



Resource Extraction and Aboriginal Communities in Northern Canada

Economic Considerations



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Organisation nationale de la santé autochtone (ONSA)
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Under Section 35 of the Canadian Constitution Act, 1982, the term Aboriginal Peoples refers to First Nations, Inuit and Métis people living in Canada. However, common use of the term is not always inclusive of all three distinct people and much of the available research only focuses on particular segments of the Aboriginal population. NAHO makes every effort to ensure the term is used appropriately.

Resource Extraction and Aboriginal Communities in Northern Canada: Economic Considerations

INTRODUCTION

The mining industry offers huge economic potential for Canada's territorial governments, northern Aboriginal governments and Aboriginal community members. The current boom is in the diamond mining industry.

Diamonds were first discovered in the Northwest Territories (NWT) in 1991. By 1998 the Ekati diamond mine was operating. The Diavik diamond mine began operations in 2003, and the Snap Lake mine in late 2007. With just the Ekati diamond mine in full production, the NWT economy surged over five per cent in 2002, and diamond mining accounted for just over 20 per cent of NWT's Gross Domestic Product. This is because a wide range of construction companies, wholesalers and transportation companies benefit from these resource development projects. Building supplies, machinery and other materials are needed to support the development and operation of mining projects. In 2002, for example, almost 9,000 loads of materials and supplies were transported to the Ekati mine and to the Diavik project (Santarossa, 2004).

Mining projects involve four basic phases: exploration, development, operation, and closure. Each phase offers different economic opportunities for local communities. In the exploration phase the opportunities are limited since it is largely a prospecting process for minerals, oil or natural gas. After a resource site has been located, all the permits have been processed and the environmental review studies have been completed, a project goes into the construction or development phase. This is an expensive but relatively short-term phase where extraction and processing facilities need to be built before the project can go into full production. As well, the infrastructure needed to transport the ore, oil, gas, or forestry products from remote sites to other processing facilities or to markets must be put in place. Air strips and housing facilities for workers are also likely to be built. During the production phase, other economic considerations come into play. There are work and business opportunities available to service the needs of the development project, and there are royalty payments made by the resource developer and usually collected by the federal and provincial or territorial governments. After a project is no longer profitable and production ceases, the final clean-up phase begins. The objective is to return the project site and surrounding areas back to their original, pre-project state. Business and employment opportunities change again in this phase of a project.

There are a number of ways Aboriginal governments and communities can benefit economically from the northern resource extraction industry. Often the benefits and mechanisms are negotiated in advance of a project. They are negotiated to ensure Aboriginal governments and communities agree to let the development project to proceed. There is no single model that works best in every situation. Resource companies may offer a single payment before the development starts, annual payments during the lifespan of the project, royalties that are calculated according to various formulas, or an ownership stake in the project and a share of the profits. There are other contracting and employment opportunities that Aboriginal Peoples can take advantage of too. Given the diversity of opportunities that come with the resource extraction industry, this paper will examine in more detail some of the relevant economic dimensions that are important to northern Aboriginal communities.

Royalties

Resource development companies pay royalties to governments. Payments vary by type and location of development project, and the value of the resources the company is extracting. In NWT and Nunavut, the federal government sets the rates and collects the royalties. In Nunavik and Nunatsiavut, the provincial governments are responsible for royalties. Yukon is the only northern jurisdiction where the territorial government can set and collect royalties.

The royalty rates in NWT, the Yukon and Nunavut are among the lowest in Canada. The low rates are intended to offset the high cost of undertaking resource extraction projects in the north. According to the Canada Mining Regulations, each mine pays an annual royalty based on the market value of what the mine produces. The companies are allowed to deduct operation costs as well as transportation and refining costs. They can also deduct depreciation costs of the buildings, the plant, and the equipment and machinery used in production. Even the costs that were incurred during the exploration and development phases of the project before the mine went into commercial production can be deducted over time. In NWT, if the company decides to keep on processing or refining resources in the territory they can apply for even more deductions (Indian and Northern Affairs Canada, 2006).

The comprehensive land claim agreements allow Aboriginal groups to receive a share of the resource royalties from development projects on Crown land. These agreements may include “sub-surface rights” on certain portions of the settlement lands. If a mine is established where sub-surface rights are recognized, the Aboriginal government(s) can collect all the royalties. Under the current system, however, the royalties paid to the land claims organizations are relatively low because the resource companies can deduct so much of their expenses from the market value of what they produce.

Memoranda of Understanding

The arrangements for royalty payment included in the comprehensive land claim agreements are directed towards mineral resources like gold, nickel and diamonds. An alternative means of maximizing economic benefits from development projects is to negotiate a memorandum of understanding (MOU) with the companies undertaking a development project. The Aboriginal Pipeline Group (APG), for example, represents the interests of the Gwich'in, Inuvialuit, and the

Examples of Royalty Rates Paid to Aboriginal Governments

Mackenzie Valley Claim Area—the Gwich'in and the Sahtu Dene and Métis each receive:

- 7.5% of the first \$2 million a company pays in royalties (\$150,000 each)
- 1.5% of any additional royalties paid (\$15,000 per million dollars)

Nunavut Settlement Area:

- 50% of the first \$2 million a company pays in royalties (\$1 million)
- 5% of any additional royalties (\$50,000 per million dollars)

Yukon Umbrella Final Agreement—First Nations collect:

- 50% of the Yukon government's share of resource royalties up to \$2 million, less any royalties received directly
- 10% of the Yukon government's share of royalties over and above the \$2 million cap

Sahtu of the Northwest Territories with respect to the Mackenzie Valley natural gas pipeline. In 2001, the APG negotiated an MOU with Imperial Oil, ConocoPhillips, Shell, and Exxon Mobil to own one-third of the pipeline. APG will have to borrow money in order to pay for its share of the pipeline construction costs. The loans will be repaid from APG's share of the pipeline revenues. Any remaining funds after the loan have been paid and after administrative costs have been covered will be distributed to the shareholders in the form of dividends. The APG also will help communities prepare for employment and business opportunities that come up during the construction and operation phases of the pipeline project (The Aboriginal Pipeline Group, n.d.).

APG and Natural Gas Dividends

It is estimated that, once completed, the Mackenzie Valley natural gas pipeline will begin with a daily flow of one billion cubic feet of natural gas. At this rate, The Aboriginal Pipeline Group (APG) would generate an estimated \$12.5 million a year in dividends. Once the pipeline reaches its full capacity of 1.5 billion cubic feet per day, APG dividends would increase to over \$21 million per year. Once their loans are repaid, dividends to shareholders will increase to as much as \$100 million per year.

(The Aboriginal Pipeline Group, 2004)

Joint Ventures

Examples of Joint Ventures in the NWT

Trucking

Kete Whii is a joint venture between the Yellowknife Dene (25 per cent), the Dogrib Treaty 11 (50 per cent) and the Lutsel K'e Dene (25 per cent). It holds a nine-year contract for \$30 million to truck kimberlite from the Ekati Misery Pit to the processing plant.

Explosives

Denesoline is owned by the Lutsel K'e Dene Band. Through a joint venture with Calgary-based Western Explosives, it provides explosives manufacturing, transportation and storage services.

Diamond cutting and polishing

Deton' Cho Diamonds (50 per cent Yellowknives Dene First Nation) has established diamond cutting and polishing facilities in NWT.

Mine earthworks

Lac de Gras Contractors, a joint venture between Nuna Logistics (25 per cent) and Peter Kiewit Sons Ltd. (75 per cent), was awarded a \$262 million contract for mine earthworks at the Diavik diamond mine. Nuna Logistics is owned by a number of Inuit companies.

Freight delivery & maintenance

Tli Cho Logistics, a Dogrib Rae Band company, has entered into a joint venture with Atco Frontec Services Ltd. to deliver freight to the Diavik diamond mine and supply trained staff to maintain the water treatment plant and the airstrip at the mine site.

(NWT and Nunavut Chamber of Commerce, 2005)

The APG was created in 2000 by 30 Aboriginal leaders from all regions of the Northwest Territories. Their goal is to maximize their ownership and the potential benefits of the proposed Mackenzie Valley natural gas pipeline project. As described above, this group entered into negotiations with the major energy companies involved in the project. Essentially, the APG initiative could also be considered a joint venture—a type of company set up by two or more business partners. In the North, joint ventures often are set up between an existing company, usually from southern Canada, and an Aboriginal community, government or development corporation.

Joint ventures often take advantage of preferential contracting opportunities offered to local Aboriginal businesses. Aboriginal communities or businesses partner with non-Aboriginal companies that have the skills or equipment needed to fulfill the contract requirements. These contracts may be for such things as transportation, food services, cleaning services, or environmental services such as monitoring local wildlife. A number of government programs are available to help Aboriginal organizations take advantage of opportunities in the mining industry. The following table illustrates the range of joint ventures currently established in the NWT to meet the needs of the mining industry.

General services

Ek'ati Services Ltd, a Yellowknives Dene First Nation (51 per cent) joint venture with Edmonton-based PTI Group, holds a \$4.6 million contract to supply labour, materials, camp management, food, environmental services, accommodation facilities, and equipment to the 650-person construction camp at the Diavik diamond mine.

Employment Opportunities

Impact Benefit Agreements (IBAs) were originally negotiated between governments and mining companies. Their focus is on training and employment opportunities. More recently, Aboriginal communities and mining companies have directly negotiated IBAs. These include revenue sharing, environmental provisions, reclamation procedures, cross-cultural training, and dispute resolution mechanisms. IBAs often set goals or quotas for hiring local Aboriginal community members during the operation of the resource extraction project. Some agreements set firm targets on hiring while others may set less binding goals that state a company will attempt to hire a certain number or percentage of Aboriginal employees.

In terms of employment, most opportunities come up during the short-term development (construction) phase of the project. The proposed construction phase of the Mackenzie Valley pipeline is an extreme example. As many as 7,000 to 8,800 workers

Diamond Mines and Employment in the North

- 1998 to 2001: Employment in diamond mines increased from 90 to 700 people.
- 2002: Approximately 2,200 jobs related to diamond mining.
- Ekati mine: Employs 800 people directly; 39% of which are Aboriginal. Another 800 are employed indirectly through contracts.
- Diavik mine: Employs about 625 people; 37% are Aboriginal.
- Snap Lake project: Expected to employ 500 people.

(Santarossa, 2004)

may be required during the planned three years of construction. Once completed, however, as few as 55 people will be required to operate the pipeline along with an additional 45 contractors. Mining operations generally require more labour during their operational life. For example, the Ekati mine employs about 800 workers directly and an additional 800 under contract. These contract opportunities can be filled by Aboriginal businesses and joint ventures, providing indirect employment in the extraction industry.

Training Opportunities

The resource extraction industry requires skilled labour. To take advantage of employment opportunities, it is essential for communities to identify those who have the required skills. Some northern governments are taking action by creating community skills inventories that track the available skills held by people in each community. This makes it easier for resource development companies to locate potential employees. It also gives governments a community-by-community measure of where there is a need for further training. In 2006, the Government of Nunavut invested over \$250 million to create the Nunavut Community Skills Information System. The project won an award in 2007 from the Institute of Public Administration of Canada.

The lack of training for resource development jobs has been a barrier for many Aboriginal Peoples in the past. Now there are several initiatives designed to provide training to northern Aboriginal Peoples. Impact Benefit Agreements may contain components for the training of Aboriginal workers. Resource development companies can ensure that the training delivers the skills needed for the project. The Yukon Mine Training Organization is developing courses for environmental monitoring technicians and mineral processing technicians. The Nunavut Government runs an introductory course on mineral prospecting that is followed up with financial support of up to \$8,000 for Nunavut-based prospectors.

Training to meet the needs of the exploration and development phases of a project may not offer long-term benefits. These phases are relatively short-term. For example, the amount of money spent during the development or construction phase of a project is high, but the jobs do not last for long and the skills that are required may not be needed during the longer-term operational phase of the project. If people are trained to do jobs like pipeline welding, they often need to travel to other places to get the same type of employment after the local project is complete.

Conclusions

How communities manage and adjust to the influx of resource-related incomes can be a major challenge. The unequal flow of money into communities may create different classes of people—those with high-paying jobs and increased purchasing power, and those without them. This may cause tension between community members. High-paying jobs can also keep people away from traditional occupations like hunting, trapping or fishing. With their new jobs, they may no longer have the time to harvest country foods. This may lead to a loss of cultural heritage and traditional knowledge as people shift away from the traditional ways of life.

In some instances, communities, organizations or regions have decided to use the money from resource development projects and land claims to support traditional lifestyles. For instance, Nunavut Tungavik Incorporated offers full-time hunters equipment such as boats, motors, all-terrain vehicles, and snowmobiles up to a maximum value of \$12,000. It also gives out heavy-duty industrial sewing machines to women's groups.

The Tli Cho people near Yellowknife have invested money they have received from resource companies to finance a scholarship fund. They are paying \$600,000 a year to send 150 students to college and university.

Employment opportunities in the resource extraction industries often require workers to leave their communities for weeks at a time, which creates social problems at the family and community levels. Some communities have reported that it has become difficult to fill important jobs in the community, such as community administrator positions, because they do not pay as well as mining jobs. These and other issues are explored in more detail in the briefing papers on social and cultural impacts of the resource extraction industry.

Questions to Consider:

1. How much employment from resource development projects does your community want? What types of resource jobs are available to people in your community?
2. What contracting or joint ventures are possible in your community? Are local governments and companies taking advantage of opportunities to create spin-off employment?
3. How ready are people to take on employment in resource development?
4. Are training opportunities available? Do they meet the needs of resource development projects? And do they meet the needs of community members?
5. How much input do community people have in deciding what economic benefits they would like from developers?
6. Is the economic benefit from developments shared fairly in the community? What systems are in place to ensure that community members have a voice in resource governance/ royalties management?

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