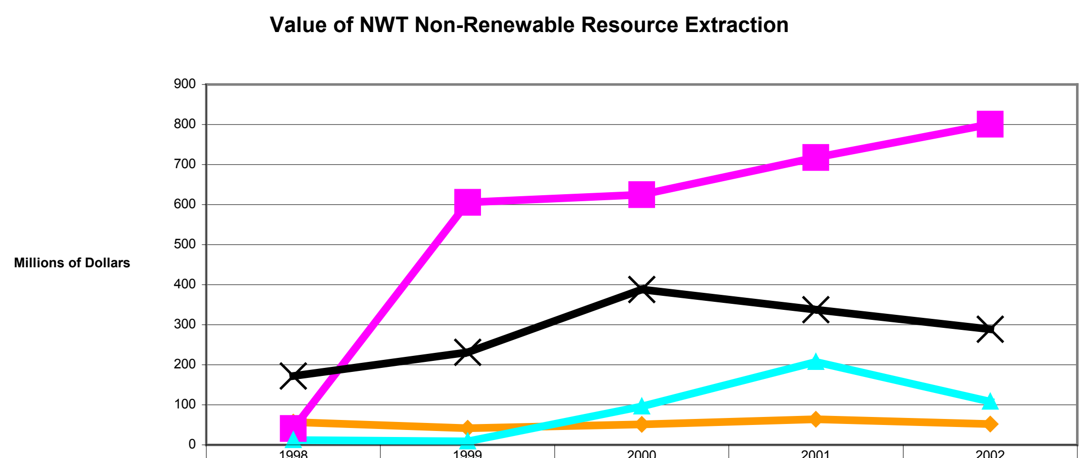
BANKRUPTING THE NORTH WITH RESOURCE EXTRACTION
– A ROYAL RIP-OFF

by Petr Cizek petr(a)cizek.ca
published in Far North Oil and Gas, Vol. 5, No. 3, Summer 2003, p. 22

Since 1998, there has been remarkable growth in the value of non-renewable resource extraction in the NWT. This has been driven primarily by diamond mining at the BHP Ekati mine, which exceeded $800 million in 2002. Continued crude oil extraction at Norman Wells more than doubled between 1998-2000 reaching a value of almost $400 million but has been declining slowly since then. The new natural gas fields around Fort Liard grew to a value of just over $200 million in 2001 during the peak of natural gas prices, declining to just over $100 million in 2002. Throughout this period, the value of gold production remained stable, hovering around $50 million per year.



	1998	1999	2000	2001	2002
Gold Extracted	57	42	51	64	52
Diamonds Extracted	41	606	625	718	801
Natural Gas Extracted	12	9	96	207	108
Crude Oil Extracted	172	231	388	338	289

Year

Source: NWT Bureau of Statistics. Statistics Quarterly. December 2002 and March 2003. p. 37. www.stats.gov.nt.ca.

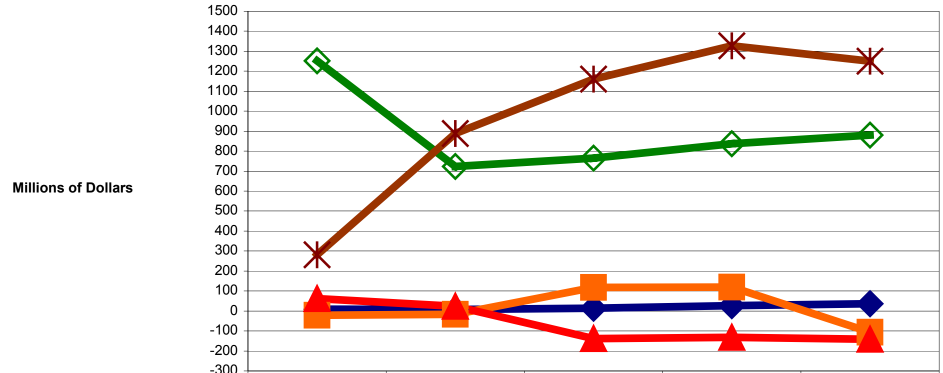
Overall, the value of non-renewable resource extraction more than ***quadrupled*** between 1998 and 2002. The NWT Gross Domestic Product also grew dramatically between 1999 and 2002 from $2.4 to $3.5 billion,[1] an increase of over 30% resulting in the NWT being promoted as the "fastest-growing economy in Canada." With this level of growth and such fantastic riches from the earth, one might expect sound public finances and vigorous investment in social infrastructure and environmental protection.

Sadly, the opposite is true. In parallel with mounting resource extraction, the NWT debt increased steadily reaching an estimated $142 million in 2002 and the operating surplus of $120 million in 2001 became an operating deficit of $107 million in 2002. In fact, a

[1] NWT Bureau of Statistics. Statistics Quarterly. December 2002 and March 2003. p. 42. www.stats.gov.nt.ca.

total debt of $544 million is forecast for 2004/2005. Following a steep decline with the division of Nunavut in 1999, GNWT spending continued to grow but public services faced constant austerity measures.[2]

Impact of Resource Extraction on Public Finances



	1998	1999	2000	2001	2002
Federal Royalty	9	8	14	26	36
GNWT Operating Deficit/Surplus	-22	-17	118	120	-107
GNWT Total Debt/Surplus	62	24	-138	-132	-142
GNWT Total Expenditures	1251	724	765	837	881
Non-Renewable Resources Extracted	282	888	1160	1327	1250

Year

Sources: Federal Royalty – Louis Picone, Mining Royalties Advisor, Indian and Northern Affairs Canada, Personal Communication, June 19, 2003. piconel@inac.gc.ca and Northern Oil and Gas Directorate, Indian and Northern Affairs Canada. Northern Oil and Gas Annual Report 2002. p. 23. www.inac.gc.ca/oil; GNWT Finances – Department of Finance. Budget Addresses, Appendix B – Fiscal Review. 1999/2000, 2000/2001, 2001/2002, 2002/2003. www.fin.gov.nt.ca; Non-Renewable Resources Extracted – NWT Bureau of Statistics. Statistics Quarterly. December 2002 and March 2003. p. 37. www.stats.gov.nt.ca.

The GNWT has blamed this fiscal crisis on the Federal government clawing back transfer payments and withholding the devolution of resource royalties. Yet the option of a surtax on very high profit resource corporations, which is not subject to claw-back, has never been seriously considered. Instead, last year the GNWT actually lowered its taxes on large corporations to the second lowest rate in Canada.

The transfer of existing Federal royalties would do little to solve the GNWT's deficit and debt. In 2002, Federal royalties were a pittance at $36 million, representing less than 3% of the $1.25 billion total value of resources extracted. Federal royalties are so low because they are calculated as a fraction of a company's profit and mixed in with taxation, allowing for endless deductions, capital depreciation, and exploration expenses. Royalties should not be confused with taxation as they are simply a charge for the sale of public resources to the private sector. Instead, royalties should be based simply on the gross value of resource extraction.

[2] GNWT Department of Finance. Budget Addresses, Appendix B – Fiscal Review. 1999/2000, 2000/2001, 2001/2002, 2002/2003. www.fin.gov.nt.ca;

If the public is to receive any lasting benefit from the extraction of these publicly-owned resources, the NWT royalty system must at least be brought in line with neighbouring jurisdictions. If the Alberta royalty rate of 30% on gross production had been applied to the $397 million of oil and gas extracted in the NWT in 2002, then about $119 million in royalties would have been collected. If the Manitoba mineral royalty rate[3] had been applied to the $852 million of minerals extracted in the NWT in 2002, then another $127 million in royalties would have been collected. That's more than enough to wipe out the current deficit and debt.

A comparison to international benchmarks leads to the alarming conclusion that the NWT must be holding the world's biggest resource giveaway party. Norway collects almost three times more in royalties and corporate taxes per unit of oil and gas than Alberta.[4] Botswana demanded, and received at no charge, 50% in equity and profit-sharing from the DeBeers diamond mines. By investing heavily in social infrastructure, Botswana now has the fastest growing economy and standard of living in Africa.[5] So if the NWT is going to avoid becoming a very cold version of a bankrupt banana republic with big empty holes in the ground, we'd better find some leaders who have the courage to stand up and demand a fair public return from the earth's inheritance.

---

3 Price Waterhouse. Canadian Mining Taxation. Price Waterhouse, Toronto, 1994. p. 29. Estimates of effective mineral royalties on a hypothetical Canadian mining operation across provincial and territorial jurisdictions. The effective mineral royalty on accounting income (gross production) was estimated at 15.7% in Manitoba while the effective mineral royalty was estimated at 1.8% in the NWT.

4 Bruce McNab et al. Giving Away the Alberta Advantage: Are Albertans Receiving Maximum Revenues from their Oil and Gas? Parkland Institute, Edmonton, November, 1999. http://www.ualberta.ca/~parkland/

5 J. Clark Leith. Why Botswana Prospered. Paper for presentation at Canadian Economics Association, 34th Annual Meeting, University of British Columbia, June 2000. http://www.ssc.uwo.ca/economics/faculty/Leith/Botswana.pdf