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Irlbacher-Fox: "It looks like the decisions have already been made." What To Do With NWT Resource Revenues.

Posted by [Stephanie Irlbacher-Fox](#) on Nov 06, 2013 in [Stephanie Irlbacher-Fox](#)

Our NWT correspondent, Stephanie Irlbacher-Fox, on public consultation, government responsiveness, and the North's coming resource boom.

Currently in the Northwest Territories, there is a public consultation process happening. Led by Minister [Michael Miltenberger](#), meeting rooms in various communities have been booked where the public can come out to listen to the Minister's plans for how Resource Revenues will be spent. Those resource revenues will start flowing to the GNWT, and to the Aboriginal governments who have signed on to a Resource Revenue Sharing deal, starting in April 2014. The size of this windfall: up to an extra \$65 million per year. And up to 25% of that will flow to Aboriginal governments. In dollar terms, it gives the GNWT, if resource revenue generation is maximized, approximately \$45 million per year.

The resource revenue sharing deal between Canada, the GNWT, and NWT Aboriginal governments was reached as part of the [NWT Devolution Agreement](#). That agreement, along with the Resource Revenue Sharing deal, will come into effect in April 2014.

I did some searching to determine which Aboriginal governments have signed on to the current Resource Revenue Sharing Agreement, and it seems that not all of them have signed on yet, including some who have signed the devolution deal. Maybe that is why the only copy of the Resource Revenue sharing agreement that is available on the GNWT devolution website is one from 2007. As far as I can tell, neither the Devolution website nor the Department of Finance website has a copy available. And the last I heard, the Aboriginal governments themselves were in heated discussions about just how they would determine how that money would be shared between them. But for the sake of argument, we will assume that there is a Resource Revenue Sharing deal that will provide GNWT up to \$45 million per year.

A Public Consultation meeting about what to do with GNWT's expected \$45 million yearly windfall was held October 28 in Yellowknife. According to the local [Yellowknifer](#) newspaper, that meeting brought out 25 residents who all agreed that 50% or more of those revenues should be put into a Heritage Fund, for future generations.

To his credit, the Minister has been seeking public input on fiscal policy, including the use of Resource Revenues for several years. And it was Miltenberger who established a [Heritage Fund](#). It has a few hundred thousand dollars in it right now.

Before we go any further though it is important to be clear on what is meant by Heritage Fund. These are funds that are normally established by countries, states or provinces that have significant natural resource wealth and thus natural resource revenues. A principle that guides the establishment of such funds is that the natural resources being exploited are irreplaceable. An engine for the current economy, those will no longer be available to future generations. A savings – or Heritage – Fund, is meant to be a "nest egg" for the generations to come.

This is different from a stabilization fund, or funds used for other purposes. For example, Alaska has a fund that is called a [Permanent Fund](#). It is in essence, a heritage fund. Alaska

puts a percentage of its natural resource (oil) royalties into the fund each year. It also puts additional revenues into the fund each year to ensure that inflation does not decrease the fund's capital. Alaska's fund is professionally managed, insulated from political interference, provides Alaskans with individual dividends each year, and is not used for other purposes.

Alberta, in contrast, had a robust [Heritage Fund](#) for a time, using it as both a permanent or heritage fund, and as a stabilization Fund, drawing off some of the Fund's revenues to support economic diversification. A stabilization fund is one that can be used to offset government deficits – when oil prices go down, and not as much revenue is generated, Alberta could dip into its Heritage Fund to make up some of the shortfall of funding essential to its operational needs. Alberta's fund was not professionally managed and thus not insulated from political interference. And it has been significantly [depleted as a result](#).

The rules around the way a fund is managed is thus extremely important. Just as important is the way a fund is "capitalized" — or has the money put into it. This also determines how effective the fund is. I think that to have an informed and realistic conversation on how much resource revenues should be put into the fund — and that is an element of what the Minister is consulting the public on — the Minister should be more forthcoming on this point. All of the evidence I have reviewed contained in scholarly literature and policy papers on stabilization funds emphasize that such funds must be capitalized in a way that enable them to grow, and generate significant revenue of its own by being wisely invested and managed. If you put just small amounts into the fund, not only will it not be big enough to make significant returns on investment, it is also consequently more vulnerable to decreasing in value due to inflation.

I have had a long-standing interest in this issue, having written on the need for a Heritage Fund back in 2006, when I co-authored a [policy report](#) with [Vuntut Gwitch'in](#) financial negotiator Stephen Mills (currently Chair of the Yukon Environmental and Socio-economic Assessment Board), as the basis for a policy conference on devolution and resource revenue sharing sponsored by the [Walter and Duncan Gordon Foundation](#).

Unfortunately the current plan for the NWT's Heritage Fund is not terribly encouraging. In his public presentation, the Yellowknifer reports that Miltenberger is seeking to populate the fund with 5% of resource revenues, or approximately \$2.25 million per year.

Underwhelming, huh?

The other 95%, it seems, is meant to be spent on infrastructure, and servicing the GNWT debt.

Decision Principles Must be Clearly Stated Before Making Decision

The view that I share with many NWT residents is that big decisions — such as ones about a Heritage Fund — should be guided by fundamental principles. Having principles is kind of like having a map: if you don't follow your map, you will be lost. The destination is always there. Some might argue that means there are different ways to get to the same destination. But sometimes the only way to a thing is to actually stick to the route well tested. That is why it is the route, or the plan, is often just as important as the destination.

The fundamental principle that should guide decision-making is that resource revenues do not belong to us, the present generation. Resource revenues come from non-renewable, non-replaceable, finite natural resources. Once they are taken out, they are gone. What we have left is what was paid for them, and often an altered landscape that no longer yields minerals nor supports life. In accounting terms, think tanks such as the Fraser Institute (known for its highly conservative views) share the view that natural resources are taken from future generations. In this view, the revenues generated from selling these resources is similar to reducing the principal available to future governments, on which they might base their economic activity.

Our children and grandchildren will not have the luxury of doing the easy thing, also known as resource extraction: the easy thing will no longer be an option. This is not an opinion: this is a factual truth. It is more than likely that they will be left with the burden of remediation, or as in the case of Giant Mine, the costs of perpetual care of a space as well as being unable to use that space for anything else at all.

The Courage of Principles

My view is that we have a duty to save most resource revenues for those future generations, who will have to live with a lack of natural resources, and if Giant Mine is any example, the legacies of whatever decisions we make. What we do with resource revenues should be based at the very least on this one guiding principle. It needs to be a principle written into any law or policy or regulation relating to how resource revenues are used.

Taking this principle and the experiences of others into account — and taking a very serious approach to building up a fund worth having that generates wealth — we have no choice but to put all NWT resource revenues into a professionally managed, politically insulated Heritage Fund for the at least twenty years. When the fund has reached the \$1 billion mark, a review of yearly contributions should take place, as well as a review of whether the Fund might be used to support stabilization activities. This time period would be consistent with potential end cycles of some larger mining projects in the NWT.

Whatever the result of that review, the fund should continue to receive at least 50% of all resource revenues in perpetuity. In the event that the Fund is used for present purposes, access should be subject to the same single criteria: *its use must benefit future generations.*

This would mean that resource revenues not being placed in the fund should then be used for infrastructure and infrastructure that would also benefit future generations. Libraries, housing, schools, hospitals — the kind of public infrastructure that supports economic development and diversification by meeting basic needs of people, thereby creating a foundation for a healthy, well educated society populated by individuals with the ability to make choices about their own futures. And if such infrastructure is built right, it will be available for use by several generations.

What I am deeply opposed to is using any resource revenues to pay down GNWT debt, develop any more infrastructure, or for current operations and programs.

The GNWT has been fairly cagey about talking about what its debt load is. There has been talk about GNWT yet again raising its debt ceiling to borrow and build more infrastructure. Using resource revenues to pay down such debt goes against the principle of using resource revenues to benefit future generations: borrowing to build puts the burden of our infrastructure costs onto the future generations at a proportion that does not require this generation to pay our fair share. Borrowing to build also destabilizes our ability to save rather than spend resource revenues: it will be pretty hard to live up to heritage fund commitments in the face of a mounting debt.

The debt incurred by this generation, should be paid off by this generation. No matter how we came by that debt. We cannot borrow from future generations twice: by using up all of the resources, thus impoverishing the basis for a future economy; and then expecting them to pay for infrastructure that we borrowed to build, instead of managing our budgets wisely. What will be the basis for their economy when all the natural resources are gone? Mine remediation?

Similarly, current operational needs are endless. Accessing revenues to meet current needs simply amounts to privileging the needs of us over the needs of our children, while impoverishing their ability to meet their needs by removing natural resources central to an economic base, and central to a decent quality of life.

Principled Saving: Examples in the NWT

In most regions of the NWT where land claims have been settled, infrastructure needs far outstrip those of Yellowknife. Inadequate housing, dirt roads, fly-in only access, dilapidated schools — a dismal lack of public infrastructure, along with the attendant social ills, are rampant. However, all land claim organizations have made a decision to protect their land claim capital in trust funds. Similar to a heritage fund idea, the trust funds are held for future generations. Land claim beneficiaries take it as a no-brainer that just as the people here today are stewards of the land for future generations, so too are they stewards of the cash compensation they received as part of their land claim agreements. When funds from the land claims compensation are used, these tend to be funds taken only from interest

generated, and then used only for collective or legacy purposes: building infrastructure, investing in profit-generating businesses, supporting training needs. This philosophy also extends to decisions about going into debt to serve present needs. The same philosophy resists taking on debts that will narrow the choices of generations yet to come.

The guiding principle of ensuring future generations are protected is a hard choice, particularly given socio-economic situations of many Indigenous communities in the Northwest Territories. But instead of doing the easy thing, land claim organizations have chosen to do the right thing. To meet their immediate needs and enhance the long-term security for future generations, they are employing other social, political and economic strategies to generate wealth and address the social and economic costs of colonization.

The Sound of One Hand Clapping

Unfortunately, too few people in the Northwest Territories are speaking up on this issue. When meetings are held on major policy issues, whether devolution or resource revenue sharing, the GNWT is able to use lack of input as an excuse to continue on the course it has usually chosen before seeking input from the public. Apathy is construed as consent. Input from middle class white Yellowknifers can be dismissed as illegitimate preferences of transients, counting for less than the views of smaller communities. And as we have seen recently with GNWT’s [unprecedented support for fracking](#), even consultations with small communities, such as the recent “information meeting” in Fort Good Hope on fracking in the Sahtu, counts on the lack of technical knowledge and manipulation of residents and community factions to support pre-ordained decisions.

I fully expect that Minister Miltenberger will produce a faithful report of what he is told in these consultations, and then will do exactly what he wants despite that input. The consensus of Yellowknife residents who actually care enough to make their views on this known was clear: the lion’s share of resource revenues should be saved for future generations. I fully expect that this will not make any difference at all to the Minister’s decision, or to the decision of the Cabinet that surrounds him.

As one Yellowknife meeting participant was quoted as saying in the Yellowknifer: “It looks like the decisions have already been made.”

There’s A Bigger Picture

Cynicism about the results of Resource Revenue Sharing consultations is a symptom of a bigger problem. We have seen, particularly with the devolution “public consultation” process that what the public thought made little difference to the decisions enacted by the NWT. But we have also seen other consultation processes — such as the Minister’s [Forum](#)

on Addictions result in similar unilateral action that actually goes against what the public said in consultations. But I think it is also a symptom of the GNWT recently posting a series of failure and missteps in relation to governance choices that touch on the fundamental responsibilities of governing.

Why has this happened? Each Minister truly seems to hold the reins for their departments and associated policies without reference to a larger vision. Environment Minister Miltenbeger is looking into citizens' complaints on fracking, while Industry Minister Ramsay touts fracking as an essential building block for the territory's economy.

This does not bode well for prudent decision making on how resource revenues will be spent. Can we trust this government to make a decision about revenues that could profoundly affect our present and future? Maybe we should look at some of the recent major policy issues to judge this question in context.

Let's look at a few examples. In Education we have the dismal results of recent testing that has seen about 60% of high school students in small communities performing below grade average. Building an economy on a population where fully 60% of working age adults are potentially unable to function at a grade 12 level is this government's biggest economic problem.

Infrastructure choices such as the Dehcho Bridge, a project that is widely rumored to have had its genesis in a corrupt backroom deal, and then completed at five times its original estimated price tag of \$40 million, have significantly increased the GNWT debt, and further borrowing is planned for the Inuvik-Tuktoyaktuk highway.

Meanwhile the department of health recently shut down the only addictions treatment center in the territory, without any sort of solid plan for its replacement, instead making vague references to somehow offloading its responsibilities onto Aboriginal governments, who in the midst of all of their other priorities are supposed to suddenly administer On the Land treatment programs. According to the Minister, the closure was in response to the report by the Minister's Forum on Addictions that states that more on the land treatment is necessary. However, some of the Forum's members I have spoken to confirm that they felt as though their report was used as a front for the Minister to shut down the treatment centre, even though the report did not recommend its closure.

And then there was the NWT devolution deal: rammed through despite most Aboriginal government's objections and despite calls for citizen involvement through a plebiscite. And only now it is coming to light that having signed off devolution without thinking through how the deal would be implemented has made a pretty mess indeed of the work that needs doing to set up a Lands Department by April 2014. And as an added insult: of the several hundred jobs resulting from devolution, it is said that less than 30 will be decentralized to regions outside of Yellowknife.

Finally, as European countries, and provinces such as Quebec and United States jurisdictions such as New York state move to ban fracking, the GNWT sees it as the new

trapline, interfering not a whit in the completely unregulated approach to its being done. In this, the GNWT has certainly neglected a basic responsibility it has for looking out for the welfare of its citizenry. The GNWT has chosen not to take an evidence-based approach to understanding the implications of fracking in the subarctic ecosystem. Instead it stands by not even as a disapproving observer, but as a cheerleader for a resource extraction method that has devastated ecosystems and poisoned citizens elsewhere.

All of these examples — and there is not room enough here to fully discuss each example, or to even discuss other examples, such as the housing situation — means that the GNWT’s decision-making credibility is seriously undermined by its demonstrated poor judgment with respect to fundamental responsibilities of governing.

Everything, as the Dene Elders say, is connected. And so now we have Minister Miltenberger asking us to tell him what should be done with resource revenues.

But the question I hear when he asks this is: can you trust the GNWT to make wise decisions about what to do with this money? Can you trust them to take a principled approach or indeed put forward any sort of rational decision-making framework that will guide them in their determinations on how to spend OUR children’s money?

Looking at everything — their debt, their policy failures, their corruption-born bridge that still does not work properly, and an apparent lack of concrete fundamental principles guiding what they do, I draw one conclusion.

For me, it seems that both redemption and leadership for GNWT decision makers lies in only one place: a professionally managed, front-loaded Permanent Fund, insulated from political influence, that will remain untouched for at least twenty years.

Dr. Irlbacher-Fox was raised in Inuvik, holds a PhD from Cambridge University, and appointments as Assistant Professor in the Departments of Political Science and Public Health at the University of Toronto, and is an Adjunct Professor at the Canadian Circumpolar Institute, University of Alberta. She has worked for Indigenous governments in the NWT for the last 15 years on self government, land claim and political development, including as an advisor on NWT Devolution negotiations. Her book, Finding Dahshaa: Self Government, Social Suffering and Aboriginal Policy in Canada (UBC Press, 2009) received award nominations from both the Canadian Political Science Association and the Canadian History Association. She lives in Yellowknife with her husband and two young sons.

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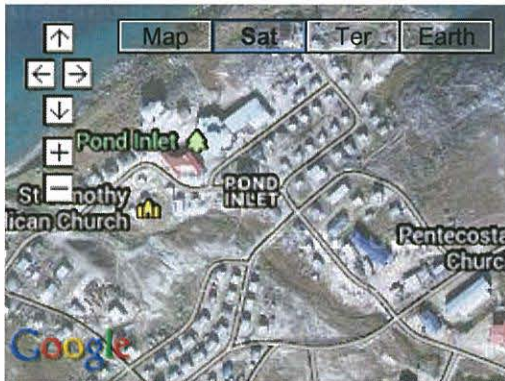
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