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**A NEW ECONOMIC DEVELOPMENT POLICY  
FOR THE NORTH?:**

**THE IMPACT OF THE CANADA - U.S.  
FREE TRADE AGREEMENT**

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## Introduction

The Canada - U.S. Free Trade Agreement (FTA) will impose a new set of conditions on economic development in the territorial north. The agreement will restrict the ability of all levels of government (including aboriginal governments) to use public or quasi-public institutions to shape stable and diversified northern economies, and it will narrow northerners' options in many areas where they are just now beginning to achieve sufficient powers of self-determination. This consequence is important not only to northerners, who will live with the results most directly, but in fact for all Canadians, because (as we argue later) Canadian taxpayers will continue to have a considerable stake in northern economic development for the foreseeable future.

In advancing these views, we must acknowledge that there are a number of imponderables. Because the free trade agreement is complex and because so much about its application depends upon largely unpredictable future political and economic events, it is likely that the real impact of the FTA on the Canadian economy (as measured by standard indicators) will not be known for decades. It is clear that there will be a long period after the FTA has passed into legislation in which the implications of the agreement are worked out, both through the bilateral dispute resolution mechanism and in other settings. Some questions, such as the definition of what is a subsidy, will be the object of future negotiations. Others, such as the extent to which

provinces might be induced to comply with federal commitments under the agreement, will be worked out in practical domestic politics; as will the issue of whether for all purposes of the agreement the territorial governments will be considered provinces or arms of the federal government.

Another large area of irreducible uncertainty arises from the fact that the potential economic impact of most northern ventures on U.S. interests is relatively inconsequential. With bigger fish to fry, it is possible that U.S. corporations will not challenge northern initiatives which might contravene the FTA, at least for some years. For domestic reasons, the U.S. government may discourage firms and individuals from raising certain issues at all, particularly if they impinge upon questions of aboriginal rights and aboriginal title which are sensitive questions in both nations. Finally, on the still-to-be-negotiated question of subsidies, it may be that subsidies in the Canadian north will be protected by American commitment to the significant subsidy arrangements for American Indian reservations, substantial subsidies in such sectors as agriculture, tourism, as well as the major subsidies for infrastructure in Alaska.

Even though there are many uncertainties, at this stage in the trade agreement process it is still possible to draw some conclusions, and to sound some warning notes. Some important effects of the agreement on the powers of public institutions are already evident, and these can be assessed against northerners' plans for developing their own economy. Questions may be asked

about areas where the agreement is silent, or where further negotiations are planned. This is the approach we have taken. Our analysis is not concerned with the merits of free or "freer" trade in general; instead we consider the specific agreement that has been negotiated by the governments of Canada and the United States.

Our argument proceeds in four stages. We begin with a description of the political economy of the northern territories, emphasizing the features which distinguish the north from other peripheral areas. Then we survey the emerging consensus in each territory concerning the steps necessary to achieve economic development for the benefit of all northerners. This discussion serves as an introduction to the responses of territorial and federal governments as well as non-governmental organizations to the free trade agreement itself. We conclude by highlighting some areas of particular concern about the impact of the agreement on the territorial north.

#### 1. The Northern Political Economy

The N.W.T. and Yukon together comprise one-third of the area of Canada, but account for much less than one per cent of the national population. The demographic status of these 80,000 people is also distinctive. A large proportion consists of indigenous peoples -- Inuit, Inuvialuit, Dene, Yukon Indians, and

Metis. In the Yukon, about one-quarter of the population is Native; in the N.W.T. aboriginal peoples are in the majority. Each territory is dominated by its capital: Whitehorse accounts for two-thirds of the Yukon population, Yellowknife about one-quarter of the N.W.T.'s. Most of the non-Native population of each territory lives in these centres (and in the N.W.T., in four other large regional centres), while most of the Native population lives in about 70 other small communities, almost all of which have less than 1000 persons each.

There are important differences in the histories, politics and economics of Canada's two northern territories. The Yukon has a proportionately larger and more established non-Native population, and a longer-standing territorial government infrastructure, compared to the N.W.T., and as a result of these two factors, a more "southern-style" political culture. Ever since the Klondike gold rush, mining has been relatively more important in the Yukon's economy than in the Northwest Territories. All but one of the Yukon's communities is

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'Native', 'indigenous peoples' and 'aboriginal peoples' are used interchangeably in this paper to refer to the descendants of the First Nations who lived in North America for thousands of years before European settlement. The terms refer to collectivity at a very general level: as 'European' refers generically to the many European peoples (French, Spanish, etc.), 'Native peoples' includes the many peoples indigenous to North America, such as the Nishga, Dene, Inuit, Innu, Cree, and Metis, among many others.

For a fuller treatment, see Gurston Dacks, A Choice of Futures: Politics in the Canadian North. Toronto: Methuen, 1981; Kenneth Coates, Canada's Colonies: A History of the Yukon and Northwest Territories. Toronto: James Lorimer and Company, 1985.

accessible by all-weather road, while in the N.W.T. most communities are accessible only by air or water. In the N.W.T., however, the small, predominantly Native communities account for about half of the population and are thus relatively more influential politically. These basic differences mean that generalizations about the economic effects of the free trade agreement in the "territorial north" must be made with caution; but it is also true that the territories share a number of important characteristics which distinguish them from all other sub-national jurisdictions in Canada.

In each territory there are two distinctive albeit linked economic modes. Life in the capital cities and regional centres resembles that of small Canadian towns elsewhere: they are structured by a wage-based economy with employment and income provided by both the private and public sectors (with the latter relatively more important than in most other parts of Canada). The small but numerous predominantly Native communities are characterized, in contrast, by a mixed, subsistence-based economy. In this economy, households typically derive income in cash from wages, commodity production (e.g. furs, fish, art, handicrafts), and transfer payments, and in kind from the

On the other hand, some regions within each territory are similar in many ways to some regions within provinces. For example, the Dene and Metis communities in the southwestern N.W.T. share many of the qualities of the Native communities in northern Alberta and Saskatchewan, including common origins of the indigenous peoples and the reliance of community members upon domestic production. Indigenous peoples' political prospects in each provincial north, though, are quite different, precisely because these areas are found within provinces.

domestic production of food, fuel, and other products. The equivalent (substitution) value of the latter is substantial: estimates range from \$50 to \$100 million annually in the two territories, and in some Arctic communities domestic production contributes over \$10,000 per annum to household income. In these communities there is a high degree of occupational pluralism and of dependence on large tracts of land and water for the harvesting of fish and wildlife, with the tracts held in more or less communal tenure under the indigenous system of economic relations and resource management.

Much of the economic activity in these communities is unmeasured and unrecorded, and hence both overlooked and misunderstood by conventional economic analysis, as well as by conventional economic statistics which focus on regional and sectoral aggregates. The community economies (which are the basis of the domestic economic sphere identified below) are not

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. See, for example, R. Ames, D. Axford, P. Usher, E. Weick and G. Wenzel, Keeping on the Land, A Study of the Feasibility of a Comparative Wildlife Harvest Support Programme in the Northwest Territories. Ottawa: Canadian Arctic Resources Committee, 1988; Yukon Economic Development Perspective Update 1981-1985. Whitehorse: Department of Indian and Northern Affairs and Yukon Department of Economic Development, 1987; P.J. Usher and L. Staples, Subsistence in the Yukon. Report prepared for the Council of Yukon Indians, Ottawa, 1988.

. Ames et al, op.cit., P. J. Usher, "Indigenous management systems and the conservation of wildlife in the Canadian North", Alternatives 14 (1):3-9, 1987; N.C. Quigley and N.J. McBride, "The structure of an Arctic micro-economy: the traditional sector in community economic development", Arctic 40(3):204-210, 1987.

. Ames et al, op.cit.; Usher and Staples, op.cit., J. Potvin, "Yukon 2000: a critique", Northern Perspectives 16 (2):27-28, 1988.

archaic backwaters of poverty, as commonly supposed. They are economically and socially viable, emigration rates are low, and household incomes (taking all sources of income into account) are not much different from territorial or national averages. As well, food derived from the domestic harvesting of fish and wildlife is one of the few sectors of the economy in which the territories even begin to approach self-sufficiency. The base of the community economies today is the fish and wildlife resources of the two territories, and moderate levels of part-time, seasonal, and full-time employment in both the public and private sectors.

The implications of all this for territorial economic development strategy, and for the impact of the trade deal, are significant. The territorial economies, like all others, consist of three analytically distinguishable but interrelated spheres: the public, the private, and the domestic. In the north, the public sphere is the largest, and serves both national and territorial objectives. The private sphere consists of a few large non-resident firms (mainly in transportation, construction,

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Although this general pattern prevails in all predominantly Native communities, there are of course considerable regional variations in the mix and form of domestic and waged productive activity, related to the nature of local resources and to the range of employment opportunities.

National objectives include protection of Canadian sovereignty, identification and conservation or exploitation of staples resources, and provisions of services to northern residents. Territorial objectives may be generally described as the provision of province-like services to the population, adjusted to northern demographic, cultural and political needs.



energy and minerals), and a much larger number of small tertiary firms which are dependent on the levels of economic activity generated by both government and resource development. As we have already suggested, the domestic sphere is unusually important. It is of major cultural significance to Native peoples and it provides a significant quantity of basic goods to them; a far greater proportion than does domestic activity to other Canadians. The domestic sphere, however, has a relatively low cash multiplier effect, generates no cash surplus for investment, and provides no reasonable basis for taxation. The problem with the community economies is not the current level of personal or household income, but rather the provision of an adequate level of public infrastructure: schools, hospitals, roads, houses, municipal services, social programs, and so on.

The North has an open, undiversified economy with few internal linkages, and is therefore highly import-dependent. These imports can be financed only by means of staple exports or continuing high levels of federal government expenditure, whether in the form of block transfers to the territorial governments, subsidies to enterprises, or transfer payments to individuals. As well, given the North's harsh environment, its distance from major metropolitan centres, and the scattered distribution of its population, the North's economy is necessarily a high cost economy. Any good or service that is not unique to the North can almost certainly be produced elsewhere, and transported to where it is needed, at a lower cost.

Despite the need for a staple export base, the North has never had one (with the partial exception of mining in Yukon). The northern oil boom of the late 70s and early 80s was largely driven by the National Energy Program Petroleum Incentive Program grants, which heavily subsidized oil and gas exploration. Similarly, most of the major mines have depended on heavy subsidies for their establishment and frequently for their survival. In view of the low biological productivity of the North, furthermore, fish and wildlife resources must be regarded as primarily domestic resources: with the exceptions of furs, some commercial fisheries, and some animal byproducts these resources do not and cannot account for a significant proportion of total exports, although they are in some places of great local importance. Consequently, whether one bases a northern development strategy on exports of non-renewable resources, or on the maintenance of the domestic renewable resource economy, high levels of government expenditures in the North will continue to be an essential fact of life for the foreseeable future.

The need for subsidy is of course not a uniquely northern condition. The Canadian economy is regionally diverse, with manufacturing concentrated in central Canada while other areas rely primarily upon agriculture and natural resources extraction and processing. In recognition of the varying fortunes of

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On the interaction of the FTA with the need for subsidy in a somewhat similar region (Atlantic Canada), see Scott Sinclair and Michael Clow, "Regional Disparities" in Duncan Cameron, ed. The Free Trade Deal. Toronto: James Lorimer and Company, 1988.

regions in such an unevenly developed economy, Canadian federalism is built upon the principle of national redistribution of wealth from "have" to "have-not" provinces, through negotiated federal-provincial fiscal arrangements, "need-driven" national programs (such as Unemployment Insurance), and direct program expenditures. Subsidization of the northern territories, however, takes place within a different political and constitutional framework.

Politically, the territorial north is distinctive in at least two ways. First, it is arguably the only region in Canada where Native people are sufficiently numerous to exercise significant and sustained political power. Native peoples' influence is apparent in the composition of elected territorial governments: in the N.W.T., they comprise the majority of elected representatives; in the Yukon, they are sufficiently influential in the territorial Cabinet that their concerns shape much of the government agenda. There are also powerful Native organizations, representing each major aboriginal group. Besides working with and through each territorial government, northern Native organizations have for over a decade been negotiating comprehensive claims agreements with the federal government. These "modern treaties," in concert with other Native political initiatives on other fronts, will permanently redefine the relationship of northern Native collectivities to the rest of Canada. They will secure for exclusive Native use some portion of the large tracts of land upon which the domestic economy

depends, and entrench certain provisions which should make Native participation in territorial economic and political development more equitable than has been the case hitherto. Just now the process of redefining this relationship is at a particularly critical juncture. One major claims agreement was reached in 1984, one reached the agreement-in-principle stage this year, and the remaining two outstanding claims are quite close to agreement-in-principle.<sup>10</sup> As we argue below, these agreements contain many hard-won provisions which may conflict with the specific terms of the FTA.

The second important political characteristic shared by each territory is that, even though both territorial governments have fully elected legislatures, both have less than provincial status within Confederation. They remain, constitutionally, in a colonial position: while the jurisdiction, the rights, the responsibilities and the structure of provincial governments are entrenched in the constitution, each territorial government is established only in federal legislation, which may be changed unilaterally by Parliament. Unlike provinces, neither territory

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<sup>10</sup> The Inuvialuit, who live in the Mackenzie Delta/Beaufort Sea area of the northwestern N.W.T., reached a final comprehensive claims agreement with the federal government in 1984. In 1988, the Dene Nation and the Metis Association of the Northwest Territories (comprised of Natives living south of the treeline in the the southwestern N.W.T.) signed a claims agreements-in-principle, the penultimate step towards a final agreement. The Tungavik Federation of Nunavut, which negotiates on behalf of the Inuit who form the great majority of the N.W.T. population north of the treeline, and the Council for Yukon Indians (representing all aboriginal people in that territory) are also quite close to an agreement-in-principle.

controls Crown land, nor its subsurface and marine resources."

The lack of province-like powers (particularly the lack of control over natural resources) makes the territorial north particularly vulnerable to federal economic development policy. These decisions are constitutionally still the primary responsibility of the federal Minister of Indian Affairs and Northern Development, although in the last decade other members of Cabinet, particularly the Minister of Energy, Mines and Resources, have become very influential."

Despite these circumstances, for many practical political purposes the territorial governments often appear to differ little from provincial governments in the way that they make policy and deliver programs and services. Nevertheless, their inferior constitutional status has major implications when the large wheels of executive federalism are turning. The attendance of territorial governments at federal-provincial conferences and

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" In August 1988, a small step was taken towards changing this situation. The Prime Minister of Canada and the Leader of the Government of the Northwest Territories Legislative Assembly signed an agreement concerning the principles for negotiating a "Northern Oil and Gas Accord." The agreement states that the Accord may include provisions for transfer to the NWT of legislative responsibility for on-shore oil and gas, shared responsibility for the same resources off-shore, and sharing of revenues from production. No timetable for the conclusion of negotiations was established.

" Cf. Frances Abele "Conservative Northern Development Policy: A New Broom in an Old Bottleneck?" in Michael J. Prince, ed. How Ottawa Spends 1986-87: Tracking the Tories. Toronto: Methuen, 1986; Frances Abele and Katherine Graham, "Plus Que Ca Change...Northern and Native Policy" in Katherine Graham, ed. How Ottawa Spends 1988-89: Heading Into the Stretch. Ottawa: Carleton University Press, 1988.

consultations is not guaranteed, and so they were excluded altogether from the on-going federal consultations with provincial premiers with respect to the free trade agreement, a fact which may account for some crucial silences in the document on issues of paramount concern to northerners.<sup>13</sup>

## 2. A New "Northern Vision"

Both economic and political circumstances define the territorial north as a region unlike the others, with unique needs and unique potential. In particular, the north's economic future is very much contested terrain. In the last two decades there have been great battles over the shape, pace and direction of northern economic development, waged by an extraordinarily powerful federal government and unusually influential regional Native organizations, with the territorial governments often wedged in between.<sup>14</sup> In the pitched battles of the 1970s,

<sup>13</sup> There was an opportunity for territorial participation in free trade consultations "at the officials level", but lacking the clout of elected leaders, the officials could hardly be expected to exercise much force in pressing territorial concerns.

<sup>14</sup> E.J. Dosman, The National Interest: The Politics of Northern Development, 1968-1975. Toronto: McClelland and Stewart, 1975; Francois Bregha, Bob Blair's Pipeline: The Business and Politics of Northern Energy Development Projects. Toronto: James Lorimer and Company, 1979; Gurston Dacks, A Choice of Futures: Politics in the Canadian North. Toronto: Methuen, 1981; Robert Page, Northern Development: The Canadian Dilemma. Toronto: McClelland and Stewart, 1986. For more development of the political and constitutional analysis referred to in this paper, see Michael Asch, Home and Native Land: Aboriginal Peoples and the Canadian Constitution. Toronto: Methuen, 1984; Frances Abele, "Canadian Contradictions: Forty Years of Northern Political Development" Arctic 40(4) 1987.

survival of the domestic economy was seen to depend upon halting major non-renewable resource development projects (such as the Mackenzie Valley pipeline), and there were often great divides among northerners themselves on such questions.

More recently, territorial governments and Native organizations have begun working together at the political level, to develop alternative constitutional and economic arrangements that would confer full citizenship rights onto all territorial residents and begin to build an economy that could, in time, provide northerners with employment and economic stability. Northerners are making plans for economic development which specifically address the particular characteristics of the northern political economy and which could form the basis for eventual economic stability and prosperity. The most concerted effort was made in the Yukon, through the broadly participatory planning exercise known as "Yukon 2000,"<sup>15</sup> but both N.W.T. legislators and Native organizations have also recently organized conferences to assist in the development of their own approaches to sustainable economic development. Although there remain divisions of opinion and of interest among northerners about the best course forward, there has been sufficient progress that it

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<sup>15</sup> Yukon, The Things That Matter. A Report of Yukoners' Views on the Future of Their Economy and Their Society. Whitehorse, 1987; "Mining in the Popular Sector", Northern Perspectives 16 (2) 1988.

is possible to speak of an emerging consensus.<sup>16</sup>

First, there is growing agreement about the need to protect and support the domestic economy. Much of Native peoples' political activity (through the claims process and elsewhere) has been directed towards protecting the lands and resources upon which the domestic economy depends, through various schemes for producer management and control.<sup>17</sup> The Native organizations' point has been taken by northerners as a whole, leading to a new interest in ensuring the viability of the domestic sector. The consensus here is based on a concrete appreciation of the contribution of community-based domestic production to the northern economy overall. Equally important has been the recognition that the domestic economy contributes to sustaining the small communities in which most northern Native people live, and where they find both continuity with their cultural past and a basis for the continued evolution of their "distinct societies."

Both Native and non-Native northerners agree, too, about

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<sup>16</sup> See Yukon Economic Development Perspective *op. cit.*; and Canada, Parliament, House of Commons, Standing Committee on External Affairs and International Trade, Minutes of Proceedings and Evidence, 33rd Parliament, 2nd Session, No. 47, 25 November 1987: testimony of the Hon. Nick Sibbeston, Deputy Government Leader and Minister of Economic Development and Tourism, testimony of Mr. Bill Erasmus, President, Dene Nation, and testimony of Mr. Shakir Alwarid, Deputy Minister, Economic Development, Mines and Small Business.

<sup>17</sup> All of the claims agreements contain provisions which would entrench nearly exclusive Native control over some particularly important tracts of land, and they all would establish joint Native-government management boards for crucial resources like wildlife, land and water.



other policy measures that are necessary to stabilize the "boom and bust" cycles that afflict the territorial economies. Thus, the claims agreements all contain provisions to permit collectively controlled Native organizations to invest in territorial enterprises in areas like transportation, tourism and non-renewable resource production. Also, each territorial government envisions the use of subsidies, grants and state-funded infrastructure development to diversify the economic base through the development of indigenous northern businesses. It is expected that the businesses will produce goods to be substituted for those currently imported, or develop more fully fledging service industries, such as tourism. In all of these cases and in the case of direct investment in the north's non-renewable resources, the governments anticipate using performance requirements and regulatory power to favour local small businesses and to enforce training and employment of local people.

This approach is quite different from the macro-effect, mega-project strategy which has often been the choice of federal politicians and officials responsible for northern development. In the traditional approach, major projects in the north have often been subsidized for national purposes (like Canadian energy self-sufficiency). Local impacts and local benefits were considered only as afterthoughts, once the decision to go ahead has been taken, and the projects were not integrated with a more comprehensive development strategy for the north. In contrast,

northerners are developing a flexible and long-term approach leading to diversified economic development. This approach assumes a significant degree of strategic government intervention and recognizes that creative use of subsidies will be necessary. In this context, the development of local enterprises is seen to have two benefits: local enterprises will generate and reinvest income in the territories, while at the same time they will provide effective training to the local (particularly Native) labour force in the business and management skills which are currently in short supply.

In general, a key objective of both Native organizations and territorial governments is control over, and a much more active use of, resource and environmental management tools for both conservation and economic ends. In a marked departure from the way in which issues were defined in the seventies, conservation and economic development are seen increasingly by northerners as potentially complementary goals, provided that they have the tools to control the pace and character of economic development. This new approach recognizes that there are ways in which the domestic economy can be complemented by the provision of certain kinds of employment opportunities, in part because individuals and households may choose to use their income from wages to enhance their land-based productive capacities, and in part because increasing numbers of young people may choose to make their living primarily from wage employment. It is also recognized that there is still a potential for resource use

conflict (for non-renewable resource development to destroy the basis of other sectors of the northern economy) and for projects which exploit northern resources while providing few real employment, training and business opportunities to northerners.

These negative effects can only be avoided if the appropriate management tools are available to northerners. That is why all of the claims negotiating bodies have emphasized resource management boards and control over land use, even while they insist on their right to participate in all forms of economic activity in the north. It also accounts for the territorial governments' interest in the devolution of further powers from the federal to the territorial level of government and, particularly, for their enthusiasm for an "oil and gas accord" with the federal Cabinet which would provide them with some measure of control (and revenue) in this crucial sector."

We have argued that the territorial north is an "underdeveloped" region in Canada with particular strengths and particular needs, and that for some time, in both territories, there has been a growing consensus about a new economic development strategy. While there remain important differences of interest between Native and non-Native northerners, and among

See note 12 above. Native organizations and territorial governments have come into conflict over the devolution process. The Native organizations seek the entrenchment of Native self-determination in territorial governing institutions. They note that devolution of governing responsibilities from the federal level is part of the process through which new governing arrangements in the north are being worked out, and they want to ensure that Native peoples' interests are protected.

the hunters, trappers, private and public sector workers, and small business people of the north, they all have a common interest in developing a healthy northern economy. This common interest has led to discussion and compromise, and a growing appreciation that there is no "quick fix" or simple solution, whether it be megaprojects or renewable resources. Instead, the North must rely on a mixed economy, based on a creative balance between staple export development, the domestic sphere, and national public investment, in order to meet the social and cultural as well as the narrowly economic needs of the North." Exclusive reliance on market forces, in contrast, can only perpetuate the traditional "boom-bust" cycle that has characterized the North (and other peripheral regions) in the past. It is against the imperatives of this process, and of northerners' plans for their economic future, that the free trade agreement must be assessed:

### 3. Federal and Territorial Responses to the Free Trade Agreement

In a 1987 speech to northerners, the Minister of Indian Affairs and Northern Development recognized the importance of northern access to the levers of economic planning. He highlighted "strengthening responsible government by transferring programs to territorial control," negotiation of claims settlements which will "provide native northerners with

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" For a comparable perspective on the economy of Newfoundland, see Building On Our Strengths. Report of the Royal Commission on Employment and Unemployment. St John's, 1986.

the land and resources they need to maintain their traditional activities and facilitate economic development in native communities;" and "[improvement of] the northern business climate [to] encourage investment in general."<sup>20</sup> In the same speech, turning to consider the impact of the free trade agreement on all of these processes, he echoed the sentiments of his fellow Cabinet ministers when they comment on the agreement's impact on the national economy. He stated that for Canada in general it will "secure and increase Canadian jobs," "lower consumer prices," and "attract jobs creating investments and benefit every region of the country," adding:

I can't predict exactly where growth will occur. However it's not my job to plan the northern economy in detail and it wouldn't be right for me to try. I would just get in the way of the economic self-reliance that's the real foundation of political growth.

We believe that the optimistic claims made about the likely impact of the free trade agreement in the north are questionable, and, more importantly, that there appears to be no research supporting the Minister's claims about the impact of the FTA on the territorial north.<sup>21</sup> Federal subsidies and political

<sup>20</sup> All quotations are from Speech Notes for the Hon. Bill McKnight, Minister of Indian Affairs and Northern Development, to the Ninth Northern Resources Conference, Whitehorse, Yukon, October 22, 1987.

<sup>21</sup> As late as September 1988, no analysis of the northern impact of the free trade agreement had been produced by either the Minister's office or the Department of Indian Affairs and Northern Development. See Canadian Arctic Resources Committee, "Editor's Note," Northern Perspectives 16 (3) (May-June 1988) p. 7. To our knowledge, the only federal publication on this topic is a small pamphlet, Canada's New Free Trade Agreement;

choices are still very important for all forms of territorial economic and political development. Therefore, while it may not be appropriate for a federal Minister "to plan the northern economy in detail", he does need to think through the northern-specific effects of the agreement because these will certainly shape federal northern expenditure requirements.

Furthermore, since the Canadian state first entered the north, "the real foundation of political growth" has not been "economic self-reliance," but rather public investment, justified in terms of national or corporate interest. For the reasons outlined earlier, it is extremely unlikely that either territory will achieve economic self-reliance in the foreseeable future, if what is meant by this term is that territorial governments will become self-financing or that either the domestic economy or the staples economy will operate without subsidy. Finally, if the northern economies are ever to move past extreme dependence upon outside sources of funds, it is perfectly clear that what they require is the capacity for careful planning through the public policy process, and then the exercise of all available policy instruments to implement their plans. As we shall argue in the following section, these instruments, many now in federal hands, will be sharply constrained by the free trade agreement, whether they are wielded later by the federal government, the territorial

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Northwest and Yukon Territories, produced under the authority of the Minister for International Trade. The pamphlet lists potential benefits of the FTA, but acknowledges no costs and contains no supporting analysis.

government, or by Native organizations.

Both territorial governments have conducted analyses of the text of the free trade agreement and attempted to assess the provisions against the needs of their economies." The N.W.T. government is willing, with some reservations, to accept federal assurances that the free trade agreement will produce a net benefit to the territorial economy. The potential economic benefits they anticipate arise mainly in the form of lower tariffs on some exported products (such as fur garments) and lower prices on imported goods." N.W.T. reservations about the agreement were expressed by Nick Sibbeston, Deputy Government Leader and Minister of Economic Development and Tourism, in testimony before the Commons Standing Committee on External Affairs and International Trade in November 1987, before the text of the agreement was available. Mr. Sibbeston raised concerns about the impact of the agreement on the settlement of land claims, negotiation of the northern oil and gas accord, and the development of a northern land and resource management system. He sought (and did not receive from the Committee) substantive assurances that the FTA "will not inhibit the ability of northerners to develop those public and private institutions

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" Yukon, Economic Development: Mines and Small Business, The Canada - U.S.A. Trade Agreement and the Yukon, 1 March 1988, Whitehorse; Chandra Oodit, Murray Smith and Frank Stone, The Canada - U.S. Free Trade Agreement: Review of the implications for the Northwest Territories. Institute for Research in Public Policy, n.d.

" These are highlighted in Oodit, et al op. cit.

necessary to manage our lands and resources."

In statements from the Yukon government on these issues, there is an even firmer approach, perhaps because as a result of the Yukon 2000 planning exercise discussed earlier, Yukon politicians and officials have a more comprehensive and explicit economic development strategy against which all federal economic initiatives can be assessed. Comments from Yukon politicians and officials both before and after the text of the agreement was available to them have been quite consistent: the Yukon government sees a few small and uncertain benefits and many costs and risks. Again in testimony to the Commons Committee, Shakir Alwarid, Deputy Minister, Economic Development, Small Business and Tourism, listed the ways in which the free trade agreement would hamper his government's economic development initiatives.

First, he emphasized the effectiveness of his government's use of local preference procurement policies in stimulating local business development. Noting that negotiations had begun with the federal Department of Supply and Services to secure federal

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"Canada, Parliament, House of Commons, Standing Committee on External Affairs and International Trade, Minutes of Proceedings and Evidence, 33rd Parliament, 2nd Session, No. 47, 25 November 1987. Ottawa: Department of Supply and Services, 1987. Cited hereafter as Commons Committee. This is the source for all subsequent quotations attributed to Mr. Alwarid. Some other witnesses representing N.W.T. interests, such as Klaus Roth, Executive Director of the Tourism Industry Association of the Northwest Territories, gave qualified support to the trade agreement on the basis of "understandings" that certain key supports to the industry would not be affected. In contrast, the N.W.T. Federation of Labour representative, Douglas Marshall, made his organization's opposition to the agreement very clear. Some aspects of both Mr. Roth's testimony are discussed in the last section of this paper.



compliance with the same policy, he commented that "the free trade deal appears to have abruptly terminated that opportunity." Second, he listed a number of enterprises being subsidized in various ways from federal and territorial funding sources as part of an overall import substitution strategy, to create local suppliers for formerly imported goods. This strategy, already enjoying some success, would be ruled out by the trade agreement. Third, he noted that control of Yukon hydroelectric resources would be curtailed by the agreement, including elimination of the possibility of developing locally needed power sources through a two-price system, which would involve selling power to Yukon enterprises at a rate lower than that charged to customers in Alaska. Fourth, he argued that the investment provisions of the FTA would restrict his government's capacity to regulate future foreign investment in enterprises with American markets, but "are mute on many of the mechanisms utilized in the United States to restrict foreign investment." Subsidies and other incentives, as well as performance requirements related to local hire, local production and affirmative action could be precluded. Finally, he claimed that by creating a North American trading area, the agreement would weaken the Yukon government's capacity to diversify economic relations, particularly with Pacific Rim countries.

The territorial Native organizations have not produced formal analyses of the impact of the free trade agreement in the

north." The leader of one Native organization, Dene Nation President Bill Erasmus, did testify before the House of Commons Standing Committee on External Affairs and International Trade, which visited Yellowknife (but no other northern location) to hear submissions in November 1987. In explaining Dene Nation opposition to the agreement, Erasmus stated:

Access to the American trade market means absolutely nothing to the Dene Nation. We have two major concerns. First, how will this agreement affect land claims? Second, how will it affect social programs?

Some of the rationale which may underly Mr. Erasmus' testimony is found in a research study prepared for the Assembly of First Nations and the Native Council of Canada before the free

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" This absence should not be interpreted as an indication of lack of interest. Since meetings were held in Yellowknife, it would have been particularly expensive for even the "neighbouring" aboriginal organizations (from the Yukon and the Mackenzie Delta) to attend. Further, the regional aboriginal organizations have no funds to pay for independent research on this question and the near completion of the claims process has likely fully occupied existing staff. Analyses are available from at least two of the national Native organizations which represent Native northerners along with Native peoples from across the country. The Assembly of First Nations (AFN), the national voice of Indians who have "status" under the Indian Act, and the Native Council of Canada (NCC), representing non-status Indians nationally, have published a series of research papers concerning the impact of the FTA on Native peoples, to assist their memberships in coming to terms with the issue.

The AFN has taken a strong stand against the agreement and is a member of the Pro-Canada Network, a national coalition of free trade opponents. Cf. Assembly of First Nations, "Presentation to the Standing Committee on International Trade and Commerce on the Subject of the Proposed Canada/U.S.A. Free Trade Agreement," 18 November 1987.

" Commons Committee, op. cit.

trade negotiations had been completed." The report notes a number of opportunities for economic benefits to Native peoples, should their representatives become involved in the process, but since, in the event, there was no opportunity for national aboriginal organizations to participate, most of these were not addressed. The researchers also sound a number of cautionary notes, should a free trade agreement be implemented. They conclude that "marginal firms and marginal workers would confront intensified competitive forces, and would only continue to survive or be employed if efforts were made to improve their productivity" and that "Native people, generally, evidence characteristics that will make it much more difficult for them to respond to the opportunities associated with freer trade...[including] low education and skill attainment; high unemployment and low participation rates in the wage economy; and social and home conditions that discourage individual initiative."<sup>21</sup> Arguing that for these and other reasons, market-driven solutions will likely disadvantage, rather than help, Native people, the researchers found a need for more, not fewer, "special assistance programs" to overcome existing barriers. Finally, the report raised a number of outstanding issues related

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<sup>21</sup>. Canada East-West Centre Ltd., Native Rights and Interests in Canada - U.S. Trade Negotiations. A Discussion Paper prepared for the Native Council of Canada and the Assembly of First Nations, March 1987. The document carries the proviso that the opinions expressed therein do not necessarily reflect the opinions of either sponsoring organization.

<sup>22</sup>. Canada East-West Centre Ltd. op. cit. pp. 249-253.

to comprehensive and specific claims, concerning the possible impact of a trade agreement on claims provisions (related to land and water rights) and the special needs of Native producers for strong environmental protection measures, which required clarification.

Despite some differences in the approach taken by each territorial government, and differences in the interests of northern Native people from those of their non-Native co-residents, it is clear from this review that there is considerable convergence of opinion. The most striking convergence is demonstrated in all commentators' concern that the power of public institutions to protect and to enhance northern economic development must not be eroded. These concerns have not been allayed, either by the federal Minister responsible for northern development, or by the government members of the touring Commons committee.

#### 4. The Impact of the Free Trade Agreement in the N.W.T and Yukon

Most provisions of the free trade agreement will directly affect the north, as they will affect all other parts of the Canadian economy. Ultimately, the largest northern impact may be the agreement's long-term effect on the greater Canadian economy, since the northern economy will continue to require significant investment from southern sources, both public and private. This probability we recognize, but set aside, in order to focus on direct regional effects.

Our assessment of the impact of the agreement in the north is developed from an interpretation of the text in the context of the history of Canada - U.S. relations and in light of both the particular characteristics of the northern territorial economies which were highlighted earlier, and the emerging northern consensus on measures to deal with northern economic imperatives. We reach conclusions different from those reached by conventional macroeconomic analysis,<sup>19</sup> because our analysis is based upon a different picture of the territorial economies. Two implications, at least, may be drawn from our earlier analysis.

First, public expenditure will continue to play a crucial role in the northern economy, and it is therefore essential that governing bodies within the territories have substantial control and direction of that spending. Public investment provides employment directly: at least 40% of workers in each territory are employed by band, municipal, territorial and federal governments. Public investment provides employment indirectly too, in the tertiary sector which sells goods and services to government, and in heavily subsidized non-renewable resource development projects. Sound forecasting and planning are

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<sup>19</sup> As in, for example, Oudit et al, op. cit. This document takes a sectoral approach to the N.W.T. economy (as do industry economists, trade association economists, and, all too often, government economists). Such a sectoral approach inevitably ignores the domestic sphere (viz. Potvin, op. cit.), and the mixed, subsistence-based nature of much of the northern economy. By assuming the institutional locus of economic activity to be the firm, conventional analysis ignores the crucial role of household production, factor allocation, and exchange, as well as the economic links both among households and between households and the rest of the economy.

essential to ensure that public investment in one area of the economy (for example, energy) does not foreclose options in another (such as the domestic economy). We believe that these considerations--which concern, ultimately, political control over the direction and nature of northern economic development-- are more important in the long run than predictions about the possible numbers of jobs and sectoral trade opportunities which may be generated when the agreement is implemented. This is especially important in view of the fact that many other factors, such as the relative value of the Canadian dollar, could have much greater effects on export-based jobs and income than the FTA itself.

Second, it is essential to recognize the important role domestic production plays in sustaining Native northerners' livelihood and well-being, and to take into account the special dynamic characteristics and needs of the domestic economy. Although the means of quantifying participation and production in the domestic sphere are increasingly well known to social scientists, and are used increasingly in the national accounts of Third World countries, this is still not done officially in Canadian jurisdictions, and hence the domestic economy rarely appears in formal quantitative descriptions of the N.W.T. and Yukon economies. Nonetheless, the domestic economy demonstrably exists, and provides many individuals and households with a

livelihood that cannot be replaced.<sup>20</sup> What the domestic economy requires is an assured resource base, in the form of large tracts of land available to hunters, trappers and gatherers, as well as economic support to primary producers. Thus, as Dene Nation President Erasmus noted, the important considerations about the impact of the FTA in the north arise from the impact of the agreement upon land claims and social programs (broadly defined), both of which are in different ways essential to the health of the domestic economy. These issues we will consider shortly.

Our concerns about the agreement may be organized in three general categories, which we will discuss in turn. These include a concern about what is not in the agreement, some reflections on the tariff provisions, and finally, we have a number of concerns about the effect of the FTA upon the political capacity of northerners to carry out an appropriate economic development strategy for their region.

### **Important Omissions**

The free trade agreement is silent on the question of how its provisions might affect the implementation of comprehensive claims settlements, yet there are a number of areas in which conflicts might arise. First, all of the claims agreements will

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<sup>20</sup> In terms of employment and income generated, the domestic production of food alone would appear to be the third largest activity in the N.W.T., behind government, and minerals (including oil and gas), but ahead of tourism (according to data presented to the Commons Committee in Yellowknife). Cf. testimony of K.W. Roth and N. Sibbeston, Commons Committee, p. 48-19 and 47-63.

establish joint management boards in which there will be significant Native participation in the management of such key resources as wildlife, land and water. It is envisioned that the boards will function to ensure that resources are managed in such a way that the viability of the predominantly Native arena of renewable resources production is protected and that the resources are developed in a way which enhances long-term economic health in Native communities. The boards require, among other things, the capacity to halt, delay or alter non-renewable resource development projects which would interfere with renewable resources production. As well, Native surface title in some cases includes the right to enter into participation agreements with resource developers covering such areas as equity participation, employment, training, business opportunities, environmental safeguards, project modification, and compensation.

U.S. businesses and investors given national treatment may challenge some of these measures as well as a variety of distinctive Canadian practices in fisheries and wildlife management, especially those providing for preferential or exclusive Native access to commercial resource harvesting opportunities.<sup>31</sup> Whether the challenges prove successful will

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<sup>31</sup>The FTA investment provisions may also interfere with those comprehensive claims agreements that provide for beneficiaries (and their organizations and enterprises) a "right of first refusal" on renewable resource-based economic opportunities. It can be argued that the economic value of this provision to Native organizations is questionable in any event, since the determination of the market value of such assets is fraught with opportunities for price inflation. To the extent, however, that opening the market to US operators will increase



depend in part upon whether Native organizations, corporations and enterprises are deemed to be "private" or "public" institutions. Whatever the outcome of such a process, it will be a case of the free trade agreement "tail" wagging the claims agreement "dog:" surely it would better serve the interests of Native beneficiaries of the claims settlements to have these questions decided in another (domestic) forum."

Then there is the potentially much more serious question of hunter support programs. These may also be affected by the absence in the free trade agreement of guaranteed exemption (or "grandfathering") of claims agreements, although because subsidy negotiations are not yet underway, there is still an opportunity to protect such programs.

The 1975 James Bay and Northern Quebec Agreement broke new ground in devising a means to use claim settlement funding to support the domestic economy. The 1975 Agreement built into the settlement a complex (and apparently very effective) system for using funds released by the claims settlement to provide cash support for domestic production (so-called "traditional"

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market value, the economic value of first refusal rights accorded to beneficiaries will be reduced, if indeed these rights can withstand challenge on principle under the FTA.

Because of its wide economic reach and because many existing policy instruments but not innovations are "grandfathered" (excepted from the provisions), it seems likely that the free trade agreement will work in the long run to "harmonize" the special measures permitted Native economic organizations in Canada and the U.S.

activities).<sup>31</sup> Organizations established to administer claims in the N.W.T. and Yukon may well choose to establish similar programs.<sup>32</sup> An obstacle to their doing so may arise in the planned negotiations concerning the definition of a subsidy. Although the hunter support programs are meant to support domestic production, in practice (for the reasons outlined in 2. above) it is impossible to distinguish between subsidies to domestic production and subsidies to commodity production. Because these programs are intended to provide, among other things, both capital investment and living support for harvesters, and the same gear can be used to both domestic and commodity production, the price of a commodity such as smoked or frozen fish exported to the U.S. market by a local northern enterprise could be challenged on the grounds that primary producers were being subsidized by these support programs.

Nor is it clear whether the use by beneficiaries of claims funding to subsidize new commercial ventures will be allowed if they are geared to an export market. Like any other enterprises, they may be charged with dumping, or otherwise selling below economic cost, even though in terms of the organizations' own objectives, they may be simply meeting a domestic social need. It is quite possible that because public funds are involved, and

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<sup>31</sup> I. La Rusic, Income Security for Subsistence Hunters. Ottawa: Department of Indian Affairs and Northern Development, Research Branch, 1982; R. Salisbury, A Homeland for the Cree. Kingston and Montreal: McGill-Queen's University Press, 1986.

<sup>32</sup> Ames et al., op. cit.; Usher and Staples, op. cit.

because the hunter support programs provide income to households where there are also commodity producers and wage-earners, these arrangements would be determined to be in the category of prohibited subsidies. The effect would be to close rather than open the U.S. market to northern Native enterprises. Consequently, if such a determination were made, the capacity of Native groups to work towards sustainable economic development using the funding negotiated in claims settlements would be severely restricted. Since the FTA itself is silent on these questions, and since this aspect of the claims agreements is central to Native plans for a better future, the risks here appear to be very great." In principle, almost any government action with economic implications could be judged to be a subsidy. Since, however, both the Canadian and United States governments are committed to various policy instruments which they would be loathe to give up, there is considerable scope for

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<sup>38</sup> See Native Council of Canada, The Canada - U.S. Free Trade Agreement and Native Land Claims Settlement. Background, March 1988. While emphasizing that because the agreement is silent on these issues there is still room to argue another case, the authors of this report conclude with a warning: In summary, the economic development provisions of existing claims-settlement agreements that might be considered in violation of the FTA are as follows:

- (i) Special funding from government for economic and social development projects in Native communities.
- (ii) Special measures, e.g. suspension of royalty payments and/or tax concessions, to foster the development or expansion of Native business enterprise.
- (iii) Relatively large compensation payments for Native groups, usable for developmental purposes. (p. 38)

negotiation.<sup>16</sup> Canadian negotiators should begin with a clear-headed sense of what cannot be ceded, and should include hunter support programs in the basket of non-negotiable items.

Finally, there is one trade restriction which is most unfortunately not eliminated in the agreement. The U.S. Marine Mammals Act restricts, for conservation reasons, the marketing of any goods which are composed in whole or in part of any marine mammal. An exception is made for marine mammals taken by Alaskan Native people, because the purpose of the legislation is to deter large-scale commercial exploitation of whales and other species, not to interfere with Native use of marine resources. The effect of the Marine Mammals Act has been to exclude Canadian Inuit from access to U.S. markets for polar bear and seal skins as well as arts and crafts which contain ivory, marine bone and marine furs. Canadian Inuit have long sought the same exemption as Alaskan Natives. This would not violate the logic or the spirit of existing American legislation, since no marine species in the Canadian north are in danger of extinction, and the use of these species by Native peoples is by and large well-regulated. The opportunity, which could have been of significant benefit to Inuit communities devastated by the anti-sealing and anti-fur movements of recent years, was not taken up on their behalf.

#### Tariffs

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<sup>16</sup>. We owe this observation to Alan Maslove, School of Public Administration, Carleton University, Ottawa.

An important basis for support of the FTA by the territories (especially the NWT) is tariff reductions and hence, supposedly, the reduction of both consumer prices and input costs for resident businesses, along with lower export prices for certain locally produced commodities. What might appear to be mildly helpful tariff reductions were achieved in some areas important to Native producers. For example, U.S. import tariffs on fur and fur products, as well as leather, are scheduled to be removed on 1 January 1989. Most unprocessed furs are traded duty free, while tariffs are applied to processed furs and fur garments. However, most exported fur garments are manufactured outside of the NWT, and the cost of the fur may account for as little as 5% of the final price. Thus the advantage gained by tariff reduction could be substantially less than 1% in many cases, and would normally be realized by enterprises outside of the territorial North. If luxury fur garments were to be produced in the territorial north, aimed at the high end of the market, the tariff reduction could be somewhat more important, but certainly not a deciding factor in the success of any enterprise. In any case, as the international fashion industry is now structured, it is extremely unlikely that any such decentralization of fashion fur design and manufacture will occur."

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"For a contrary view, see Native Council of Canada, Taking a Stand on the Canada - U.S. Free Trade Agreement. Backgrounder, March 1988; and Oodit et al, op. cit. A full description of the fur industry in Canada and some preliminary considerations related to free trade is provided in a discussion paper published before the full text of the agreement was available: see Native Council of Canada and the Assembly of

As to the more general effects of the elimination of what little tariff remains on goods, it does nothing to reduce the relative position of the North as a high cost area in which to live and from which to export. The high cost of goods to consumers and to businesses in the North is due not to tariffs but to the high costs of transporting, storing, and distributing these goods. Similarly the high cost of northern products at their final destination is due primarily to factors of environment and distance. Tariff reductions on goods can only have a marginal absolute effect on costs and prices in the North, and virtually no relative effect. The tariff effects of the FTA on costs and prices in the north should therefore be regarded (with a few minor exceptions) as essentially neutral."

### **Limiting Policy Choices**

As we noted in an earlier section of this paper, many of northerners' concerns arose from a worry that the FTA would circumscribe the capacity of public organizations in the north-- whether governmental or aboriginal -- to use their statutory regulatory powers and capital for investment to implement a strategy for regional economic development. These concerns would

First Nations, Native Rights and Interests in Canada - U.S. Trade Negotiations. Canada East-West Centre Ltd. March 1987.

"The minor relative effect is, however, negative. To the extent that base prices are reduced by the same amount in both northern and southern Canada, then the differences due to northern location constitute a greater proportion of the total price in the North and hence of the disparity with southern prices.

seem to be very well-founded. Without repeating all of them, we will draw out some further implications.

The free trade deal will preclude northerners from using a "two-price" energy scheme as a regional development tool. Arrangements whereby public utilities, or subsidized private utilities, have sold energy more cheaply to local manufacturers than to consumers elsewhere have been a common economic development strategy in all parts of Canada." "Cheap" energy prices are a means of overcoming some of the early disadvantages faced by new energy-consuming industries. Lower energy costs increase their competitiveness and make it more likely that these industries will flourish to provide jobs for local people.

The Yukon and N.W.T. economies have yet to benefit from such a strategy, but clearly there is a "great opportunity" here. Because the territorial north has a cold climate and is situated far from most markets, cheaper energy from local sources could do much to enhance the profitability of new enterprises. "Low prices for energy resources produced in the north could be used to subsidize new industries and to reduce the cost of domestic (household) consumption. Yet a "two-price" energy policy is one tool of economic development that is eliminated by the free trade agreement. Conceivably, of course, northerners might devise some other scheme for subsidizing regional energy costs, certainly to

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<sup>19</sup> See Andrew Jackson, "The Trade Deal and the Resource Sector" in Cameron, op.cit.; H.V. Nelles, The Politics of Development: Forests, Mines and Hydro-electric Power in Ontario, 1849-1941. Toronto: MacMillan, 1974.

consumers and perhaps to firms as well. What options they would have in this regard will be determined largely by the outcome of future negotiations on subsidies; if the agreement is approved and these negotiations begin, northerners' particular needs here should be taken into account."

Another tool for promoting local economic development is removed by the investment provisions of the FTA. If the FTA is implemented, it will no longer be possible for either territorial or federal governments to use their regulatory powers to give preference to Canadian investors, whether they are Native or non-Native. This provision could have a significant impact upon the future ownership of the tourism industry in the territorial north, particularly in the Yukon, where tourism caters largely to Americans in transit on the Alaska Highway. The Canadian part of the highway tourism corridor is less developed than the Alaska portion, but eminently "developable," while there are extensive plans in the N.W.T. for the development of owner-operated tourist facilities as one pillar of territorial economic self-sufficiency.

Tourism (as opposed to recreation directed primarily at local markets) is becoming a global business in which success is predicated not simply on the cost and quality of the product but on sophisticated and expensive marketing strategies. Local operators are therefore increasingly dependent on collective

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" We thank Les Pal, Department of Political Science, University of Calgary, for stimulating this line of reasoning.



access to the market through trade associations and trip wholesalers. These tendencies work against the maintenance of a resident owner-operated industry in two ways. In the case of the mass tour and business markets which are located in the road-accessible areas and the larger centres, large chains and franchises have come to predominate. Some of these are southern Canadian-based, although in the Yukon, they are mainly American-owned because the regional market, especially the Alaska Highway link, is dominated by Alaska. The more isolated operations catering to wilderness or sport hunting or fishing interests are not subject to these tendencies yet, but they could well become attractive investment targets on a North American rather than a local scale.

While these structural tendencies are themselves quite independent of the FTA, the agreement would appear to limit the extent to which northerners can counteract them in order to realize the vision in both territories of community development based on locally owned and operated tourism, wilderness, and sport hunting and fishing enterprises. Implementing this vision would require regulatory action with respect to ownership and investment, start-up subsidies (as provided, for example, by the Northern Economic Development Agreement funds and by the Native Economic Development Program), and perhaps the establishment of a marketing federation. Under the FTA it seems unlikely that investment opportunities or subsidies could be restricted to either Native claims beneficiaries or territorial residents in

preference over American firms. Unfortunately, very little analytical attention seems to have been given to the implications of the FTA for the tourism business in all areas of Canada, and, on the evidence available to us, almost none has been devoted to understanding how it might affect this important developing sector in the territorial economies.

Furthermore, these same provisions might preclude the territorial governments from subsidizing preferentially any kind of new enterprises. It might also be difficult to use territorial government procurement policy to guarantee markets to local enterprises;" certainly, federal procurement in the north (in excess of the limits set in the FTA) could not be used in this way. Yukon Deputy Minister Alwarid was probably correct in stating that a recent venture in Yukon, which involved government support for a manufacturing business to produce office furniture for government offices and other local uses, would not be possible if the free trade agreement is implemented. Northern manufacturers would be forced to establish their businesses without initial government assistance, and to compete with established suppliers. This precludes the use of

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" . The territorial governments, like provinces, would not be bound by the federal commitment to "national treatment" in procurement. On the other hand, the FTA also commits the federal government to try to induce provinces (and in this case territories) to follow the terms of the agreement. Given the fiscal dependence of both territorial governments, securing their cooperation may be relatively easy. On the implications of the FTA for government procurement generally, see John Calvert, "Government Procurement" in D. Cameron, ed. The Free Trade Deal. Toronto: James Lorimer and Company, 1988.

import-substitution as one strategy for territorial economic diversification, and this disadvantage is unlikely to be offset by increased access to the U.S. market for the relatively small operators in the north. As one researcher has concluded:

[T]he level playing field, in fact, is tilted heavily in favour of U.S. businesses willing to sell to the federal government in Canada. This is so not just because of the FTA, but because the bulk of Ottawa's \$35 billion in Major Crown Projects will go to large firms. Unless corrective steps are taken, Canadian small and native businesses run the risk of being swamped by their larger, heavily protected American counterparts.

Those few Canadian firms who do end up getting work from Washington because of the FTA will even be required to subcontract to U.S. small and minority businesses if the contract is over \$1 million U.S.

No parallel provisions protect "minority" businesses in Canada.

### Conclusions

Each territory is now heavily dependent upon investment from southern sources, for both government and industrial activity; neither has the capacity to fully tax regional economic activity and so recover some returns. While it is likely that in the future more taxing power will be granted the territories, this will by no means completely offset the need for "imported" funds. Put simply, financing self-government from resource revenues is a chimera. In the long run, most progress towards reducing the need for externally controlled capital will be made through the

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Native Council of Canada, Free Trade, Government Procurement and Native Business. Background, May 1988, p. 29.

development of new forms of economic activity based upon the best available local opportunities.

The free trade agreement erodes the capacity of northerners to work towards this goal, at precisely the moment when northerners are poised to take some control of their economy. The agreement defines a new economic direction for the territorial north, even while it circumscribes the capacity of the territorial governments and the federal governments to use a number of policy instruments to alter the course. None of this is accidental or unforeseen: it is precisely the intent of the FTA that economic strategies based on public control and import substitution should be replaced by market forces and open access. In the case of the North, however, the FTA runs directly counter to the chosen economic development strategies of both popular interests and the territorial governments.

As we noted in the introduction, it is possible that northerners will remain insulated from the free trade agreement and unleashed market forces for some time, because northern enterprises are tiny relative to, for example, the steel industry in south-central Canada. In any case, not all questions have been decided, particularly with respect to subsidies but also concerning the issues of interpretation of the FTA, particularly where it is silent.

Yet these considerations are really not all that heartening. There will undoubtedly be some economic ventures which escape compliance with the agreement, for some limited period of time,

but this is cold comfort to those northerners who recognize that the chosen policy instruments in the north are either prohibited by what is in the trade agreement, or may be, depending upon a) subsequent negotiations on subsidies or b) subsequent U.S. initiatives and their success. Previous outcomes of U.S.-Canada negotiations and challenges do not make us optimistic in this regard.

Whether our concerns are of substance will not become evident immediately upon the day that the FTA may come into effect. The real outcome depends on the subsidy negotiations and the implementation of the FTA, and these events are many years away. It is therefore essential that northerners give much more careful, independent scrutiny to the possible effects of the FTA than has been the case to date." It is essential that they ensure that their voices are clearly heard during the subsidy negotiations and implementation phases. In view of the constitutional and economic status of the northern territories, and perhaps of the Native organizations as well, this will be an uphill battle. Certainly it will not be enough to call for special adjustment programs in the wake of the FTA, for these do not and cannot address the underlying structural problems.

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" In doing so, they may want to keep in mind that their circumpolar neighbours --North Norway, Greenland and the Faroe Islands-- have all rejected membership in the European Economic Community (EEC), and with this step rejected participation in this particular version of an "enhanced trade" zone. We thank Peter Jull for bringing this point to our attention, and for his suggestion that further research on the debates over EEC membership by citizens in similar economic circumstances around the pole might cast some light on the Canadian discussion.

If the tariff aspects of the agreement may be of some small benefit to the territories, we believe that they are far outweighed by the limitations on the use of public policy instruments for regional development purposes. We are not suggesting that traditional public policy instruments are sacrosanct: in changing times and changing environments, new ones can be devised. It is the challenge that the FTA poses to all public policy initiatives, however, that in the most fundamental way threatens to reverse the progress made by residents of both territories during the last twenty years, and to return their economies to "the narrow, weak, and colonial past."<sup>44</sup>

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<sup>44</sup>. Alwarid, op. cit., p. 48-3044.

### Acknowledgements

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