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AT A CROSSROADS

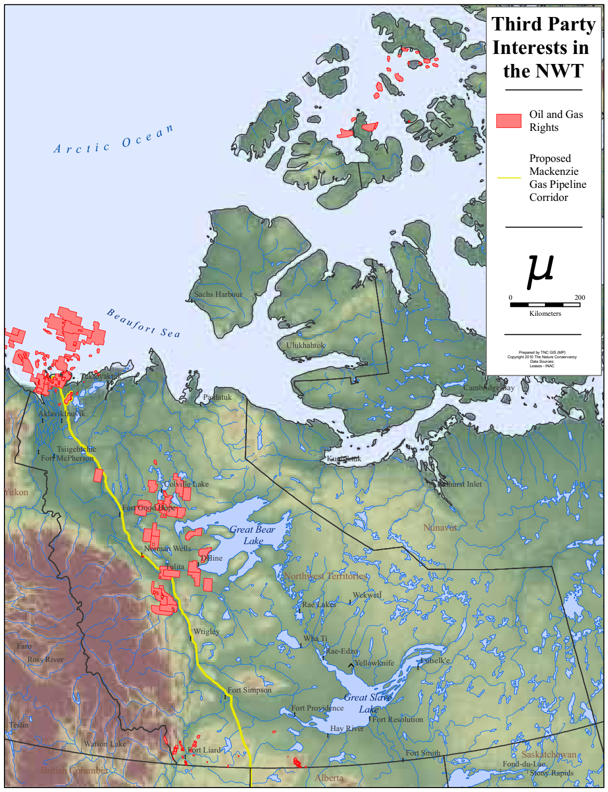
FACT SHEET

Achieving a Win-Win From Oil and Gas Developments in the Northwest Territories

Canada's North is under increasing development pressure. The federal government has made development in the North a priority, and oil and gas companies are eager to profit from the wealth of natural resources in the region. There will only be one opportunity to develop these resources. Therefore, the governments of the Northwest Territories and Canada need to have policies in place to ensure that Canadians receive maximum benefit from the development of the North's resources.

Unfortunately, the policies currently in place do not adequately compensate the public for the development of oil and gas resources in the Northwest Territories. Instead, oil and gas companies are being left with excess profits at the expense of public revenue.

With new developments on the horizon, the Canadian government is at a crossroads. It has to decide how to manage oil and gas development in the territory. In a win-win development scenario, the government strikes a balance between providing a fair return to oil and gas companies and providing maximum benefit to the public.



Who Owns the Oil and Gas Resources?

The oil and gas resources in the Northwest Territories are owned by Canadian citizens. The government of Canada manages these resources on behalf of Canadians. Acting as a resource manager, the government grants companies the right to develop the resources. Companies invest money in developing the resources and earn profits on the oil and gas they produce and sell. The government is responsible for capturing enough revenue from these companies to fairly compensate Canadians for the development of their non-renewable resources, while allowing oil and gas companies to earn a fair return on their investments.

The Opportunity is Now

It is important that royalty and lease regimes are set up to capture maximum revenue from oil and gas development before major projects proceed. Once projects are approved, it becomes increasingly difficult to change the regimes applicable to them. Furthermore, some Aboriginal land claim organizations in the Northwest Territories receive resource royalties from the federal government through land claim agreements. The amount of royalty revenue collected has a direct impact on the amount of income they receive from oil and gas development within their settled region. Finally, there is only one opportunity to develop the finite oil and gas resources in the Northwest Territories. Low royalty and taxation rates today will result in public revenue that is lost forever. Decisions about major industrial developments in the North, such as the Mackenzie gas project, will be made in the near future. Now is the time to revamp the current regime so Northerners get their fair share.

Public Resource, Private Profit

- The oil and gas resources in the Northwest Territories are owned by Canadian citizens.
- The government is responsible for capturing revenue from oil and gas companies to compensate Canadians for the development of their resources.
- Oil and gas companies are currently being left with more than their fair share of profits from oil and gas developments.
- The federal government needs to review and reform royalty rates and the bidding process for awarding oil and gas leases.
- The Government of the Northwest Territories needs to revise the territorial tax system in order to capture greater revenue from oil and gas developments.
- A portion of the revenue from oil and gas developments in the Northwest Territories should be invested in a long-term fund to be shared with future generations.

Maximizing Resource Revenue

Revenue from resource developments can be captured by governments through a variety of means, including royalty rates, taxes, and the sale of exploration and development rights. When royalties and taxes are set too low, companies are left with excess profits. Low revenue collection is thus a subsidy to oil and gas companies. Low royalty and tax rates also result in an unfair bias towards the development of non-renewable resources over sustainable energy options.

Rules for collecting and setting royalties in the Northwest Territories are specified by the Frontier Lands Petroleum Royalty Regime. The current resource royalty rate for oil and gas developments in the Northwest Territories is exceedingly low, which puts corporate profits ahead of citizens' interests. To capture maximum revenue from oil and gas developments, the federal government needs to review and reform royalty rates.

The federal government also needs to re-evaluate the bidding process for awarding oil and gas leases. The work bid system currently used does not result in a transfer of revenue from companies to the government. A system based on a combination of work bids and cash bids would be a more appropriate way to award oil and gas leases in the territory.

In addition, the Government of the Northwest Territories is missing out on opportunities to capture revenue through taxes on oil and gas developments. The government needs to take advantage of available tax options to ensure the citizens of the Northwest Territories are fairly compensated for the development of their resources.

A Public Review

The current regime for capturing resource revenue should be reviewed through an open and transparent public process that is done for the resource owners by the resource owners. The process should involve consultation with Aboriginal and territorial governments, provide opportunity for public input and comment, and be supplemented by public education materials. A transparent, in-depth public review of the oil and gas resource revenue regime would allow Northerners and all Canadians to participate in the creation of a win-win system that benefits both the public and oil and gas companies.

Looking Forward

"Each generation will reap what the former generation has sown." — Chinese Proverb

A portion of the revenue from oil and gas developments in the Northwest Territories should be invested in a long-term fund to be shared with future generations, who won't benefit directly from the resources developed today. A non-renewable permanent fund could be used to:

- lessen the impact of resource developments;
- provide a store of wealth for future generations;
- diversify and strengthen the territorial economy; and
- provide financial capital to shift the Canadian economy away from fossil fuel dependence and toward renewable energy sources.

Want More Information?

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