

CHARTING THE NEXT COURSE

Developing An Economic Roadmap
for the Northwest Territories

November 2006

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Exciting things are happening in the Northwest Territories.

We are on the brink of tremendous economic opportunities ... opportunities with the potential to transform the Northwest Territories (NWT) into a key economic driver, not only for the North, but for all of Canada.

We have abundant resources and global economic conditions are right. The dream of the Northwest Territories becoming self-reliant and strong, with a thriving economy, jobs and opportunities for our people is close to becoming a reality.

But in the face of these great opportunities, we have important choices to make. What kind of economy do we want to see in the Northwest Territories? What principles should guide the choices we make? What obstacles stand in our way? What limitations do we face because of the fact that markets for oil and gas and diamonds are international ones, with decisions made and prices set outside the Northwest Territories? And what are the most important actions and investments we can make to achieve our vision?

These are important and difficult questions. That's why we want to engage as many people as possible from a wide range of perspectives and backgrounds to tell us their views and help guide the choices we make. All of this input and advice will help shape a roadmap for economic development in the Northwest Territories.

A roadmap can help us make the right investments and choices. We can seize the opportunities of today and turn them into lasting benefits for people and communities. We can be prepared, with the people, the infrastructure, and the policies we need to achieve our goals. We can avoid many of the problems that come with uncontrolled and unexpected growth.

This workbook provides a snapshot of where we stand today and some of the challenges and choices ahead. We hope people will read the information, think about the questions, and tell us what they think.

Further information on how to provide your input to this important process is included at the back of this workbook.

“This is an exciting time in the Northwest Territories. A time of hope and optimism about the future. A time when our dreams for the Territory, for communities, and for our children can be realized. Now it's time to get to work.”

Finance Minister Floyd Roland

Where do we stand today?

The Legislative Assembly of the Northwest Territories has laid out a clear vision of what we hope to accomplish:

Self-reliant individuals and families sharing the rewards and responsibilities of healthy communities and a prosperous and unified Northwest Territories.

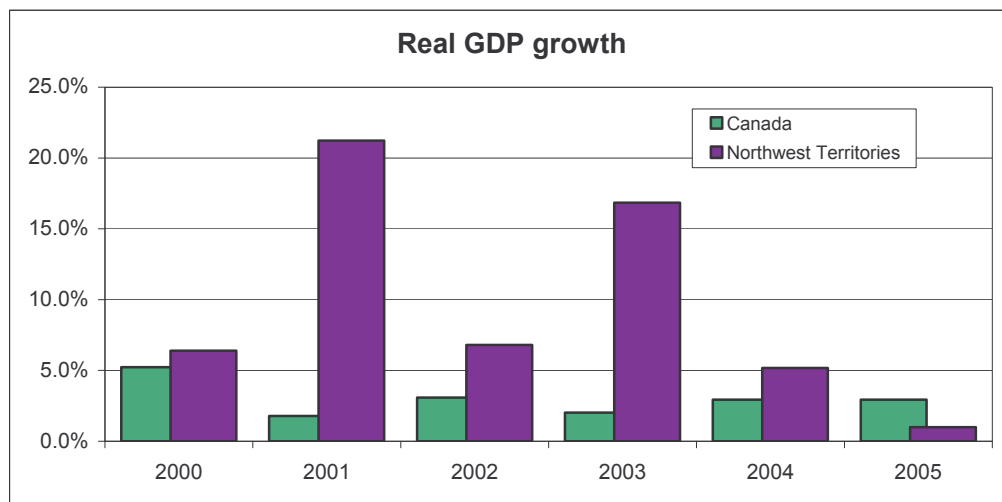
Developing a strong and diversified economy is key to achieving that vision. Specifically, the Government's Strategic Plan sets a clear goal for developing a diversified economy that provides Northerners with opportunities and choices. That means:

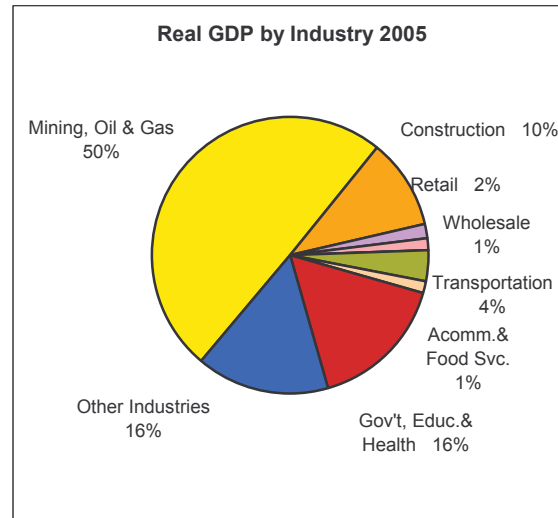
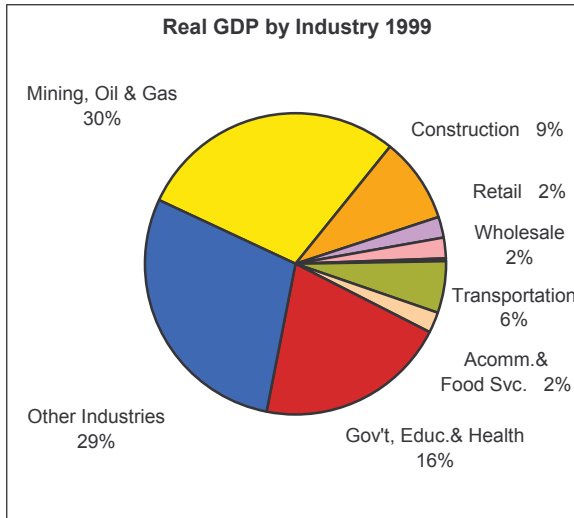
- A traditional economy capable of creating and maintaining a good living and healthy lifestyle for those Northerners who choose to participate in it.
- Renewable resource, small business and tourism ventures that are viable and sustainable in every community.
- A balanced approach to the economic development of all sectors that is sustainable over the long term.
- Northerners being the primary beneficiaries of the development of our resources.

That is the goal. But where do we stand today?

There certainly is good news to report.

- The NWT economy has grown at a tremendous rate over the past six years, outpacing growth in the rest of Canada. Our economy has grown by 71 per cent since 1999, while the rest of Canada's growth was 19 per cent.





- Much of that growth is directly tied to diamonds. Mining and oil and gas combine to make up the largest share of our economy. Since 1999, diamond exploration has doubled and exploration for oil and gas has increased fourfold.
- Not surprisingly, exploration and development of our natural resources has spin off benefits, especially in construction, manufacturing, and professional, scientific and technical services. The manufacturing sector, although still relatively small, grew by 177 per cent between 1999 and 2004 thanks primarily to new opportunities to cut and polish diamonds before they are exported.
- With these developments, employment has steadily increased and 72 per cent of adults in the NWT are employed. That's one of the highest rates in Canada. And it means our labour market is operating at close to full capacity.
- Good jobs are translating into higher incomes for people in the NWT. Personal income grew by 44 per cent between 1999 and 2004 compared with 30 per cent in the rest of Canada.
- Disparities in incomes are falling. The proportion of high income earners is increasing and the proportion of low income earners is decreasing. And that's a trend we want to see continue.
- It's expensive to live, work and do business in the NWT. But the difference between the cost of living in the NWT and southern Canada has decreased.

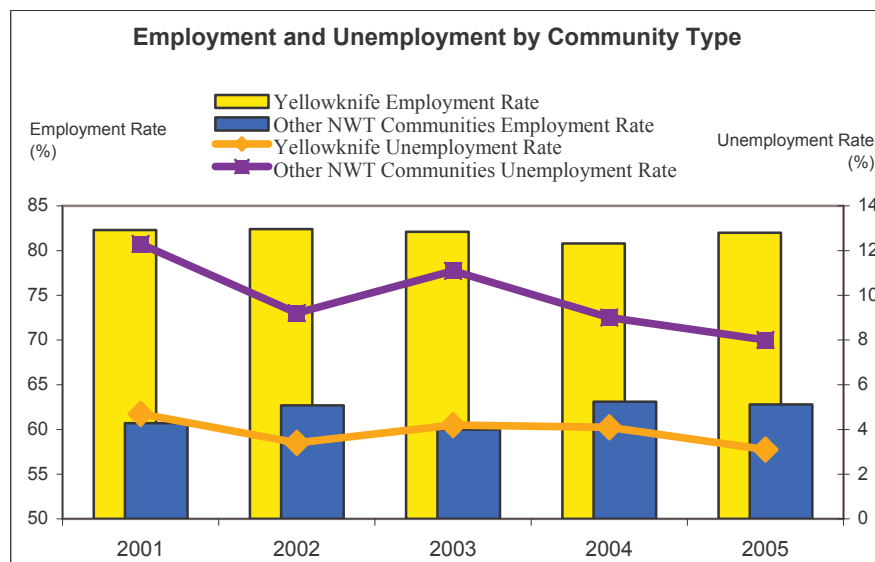
Looking ahead, we expect to see:

- completion of the third diamond mine at Snap Lake by 2007 and additional investment at the Diavik and Ekati mines.
- construction of the Mackenzie Gas Project between 2009 and 2012.
- production from the three Mackenzie Gas Project fields beginning in 2012 and other oil and gas development contributing to economic growth after that.
- continued strong growth in our economy over the next decade and a half.
- a growing labour market and high demands for people, especially during construction of the Mackenzie Gas Project.

There also are opportunities to expand tourism, forestry, fishing, fur harvesting, and hydro-electricity. In fact, the NWT has the potential to generate hydro-electric power to rival that of James Bay or Churchill Falls, and we can use modern technology to generate the power we need and reduce the impact on our environment.

Combined with that good news and opportunities ahead, there are some challenges we need to address.

- New developments and construction projects require people. The number of people from outside the NWT who have come here to work doubled between 1999 and 2005. With almost full employment, we will not be able to meet the demand for skilled workers from NWT residents alone. And perhaps most troubling, much of the available supply of labour in the NWT has less than a high school education.
- Although employment rates in the NWT's smaller communities have been rising, they are still lower than those in the larger communities.



- While our economy has grown by over 70 per cent, our population has only grown by 6 per cent over the same period. That adds to the challenge of getting enough people to do the work for projects planned over the next five to ten years.
- The dramatic growth in the economy doesn't translate into a corresponding increase in revenues for the Government of the Northwest Territories. About 70 per cent of the government's revenues come from the federal government. New arrangements and funding levels for Territorial Formula Financing have not been set. And we need to make more progress in our negotiations to resolve these issues.
- In terms of government revenues, the federal government – not governments in the Northwest Territories - is the biggest beneficiary of resource developments in the NWT today. Federal Public Accounts for 2005-06 show that the federal government took in over \$224 million in resource revenues from the NWT. In comparison, the Government of the Northwest Territories took in only \$17 million in corporate income tax revenues that year.
- Although growing fast, the NWT economy is small in relative terms, and in today's global economy, where investment decisions and commodity markets are driven by worldwide events and circumstances, our economy will be easily influenced by external factors. This means that the NWT must be flexible enough to take advantage of opportunities when they arise and to deal with downturns when they occur.
- Most of the growth in the NWT economy comes from natural resources – diamonds and oil and gas especially. And the linkages between this resource activity and other sectors, such as retail trade, are not as strong as they could be. While this growth is good news, it means that much of the benefit may “leak” out of our economy. The cost of living and of doing business in the NWT is still high, compared with southern Canada. This makes it more difficult for our businesses to compete, and for local businesses to grow.
- Although differences in costs are declining, the cost of living and doing business in the NWT is still high compared with southern Canada. This makes it more difficult for our businesses to compete and attract employees, and for local businesses to grow.
- We've taken steps to keep taxes in the NWT competitive so we can attract businesses and investment, but it's difficult to compete with places like Alberta, especially when our costs are going up and we rely on taxes to help pay for essential government services.
- Businesses in southern Canada don't always find it easy to do business in the NWT. They have to deal with several governments at once. The direction is not always clear. Decisions take a long time to get made. And there isn't the kind of certainty they're looking for when it comes to making major investments. While much of this is under the control of the federal government, the impact is felt directly in the NWT.

What other challenges do you see ahead for our economy?

What kind of economy do we want?

We know where we stand today and some of the challenges that brings, but the key question is what do we want the NWT's economy to look like five, ten or twenty years from now?

If we could paint a picture of the economy we want twenty years from now, what would it look like?

Think about these questions.

What principles should guide our economic vision?

In 2000, the NWT Economic Strategy Panel suggested the following six principles:

- Recognize the competitive advantages of the NWT
- Ensure residents benefit from development of their resources, support opportunities for wealth creation, contribute to the health of communities, foster independence, and protect and manage the use of land for future generations
- Be determined by residents of the NWT, respect cultural diversity and land claims, and proceed at a pace that is determined by communities and regions
- Promote and foster partnerships: between aboriginal and non-aboriginal groups and corporations; between the public sector and the private sector; between communities and regions
- Build capacity and develop potential within individuals, organizations, communities and regions
- Encourage economic diversity, to create jobs and business opportunities, and foster creativity and innovation

Are these the right principles to guide our vision for the NWT's economic future? What other principles would you suggest?

Should some types of economic development or industries be encouraged or discouraged?

Our strong economic growth is the result of the demand for our resources, especially diamonds and oil and gas. How do we strengthen the linkages with other sectors of the economy? Are there other sectors we should promote and what are they?

What should the priorities be in NWT's future economy? What kind of mix do we want to see? What challenges are there in promoting this mix?

What will regional and community economies look like?

What does the future look like for local economies? Do we envision communities each having their own strong, local economies and served by regional centres acting as hubs for specialized services and business networks? If we want to promote local economic development, what types of local businesses should we encourage and how do we achieve this without ongoing government support?

Should we try to manage the pace of growth?

Because of current global market conditions, we're on track for major new developments in the NWT in our resource industries. If the Mackenzie Valley pipeline proceeds, it will open the doors to vast natural gas reserves in the Mackenzie Delta and Beaufort Sea. New diamond mines will solidify our position as one of the world's leading diamond producers.

All of these developments will put pressure on our infrastructure, our communities, our people, and our environment.

Investment is undertaken now in a global context. If we say we are not ready for development now, investors may go elsewhere, and may not be there when we say we are ready.

Should we try to manage the pace of growth? How would we do that?

What factors do we need to consider in order to manage and to anticipate the impact of growth?

What choices do we need to make?

If we're clear on the vision we want for the future of the NWT's economy, the next step is to decide what choices we need to make in order to achieve that vision.

We can't magically make it happen. There are many forces outside of our control and many unknowns about how the future will unfold. Nor can we do everything all at once. With limited resources, we need to carefully map out the choices and trade offs we face, decide what we can do and when we can do it, and understand the risks and benefits of those choices. We can then move forward, take advantage of the opportunities that arise, and achieve the vision we set for NWT's economy.

Is it better to invest in transportation infrastructure so we can support industrial developments and lower the cost of transportation for our residents and businesses? Should we invest in housing now so communities are ready when we face an influx of people? Is our best choice an investment in education so our people are ready with the skills they need to participate fully in the economic growth we expect to see? Which investments by government will yield the highest return for the residents of the NWT?

These are difficult questions and they involve serious choices about what needs to be done. But starting with the 2007 budget, a roadmap has to be developed to help us make the right choices and achieve the vision we want.

Think about these questions.

People

People are going to be the driving force behind achieving our economic vision. And we have some challenges ahead.

Preparing our own people should be a top priority.

What do we need to do to make sure Northerners are ready for the challenges of a growing economy? What are we doing right? What do we still need to do?

Should we encourage people from smaller communities to move to larger centres where there are more jobs and more economic growth?

We're not likely going to be able to fill all the jobs and meet growing demands in the economy with our own people alone.

Should we encourage people from other parts of Canada and around the world to come to the Northwest Territories?

What steps do we need to take to make sure we have the workforce we need to match the demands of our growing economy?

Infrastructure

Businesses, industries and communities need essential infrastructure in place to support the economy, increase efficiency, reduce costs, and attract new opportunities. That includes roads and highways, access to safe water, and sufficient housing. Increasingly in the future, it also has to include electronic communications and information technology to allow Northerners and Northern businesses to connect to business opportunities, information, supplies and services from all around the world.

What infrastructure investments should be the priority?

Taxes and Other Government Revenues

One of the tools for attracting and keeping investment and growth is taxes. Lower taxes tend to attract more investment and may encourage people to live in the NWT, but, with limited resources, lower taxes also make it difficult for the government to afford the services people want and expect.

Another option for raising funds is to look at royalties. Royalties are paid by companies that extract natural resources, especially diamonds and oil and gas. In our case, one of the key problems is that we don't own the resources so much of the financial benefit from extracting our resources goes to the federal government, not to us. The GNWT has made the devolution of control of our resources from Canada a major priority.

What changes should we make to taxes in order to attract more investment and business?

What's the best way to ensure the Government of the NWT receives more of the financial benefits from the development of our resources?

Government services

Government has a role to play in providing important services to support people and communities and promote a healthy and positive quality of life. These services contribute to the economy in a number of ways. They educate and train children, young people and adults so they can contribute to the economy. They provide health care and promote healthy life styles. They support community initiatives and help make sure communities are good places to live, work and raise families. They address important social issues that affect individual Northerners and their families.

All of these services contribute to the quality of life in the North and to the kind of future we want to create.

What government services are most important to achieve the economic vision we set?

What adjustments do we need to make to government services to make sure they can respond to growth in our economy?

Decision making

One of the challenges is the complexity of doing business in the NWT, the time it takes to get decisions made, and sometimes the mixed signals from different communities and different governments. Right now much of the regulatory regime is under federal control but that would be transferred to NWT governments after devolution. In the mean time, perhaps steps could be taken to make it easier and more efficient to do business in the NWT.

What steps could be taken to streamline processes and speed up decisions?

Community capacity

Economic growth will have an impact on communities, and communities need the capacity to encourage and support economic growth in their own community and region.

What steps should be taken to increase the capacity of communities to anticipate and support economic growth?

Environment and the land

Economic growth can have an impact on our land and our environment. Northerners, aboriginal and non-aboriginal alike, have a special connection to our land and want to ensure that development is undertaken in a way that is both economically and environmentally sustainable.

How do we support economic growth and also preserve our environment for future generations?

What should the priorities for investment be?

Of all the choices and options we've identified, which ones will provide the highest return to NWT residents? Please rank on a scale of one (not very important) to five (very important).

	Not important				Very important
Educating people	1	2	3	4	5
Developing infrastructure	1	2	3	4	5
Keeping taxes competitive	1	2	3	4	5
Improving government services	1	2	3	4	5
Streamlining decision-making	1	2	3	4	5
Increasing community capacity	1	2	3	4	5
Protecting NWT's environment and land	1	2	3	4	5

What happens next?

Anyone who is interested in responding to the questions raised in this workbook can provide their comments in writing or by responding on-line.

A summary of all the ideas and views from this consultation process will be prepared. When the Budget is introduced early in 2007, a discussion paper will be presented, proposing an economic vision, outlining key directions and essential steps, and asking for people's views.

A final economic roadmap will be finalized by May of 2007.

For further information

If you have questions about the information in this workbook or the consultation process, please contact:

Department of Finance

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Please forward your comments and responses to the questions outlined in this workbook to:

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This document and other background information is available at:

www.fin.gov.nt.ca/economicroadmap

