THE RESOURCE CURSE AND THE MACKENZIE GAS PROJECT

Russell Banta

In August, during his tour of northern Canada, Prime Minister Harper stated that, compared with 30 years ago, the North is now ready for large-scale development. In fact, says Russell Banta, the Mackenzie Gas Project, which is currently under review by both the Joint Review Panel and the National Energy Board, has the potential to generate huge sums of money and could be producing as much as 13 percent of Canada's natural gas by 2020. But if past speaks to present, says Banta, northerners might not get much out of northern resource development. He reviews past policy on northern development and argues that, until now, it has mostly benefited the federal treasury. Instead of more transfers, he calls for a fairer sharing of resource revenues and greater involvement by local communities to ensure sustainable economic development and put an end to the "resource curse."

En août, lors de sa tournée du Nord canadien, Stephen Harper a déclaré que, en comparaison d'il y a 30 ans, la région était aujourd'hui prête pour un développement majeur. Or, croit Russell Banta, le Projet gazier Mackenzie, actuellement à l'étude par la Commission d'examen conjoint et le Conseil national de l'énergie, a tout ce qu'il faut pour générer d'énormes revenus ; il pourrait produire jusqu'à 13 p. cent du gaz naturel du pays en 2020. Mais si le passé est garant de l'avenir, les habitants de la région ne risquent guère d'en profiter, craint l'auteur. Il passe en revue les politiques d'exploitation du Nord canadien et constate qu'elles ont surtout bénéficié au Trésor fédéral. Au lieu de multiplier les transferts, il préconise de mieux partager les recettes et de renforcer la participation des collectivités locales, cela pour assurer un développement économique durable et mettre fin à la « malédiction des ressources naturelles ».

In the final speech of his first northern tour, at the end of the summer, Prime Minister Stephen Harper offered hope, as had many federal politicians before him, that northern resource development will be different this time. This time, it would contribute to the North's political and economic development.

He talked about the Mackenzie Gas Project (MGP) having "the potential to transform the North into what some call the next Alberta," where "governments can achieve fiscal independence," and "families and communities can grow and prosper over the long term, not just for the life of a mine or gas field."

The MGP is huge. It includes natural gas gathering and processing systems, in addition to a 1,200-kilometre pipeline from the Mackenzie Delta to northern Alberta. Current guesses at the cost of building the project are in the vicinity of $10 billion. But the serious money, $50 billion or more depending on prices and volumes, is in the value of the gas that will be exported through this system to the south.

The project is the basis for federal projections showing that the Northwest Territories could be producing 13 percent of Canada's natural gas by 2020.

The prime minister might not have overstated the project's potential contribution to northern political and economic development. But his government needs to take decisions that no federal government has before if this is to happen.

Historically, northern resource development has contributed little to a sustainable northern economy, and most communities continue to have high unemployment rates and disproportionate amounts of poverty. Several examples come to mind:

- The Giant and Con gold mines located at Yellowknife produced 12 million ounces of gold between 1938 and 2004. Within sight of both mines' headworks is Dettah, a community of 180 people with an unemployment rate of 20 percent, compared with Yellowknife's 5 percent. Sixty percent of Dettah's residents between the ages of 20 and 34 have not graduated from high school, compared with 14.5 percent in Yellowknife. The mines left no lasting economic benefits for this community. Dettah's legacy from the mines is 237,000 tonnes of arsenic trioxide dust that threatens to escape into local water supplies.

- Between 1960 and 1988 more than $2 billion (at today's prices) worth of zinc (7 million tons) and lead (2 million tons) was removed from the Pine Point Mine on the south shore of Great Slave Lake. East of Pine Point is the community of Fort Resolution. Of the 520 people who live there, 90 percent are First Nations members or Métis. Fifty-six percent of Fort Resolution's adult Aboriginal population has not completed high school. The median income of people aged 15 and over is $14,048 — less than half the territorial average of $29,030. The unemployment rate is 21.2 percent. Fifty-five percent of the First Nations and Métis adults have one or more long-term health conditions.
- Oil production from the Norman Wells field was increased in 1985 and transported by pipeline along the Mackenzie Valley, passing by such communities as Tulita and Wrigley on its way to Alberta. The federal government acknowledged that these and other communities could be affected by the pipeline's construction, and provided $21.4 million to support northerners in dealing with expected opportunities and adverse effects of the pipeline's construction. More than $4 billion worth of oil from Norman Wells, an average of $215 million per year, has flowed past Wrigley and Tulita since 1985, and the field is still producing. Last year alone the federal government took $132 million in profits from Norman Wells oil, in addition to royalties and corporate income taxes. Meanwhile, 56 percent of the adults in Tulita and 71 percent in Wrigley have not finished high school. Unemployment in Tulita is 19 percent; in Wrigley it is 29 percent. Eighty-one percent of the population in Tulita reported contaminated water at some time during 2000.

Service centres fare better, but only by comparison. By chance, diamond-related activities saved Yellowknife from otherwise dire consequences as the Giant and Con gold mines declined and a significant proportion of government budgets and jobs were transferred to Nunavut's capital, Iqaluit. Other communities that gain some immediate economic benefit from resource activities, such as Inuvik and Tuktoyaktuk, cannot accumulate any fiscal reserves to mitigate the boom-bust nature of resource activity, and the territorial government has no fiscal capacity to help.

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Resource development often does not benefit communities in resource-rich regions if the economy is not already strong. International development agencies refer to the negative effects as the "natural resource curse."

Save the Children, for example, points out the contradiction that oil and gas and mining can generate enormous wealth, yet regions rich in these resources too often have poor economic growth; inadequate investment in health, education and sanitation; and low levels of child welfare. The diversion of resource wealth elsewhere, it argues, is a significant factor contributing to the curse.

The Stefansson Arctic Institute, a circumpolar research centre, recently released a report on Arctic human development that said some northern communities are benefiting from economic spinoffs, especially if they have revenue-sharing agreements. But for the most part, it says, the wealth heads out of the North with only a fraction of the income and profits remaining.

Keith Slack, a Carnegie Council fellow and adviser to Oxfam, commenting on the lack of local benefits from oil production in various resource-producing regions, wrote: "Most of the revenues generated by the oil industry go to the central government, not to the regions where the oil is extracted. The 'trickle down' benefits to poor communities are often minimal or non-existent."

In northern Canada, Ottawa takes the bulk of public resource revenues for itself. In 2005-06 alone, it took $224 million in oil and gas and diamond royalties and profits out of the North, over and above federal taxes. Over the past five years it has taken $923 million of these resource revenues from the North, in addition to federal taxes — significantly more than the estimated $700 million cost of the long-promised and much-needed Mackenzie Highway.

In early 2006 two national independent expert panels published reports that addressed northern fiscal imbalance and Territorial Formula Financing, the northern equivalent of equalization funding.

Unfortunately, the federal government, despite having exclusive jurisdiction in the North, the repository of one-quarter of Canada's conventional oil and gas resources, has been unable to make a significant contribution to the national supply. It has fumbled previous opportunities to build oil and gas pipelines and failed to invest northern revenues in the infrastructure that would make northern exploration and development more economically viable.

The Council of the Federation's Advisory Panel on Fiscal Imbalance noted:

> *[The territories'] resource economies are "boom and bust," with most decisions made outside. When there is development, a disproportionate share of the benefits flow south. As a consequence, the territories remain relatively weak and dependent on fiscal transfers... We depend on Northerners as stewards and custodians of our North, yet we do not give Northerners a fair share of the wealth that comes from the land on which they dwell.*

Similarly, the Federal Expert Panel on Equalization and Territorial Financing, after hearing from northerners and visiting their communities, decided to address critical issues beyond its mandate. Its report concurred that "the potential for resource developments in the territories is perhaps the best opportunity they have to achieve their dream of self-sufficiency and self-reliance. Provinces with rich natural resources are able to benefit from those resources. The same principle of net fiscal benefit should apply to the territories." But it observed that "the lack of sufficient infrastructure combined with serious challenges in health care and education and a host of other social issues may well be a serious barrier to economic development."

Yet successive federal governments did recognize the need for northern economic development. Forty years ago, Jean Lesage, the first minister of the new Department of Indian Affairs and Northern Development, stated that the objective of the government was to "give the Eskimos the same rights, privileges, opportunities, and responsibilities as all other Canadians; in short, to enable them to share fully the national life of Canada." He also pointed out that "the broader needs — and they are immediate needs — are health, education and a sound economy. They are not separate problems; each is related to the other."

To support the objective, Prime Minister Lester Pearson separated statutory responsibilities for northern resources from national resources by transferring province-like responsibilities for the North's resources to the new Department of Indian Affairs and Northern Development. He said that the Northern Development Branch was to operate in essentially a "trust" role, having in mind the eventual devolution of such responsibilities to the territories themselves.

Sections 4 and 5 of the *Department of Indian Affairs and Northern Development Act* give the minister responsibility for the territories and their resources for the purpose of furthering the economic and political development of the territories.

Most province-like government responsibilities, including health, education and social services, were transferred to the territories over the ensuing 15 years.

In 1988, Bill McKnight, minister of Indian affairs and northern development in the Mulroney government, released a new Northern Political and Economic Framework to continue advancing the 1966 northern development objectives, stating that "Northerners are now prepared to assume responsibility for the remaining provincial-type programs, including management of the North's natural resources."

The government adopted the policy framework, despite determined internal opposition from those who view the North's resources as national wealth that should be managed in the national interest by the federal government.

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And its performance in the management of northern mineral resources is no better. Its investment in northern geoscience, the basic geological data that governments provide for mineral exploration, is, by its own estimate, deficient by $150 million. The mining industry regards the geological databases for the Northwest Territories and Nunavut as the poorest in Canada, ranking them 24th and 33rd, respectively, among 53 international mineral-rich regions. In contrast, Ontario and Quebec rank among the top five.

The absence of infrastructure in the Northwest Territories and Nunavut is judged by the mining industry to be a greater deterrent to exploration investment than barriers in Zimbabwe or Indonesia. Among the ranking of 53 regions internationally, these two Canadian territories ranked 51st and 52nd — outranking only the 53rd-place Congo.

The inherent problem of federal resource management is the incompatibility between a national government's need to focus on national priorities and the local and regional nature of resource development.

Northern resources become a national priority only periodically, and for relatively brief periods, usually when resource prices are high and the federal government anticipates a revenue windfall. Federal interest falls off, however, when resource prices fall. Invariably, staff positions are reallocated to other priorities and the neglect resumes. When resource prices rise again, federal capacity is no longer in place, the advance work has not been done, and there is a great flurry of effort, but too often it is too little, too late.

The scale and diversity of federal revenues allow it this luxury of dabbling in northern resource development from time to time. In contrast, resource-dependent provincial regimes need to constantly focus on optimizing the value of their resources, regardless of world prices.

Non-renewable resources are the only source of regional wealth that northerners have to invest in building a modern, diversified and sustainable economy. For 40 years the federal government has had the statutory responsibility for developing a northern economy. Throughout that time it has bled virtually all of the resource revenues out of the North into its own treasury, instead of investing in the basic prerequisites for sustainable northern economies. Instead of putting even a portion of the proceeds from these depleting resources in a trust fund that could generate significant ongoing revenue for the North, as in Alberta or Alaska or Norway, it dissipates them on the routine operating and maintenance expenses of the central government.

In the context of the trustee-like role that Pearson defined for the federal government in northern development, the trustee keeps liquidating the assets and pocketing the proceeds. Continuing this practice will foreclose sustainable economic development in the North.

What the federal government passes off as its contribution to northern economic development is a paltry grant program. Its Strategic Investments in Northern Economic Development (SINED) is "to fulfill the [Indian affairs and northern development minister's] mandate." The annual expenditure in each territory is $6.4 million — an investment in economic development equivalent to 8.5 percent of the $224 million that it took out of the North last year, in addition to taxes.

Some of the grants are no more than transfers of a few hundred thousand dollars to territorial governments to increase the geoscience database, the same database that the federal government estimates needs $150 million to bring up to standard. This economic development funding is equivalent to less than 1 percent of the cost of building the Mackenzie Highway, and of no significance in comparison with the $1.2 billion in relief that the former deputy prime minister considered for the MGP proponents.

This pretense of a strategy trivializes economic development in the North. It demonstrates that there is no federal commitment to northern participation in its resource economy or to a sustainable northern economy after the resources are exhausted.

Among some in the federal government this is not a matter of negligence. Rather, it is the intent succinctly expressed by the comment "We don't want another Alberta." But the potential development of another economic engine like Alberta, one of precious few net contributing jurisdictions to the country's fiscal health, is a remarkable policy perspective that has national implications that warrant broader public discussion.

Doug Saunders wrote recently in *The Globe and Mail* about the different ways that oil-rich countries use their revenues. Some "have held on to power by using their countries' sizable oil revenues to placate potential opponents, buying off the poor and middle class by giving them passable fixed incomes without any real stake in the economy."

In the case of the Mackenzie Gas Project, the federal government has promised a number of investments and programs that seem generous and promising, but that may only serve to divert attention from the insignificant share of wealth that the North will retain from its natural gas if the project proceeds under the current fiscal structure.

In May 2006, Jim Prentice, the new minister of Indian affairs and northern development, assured the

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audience at the Canadian Energy Pipeline Association annual dinner that the new government had moved forward proactively on several fronts to advance the Mackenzie Gas Project, including negotiating with the Aboriginal Pipeline Group (APG) to support its one-third equity interest in the MGP, an amount that will not be known for several years but is likely to exceed $2 billion. He called the APG a new model for Aboriginal participation in the developing economy, to maximize benefits to Aboriginal communities and to support greater independence and self-reliance among Aboriginal people.

He also provided $500 million to help mitigate the socio-economic impact of the planning and construction of the pipeline project, conditional on northern communities' support for the pipeline moving forward. In an August speech in Hay River, the minister referred to this fund as "an enormous sum of money. Properly applied, properly invested, properly spent, it is going to make a huge difference to Northerners, to all of the communities that are affected by the pipeline."

Some comparisons will help to put the fund in perspective. It is budgeted over 10 years, an annual average of $50 million, allocated among roughly 10 communities. The $224 million in resource revenues taken out of the NWT by the federal government, over and above federal taxes in 2005-06, was 4.5 times what the socio-economic fund would provide on an average annual basis.

The more than $1 billion that the federal government has taken in resource royalties and profits out of the North, in addition to federal taxes over the past six years, will likely continue to grow over the next six years, before the Mackenzie Gas Project will even become operational.

The cost of these concessions is incidental for the federal government under the current fiscal regime when compared with the royalties and taxes that it will take from the natural gas that the MGP is designed to produce. At current prices the gas will generate more than $100 billion over the 25 year operating life of the project. It could generate $700 million in royalties annually for 25 years, and that is over and above the northern royalties from diamond mines and other present and future oil and gas production. It could generate an almost equal amount of federal taxes each year.

In comparison with $700 million in royalties, the annual profit which the APG can expect from a one-third interest in the pipeline is $21.6 million, equivalent to only 3 percent of the royalties. Moreover, there is no capital investment required to receive royalties. They flow from the resources themselves, which already belong to northerners.

The first justification offered by federal officials for taking the North's resource royalties is that Ottawa provides the North with far more in transfer payments than it receives in resource revenues.

It is true that the transfer payments are very large. The annual payment to the Northwest Territories is about $800 million, to Yukon, $470 million, and Nunavut, $660 million, for a total of almost $2 billion.

But it is also true that despite the federal government's 40-year mandate for economic development in the North, there is still no real economy as such. There are isolated resource projects that provide some local jobs and business opportunities. But the private investment is from elsewhere, so the profits and related taxes leave. Most of the labour force is from elsewhere, so the wages and related taxes leave. And the federal government takes the resource royalties, and in the case of Norman Wells, one-third of the profits. As a result, the resources, the production wealth and the resource wealth all exit the North, leaving a depleted resource base and no public or private wealth to invest in building a diversified sustainable economy.

What the federal government transfers do provide, instead of a sustainable economy, is a standard of dependency and poverty for many northerners, as well as funds to employ others who serve the poor and themselves with public services. The standard of services provided leaves many with poor health, poor education, poor housing, poor social conditions and prohibitively expensive transportation costs that put basic living costs well beyond what most people in southern Canada could afford. As a result, many see no hope, which is reflected in the incidence of suicides, substance abuse and violence.

Fairly sharing resource revenues is necessary but not sufficient for sustainable northern development. It is imperative that local communities be involved.

Interestingly, one group that has made a genuine effort to come to grips with sustainable development in resource-rich regions is the resource extraction industry. The International Council on Mining and Metals (ICMM), in conjunction with the World Bank, has drawn from an array of worldwide experience over 20 years

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If communities benefit greatly from a mining operation, then they have a significant stake in seeing the mine operate successfully. This will help to overcome obstacles that could adversely affect the mining operation and prospects of the company, for instance, in terms of its international reputation or access to resources.

The ICMM and World Bank have identified four good practice principles.

- Resource development activities at the operational level are linked to long-term strategic objectives for the company, and are also aligned with existing and future community and/or regional and national objectives.
- Local communities are actively involved in all stages of project conception, design and implementation, including closure and post-closure.
- Private, government, NGO and community organizations bringing different skills and resources — but shared interests and objectives — can achieve more working together than individually. Formal or informal partnerships can also reduce costs, avoid duplication of existing initiatives and reduce community dependency on the mining operation.
- Programs that emphasize strengthening of local community, NGO and government capacity are more sustainable in the long term than the supply of cash, materials or infrastructure without a properly designed forward-looking participatory framework. While infrastructure is often essential for the development of remote communities, it will be sustained only if there is an adequate maintenance program supported by a well-designed participatory process that includes local communities and governments.

Such an approach is foreign to the history, culture and experience of federal administration in the North. Janice Stein observed that in contrast to its international role as a consensus builder the federal government often behaves arbitrarily on domestic matters involving other levels of government. It is all too common in the North that Ottawa ignores the concerns of territorial governments and municipalities by acting unilaterally and walking away from signed agreements.

Like Mrs. Jellyby in Dickens's *Bleak House*, who focuses her "telescopic philanthropy" on Africa while neglecting her own household, the federal government needs to focus some of its international attitude and expertise on sustainable community development in northern Canada.

For instance, the Mining Policy Research Initiative of the International Development Research Centre advocates that regions and communities where resource activity takes place have a direct share in the wealth, produced in a way that translates into an improvement in the quality of life and level of well-being.

The North might also use the expertise of the Canadian International Development Agency (CIDA), which is funding a four-year, $5 million community economic development project in Ukraine to address the community development needs of up to 36 small urban and rural communities there. CIDA also has experience with similar projects in Afghanistan and in Sri Lanka. It may have the expertise that the federal government needs to adopt a truly collaborative relationship with the other stakeholders in northern resource and community development.

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Harper's northern speech offers some hope, as does Minister Prentice's 2005 article, written when he was northern affairs opposition critic: "We must take immediate action to devolve governance and resource-sharing authority to the territorial, aboriginal and local governments of the North."

This government has been in power briefly, and it is in the process of setting out its devolution and resource-revenue-sharing mandates and appointing negotiators. It is too early to conclude that it has dropped the ball, but it is not yet clear that it is ready to pick it up and run with it either.

But it is clear that southern Canadians need to consider that, without an economy in the North, the already high cost of northern poverty to southern taxpayers will continue to grow as unacceptable levels of poverty rise and natural population growth there increases. While the North's resources are being depleted, the revenues taken by the federal government will offset some of the transfer payments. But when the resources are exhausted, northerners will be more dependent then ever and there will no longer be a resource base; no more resource revenues to offset the transfer payments and no more resources with which to build a sustainable economy.

It is in the national and regior public interest that northern resou royalties be committed to developi sustainable northern economies aı strong and healthy Aboriginal aı northern communities.

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