



AN OPEN LETTER TO MINISTER WAWZONEK RE NWT ROYALTIES

July 27, 2022

Honourable Caroline Wawzonek
Minister of Industry, Tourism & Investment
P.O. Box 1320
Yellowknife, NT X1A 2L9

Dear Madame Minister,

Re: Alternatives North public solicitation and the NWT Royalty Regime

Northerners might wonder why Alternatives North delivered a flyer on mineral royalties to their mailboxes this past week.

We wondered too.

This social justice group has no history of advancing ideas that could help strengthen mineral investment in the NWT.

We know this, because that is what our Chamber does virtually every day of the year, and Alternatives North has never joined in to help. Rather, they pop up occasionally to take pot shots at our vital northern resource industry, as they have done with this document with no fact-based information to support their assertions for higher mineral resource royalties. That's not an organization supportive of resource development for northerners or the industry's contribution to the NWT's private sector economy.

But in fairness, bear with us as we take a closer look at benefits and royalties, from which we hope northerners would be able to draw their own conclusions.

First, some basics.

- Mining companies do not own the minerals in the ground, rather they are owned and managed by governments on behalf of the people.
- But governments aren't miners and really can't be. They don't have the expertise, or the risk tolerance, or the money for the difficult, high-risk task of finding and developing mines. (And let us observe that northern Canada is not an easy, inexpensive, low risk jurisdiction within which to do this.)
- So, governments invite companies to do the heavy lifting for them: to take on the big financial risks, to bring in large sums of money and technical expertise, and (hopefully) discover valuable minerals to convert into jobs, business, and tax benefits. And, of course, do all this very responsibly.
- By inviting companies to come and help them do what they cannot do themselves, governments have essentially created a partnership with industry.
- In return, governments promise a safe, secure, and supportive investment climate. That includes a regulatory framework and legal system, a local work force, a fair tax system, and hopefully some support for infrastructure like roads and power that also serve the public.

Governments need industry to do this profitably, because our economies are based in the principles of profit, and without profit, there would be no industry. Profit is essential.

Government also wants to share in industry's profits. So they create what's essentially a profit tax, or royalty. What's a reasonable share of profit for each? It should be one that matches each party's risk.

That is the case here, and across Canada.

Since they have the lowest risk, governments respect that they should collect a lower share of the profits. Governments are already profiting significantly with virtually zero risk through the many taxes they collect every time a mine spends a dollar, and whether the mine is profitable or not. (Note too that the NWT and Nunavut are the only jurisdictions in Canada where mines pay a property tax, for example.) The royalties become a sweetener on top of the many fixed taxes mines pay, along with their workers and service providers.

Studies have been done by others to assess the adequacy of the NWT's royalty rates. We believe you have been appropriately diligent in hiring PwC to do a major (publicly available) study "[Tax and royalty benchmark: Mining in the Northwest Territories](#)," which reveals that the NWT is in the middle of the pack against other jurisdictions in Canada, and should stay there.

PwC makes some important conclusions including that:

- the NWT already collects a share of pre-tax returns that is comparable to other comparison jurisdictions;
- it needs to focus on the underlying drivers of its high costs, rather than tax and royalty policy; and
- it should consider developing energy and transportation infrastructure that would lower costs for mining companies.

We congratulate you too on going the extra mile and hiring another respected mineral economist, Dr. Michael Doggett to conduct an *Independent Review* of the PwC report. He confirmed their findings and made several astute comments including: *Increased capital and operating costs associated with remote conditions in the NWT result in lower returns for both government and companies and/or the necessity for higher quality deposits. The authors [PwC] rightly conclude that these underlying locational and infrastructure challenges cannot be overcome solely by altering mining tax policy.* We would observe that even Alternatives North's expert, Andrew Bauer reached the same infrastructure cost conclusion.

We have reached out to some of our members, as I know your staff have too. Feedback from our mines, and those projects advancing to become mines that hopefully one day pay royalties, is that they are either satisfied with the existing regime or would like to see it decreased.

From our assessment and from those in the key reports cited, the biggest conclusion on royalties is that if you want more, then attract more mining; and provide strong infrastructure and other support to make it more profitable.

The big winners all the way around will be governments – public and Indigenous – who will benefit from a strong flow of jobs, business, and many many tax revenues, including royalties. Right now, we need more mines to help us face the closure of our large Diavik mine in 2025. Perhaps Alternatives North can help with ideas for that, although we have seen none to date.

We hope our feedback and participation is helpful Minister, in advancing the NWT's royalty structure.

Yours truly,



Kenny Ruptash
President