Canadian Arctic Resources Committee
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Royalties – A Question of Fairness

The Canadian Arctic Resources Committee new study on Royalties "PLUNDERING THE NORTH FOR HYPER-PROFITS: NON-RENEWABLE RESOURCE EXTRACTION AND ROYALTIES IN THE NORTHWEST TERRITORIES 1998- 2004" asks you to consider the following 10 points in your review of the report.

1. Non-renewable resource development is the driving force behind the economic development of the Northwest Territories (NWT). The Government of the Northwest Territories (GNWT) is pinning its hopes on the devolution of natural resources and acquiring the right to collect resource royalties from the federal government.

2. Remember that royalties are not taxation, but simply a fee for the sale of public resources to the private sector.

3. While it is commonly understood that the ability to capture resource royalties is essential for the future public welfare of the NWT, the actual value of resource royalties is not widely known. This lack of public transparency and discussion is particularly problematic as the GNWT attempts to negotiate the devolution and transfer of natural resources, including the right to collect resource royalties, with the federal government.

4. Recently reported attempts by the proponents of the Mackenzie Gas Project to obtain guarantees from the federal and territorial governments that existing royalty rates will be retained or even reduced make public disclosure and discussion of these issues even more urgent.

5. Using publicly available data, this paper reviews the value and volume of petroleum and mineral extraction in the NWT between 1998 and 2004.

6. The federal government currently collects royalties under the Canada Petroleum Resources Act and the Canada Mining Regulations both of which have "net profit" based royalty regimes. This means that expenses, including exploration expenses anywhere in the NWT, are subtracted from royalties or revenues. An "ad valorem" royalty regime, such as the one in place in Alberta, simply collects a fixed percentage of gross production.

7. Between 1998 and 2004, the federal government collected almost $120 million in oil and gas royalties at an average royalty rate of 5.4%. If the current Alberta rate of 30% had been applied, over $660 million in royalties would have been collected. Thus, the

federal government potentially forfeited over $540 million in oil and gas royalties between 1998 and 2004.

8. The total value of non-renewable resource extraction in the NWT increased almost ten-fold from $282.3 million in 1998 to $2.7 billion in 2004. Royalties reached $159 million in 2004 at an effective royalty rate of only 5.9% of total production. Although the profits from most mines and petroleum operations in the NWT remain confidential, it is estimated that in 2004 the Norman Wells field made a net profit of 87.0% while Rio Tinto reported an EBITDA (Earnings Before Interest, Tax, Depreciation, Impairments and Amortization) rate of return of 75.2% and an after tax rate of return of 34.5% on the Diavik diamond mine. Despite such hyper-profits resulting from low royalties, the proponents of the Mackenzie Gas Project are demanding that the federal and territorial governments guarantee to retain or even reduce existing royalty regimes.

9. If royalties continue to be collected at the effective 2004 royalty rate of 4.9%, pipeline capacity would have to be expanded to 2.5 to 3.9 billion cubic feet per day for royalty revenues to reach the GNWT forecast of $550 million in 2011. On the other hand, if royalties were collected at the Alberta “ad valorem” rate of 30%, royalties alone could pay for the entire $1 billion territorial budget at pipeline capacity of 0.8 billion cubic feet per day. Also, reducing pipeline capacity reduces cumulative environmental impacts and vice-versa.

10. The NWT can choose to remain a dependent resource colony of the Department of Indian Affairs and Northern Development multinational corporate capital will continue to reap hyper-profits at the expense of social infrastructure and the environment; the NWT has the option to secure the independence of other province by capturing a fair return from non-renewable resource extraction.

The full report is available on CARC’s website, www.carc.org

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