HAVE YOUR SAY : 29 July, 2022

MINERAL ROYALTIES

HOW MUCH PUBLIC BENEFIT FROM OUR PUBLIC RESOURCES?

Minerals on public land are a public resource. When companies mine, they expect to make a profit. The public also expects fair compensation for the removal from the NWT of these non-renewable resources. The payments to the public are called *royalties.* More technically, royalties convert a part of the value of the mined resource into a financial asset for the public benefit.

The Government of the Northwest Territories (GNWT) is making regulations about who gets money from minerals, and how much.

WHY ARE ROYALTIES IMPORTANT?

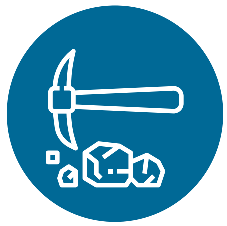
Over $30 billion worth of diamonds have been mined and exported from the NWT since 1999. Royalties are one way we get benefits from mining. Since devolution on April 1, 2014 about $11 billion of diamonds have left the NWT. During that time, GNWT has collected about $35 million a year in royalties. GNWT gets about another $90 million a year in other taxes from mining. About $11 billion of diamonds have left the NWT since devolution. All of this means that **GNWT currently gets to keep about 8% of the value of the diamonds.** There is a lot of money at stake in setting a fair royalty system.

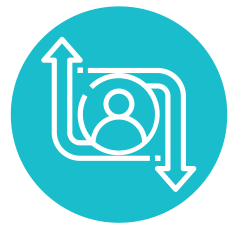
YOU CAN HAVE A SAY!

WHO DETERMINES THE SPLIT OF PROFITS BETWEEN THE COMPANY AND THE PUBLIC?

The international standard (World Bank; International Monetary Fund) for a government's share from royalties *plus taxes* (such as corporate and property) ranges between 40 and 60 percent. In other words, government and companies should share pre-tax cash flow over the life of a mine roughly on a 50:50 basis.

Indigenous Governments and the public now have an opportunity to tell GNWT what the overall royalties/public profits should be. It's your chance to have a say.





WHAT IS DONE WITH GNWT ROYALTIES?

In the NWT, there's an agreement between GNWT, the federal government, and Indigenous Governments as to how the royalties are split. GNWT collects royalties from the mines. Then GNWT gives the federal government 50% and the Indigenous Governments 12.5%. GNWT keeps 37.5%.

Mining royalties kept by GNWT mostly go into the general revenues. Since minerals are non-renewable (once mined, they can't be mined again), GNWT also has a special account called the NWT Heritage Fund. The Heritage Fund keeps money for use by future generations, since future generations should also benefit from minerals that are removed through mining today. 25% of GNWT's share of royalties goes to the Heritage Fund.

GNWT has said they use the other 75% of their royalties on debt reduction and capital investments. Capital investments are things like buildings, roads and other infrastructure. The theory is that infrastructure provides a benefit now and in the future. This does not consider that buildings and roads also need money to maintain, now and in the future.

The NWT Heritage Fund now has about $35 million since it was set up in 2012. We need to tell GNWT how much of GNWT's profits should be kept for future generations. We think that means more into the Heritage Fund.

HOW ARE ROYALTIES CALCULATED NOW?

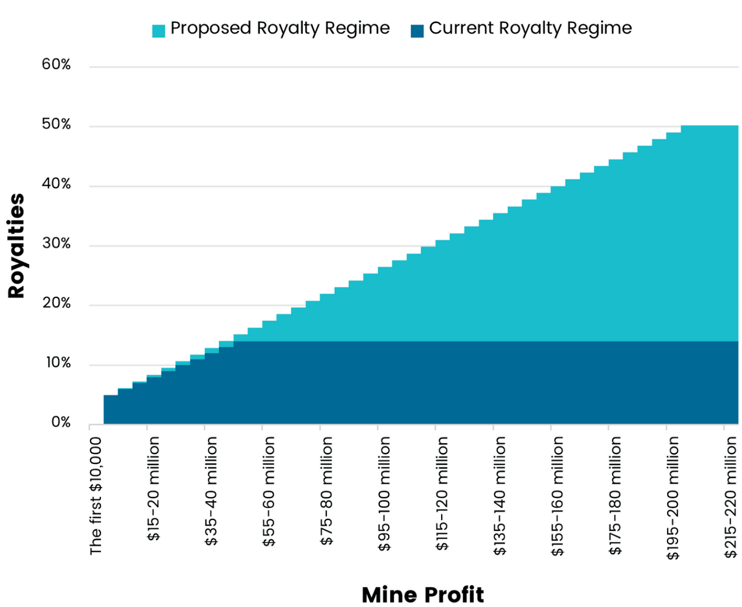
Royalties are based on the **profit** a company makes. Companies have a lot of expenses. For instance, they pay workers, buy equipment, and maintain buildings and equipment. All such expenses are taken off revenues **before** profits are calculated. Therefore saying "it's very expensive to do business in the north" as a reason to keep royalties low makes no sense, because such expenses are accounted for before calculating royalties.

Once the profit is known, the royalties are calculated in a stepped manner. If a company doesn't make much profit (less the $10,000), they pay no royalties. If the company's profit is $10,000 to $5 million, they pay 5%. From $5-10 million profit, royalties are 6%, and so on. Percentages keep going up in 1% steps, maxing out when profits reach $45 million. So royalties are capped at 14% no matter how much profit is made.

We wonder: **why is government limiting public benefit** with a 14% cap on royalties? Even personal income taxes rates can be close to 50%. Why should this be? It encourages companies to make a lot of profit very quickly, and get out. This isn't the best scenario if we want steady, long-term jobs and revenues, and to ensure maximum benefits to the public!

IS THE NWT ROYALTY REGIME PROVIDING A FAIR SHARE OF THE PROFIT?

We don't think so. We think that the royalty value should grow in greater increments than the 1% shown. Then the cap should be higher: 30, 40 or 50%. Remember, that's royalties on profits, after all expenses (things like paying the workers, fuel, equipment and other operating costs). Also, the $45 million top category should be increased to about $200M. The $45M cap was set a long time ago, and everything else has increased… it's time for that cap to be raised as well.



This chart compares the current regime with a possible regime of raising the cap in steps up to 50%, with the top category $200M in profits.

We believe these changes will encourage slower depletion of our resources, longer term economic activity and help keep more money in the NWT.

ARE ROYALTIES THE ONLY BENEFITS FROM MINING?

Certainly not! The most obvious benefit is the use of the minerals by our society once they are made into products. We also benefit from jobs and tax revenues. All this is governed by various laws and agreements taken into account by GNWT when setting royalty rates. However, not all jobs and taxes stay in the NWT. Right now, most minerals in the NWT are mined by non-resident companies and workers.

WHAT ARE EXPERTS SAYING ABOUT GNWT'S MINING ROYALTIES?

"The NWT has one of the world's most charitable fiscal regimes for the mining sector, one that captures 20 to 30 percent of economic rents from mining projects, net of costs. This is compared to between 30 to 35 percent in South Africa, 45 to 60 percent in Peru, and 50 to 80 percent in Western Australia."

Andrew Bauer,
Natural Resources Governance Institute
https://www.engage-iti.ca/3808/widgets/15654/documents/7981

"The NWT sells its non-renewable resources more cheaply than most other jurisdictions in the world" and "we find that the after-cost share of revenues to the government (the government take) is around 36 percent, with 22 percent for the NWT and 14 percent for the federal government."

Dr. Don Hubert,
Resources for Development
https://www.ntassembly.ca/sites/assembly/files/td_509-192.pdf

YOUR OPINION?

You can talk to your MLA about this, and other aspects of the mining industry.

Send comments to the attention of "Mineral Resource Royalty Review" by email royalty_administration@gov.nt.ca by **July 29**, 2022, no later than 5:00 p.m.

Go to **https://haveyoursay.nwt-tno.ca/review-of-mineral-resources-royalties** for more details.

Alternatives North

This handout prepared by Alternatives North
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