



Alternatives North

**RESPONSE TO THE
NWT HERITAGE FUND
PUBLIC CONSULTATION**

Prepared by

Alternatives North

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Background

Alternatives North is pleased to have the opportunity to provide feedback on the issue of the creation of a Heritage Fund in the Northwest Territories. We are an NWT-based social justice coalition including representatives of church, labour, environmental, anti-poverty and women's organizations and individual volunteers.

To begin, we would like to offer our strong support for the concept of a Heritage Fund. A Heritage Fund is required because non-renewable resource extraction will end at some point and will result in increased unemployment and out-migration and a loss of ability to fund needed public service programs. The concept of a Heritage Fund has been broadly supported in two rounds of consultation on revenue options held by the GNWT Department of Finance. Indeed, this discussion has been long awaited and should have taken place before the diamond mines began operation. Regardless, it is still important to pursue a Heritage Fund as it is a wise economic measure and a tool that will provide some intergenerational equity into the future. It is current practice in regions with large resource-based revenues such as Alaska, Norway and Alberta.

A good way to understand the purpose of a Heritage Fund is to consider it as a method of converting current physical capital (i.e., raw resources) into financial capital for future use. This generation does not have the right to exhaust or use up all the physical capital of this territory without planning for future generations.

Conservative Estimate of Revenues

Unfortunately, we note that the Heritage Fund consultation paper provides a very conservative estimation of revenues available for investment in a Heritage Fund. This is an error in analysis. The *Parkland Institute* demonstrated that greater revenue in the order of hundreds of millions per year could be raised through the implementation of a resource tax.¹ In its 2008 Revenue Options Paper, the GNWT suggests a resource tax would require further analysis. Without providing this further analysis, the Heritage Fund consultation paper states that "the introduction of a resource tax has been suggested by some as a potential source, however in the absence of devolution such a tax would represent double taxation of resource development"². Actually this is business as usual in other parts of Canada. In Alberta, both orders of government (provincial and federal) collect income taxes and the Government of Alberta collects royalties. This is not illegal nor has it destroyed nor acted as a deterrent to resource

¹ Fair Price: Taxation, Services and Programs in the Northwest Territories. Parkland Institute, David Thompson, October 2008.

² Today's Resources, Tomorrow's Legacy: NWT Heritage Fund Public Consultation, Northwest Territories Finance, February 2010, p. 4



extraction companies working in Alberta. There are also others measures for raising revenue such as a carbon tax or a capital tax. The economic rent collected from resource extraction in the NWT is lower than other jurisdictions with significant extraction of resources.³ This approach has taken away valuable income from the people of the North.

Linking to Devolution

The consultation paper establishes a direct link between the Heritage Fund and devolution. This linking once again places northerners in a seemingly perpetual waiting game for the wise management of its non-renewable resources and protection of its future generations. The GNWT notes its current round of negotiations has been going on since 2003 with no completion. It also notes that even after completion of an agreement, “implementation constraints would mean that resource revenues would not flow to NWT governments for several more years”⁴. We are not as powerless as we have repeatedly been described. We can and should take action now to raise revenues from resource extraction, even in the absence of devolution.

Framework for a Heritage Fund

Alternatives North supports the dedication of income from all sources of revenue from the extraction of resources to the Heritage Fund. This would include the list stated in the Heritage Fund consultation report : royalties, land fees, property taxes, corporate income taxes, commodity taxes, permits and licensing fees. We would add other source s of income such as a resource tax, capital tax, carbon tax and income from cash bids. If all sources are not included, we will see a drifting of taxation towards sources that don’t pay into the fund and away from ones that do. This will create a distortion and lower fund revenues. We are also playing catch-up as significant amounts of non-renewable resources have already been extracted and exported with little investment in the future of the NWT. Therefore we support establishing a “long-term savings fund with no portion of funds used for current expenditures or capital investment”⁵. On the order of 30 to 50% of revenues from resource extraction should go into this fund.

This long term savings fund should be established with standards for maximizing returns from revenues while following ethical standards for investment. Norway is currently taking this approach with its fund. Income earned on fund investment should inflation proof the fund, that is, invest more into the fund than the rate of inflation. This fund should be legislatively

³ *At a Crossroads, Achieving a Win-Win From Oil and Gas Developments in the Northwest Territories*, Pembina Institute, Amy Taylor, Jennifer Grant, March 2010.

⁴ *Ibid*, Appendix A,

⁵ *Today’s Resources, Tomorrow’s Legacy: NWT Heritage Fund Public Consultation*, Northwest Territories Finance, February 2010, p. 5



protected from premature withdrawal of its capital. Alberta stopped contributing to its fund and subsequently let the capital value of its fund decrease. If the value of the fund decreases because of investment losses, then losses would be compensated for by putting more income into the fund until the decrease is made up or amortized. Investments should be made outside of the NWT in order not to cause inflation of our economy.

The income earned on fund investment and other revenues from resource extraction should be targeted towards increasing the NWT environmental, economic and social sustainability. This can be done through projects in infrastructure development aimed at energy conservation and the development of renewable energy sources, community based economic diversification and resources to support long term social benefit such as the building of early childhood centers. Clear standards should be established for project approval and projects should be protected from political interference. Related performance measures should be established. Examples could include reduction in GHG emissions and levels of production of renewable energy. It could also include the number of and types of jobs created through direct investment in community economic diversification and the number of spaces in early childhood programs.

Heritage Fund Management

The Heritage Fund should be formed based on an Act passed by the Legislative Assembly. The Act should state the purpose of the fund and the legal basis for its operation. It should be managed by an arms-length agency that reports to the Legislative Assembly. It should be audited by the federal auditor general. Appointments to the group that manages the fund should reflect principles of gender equity, geographic representation of the NWT, a variety of experiences and backgrounds, and commitment to public service. As discussed above, there should be ethical standards developed and implemented to guide the investment of funds and the spending of other revenue from resource extraction. There should be complete disclosure and public reporting on the performance of the fund at least annually.

Final Comment

The creation of a Heritage Fund must be a priority of the Government of the Northwest Territories. It is critical to our future wellness and to the future of our children that we do so.

