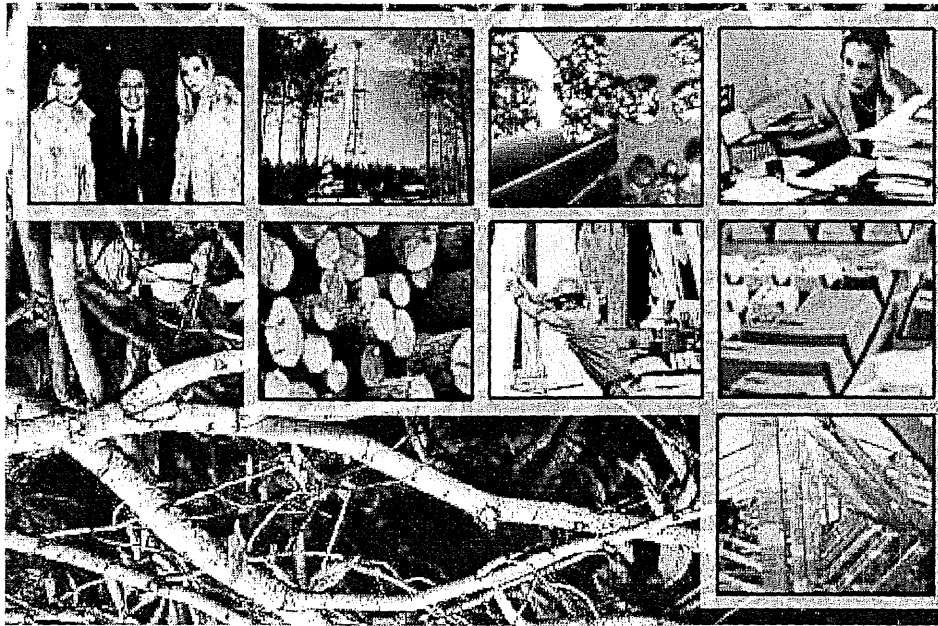




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Supporting Manufacturing and Value Added Industries in the NWT



A Report By The
NWT Business Advisory Panel
December 2002



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Foreword

NWT Business Advisory Panel

The NWT Business Advisory Panel (BAP) was created by the Honourable Joe Handley, Minister of the GNWT Department of Resources, Wildlife and Economic Development (RWED) in September 2001.

The Panel's mandate is to provide feedback and advice to the Department on business issues and opportunities in the Northwest Territories.

Panel members were appointed to the BAP by their respective industry associations. Current membership includes:

- Northern Manufacturers' Association (NMA)
- NWT Construction Association
- NWT Chamber of Commerce
- forestry sector representative

As a first task for the BAP, the Minister of RWED asked for recommendations for supporting the manufacturing industry. These recommendations would help guide the Department in the development of a comprehensive manufacturing strategy

Specifically, the Minister presented the following questions:

- How do we structure and position ourselves to take advantage of what we have now in the NWT?
- What can we do as a government to support the value added industries and diversify our economy, yet not create businesses that aren't viable?
- How do we enhance our economic programming?
- How do we include self-government and aboriginal participation in economic growth?

To answer these questions the BAP held roundtable discussions, consulted with NWT manufacturers and conducted research into existing programs. These efforts led to the development of 21 recommendations, which are assembled in this document.

Executive Summary

Introduction

During the next quarter century, the Northwest Territories will experience unprecedented growth. The discovery of diamonds and a renewed interest in oil and natural gas have created a flurry of economic activity, giving the NWT the highest rate of GDP growth in the country.

Not all sectors of the NWT economy are well positioned to take advantage of this growth. The manufacturing sector is in its infancy. In 2001, it contributed \$7 million dollars, or 0.3% to the NWT's GDP.

Despite its lack of development, the manufacturing sector is very important to northerners. The Conference Board of Canada described it as

"...one (sector) that contributes more in net inflows to the economy as a basic industry or primary economic generator, than would a support industry."

Purpose

The Government of the Northwest Territories (GNWT) recognizes the inherent difficulties of manufacturing in the north, identifying such challenges as access to trained labour, physical conditions and higher utility and transportation costs.

The NWT Business Advisory Panel (BAP) - a body of private industry participants - was asked to recommend methods for effectively assisting the manufacturing sector in overcoming the competitive disadvantages of manufacturing in the north.

Study Approach

The BAP held a series of roundtable discussion in 2001 and 2002. Additional information was gained from consultation with NWT manufacturers, and through research in two key areas:

- existing barriers to manufacturing
- existing programs in the NWT and other jurisdictions (Canada and the U.S.)

Manufacturing in the NWT - A Changing Environment

In order to make recommendations for supporting the manufacturing sector, the BAP first had to develop a better understanding of the sector as it appears today. The first section of this report includes a definition of manufacturing, a look at the traditional markets and a discussion of the ways in which this environment is changing.

Following this clarification of the starting point, the BAP outlines its vision for the future:

"The NWT Business Advisory Panel envisions a sustainable manufacturing industry with a broad customer base and the ability to compete openly with southern manufacturers."

How Can the GNWT Support Manufacturing?

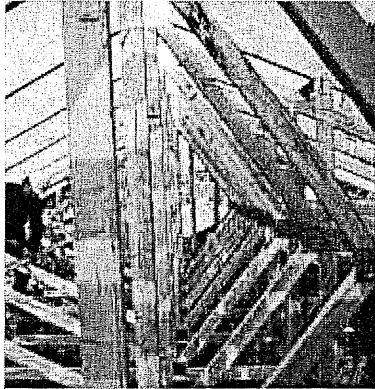
The second section of this document takes a close look at the specific needs of northern manufacturers and then examines the existing methods of support. These methods are analyzed under three headings:

- Sector-Targeted GNWT Programs
- Non-Targeted GNWT Programs
- Programs in Other Canadian Jurisdictions

Supporting Manufacturing and Value Added Industries in the NWT

The third section of this document contains the BAP's recommendations, beginning with a statement of values.

Trusses Made in the NWT



The Panel's recommendations are intended to promote...

Market Diversity - Any support for the industry should position NWT manufacturers to serve the needs of those sectors of the economy which are increasing in relative importance. These include the primary producing, construction and tourism sectors.

Net Benefits to the North - Public assistance in supporting NWT manufactured products should provide a net benefit to the northern economy in terms of the new jobs, skills or income generated.

Regional Economic Development - Manufacturing investment in the regions should be encouraged.

Import Replacement - NWT made products should improve northern self-sufficiency.

Quantifiable Progress - Any support for the manufacturing industry must be structured so that the impacts can be measured.

Market Driven - As the manufacturing industry matures and stabilizes, sector-specific public subsidies should be phased out.

Accountability and Transparency - The GNWT must ensure full disclosure of support provided to the manufacturing sector as well as any premiums paid by the GNWT for northern made products.



Summary of Recommendations

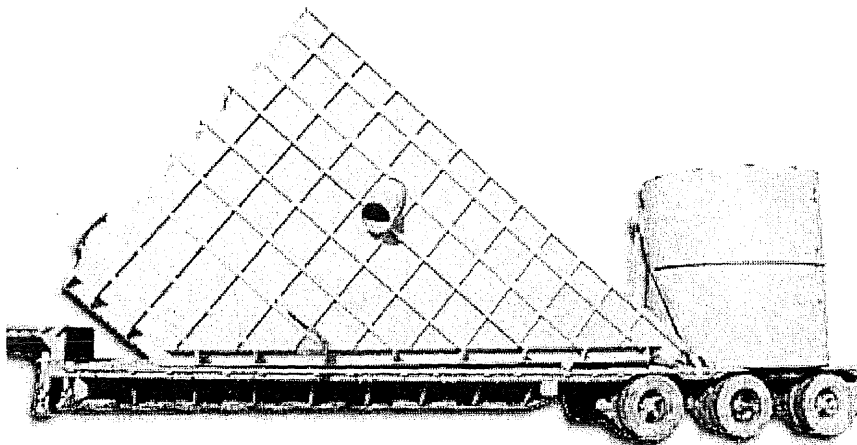
The Panel's recommendations can be divided into two groups:

Group 1 - Building a Favourable Environment for Manufacturing in the NWT

- Reduced Corporate Income Tax Rates
- Income Tax Credits
- Reduced Power Rates
- Access to Low Cost Power
- Improved Access to Raw Materials
- Payroll and Property Tax Holidays for Manufacturing in Group 2 and 3 Communities
- Establishment of a Strong Industry Association

Group 2 - Cultivating Growth in the NWT Manufacturing Sector

- Procurement Policy for NWT Manufactured Products
- Benefit Agreement Provisions
- Creation of a BDF Manufacturing Schedule
- Promotion of the NWT Tax Credit Program
- Access to Technical Institutions
- GNWT Technical and Management Expertise



Section 1

Manufacturing in the NWT - A Changing Environment

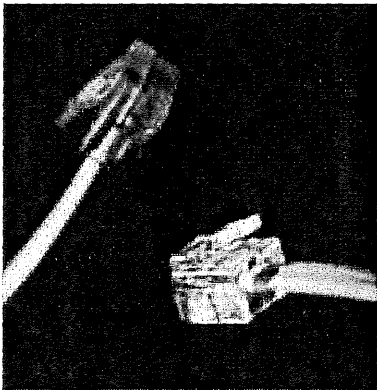
In this section, we answer two very important questions:

- Where are we now?
- Where do we want to be in 20 years?

In our examination of the changing environment for NWT manufacturing, we begin with a profile of the manufacturing sector as it appears today.

We then discuss the rapidly changing environment of the broader NWT economy and consider how these changes will affect the manufacturing sector.

Finally, we state our vision for NWT manufacturing and discuss the need for a comprehensive strategy to help us get there.



What is Manufacturing?

In the Income Tax Act and the Standard Industrial Classification (SIC) of Canada, the Government of Canada defines manufacturing as:

"the physical or chemical transformation of materials or substances into new products"

These products may be finished, in the sense that they are ready to be used or consumed (e.g. a bookcase), or semi finished, in the sense of becoming a raw material for a business to use in further manufacturing (e.g. birch plywood).

According to the SIC, manufacturing establishments may own the materials which they transform or they may transform materials owned by other businesses to use in further manufacturing (e.g. birch plywood).

A Snapshot of the Manufacturing Industry

In its May 2002 report for RWED, the Conference Board of Canada describes the NWT's manufacturing sector as:

"...underdeveloped, with almost all manufactured goods being imported from the south. Indeed, the fact that a manufacturing sector exists in the NWT is a tribute to the skills of local entrepreneurs in overcoming barriers posed by distance from markets and high transportation costs."

"The sector's output of \$7 million represented just 0.3% of the Territory's GDP in 2001. This contribution, though small, is important in that the manufacturing sector is one that contributes more in net inflows to the economy as a basic industry or primary economic generator, than would a support industry."

Although underdeveloped, the NWT manufacturing sector is diverse. Five per cent of all NWT firms are believed to be engaged in some form of manufacturing. NWT manufacturers range in size from diamond polishing facilities with more than 40 employees, to single person producers. In some cases, large retail or wholesale companies whose core business is the distribution of southern goods will manufacture one or two products to meet a very specific demand. For example, a lumber yard might manufacture core boxes for the mining industry.

A great diversity is also seen in the types of products manufactured. Tents, skincare products, compact discs, kitchen cabinets, herbal teas, prints and carvings are all produced to fill specific needs in the marketplace.

Historical NWT Markets for Manufactured Goods

A 2001 survey of members of the Northern Manufacturers' Association suggests that the main markets for manufactured products have traditionally been (in order of importance):

- | | |
|--------------------------------|---------------------------|
| 1. public governments | 8. other private industry |
| 2. NWT Housing Corporation | 9. NWT Power Corporation |
| 3. construction sector | 10. forestry sector |
| 4. retail sector | 11. oil and gas sector |
| 5. mining sector | 12. fisheries sector |
| 6. tourism sector | |
| 7. NWT Development Corporation | |

The Changing Marketplace

The size and relative importance of the manufactured goods market segments are changing rapidly.

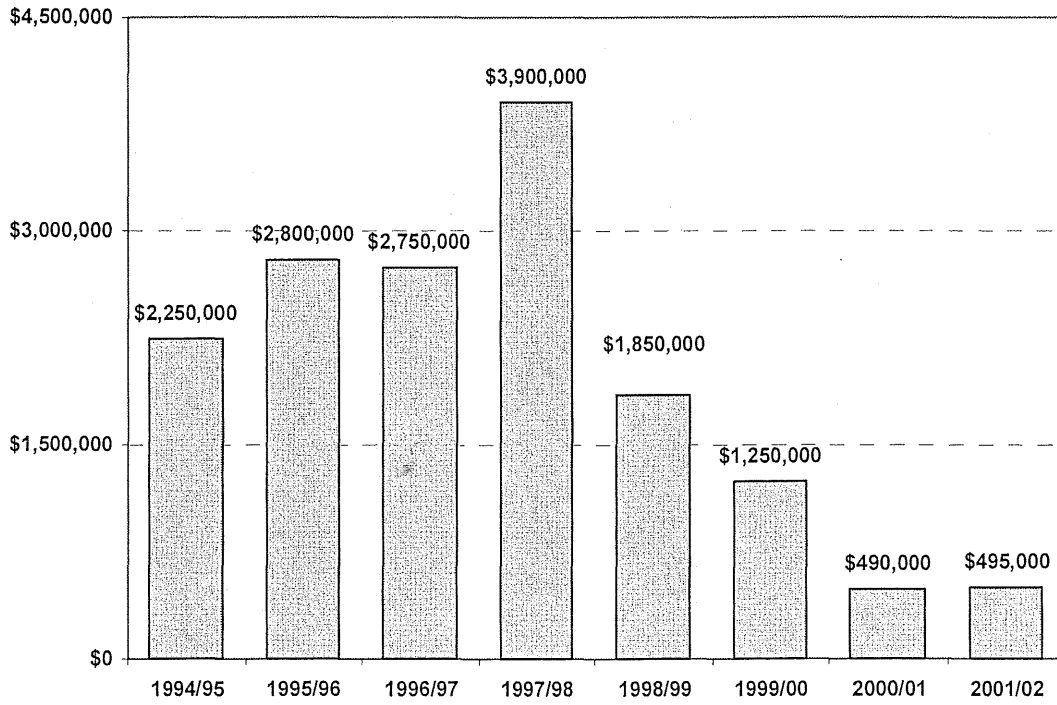
In the last 25 years, major public investments enabled the infrastructure that now exists across the NWT. During this period, direct government purchasing was critical to the survival of many fledgling contractors and manufacturers. More recently, GNWT purchasing has seen a significant decline. The following chart shows the downward trend in purchasing by the NWT Housing Corporation, which has historically been a large purchaser of northern manufactured products.

While GNWT purchasing of northern manufactured product has declined, growth in the primary producing (natural resources), construction and tourism sectors has opened new doors for manufacturers.

Territorial GDP has grown faster than any province or territory for the past two years, climbing by 8.8% in 2000 and by 20.8% in 2001. The discovery of NWT diamonds and a renewed interest in NWT oil and gas have led to unprecedented industrial expansion. This growth is expected to continue during the next five to ten years.

As development continues northern manufacturers will benefit from an increased demand for their products. As well, many new manufacturers will emerge. Perhaps most importantly, the

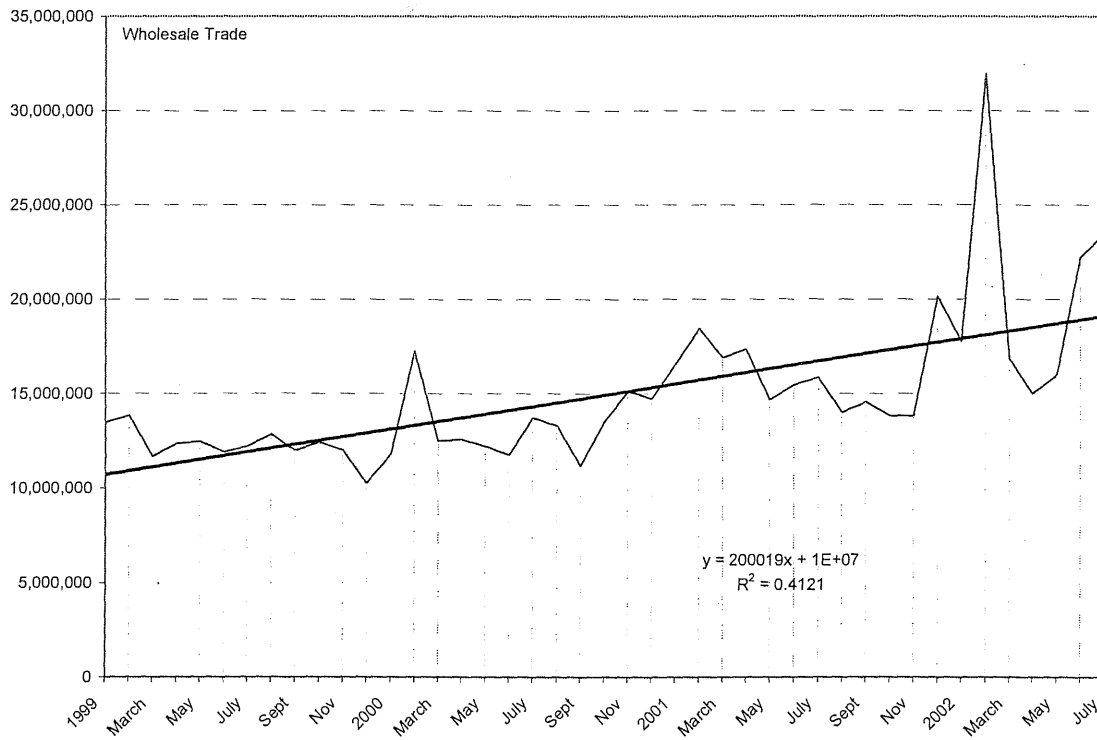
Chart 1: NWT Housing Corporation Expenditures on Northern Manufactured Products



vast size of these new industries will provide a scale of demand previously unknown to the majority of NWT manufacturers. Large volume manufacturing will allow northern companies to lengthen their production runs and achieve economies of scale - the cornerstones of the industry in other jurisdictions.

The growth of industry, continued growth and decentralization within the government sector and the creation of jobs within the tourism sector will translate into significant labour force demands. The NWT currently has the country's third highest rate of employment. It's clear that in order for labour force needs to be accommodated, workers will have to be brought in from other jurisdictions. Notwithstanding the NWT's current short-term housing shortage, this will result in significant population growth. This expansion of the resident population will provide additional opportunities for manufacturers.

Chart 2: Monthly Value of Manufacturing Shipments from the NWT since 1999.



A Vision for NWT Manufacturing in 20 Years

The NWT Business Advisory Panel envisions a sustainable manufacturing industry with a broad customer base and the ability to compete openly with southern manufactures.

How Can this Vision be Achieved?

While it's clear that the customer base for northern manufactured goods is shifting and growing, it is uncertain whether NWT manufacturers will benefit most in this new environment. Many southern manufacturers are poised to fill much of the demand created by the NWT's economic boom.

The NWT manufacturing industry is in its infancy and is extremely vulnerable to southern competition. In order to reach maturity, the industry must be incubated through a concerted effort by industry members, territorial and municipal governments, aboriginal governments and significant players from the mining, and oil and gas sectors.

In the past, GNWT support for manufacturing took the form of a purchasing preference for northern manufactured products. As the relative importance of the GNWT declines and its net contribution to the GDP falls, the direct purchasing of northern manufactured products will become a less effective means of supporting the industry.

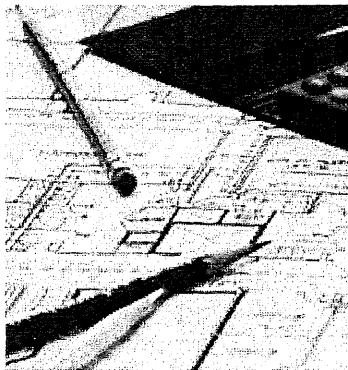
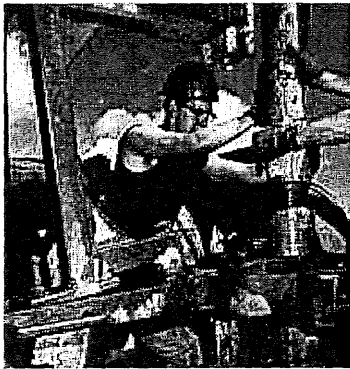
Therefore, the GNWT's support role must begin with the development of a comprehensive manufacturing strategy.

Section 2

How Can the GNWT Support NWT Manufacturing?

In this section, we examine the various ways by which the GNWT might provide support to the manufacturing sector.

We start with a discussion of NWT manufacturers' needs, followed by descriptions of existing programs in the territories and provinces, which provide support to manufacturers.



Manufacturers' Concerns

2001 Northern Manufacturers Association Membership Survey

In a 2001 survey of Northern Manufacturers' Association (NMA) members, the challenges to manufacturing in the NWT were identified as:

- (36%) lack of support and direction from the GNWT
- (27%) lack of recognition and awareness of northern made products
- (20%) staff training needs
- (10%) lack of GNWT adherence to the Interim Manufacturing Directive (IMD)
- (7%) high production costs

The survey presented respondents with a very broad series of potential challenges, making it difficult to pinpoint the specific needs of manufacturers. Nonetheless, certain conclusions can be made from the results:

It is apparent that a lower level of government purchasing is not considered a major obstacle for manufacturers. Lack of GNWT adherence to the Interim Manufacturing Directive (IMD) was second to last in the ranking. This may reflect the declining relative importance of GNWT purchasing in the market for manufactured goods.

The two highest ranked challenges have a certain amount of overlap. Many manufacturers would include "raising awareness of northern made products" as a means of "support and direction from the GNWT". Whether or not the two top challenges are truly distinct, it is clear that manufacturers want assistance from the GNWT in promoting their products.

When comparing the low weight given to IMD adherence with the heavy weight given to "support and direction from the GNWT", it can be concluded that manufacturers would like assistance from the government in forms other than direct purchasing.

The Need for Leadership

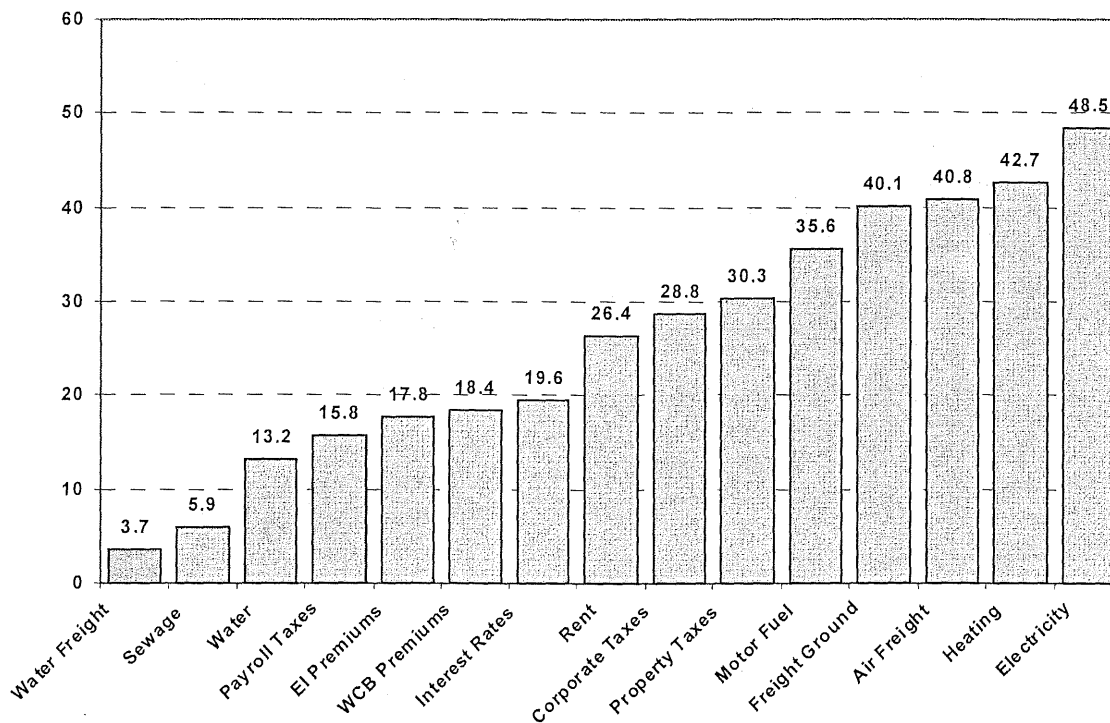
During the course of its research, the BAP consulted with government and industry association personnel from other Canadian jurisdictions. In those jurisdictions, manufacturers express many of the same needs as those outlined by NWT manufacturers. However, while many northern manufacturers look to the territorial government to address their needs, this role is generally filled by industry associations across southern Canada.

The NMA currently lacks the capacity to take the lead role on many of these initiatives. Without a substantial membership base and with little ability to provide value to members, the NMA has been unable to raise sufficient capital for its ongoing operations.

Access to Raw Materials

Lack of access to raw materials, land and electricity is hampering some NWT production. Traditional clothing makers, for example, do not have enough hides, duffle, sinew and fur. Recent surveys indicate that arts and crafts producers have difficulty accessing raw materials. As well, an extreme shortage of logs for processing (due to regulatory problems) threatens to end sawmilling in the NWT altogether.

Chart 3: Ranking of Business Issues in the NWT - GNWT and NWT Construction Association Survey.



Access to Support

A multitude of programs exist that provide not only financial assistance but technical, managerial, legal and training assistance. Many prospective northern manufacturers have difficulty finding and applying for this assistance, whether it be from governments, development corporations, banks, NGO's or non-profit agencies. This presents a significant barrier to entry into manufacturing. It is difficult to measure the total negative effect this might have on the industry, as the damage is often done at the very beginning of the business start-up process.

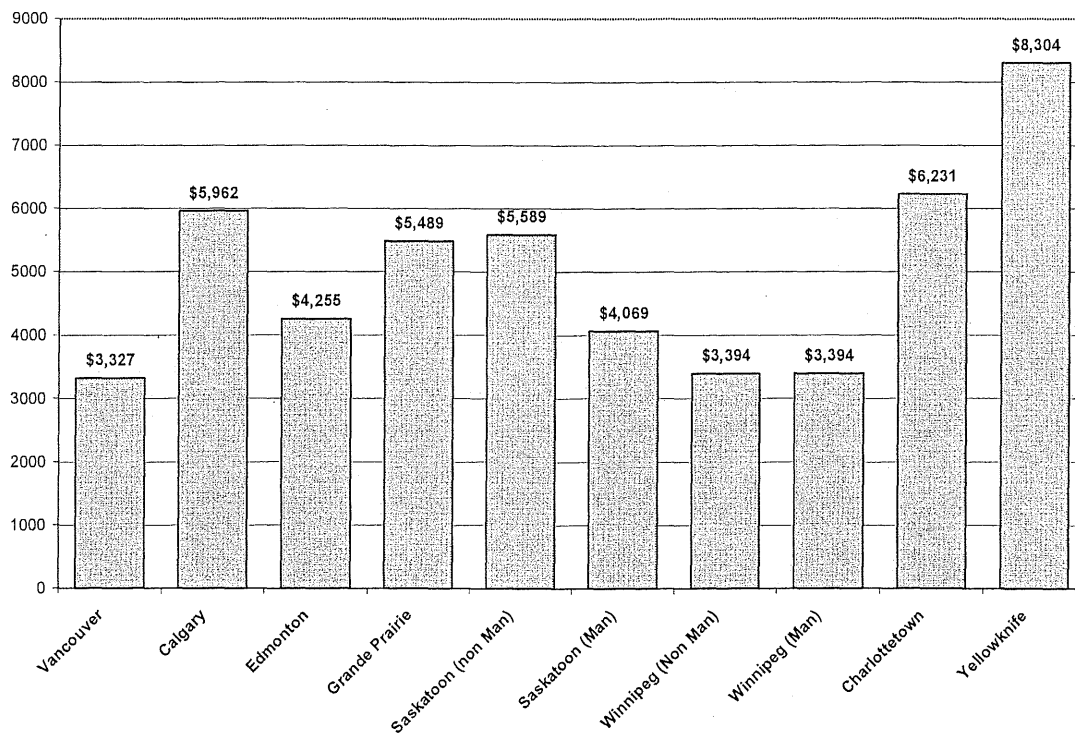
The High Cost of Manufacturing in the NWT

NWT manufacturers face higher operating costs than southern manufacturers in three key areas:

- Utilities (electricity and heating)
- Transportation
- Labour

These are significantly higher as percentage of total revenue in the north than in the south. In a 2001 survey conducted by RWED and the NWT Construction Association, NWT businesses from all sectors were asked a series of questions regarding the challenges they were facing. Respondents ranked the five greatest obstacles to doing business in the north as the costs of electricity, heating, air freight, ground freight and motor fuel (see the chart below).

Chart 4: Rate Comparisons - Standard Commercial Service (215kW demand (239kva) and 65,000 WH/Month



Utilities - Electricity

Power costs, as a percentage of total costs, are much higher in manufacturing than in other sectors. This is the result of a heavy dependence on equipment and automation, particularly in large-scale manufacturing operations such as sawmills.

The chart below compares utility costs for commercial service in Yellowknife with selected Canadian cities. While the cost of electricity in the larger communities is high relative to southern cities, the smaller communities are faced with even higher power rates.

Utilities - Heating

Heating costs are significantly higher for northern manufacturers than for their southern competitors. This has the unfortunate effect of discouraging expansion for fear of incurring even higher relative heating costs. In the short term, northern manufacturers perceive a benefit from making do with less space than they actually need.

Transportation

All northern companies and residents face a high cost of transportation due to their distance from southern suppliers and markets. This will always limit the ability of northern manufacturers to serve southern markets.

Of equal importance to many manufacturers is the high cost of transporting goods within the NWT. This can be attributed to:

- the high cost of fuel in the north
- the large distances between northern communities
- the uncertainty and high costs associated with winter roads
- air only access to many communities
- a lack of railway infrastructure

Labour

In the 2001 RWED/NWT Construction Association survey, businesses voiced a variety of concerns over the current labour market. Many of these concerns related to a general shortage of skilled and unskilled workers. One common theme involved the difficulty of attracting new workers north - given the climate, shortage of housing, cost of living and higher southern wages. Many smaller companies remarked that it is difficult to compete with large corporations and governments.

What Means of Supporting the Manufacturing Sector Currently Exist?

A wide range of programs have been developed across the country to support the manufacturing sector - some directly and others indirectly. These programs can be separated into the following categories:

- Sector-Targeted GNWT Programs
- Non-Targeted GNWT Programs
- Programs in Other Canadian Jurisdictions

Sector-Targeted GNWT Programs

Interim Manufacturing Directive (IMD)

The Interim Manufacturing Directive was approved by the Government of the NWT in 1996. It was an initiative that established the GNWT as a leader among Canadian jurisdictions in promoting domestic manufactured products.

The key elements of the IMD are:

- a preference for NWT manufactured goods listed on the Approved Northern Manufactured Products list
- standing offer agreements
- a validation and qualification process to ensure products meet the requirements of the IMD
- periodic reporting by contract authorities on purchases under the policy

Departments were given flexibility in implementing the IMD. The NWT Housing Corporation issued a general call for proposals for manufactured products. Proponents were advised of the preference being offered, as well as the possibility of obtaining an exclusive preference for a limited period to allow new products to recover their initial investment.

Problems with the Interim Manufacturing Directive

As of 1998, five products and eight manufacturers were registered under the IMD. No new products or companies have been added since then. Both the manufacturers and RWED have expressed an interest in revisiting the directive, with the goal of developing a more effective means of promoting NWT manufactured products.

In a recent letter to RWED, the Northern Manufacturers' Association outlined the following problems:

- Many government departments do not follow the spirit and intent of the policy in trying to identify new opportunities for purchasing NWT made products.
- The qualification of products for the Approved Northern Manufactured Products list is slow and cumbersome.
- The benefits of the directive are not well understood by the contract authorities or industry.
- Due to its interim nature, many contract authorities did not recognize the IMD as being an integral part of the GNWT's Business Incentive Policy.

The NWT Business Advisory Panel has noted the following additional weaknesses in the IMD:

- Products on the Approved Northern Manufactured Products List are not periodically evaluated to ensure they continue to meet the eligibility criteria.
- The 25% requirement for northern value added is sometimes insufficient to ensure that companies are actually engaged in manufacturing.
- Products can be set aside from the competitive process for undefined periods of time and with undefined spending limits.
- The individual GNWT departments have inadequate and inconsistent mechanisms for reporting purchases made under the IMD.

Non-Targeted GNWT Programs

The Business Development Fund (BDF)

The Business Development Fund is a contribution fund aimed at stimulating employment and economic development throughout the NWT. While not directed specifically to the manufacturing sector, many of the program schedules offer benefits in line with manufacturers' needs.

The BDF is made up of the following programs:

1. **Planning and Other Development Costs** (schedule A-1) assists businesses to meet pre-establishment or pre-expansion costs when there is a good possibility of increasing regional sales or displacing imported goods and services. This may include the cost of engineering or other pre-construction costs, feasibility studies, business plans and assisting with legal and regulatory costs.
2. **Pilot or Demonstration Projects** (schedule A-2) assists businesses to establish pilot or demonstration projects to determine/assess the applicability of new technology.
3. **Business Creation or Expansion** (schedule B-1) encourages the expansion and development of trade, services, renewable resources and manufacturing businesses through new business start-ups or expansions. Assistance is primarily directed to expansion related capital costs.
4. **Venture Capital** (schedule B-2) assistance may be provided to businesses or individuals willing to invest in NWT owned businesses. Businesses and individuals eligible for venture capital assistance may be or may not be from the NWT.
5. **Market and Product Development** (schedule C) assists businesses to generate and increase sales of NWT products, goods and services to new markets or to develop new products for existing markets. Related costs include marketing and product development expenditures.
6. **Business Skills** (schedule D) assists in short-term management or business training where not available from other sources.
7. **Business Relief** (schedule E) assists businesses in smaller or less developed communities in financial difficulty to identify problems and develop plans to overcome them.
8. **Community Initiatives** (schedule G) assists with initiatives that build on local or regional economic development strategies, addresses impediments to economic growth, and promotes the development of a stable, diversified economy.

Communities in the north are divided into three groups for the purpose of this fund:

- **Group 1** Communities are defined as having reasonable to good transportation linkages. Typically they have developed internal and external markets, and they have a larger population base and per capita income, low unemployment, a stable business community and related infrastructure.
- **Group 2** Communities are defined as having limited but potential markets, lower per capita incomes, higher unemployment, fewer businesses and less developed physical infrastructure.
- **Group 3** Communities are defined as being isolated, and having high levels of unemployment, limited transportation, limited business opportunities and economies linked to resource harvesting.

Contributions to any one project are tied to these groupings in order to sustain all communities and encourage development. A business in a less developed community would be eligible to receive a larger proportion of the required funding in the form of a contribution than a business in a more developed community.

NWT Risk Capital Investment Tax Credit Program

In 1998, the GNWT introduced the Northwest Territories Risk Capital Investment Tax Credit Program. This program is comprised of four tax credit incentives aimed at attracting private investment in start-up or expansion of NWT businesses. The program does not target specific industries or regions. Eligible investors can receive a credit against Northwest Territories income tax payable of up to 30%, for a maximum of \$100,000. The tax credits can be gained by investment in:

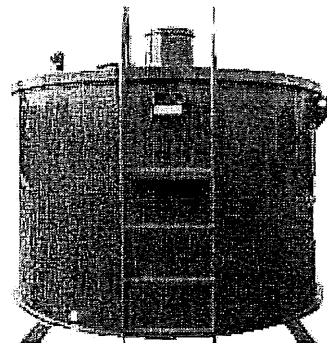
- labour sponsored venture capital corporations
- employee venture capital corporations
- community endorsed venture capital corporations
- direct investment in territorial business corporations

The first three tax credit incentives - which require the establishment of venture capital corporations - have yet to be pursued in the NWT.

While venture capital programs offering tax incentives to investors have been very successful at raising venture capital funds in Canada, their success at attracting investment in remote regions has not been overwhelming. Newfoundland has had very little subscription to its program so far. In the NWT, five businesses have benefited from the GNWT program under Option 4: Direct investment in a private company. The total investment attracted in 1998 was \$60,450, up to \$191,000 in 1999, \$279,000 in 2000 and \$134,640 in 2001.

The venture capital industry is a "hands on" approach, with the venture capital company (VCC) making equity investments and participating on the board of directors. As such, most investments are made within a 1 ½ hour drive of the VCC headquarters, which puts the NWT at a disadvantage in terms of attracting VCC interest.

Another constraint to attracting VCCs to the Northwest Territories is that they generally concentrate on high growth potential companies. They are not interested in participating in the "local bowling alley". Because the industry expects only two "winners" for every ten investments, the "winners" must have significant growth potential. VCCs thus tend to favour high-tech or companies developing new products. To attract venture capital dollars, the local economy must have a diverse range and large number of businesses with high growth potential to choose from - characteristics which are not part of the NWT economy.



Programs in Other Jurisdictions

There is a wide range of manufacturing industry support offered by provincial and territorial governments. These programs can be separated into:

- Procurement Policies
- Corporate Income Tax Credits
- Payroll and Property Tax Holidays/
Rebates
- Reduced Corporate Income Tax Rates
- Reduced Power Rates
- Contribution/Grant Programs
- Loan Guarantee Programs
- Marketing and Promotion
- Government/Industry Association Partnerships
- Advocacy for Manufacturers in Industrial Benefit Agreements
- Technical and Management Assistance

The NWT Business Advisory Panel recognizes the advantage of adopting existing programs from other jurisdictions. These programs have measurable costs and benefits. In addition, by copying existing policies and delivery mechanisms the GNWT will save on the costs of implementing new programs.



Procurement Policies

The Agreement on Internal Trade is an agreement between the federal, provincial and territorial governments to reduce, to the extent possible, barriers to the free movement of persons, goods, services, and investment within Canada and to establish an open, efficient and stable domestic market.

Annex 508.3 of this act - Non Conforming Procurement Policies and Programs - lists preferential purchasing policies that were in place prior to the signing of this agreement. Within this section are purchasing acts from British Columbia, Yukon, Prince Edward Island, Newfoundland and the Northwest Territories.

British Columbia's Purchasing Commission Act states:

"The commission has power to give preference...in the case of goods required in a local area of the Province, in favour of goods produced, manufactured or sold in that area."

... Section 8 (preference to local manufacturers)

The other listings in this section are much broader, similar to the GNWT Business Incentive Policy. They allow for the preferential purchase of local goods, services and labour.

Corporate Income Tax Credits

- Corporate income tax credits are offered to encourage investment by manufacturers. Targeted investments include:
 - research and development
 - job creation
 - equipment and capital asset purchases for the purpose of upgrading technology
 - manufacturing in remote areas

Corporate income tax credits for manufacturers are offered in Quebec, Newfoundland, Saskatchewan, Manitoba, British Columbia, Nova Scotia and Prince Edward Island.

Manitoba introduced the Manufacturing Investment Tax Credit in 1992. The credit was scheduled to be eliminated in 2000, but it has been extended to 2003. It is intended to encourage the expansion and upgrading of Manitoba's manufacturing and processing industries. Investments eligible for the 10% credit include new manufacturing plant and equipment purchased for first time use in Manitoba. Since the tax credit's inception in 1992, investment in manufacturing in the province has tripled, creating more than 10,000 jobs. The credit is administered by Revenue Canada on behalf of the Government of Manitoba.

In 1997, the province of Nova Scotia announced an Investment Tax Credit for Manufacturing and Processing (ITCM&P) effective January 1, 1997. This is a non-refundable credit against Nova Scotia corporate income taxes owing and is for qualifying investments in new manufacturing and processing plants, and equipment for use in manufacturing and processing in Nova Scotia. The rate is 30% for investments incurred before January 1, 2001 and 15% for those investments made after December 31, 2000. It may be carried forward seven years and back three years to a date no earlier than January 1, 1997. To qualify, an operation must generate more than 10% of its active business income from manufacturing in the province. As in the case of Manitoba, this credit is administered by Revenue Canada on behalf of Nova Scotia.

Saskatchewan has a non-refundable Investment Tax Credit for plant and equipment purchases for first time use in manufacturing activities in Saskatchewan. The credit is available to all businesses making manufacturing and processing related capital investments and reduces Saskatchewan corporate income taxes payable. Tax credits are earned at the rate of 6% of the capital cost of eligible purchases. Corporations can use the tax credit in the current year, or carry the credits back three years or forward seven years.

Payroll and Property Tax Holidays/Rebates

Of all the Canadian provinces, Newfoundland has a manufacturing sector that most closely resembles the NWT. The Government of Newfoundland and Labrador offers a wide range of economic development programs to encourage diversification. Several programs target the manufacturing sector specifically.

The Economic Diversification and Growth Enterprises (EDGE) Program provides a package of incentives to encourage significant new business investment in the province to help diversify its economy and stimulate new private sector job creation, particularly in rural areas.

Companies approved for EDGE status are entitled to the following incentives and benefits:

- a 100% rebate on provincial corporate income tax and the provincial health and post-secondary education tax (payroll) tax for a period of 10 years if the business is established in non-remote areas, or 15 years if the business is established in remote areas
- a 50% rebate on federal corporate income tax for the periods referenced above
- a further five year period of partial rebates on the provincial and federal taxes referenced above, declining by 20% in each year of this phase out period
- a 100% rebate on municipal property and/or municipal business taxes for the periods referenced above, followed by a five year phase out of such rebates
- access to unserviced Crown land for \$1, where such land is required to implement the company's business plan

The government provides additional help to manufacturers who wish to apply for the EDGE program by providing a facilitator. The facilitator - a representative of the Canadian Manufacturers and Exporters Association (CME) - provides help with business planning, obtaining permits, licenses and any other government regulatory requirements.

Reduced Corporate Income Tax Rates

The following table compares the general corporate tax rate (2002) with the tax rate applied to manufacturers and processors in Canadian provinces and territories.

Tax	BC	AB	SK	MB	ON	QC	NB	NS	PEI	NF	YK	NU	NT
Manufacturing/Processing	16.5	13.5	10	17	12	9.04	16	16	7.5	5	2.5	14	14
General	16.5	13.5	17	17	14	9.04	16	16	16	14	15	14	14
Differential			7		2				8.5	9	12.5		

Saskatchewan, Ontario, Prince Edward Island, Newfoundland and the Yukon tax manufacturing and processing businesses at a rate lower than the general corporate tax. Yukon is the most extreme in its reduction: 2.5% on manufacturers and processors compared to the 15% general corporate tax. Most provinces also tax small businesses (defined as businesses with gross earnings under \$200,000 - \$300,000 depending on the province) at a much lower rate than the general corporate tax rate. The GNWT taxes small business at the rate of 5%.

The GNWT does not offer any tax incentives to the valued added sector beyond those offered to all small businesses.

Reduced Power Rates

SaskPower (Saskatchewan) and Nova Scotia Power (Nova Scotia) offer preferential rates for manufacturing businesses. In Saskatchewan, manufacturers were established as a power customer class in 1991 and offered lower rates, with the intention of stimulating new investment. The proposed manufacturer's rate for 2001 is 17% lower than the non-manufacturer's business rate.

Nova Scotia Power targets manufacturers and processors in a customer class called industrial. This class is sub-divided into small, medium and large industrial, based on scale of demand and use. Small industrial customers pay a slightly higher rate than medium and large industrial customers, however, all three industrial types pay a rate lower than residential or general business customers.



Contribution/Grant Programs

The Government of Prince Edward Island has a Small Business Development Program geared specifically toward manufacturers and processors who focus their business on the provincial market. The targeted sectors are agriculture, fisheries and diversified manufacturing (including film and crafts). Retailers and service providers are not eligible for assistance. The program provides up to \$40,000 for capital acquisitions: machinery, renovations and leasehold improvements, and up to \$20,000 for market development: advertising, promotion and research. For businesses intending on exporting goods out of the province, the industry eligibility is expanded to include pharmaceuticals, health care, environmental industries and information technology as well as agriculture, fisheries and diversified manufacturing.

Loan Guarantee Programs

The Alaska Industrial Development and Export Authority (AIDEA) - Business & Export Assistance Program is a loan guarantee program designed to assist small to medium sized Alaskan businesses. The guarantee is applied to loans made to eligible Alaska business enterprises for real property, tangible personal property, working capital and export transactions. Through the program, AIDEA is authorized to guarantee up to 80% of a loan, not to exceed \$1,000,000, originated by eligible financial institutions. A part of this program, aimed at small businesses in rural areas, provides a streamlined application process for secured and unsecured loan guarantees up to \$100,000.

Marketing and Promotion: Canadian Association of Manufacturers and Exporters

Most provincial governments list marketing and promotion as strategic priorities in supporting their manufacturing sectors. However, these tasks are not usually carried out by the governments directly, but rather through strategic partnerships with industry associations and private industry.

In the smaller provinces, industry associations can't always generate adequate revenues from membership fees to sustain ongoing marketing and promotion activities. In these cases, provincial governments may provide funding to supplement association revenues.

Larger associations, such as the Canadian Association of Manufacturers and Exporters (CME), which enjoy nationwide membership, require less supplementary funding as it is able to spread out the cost of many of the association's activities.

The CME has a strong presence in each of the provinces. In some jurisdictions it works very closely with provincial governments. This reduces duplication of services and ensures that manufacturers receive comprehensive support. For more than 130 years, the association has represented the interests of Canadian business, striving to keep members on the competitive edge of world-class manufacturing and trade. It touts itself as the "undisputed champion of business issues in Canada".

The CME provides the following member benefits:

- national and provincial representation
- networking opportunities
- effective advocacy
- international linkages and advisory services
- practical training seminars
- best practices and benchmarking programs
- policy and issue research
- timely, relevant information and publications
- discount programs
- expertise

Government/Industry Association Partnerships

During the last decade, the Government of Newfoundland & Labrador has employed an aggressive economic development strategy. As a part of this strategy, the government has prioritized the strengthening of numerous industry associations. By ensuring a strong CME presence in the province, the government achieved four important objectives:

- It ensured that support for the manufacturing sector would continue in a coordinated and comprehensive manner once government funding was phased out.
- It established a close link to industry, which allows feedback on all government decisions, activities and policies as they relate to the manufacturing sector.
- It provided a consistent reporting mechanism to evaluate the effectiveness of government programs in the sector.
- It promoted partnerships with other governments, research institutes, provincial chambers of commerce, international trade boards and the educational community.

The Newfoundland branch of CME shares an office with the provincial/federal Business Service Centre. The provincial government provides funding to the association for specific projects such as:

Membership Dues - The government covers 50% of a manufacturer's annual membership dues in the CME.

- **Accessing Government Programs** - The government provides funding to manufacturers who wish to employ CME facilitators to assist in business planning or obtaining permits, licences and any other government regulatory requirements for government program applications.
- **Professional Development and Networking Activities** - The government provides contributions to manufacturers to cover the cost of traveling to and participating in CME trade shows, professional development seminars and annual conventions.
- **Technical Support** - The government shares the cost with the CME for manufacturers who wish to employ CME or IRAP mentors to provide a wide range of business and technical services.

Advocacy for Manufacturers in Industrial Benefit Agreements

Perhaps the most powerful future role for the GNWT in supporting the manufacturing industry will be the representation of northern manufacturers' interests when negotiating industrial benefit agreements. Provincial and territorial governments across the country, including the GNWT, have had great success in promoting broad economic development in this manner.

The International Research Development Centre recently published a report entitled Large Mines and the Community. Chapter seven of the report - "Uranium Mining in Northern Saskatchewan" - outlines the impact of successfully establishing northern goods purchasing requirements during environmental review hearings:

"Historically, supply of goods and services to mines in northern Saskatchewan was undertaken by national and international companies who came into the region with their own, usually non-resident employee, who undertook the contract and left. This left little benefit for the region or its communities which instead saw many benefits from mining activities transferred away from the North to other regions.

In the 1990's, Saskatchewan's mining companies increased the number of northern suppliers, using (often aboriginal-owned) local companies, joint ventures and preferential procurement policies."

Northern purchasing requirements placed the onus on the large uranium mining companies to increase their purchasing of northern goods. These companies held public meetings across northern Saskatchewan to explain which kinds of goods would be required in the development of mines. Cameco, Cogema and other companies published documents to explain how individuals, companies and communities could do business with them.

Technical and Management Assistance

There are a number of programs provided by provincial and territorial governments aimed at improving the competitiveness of their manufacturers and exporters. Most of these consist of cost sharing partnerships with research and technology institutes, of which there are many. The abundance of highly advanced research and technology institutes in Canada is a testament to the strength of the Canadian manufacturing sector.

Industrial Research Assistance Program (IRAP)

IRAP is offered by the National Research Council of Canada (NRC) - the principal research agency of the federal government. It is designed to help small and medium sized enterprises (SMEs) meet the unique challenges they face in the research and development of new products, processes and services. IRAP offers a range of services designed to help SMEs access key resources, expert advice, new technologies, testing facilities and financial assistance at the right time and in the right place.

The program provides funding to eligible applicants to access the services of over 260 industrial technical advisors working in 150 communities across Canada.

Industrial Research and Development Institute (IRDI)

IRDI is a not-for-profit, non-government organization established by industry to provide engineering and research solutions to companies involved in the parts and manufacturing industries. IRDI's research and technical staff have expertise in the areas of plastics, metal forming and machining. Its member companies represent a wide variety of industries, including SMEs, automotive, aerospace and biomedical.

Participation in projects with IRDI is open to all parts and manufacturing companies, as well as universities and consortia.

Manitoba Market Assessment of Research and Technology (MMART)

MMART is a partnership between the National Research Council and Western Economic Diversification Canada. It enables Manitoba SMEs to receive funding to assist in hiring a consultant to conduct a professional market and/or technology assessment on a product, process or technology they are developing or planning to develop.

Alberta Research Council (ARC)

In partnership with global leaders, the ARC helps to advance the economy and well-being of Alberta by providing technology and innovation to meet current and emerging needs of industry and government. The corporation performs applied research and development activities on a fee for use basis, or derives a return on investment through the commercialization and licensing of new products and processes.

The Alberta Business Service Centre Guest Advisor Program

The Business Service Centre's website offers an opportunity for users to speak to management consultants, lawyers, accountants and financial representatives, all of whom volunteer their time to discuss users' business concerns. Topics cover a wide range of issues such as business plan writing, bookkeeping, pricing strategies, tax issues, disclaimers, administrative systems, expansion financing and taking companies public.

BCIT Secondary Wood Products Training Centre

The BCIT Secondary Wood Products Training Centre provides a series of courses in Computer Numerical Control (CNC), Computer Aided Design (CAD) and Computer Aided Manufacturing (CAM) for the secondary wood processing industry. The program facilitates the adoption of new technologies and upgrading of skills.

Section 3

BAP Recommendations for Supporting Manufacturing

In this section, we recommend means of supporting the NWT manufacturing industry. We begin by establishing a value framework upon which the recommendations are built. We then present the recommendations in two groups:

- " Group 1 - Building a Favourable Environment for Manufacturing in the NWT
- " Group 2 - Cultivating Growth in the NWT Manufacturing Sector

A Vision for NWT Manufacturing in 20 Years

The NWT Business Advisory Panel envisions a sustainable manufacturing industry with a broad customer base and the ability to compete openly with southern manufactures.

Values

In developing recommendations, the Business Advisory Panel was guided by the following values:

Market Diversity - Any support for the industry should position NWT manufacturers to serve the needs of those sectors of the economy which are increasing in relative importance. These include the primary producing, construction and tourism sectors.

Net Benefits to the North - Public assistance in supporting NWT manufactured products should provide a net benefit to the northern economy in terms of the new jobs, skills or income generated.

Regional Economic Development - Manufacturing investment in the regions should be encouraged.

Import Replacement - NWT made products should improve northern self-sufficiency.

Quantifiable Progress - Any support for the manufacturing industry must be structured so that the impacts can be measured.

Market Driven - As the manufacturing industry matures and stabilizes, sector-specific public subsidies should be phased out.

Accountability and Transparency - The GNWT must ensure full disclosure of support provided to the manufacturing sector as well as any premiums paid by the GNWT for northern made products.

The BAP's recommendations attempt to provide a comprehensive approach to supporting the manufacturing industry. They extend beyond the sphere of direct government purchasing and strive to benefit all manufacturing production in the NWT. While many of the programs recommended here share common goals, the underlying themes of the BAP recommendations are:

Group 1 - Building a Favourable Environment for Manufacturing in the NWT

These recommendations are designed to create a favourable business climate for manufacturing in the NWT, relative to other jurisdictions.

Group 2 - Cultivating Growth in the NWT Manufacturing Sector

These recommendations are intended to make NWT manufacturers more competitive in the NWT marketplace and decrease the cost differences between northern and southern manufactured goods. They also address the important issues of facilitating access to capital and increasing the purchases of NWT made products by industry and government.

Building a Favourable Environment for Manufacturing in the NWT

The first group of recommendations should create a favourable business climate for manufacturing in the NWT, relative to other jurisdictions. The specific areas addressed are:

- Reduced Corporate Income Tax Rates
- Income Tax Credits
- Reduced Power Rates
- Access to Low Cost Power
- Improved Access to Raw Materials
- Payroll and Property Tax Holidays for Manufacturing in Group 2 and 3 Communities
- Establishment of a Strong Industry Association

Reduced Corporate Income Tax Rates

The Governments of Yukon, Saskatchewan, Newfoundland and Prince Edward Island offer lower corporate income tax rates to companies engaged in manufacturing in their jurisdictions. There is an average differential of 9.25% between manufacturers and non-manufacturers. This presents an extremely attractive environment for prospective manufacturers. It also encourages existing manufacturers to achieve or increase profitability in order to take advantage of the lower rates.

Recommendation 1

The NWT Business Advisory Panel recommends that the GNWT establish a preferential corporate income tax rate for NWT manufacturers.

Income Tax Credits

Income tax credits are an attractive means of supporting industry for several reasons:

- Qualifying companies receive a credit proportionate to the size of the investment. Larger credits can only be achieved through larger private investments.
- They can be administered by Canada Customs and Revenue, thereby reducing the workload for the GNWT.
- Tax credits only benefit viable companies. Credits can be rolled over indefinitely to encourage startup manufacturers (who typically don't achieve profitability for several years) to achieve profitability sooner, thereby releasing tax credit benefits.

Recommendation 2

The NWT Business Advisory Panel recommends that the GNWT establish investment tax credits to encourage investment with the following objectives:

- the upgrading of manufacturing technology in the NWT
- the creation of new manufacturing jobs in the regions
- capital investment in manufacturing in the regions
- research and development of new products

Program criteria can be based on provincial models, with additional criteria reflecting the unique economic development goals of the GNWT.

Reduced Power Rates

Power rates are significantly higher in the north than in the south. Power costs per unit of output are also significantly higher, due to lower sales volumes and shorter production runs for many northern manufactured products.

Recommendation 3

The NWT Business Advisory Panel recommends that the GNWT establish a new power rate class for manufacturers.

Access to Low Cost Power

A December 2000 GNWT report entitled Review of Electrical Generation, Transmission and Distribution in the Northwest Territories, A Design for Tomorrow noted that the Talston hydro system has excess capacity of approximately 95 billion kilowatt hours per year. The report calculated that the NWT Power Corporation would realize \$1.8 million in revenues by selling all available interruptible power for 2 cents per kwh, and some \$950,000 for each additional 1 cent increment in price. The report recommended (page 39) that "the GNWT immediately take steps to ensure that NTPC proceed with the sale of interruptible power from the Talston System."

The availability of inexpensive interruptible power in the South Slave could create new opportunities and competitive advantages for local manufacturing.

Recommendation 4

The NWT Business Advisory Panel recommends that the GNWT move to implement interruptible power billing as soon as possible.

Improved Access to Raw Materials

According to the Canadian Forest Service's 1991 inventory, just over half of the NWT is covered by forest, of which just under a quarter is considered productive timberland.

The Conference Board of Canada had the following suggestions for improving access to timber:

"On the regulatory side, clear guidelines are needed for both sides [landowners and sawmill operators], and the paperwork must be reduced. Environmental requirements must be established and implemented for operators to understand and work with, while land owners and regulators, for their part, must agree to one set of rules that are easy to understand and implement. The development of these rules and regulations will be made easier in the coming months, when the Canadian Forest Service releases its new satellite mapping of the territory, that should fill in some information gaps on the size and quality of timber land available to loggers."

Recommendation 5

The NWT Business Advisory Panel recommends that RWED work towards implementing the recommendations of the Conference Board of Canada, with regards to improving access to NWT timber.

Payroll and Property Tax Holidays for Manufacturing in Group 2 and 3 Communities

The community based production of northern handicrafts and apparel provides an excellent means of displaying the creativity and ingenuity of the NWT's aboriginal population. These forms of manufacturing also produce goods which are perhaps better suited for export than most other northern products.

For its part, manufacturing provides a means of strengthening and diversifying regional economies. Unfortunately, manufacturers in small communities face even greater challenges than the already significant challenges to manufacturing in the larger communities.

This problem is not unique to the NWT. Newfoundland and Quebec have found ways to encourage the expansion of manufacturing in remote regions. By offering payroll and property tax holidays in specified areas, the provincial governments are able to create a favorable environment for manufacturing.

Recommendation 6

The NWT Business Advisory Panel recommends that the GNWT provide property tax holidays to manufacturers, and payroll tax holidays to their employees, for manufacturing in Group 2 and 3 communities.

Establishment of a Strong Industry Association

While it is important to thoroughly analyze the needs of northern manufacturers, it is not realistic to expect the GNWT to effectively address them all. It is also not necessarily true that the GNWT is in the best position to address these needs.

In the provinces, manufacturing industry associations provide effective support to their members through a wide range of services:

- facilitating access to various forms of assistance from various sources
- promoting regions to share skills, knowledge and technology
- national and provincial representation
- networking opportunities
- effective advocacy
- international linkages and advisory services
- best practices and benchmarking programs
- practical training seminars
- policy and issue research
- timely, relevant information and publications
- discount programs
- expertise

In addition to serving the needs of members, manufacturers' associations act as a link between their membership and governments. They provide a feedback mechanism so that the effectiveness of government programs can be measured.

Recommendation 7

The NWT Business Advisory Panel recommends that the GNWT share the annual cost of membership for the Northern Manufacturer's Association (NMA) to belong to the Canadian Association of Manufacturers and Exporters (CME), thereby providing value for NMA members.

Recommendation 8

The NWT Business Advisory Panel recommends that the GNWT host strategic planning sessions for the Northern Manufacturers' Association so it can set a path for establishing a strong and effective organization.

Cultivating Growth in the NWT Manufacturing Sector

The second group of recommendations are intended to promote growth by facilitating access to capital, increasing the purchase of NWT made products by industry and government, and improving the competitiveness of northern manufacturers. The specific areas addressed are:

- Procurement Policy for NWT Manufactured Products
- Industrial Benefit Agreement Provisions
- Creation of a BDF Manufacturing Schedule
- Promotion of the NWT Tax Credit Program
- Access to Technical Institutions
- GNWT Technical and Management Expertise

Procurement Policy for NWT Manufactured Products

As the NWT manufacturing industry starts to develop, there must be a period of protection to allow companies to reach the size and scale that is economically viable in the competitive world. Until markets are established and scale benefits released, new companies cannot compete with established firms. A purchasing preference for NWT manufactured products is an effective means of providing this protection.

Government leadership in purchasing locally manufactured products and in designing processes for ensuring both value and performance will be important in building the industry's confidence in northern made products.

While the Interim Manufacturing Directive (IMD) was flawed, the BAP feels that it can easily be improved. A well structured purchasing preference can provide numerous benefits to northern manufacturers in a number of ways:

Better Access to Financing

The ability to finance new manufacturing ventures is a significant impediment to growth in the sector. Manufacturing enterprises are capital intensive. However, financial institutions are more likely to approve loans if the borrower can demonstrate that a large client is willing to purchase its product. By demonstrating that a GNWT purchasing preference will provide a potentially significant demand and a competitive pricing advantage, a new manufacturer has a much better chance of receiving bank financing.

A Template for Industry

Perhaps the most important new role for the GNWT in the next 25 years will be the representation of northern manufacturers' interests when negotiating industrial benefit agreements. The GNWT has already experienced first hand the benefits of sharing the responsibility for economic development with companies in the primary producing sector.

A GNWT procurement policy for northern manufactured goods will set an example for industry. It will also provide a means of reassuring industry partners that qualifying products meet the high standards they require.

Marketing and Promotion

The NWT Business Advisory Panel feels that a well designed and supported "Buy North" marketing campaign is essential to develop domestic markets - as was recommended by the Conference Board of Canada in their 2002 report, *Setting the Pace for Development*. A "Buy North" logo can be included on labels, packaging and product literature for all qualifying products. The program should have the goal of informing the public of the economic benefits of supporting value added industries.

If this program adopts the same product qualifying criteria as the GNWT's Approved Northern Manufactured Products List, the effectiveness of both programs will be enhanced. The strengthening of both programs will have the added effect of demonstrating to industry a firm commitment to developing viable companies and competitive, high quality products.

The Northern Manufacturers' Association has done the preliminary work for a "Buy North" marketing campaign. A logo, labels and promotional literature have already been developed. The BAP feels that the association should be supported in the completion of this program.

The GNWT's most effective means of supporting the campaign will be to demonstrate its own commitment to buying northern made goods through a GNWT Manufactured Goods Purchasing Preference.

Recommendation 9

The NWT Business Advisory Panel recommends that the GNWT develop a preferential procurement policy for northern manufactured products.

Procurement Policy – Five Per Cent Bid Preference

A 5% bid preference would be applied only to approved products, not to a company's entire product line. The 5% "manufacturing preference" would be awarded on top of the 15% bid preference provided to all northern businesses under the GNWT's Business Incentive Policy (and the 5% preference for local contracts).

While it can be argued that the cost of manufacturing in the north is more than 5% higher than the cost for northern companies to import southern made goods, the BAP feels that preferences should be as low as possible to facilitate the adoption of GNWT procurement practices by industry.

The Panel recognizes that the preferences outlined in the BIP may be lowered or capped in the future, as the NWT economy grows and stabilizes. Should this occur, it is recommended that the 5% manufacturing preference be evaluated based on the maturity of the manufacturing sector, not the broader economy.

Recommendation 10

The NWT Business Advisory Panel recommends that a 5% bid preference be given to products that are on the GNWT Approved Manufactured Goods List.

Procurement Policy – GNWT Approved Manufactured Goods List Recommendation 11

The NWT Business Advisory Panel recommends that the GNWT Approved Manufactured Goods List be retained, with the following changes:

Product Based - The list should target individual products, not entire company product lines.

Product Criteria - New product approval criteria should be established by a joint panel representing the GNWT, industry and the manufacturing sector through its industry association. The Product Approval Committee will have a responsibility to ensure that products continue to meet the approval criteria after the initial approval. Manufacturers should be open to periodic site inspections. A mechanism should be established to facilitate the listing and de-listing of products, as well as an appeal process for both manufacturers and purchasers.

Limited Durations for Listings - Listings should have a defined duration to encourage producers to seek new markets and to improve competitiveness.

GNWT Reporting - The GNWT must standardize its departmental reporting practices for all purchases. The impact of the purchasing preference cannot be measured unless reporting methods are set out in advance. This is also necessary to ensure transparency.

Reporting By Manufacturers - As a requirement for the approval of products, manufacturers should commit to providing financial reporting to the Product Approval Committee. Reporting should include: product sales by sector, approved product sales as a proportion of company sales and raw material costs for the production of approved products. The Product Approval Committee can summarize this information in annual progress reports to the GNWT.

Procurement Policy - Set-Asides

From time to time, the GNWT has set aside specific products to be used exclusively in government projects. While the Panel agrees that such measures are occasionally required to properly incubate a manufacturing enterprise, it feels that the lack of guidelines and conditions for this process have resulted in overprotection in the past

Products that are "set-aside" must be required to meet price and supply conditions. The set-aside status must also be given a specific time limit. Northern manufacturers must be encouraged to achieve competitiveness with southern suppliers.

Recommendation 12

The NWT Business Advisory Panel recommends that "set-asides" be given conditions and limits.

Procurement Policy - Pre-Tendering Process

Past experience indicates that products supplied by NWT manufacturers to large construction projects typically comprise a very small portion of the entire tender. These products are typically not "carried" by generals and subcontractors, as there is little incentive to do so under the BIP.

To encourage contractors to use NWT manufactured products, the BAP would like to see the GNWT pre-tender any materials which are manufactured in the NWT. For example, if the tender calls for fuel tanks, all northern and southern suppliers and manufacturers would submit their bids to a pre-tender process to determine which bid is lowest, after allowing for the 5% northern manufacturing preference, and then all contractors involved would incorporate that price in their bids.

Recommendation 13

The NWT Business Advisory Panel recommends that the GNWT establish a pre-tendering process for construction projects.

Procurement Policy - GNWT Procurement Guide

A GNWT procurement guide should be developed that provides information on the procurement policy, as well as a full listing of the Approved NWT Manufactured Products, in the form of a catalogue. The catalogue should be distributed to GNWT contract authorities and members of industry. It should contain product pictures, descriptions, prices and supply information.

Providing up to date product listings will be critical to the usefulness of the guide. As such, it is recommended that the Northern Manufacturers' Association maintain the catalogue, with guidance from the GNWT Product Approval Committee.

In order to further encourage GNWT staff to use the procurement guide, they should be allowed to order directly from the catalogue without tender.

Recommendation 14

The NWT Business Advisory Panel recommends that the GNWT develop a comprehensive procurement guide - in the form of a catalogue - for purchasing northern manufactured products.

Industrial Benefit Agreement Provisions

The GNWT now negotiates industrial benefit agreements for projects that fall within the review mandate of the Mackenzie Valley Environmental Management Act. As more projects prepare to enter the regulatory approval phase, the GNWT should be proactive in designing a plan to represent the manufacturing industry's interests.

Recommendation 15

The NWT Business Advisory Panel recommends that the GNWT draft provisions for inclusion in industrial benefit agreements, that would require the adoption of the GNWT Approved Northern Manufactured Products List.

Creation of a BDF Manufacturing Schedule

Manufacturing industries have obtained just under 8% of total BDF contributions granted to businesses over the last five fiscal years. However, a large proportion of these contributions were granted under "Schedule G", which is geared toward initiatives that have broad community impact, as opposed to merit of the individual business. As well, one third of total contributions to manufacturing was awarded to three companies in the secondary diamonds sub-sector. Diamond processing represents a specific interest of the GNWT, and the success of this sub-sector is not reflective of the overall success of manufacturing businesses in capturing BDF funding.

The BDF gives preference based on ethnicity and community size, but does not bestow any preference based on industry sectors. The GNWT has recognized the importance of value added industries as a source of economic health in various strategies, but this recognition is not reflected in the BDF.

The tendency of regional offices not to record verbal rejections or dissuasion of businesses from the BDF is a problem for tracking the overall performance of the program in assisting the business community. The reasons for rejection and the number of rejected applicants are as important in measuring the effectiveness of the BDF as the record of approved contributions.

In the past, market disruption has been cited by regional analysts in at least one rejection of a manufacturer for BDF funding. However, this rejection was based on the assumption that the manufacturer would produce a product that would compete with businesses importing the same product for sale. Such a decision is not consistent with the GNWT's stated goal of encouraging import replacement.

Recommendation 16

The NWT Business Advisory Panel recommends that the GNWT allocate a separate schedule within the Business Development Fund for value added industries.

Recommendation 17

The NWT Business Advisory Panel recommends that the GNWT require all BDF analysts to record and report all instances of rejection from the BDF, including instances where businesses have been verbally rejected or dissuaded from making an application.

Recommendation 18

The NWT Business Advisory Panel recommends that the GNWT advise its BDF analysts on procedures for measuring competitiveness in terms of production of northern goods. Market disruption should not be considered a factor where an applicant proposes to produce a product in the NWT that is currently imported from the south.

Promotion of the NWT Tax Credit Program

While the NWT Tax Credit Program has been under utilized since its inception in 1998, the Panel feels that it has excellent potential for providing access to capital for manufacturing enterprises. It is felt, however, that the benefits of the program remained largely unknown to existing and prospective manufacturers.

Recommendation 19

The NWT Business Advisory Panel recommends that the GNWT work with the Northern Manufacturers' Association to raise awareness and improve understanding of the NWT Tax Credit Program among manufacturers.

Access to Technical Institutions

There are numerous Canadian research institutes, both public and private, which provide specialized technical support for manufacturing applications. There are also several programs offered by the Government of Canada which propose to share the cost of utilizing research institute services.

In the past, the GNWT has provided funding to manufacturers who wished to access technical support from the Alberta Research Institute (ARI). While RWED maintains a relationship with the ARI, funding is no longer earmarked for manufacturers who wish to use their services.

Recommendation 20

The NWT Business Advisory Panel recommends that the GNWT provide funding to manufacturers to share the cost of accessing technical services offered by private and public research institutes.

GNWT Technical and Management Expertise

Northern manufacturers face technical and operational challenges that are unique to the north. The GNWT has extensive experience in dealing with these issues through departments such as Public Works and Services, the NWT Housing Corporation and the NWT Development Corporation.

Recommendation 21

The NWT Business Advisory Panel recommends that the GNWT create a means for northern manufacturers to access the specialized knowledge and skills of current and former GNWT employees.

A New Direction

The future is bright for the economy of the Northwest Territories. Unfortunately, the rising tide may not raise all NWT ships. The manufacturing sector is in its infancy. It requires support-an incubation period-in order to grow, stabilize and stand on its own.

Fortunately, other Canadian jurisdictions have blazed a trail, demonstrating that manufacturing can be cultivated when assisted in a comprehensive and coordinated manner.

The recommendations contained in this report are intended as a starting point. They are based primarily on programs and services that are being offered in other jurisdictions. It is the hope of the Business Advisory Panel that as the GNWT develops its manufacturing strategy, it will examine these recommendations, evaluate their suitability, and implement them where possible.