years to implement
- Mining activities still regulated within the existing co-management regime for land and water

Regulation of NWT Mining

- **Inherent conflict of interest, where the Department of Industry, Tourism and Investment promotes and regulates mining**
- **Public subsidies and investments to support mining**
- **For example, Slave Geological Province road, Tlicho All Season Road**
- **Closure and reclamation costs often another public subsidy, Giant Mine worst example**

Benefits from Mining

- 2020 or 2021 not a typical year
- 2019 mining was 27% of NWT GDP
- Diamond mining: low of about 7% in 2000 to a high of 42% of the GDP in 2017
- Resource sector employment since 2001: a low of 6.1% in 2011 and a high of 10.7% in 2007
- 1996-2019, Northern and Indigenous employment at the four diamond mines has been about 51%
- 25% of management positions held by Northern or Indigenous employees at the diamond mines

Benefits from Mining

- **1996-2019: 70% of NWT mine procurement was with Northern and Indigenous businesses, \$23.2 billion**
- **Local procurement by mining stimulates additional construction (\$282.9 million GDP in 2019), transportation (\$252.5 million GDP in 2019), and indirectly to retail (\$163.5 million in 2019) and real estate (\$402.3 million in 2019)**

Benefits from Mining

- GNWT uses socio-economic agreements to capture benefits
- Non-binding targets for Northern and Indigenous hiring, contracting and procurement, and training for the construction, operation, and closure phases
- Monitoring and public reporting
- Few, if any, consequences if targets are not reached
- Earlier agreements were weak, no commitments to establish Northern offices or any legacy investments as done in other jurisdictions

Benefits from Mining

- All four diamond mines have fallen short of their socio-economic agreement employment commitments
 - Diavik last met its targets in 2008
 - Ekati in 2004
 - Gahcho Kué has yet to do so
 - Snap Lake last met its targets in 2005 but closed 2015
- Training and apprenticeship commitments met
- Women fill 14% of the jobs, comparable to national mining industry

Benefits from Mining

- Since diamond mining, all communities in the NWT have generally increased their community wellness scores
- Scores decreased annually 2011-16, the last date for data
- Yellowknife in the lead, regional centres and then, small communities with scores 20% lower than Yellowknife, gap not closing
- Wealth created from diamond mining has been centred on Yellowknife, regional economic disparities continue

Mining Revenues

- **Royalties:** ranging from 0-14% for all production over \$45 million, profit sensitive with deductions for sorting and selling, transport to markets, production and reclamation costs
- **Corporate tax:** 11.5% of taxable income to GNWT and 15% to feds, not reported by mine, since 2007 \$22 to \$108 million to GNWT
- In 1998, Minister of Finance John Todd said that he would bring in a tax that would “choke a mule” if mines did not sell some of their diamonds locally
- Choice made between tax revenues versus secondary industry benefits, a failed approach

Mining Revenues

- **Property Taxes:** mines are charged for properties and buildings they hold, NWT property tax rates are high in Canada, some jurisdictions do not charge property taxes for mines
- **Fuel Taxes:** mines are charged for fuels used for power facilities, haul trucks, and processing equipment operated
- **Carbon taxes** are largely refunded with a small amount retained for individual owners to invest in energy projects

Mining Revenues

- **Payroll Taxes:** everyone working in the NWT is charged a 2% tax on their income, NWT residents get a 'Cost of Living' tax credit
- Half of workers at diamond mines from outside the NWT, an effective way to capture some revenue from those workers
- Too high a payroll tax could be subject to a Charter challenge regarding mobility rights
- Payroll taxes about \$40 million annually

Transparency

- **NWT royalty information treated as highly confidential by governments**
- **Only public reporting takes place through Public Accounts, combined figures for both petroleum and mineral royalties paid for NWT (and Nunavut before 2014)**
- **Royalties were a low of \$317,000 in 2000 to over \$144 million in 2004**
- **Global movement for more open and transparent reporting of the government revenues from extractive sector to prevent bribery and corruption**

Transparency

- **Extractive Industries Transparency Initiative (EITI), started in 2004, partnership among governments, companies, and civil society**
- **A global standard adopted by fifty-four countries**
- **Canada is a supporting country, along with others such as US, UK, Scandinavian countries, and European states**
- **Canada not an implementing country, the federal government's *Extractive Sector Transparency Measures Act* (ESTMA) provides a similar level of reporting to EITI**

Transparency

- Any company with at least \$20 million in assets, has generated at least \$40 million in revenue, or employs an average of at least 250 employees, publicly reports its payments to governments (including to Indigenous governments since 2017)
- Diamond mines are part of ESTMA self-reporting system
- Problems with how taxes and royalties reported, under ESTMA

Fairness

- GNWT gets 80% of its annual expenditures from federal government, 20% is considered own-source revenues
- At one time, for every dollar of own-source revenue collected, \$1.15 was clawed back
- Territorial Formula Funding complicated, tax effort is compared to other Canadian jurisdictions
- Regular rebalancing of overall expenditures to account for inflation and growth
- GNWT keeps new revenues or taxes, but rebalancing flattens out those revenues over time

Fairness

- **2014 Devolution Agreement also creates a net fiscal benefit**
- **GNWT gets to keep 50% of the resource revenues, up to a cap of 5% of previous year's budget**
- **Indigenous governments receive a 25% share of resource revenues retained by the GNWT as part of the Devolution Agreement**
- **Revenues to Indigenous governments \$3 - 8 million per year**

Fairness

- **Royalties and corporate taxes fluctuate wildly, while fuel taxes and payroll taxes tend to remain steady and have shown some growth**
- **Only detailed study of government revenues from NWT for gold mining in the Yellowknife region 1948-2002 showed:**
 - **personal income taxes were more than corporate taxes**
 - **royalties added very little to government revenues**

Fairness

- **GNWT gets about \$100 million annually in revenues from diamond mines**
- **Over \$30 billion worth of diamonds has been exported from the NWT**
- **Total GNWT mining revenues over that period of time would be no more than \$1 billion, about 3% of the value of the diamonds**

Fairness

- How to share benefits with future generations?
- *NWT Heritage Fund Act* in 2012
- No public governance, no defined revenue stream, by convention 25% of GNWT-retained revenues
- Fund losing money against inflation, criteria loosened 2019, management of the Fund contracted out to private sector
- Heritage Fund now \$34 million, at current rate of growth it will take a long time to stabilize or diversify NWT economy for future generations

Fairness

- **Andrew Bauer, Natural Resource Governance Institute (hired by ITI) gave GNWT a failing grade for our mining fiscal regime using an international framework:**

“one of the world’s most charitable fiscal regimes for the mining sector, one that captures between 20-30% of economic rents from mining projects, net of costs. This is compared to between 30-35% in South Africa, 45-60% in Peru, and 50-80% in Western Australia.”

Review of Mining Fiscal Regime

- Royalties were to be considered during the development of the *Mineral Resources Act*
- GNWT said “the royalties structure should be status quo until a broader review can be done with our devolution partners. The MRA should be structured to allow for the future modification of the royalty system and the implementation of an alternative system.”
- Public review raised need for greater transparency and an independent public review of the royalty regime

Review of Mining Fiscal Regime

- Department of Industry, Tourism and Investment launched review of the mining fiscal regime in October 2020 with another benchmarking study
- A theoretical review of royalties and taxes for an imaginary diamond and base metal mine under twenty-one different regimes, including the NWT
- Study concluded that NWT is competitive against other regimes, best way to increase revenues is to promote more mining

Review of Mining Fiscal Regime

- **World class consultant reviewed ITI study**
 - **ITI study assessed competitiveness, not maximizing government revenues**
 - **Jurisdictions reviewed create the impression that the NWT is only slightly more generous than most other jurisdictions**
 - **NWT actually gets “some of the lowest ‘government take’ in the world for minerals”**
 - **Historical performance of the NWT fiscal regime was not assessed**
 - **No consideration of the fiscal arrangement with Ottawa**
- **GNWT gets 22% of mining revenues, 14% to federal government, IMF recommends governments should get 40–60%**

Review of Mining Fiscal Regime

- **Consultant and MLAs recommended**
 - **Analyze the performance of the NWT mining fiscal regime since Devolution**
 - **Implement government-led revenue transparency**
 - **Focus on maximizing government revenue**
 - **Analyze the net revenue benefits for the NWT**
 - **Generate greater mining revenues to benefit future generations**
 - **Expand Indigenous governments' economic benefit sharing**
 - **Make public information on the steps, timeline, and opportunities for public engagement in the review of the mining fiscal regime**

Review of Mining Fiscal Regime

- **Current legislation makes royalty information available to Cabinet and the public service but not regular MLAs or Indigenous governments**
- **Bill 29 Private Member's Bill would give the ITI Minister discretion to share resource royalty information with regular MLAs and Indigenous governments**

Review of Mining Fiscal Regime

- **Committee reviewed Bill, did not make any recommendations or changes, submissions suggested changes**
- **MLAs and Indigenous governments need access to more information about resource royalties**
- **How to balance competing interests**
 - **profits to shareholders**
 - **jobs and contracts from resource development**
 - **a fair return to government for one-time natural capital**
 - **distribution of benefits within the NWT and across generations**
- **Waiting to see what Minister does about transparency before next steps with the Bill**

Questions and Answers



Thank You