

## APPENDIX 1

# STATEMENT OF ECONOMIC CIRCUMSTANCES AND OPPORTUNITIES

## INTRODUCTION

The Statement of Economic Circumstances and Opportunities provides an outline of the current economic conditions in the Northwest Territories (N.W.T.); policy and strategy initiatives which shape federal and territorial economic development activities; broad N.W.T. economic development opportunities; and the nature of opportunities which might be addressed through the instruments of an Economic Development Agreement (EDA).

Through an analysis of these and other factors, such as work under the two preceding EDAs and their subsidiary agreements, the following objectives have been identified for the new EDA, as the areas where it can best contribute to growth, transition, and stability of a sustainable northern economy:

1. develop and build on potential and existing strengths of the regional and community economies, and on the experience gained, including earlier Canada-N.W.T. economic development agreement evaluation reports, from past cooperative programming;
2. assist N.W.T. Businesses in capturing a greater share of the economic benefits associated with the development, processing and consumption of N.W.T. resources;
3. improve the competitive position, operational efficiency, and expand the markets of N.W.T. Businesses; primarily through providing support to sectors and/or supporting business-related infrastructure development that will assist a number of businesses at the community level or across a sector;
4. reduce employment and income disparities in underdeveloped communities and regions in the N.W.T. through the stimulation of job opportunities, particularly for the resident unemployed, in N.W.T. Businesses and Self-sustaining Business Activities;
5. strengthen technical, entrepreneurial, business management and marketing skills, so that increasing numbers of N.W.T. residents can successfully participate in the development and expansion of N.W.T. Businesses or Self-sustaining Business Activity, particularly in the lesser developed communities.

It is imperative that the EDA provide full access for aboriginal and non-aboriginal northerners to programming under cooperation agreements, ensure initiatives are consistent with the principles of sustainable development, and ensure environmental considerations are integrated into project decision-making.



## CIRCUMSTANCES

### SETTING

The economy of the Northwest Territories has been shaped by its geography. It lies almost entirely north of the 60th parallel. Covering 3.2 million square kilometres, roughly one-third of Canada, it has an extensive coastline including numerous large islands; an abundance of lakes and rivers; and a varied physiography supporting a selection of renewable resources. It contains both sedimentary basins rich in hydrocarbons, and hardrock mining areas.

Development must contend with not only conventional physical barriers, but also the vast size and harsh climatic conditions of the N.W.T., including construction problems such as permafrost. These have compounded the difficulties of establishing and maintaining population centres capable of achieving mature market economies. Distances and construction costs have also constrained development of transportation networks between communities.

### MAJOR CHARACTERISTICS OF THE N.W.T. ECONOMY

The N.W.T. economy is characterized by a duality: modern industrial development and traditional harvesting activities exist side-by-side, with few linkages. The former involves monetary dealings, wage employment, and often large-scaled enterprises. The latter involves subsistence harvesting or micro-businesses: a self-employed trapper or commercial fisherman. Wage employment can provide needed capital for harvesting equipment and supplies, and other linkages are evolving. An intermediate range of small service businesses has also grown up in major centres. But, especially in the smaller, remote communities, duality is still marked.

Economic development has been dominated by non-renewable resource-based industries: exploration and development of minerals and oil and gas, predominantly in the western N.W.T. Production of the north's resources has brought in dollars which in turn pay for goods northerners need from elsewhere. These industries have supported development of physical infrastructure such as roads and hydro generation facilities. They have also made feasible support businesses in fields like transportation, communications, and retail trade, creating the beginning of a business infrastructure.

Aboriginal people have made up only a fraction of the workforce in non-renewable resource industries, and have often been concerned that they will, on balance, be negatively impacted. Large developments have potential to alter the environment, the basis of the traditional activities which provide subsistence, cash income, and a link to traditional lifestyles for many



individuals and communities. A healthy environment is also important for tourism, and commercial wildlife use, in communities in transition to wage economies. Both the federal and territorial governments have measures in place to alleviate such concerns by promoting an integrated approach to economic development, resource management, and environmental quality. One such measure is land use planning; another is environmental assessment of development proposals.

Government (federal, territorial, and local, including education and health) is the largest single employer in the N.W.T., accounting for some 40% of all jobs. These employees spend much of their income locally, as do northerners receiving Family Allowance, Unemployment Insurance, and other government transfer payments. Government purchasing and capital construction also help support local businesses. The stability of this base sector is important in an economy dominated by natural resource production, and the booms and busts of resource prices in international markets, which have been a problem, particularly in the western N.W.T., in recent years.

Despite the wealth of natural resources, economic growth and diversification is constrained by a number of drawbacks characteristically associated with isolated, frontier and immature markets: small and scattered populations with, at local levels, little managerial experience or access to capital. The very size of the N.W.T. and limitations of transportation contribute to the poor integration of business services and infrastructure, as does the transient nature of much non-renewable resource activity. Economic diversification has occurred largely in the tertiary businesses of the service sector, which are heavily dependent on government and large industry expenditures; in less developed communities, there has been some diversification in the renewable resource and tourism sectors.

#### DESCRIPTIVE SOCIO-ECONOMIC INFORMATION

As the discussion of economic duality has already suggested, the diverse regions of the N.W.T. are further stratified ethnically and culturally. In cases where there is no single dominant culture, statistics must be interpreted with particular care. Averaging data for a regional centre dependent on government, transportation, and retail activities, with data for a harvesting community, for example, can yield figures representative of neither, rather than both.

#### POPULATION

The birth rate remains high, about twice the Canadian average, but after 30 years of steady growth, total population declined slightly in 1987, as outmigration due to job closures (oil and



gas downturn, closure of Pine Point and Tungsten mines, and closure of Inuvik DND base) exceeded growth. It was not until 1989 that population rebounded past 1986 levels, to 53,000.

Of this population, 35% is Inuit or Inuvialuit; 16% Dene; 7% Metis; and 42% of non-aboriginal ancestry, making the N.W.T. the only jurisdiction in Canada where aboriginal people constitute a majority. Ethnic distribution is uneven. Inuit make up an overwhelming majority of the population of the eastern and central N.W.T., while the west is more mixed, with a narrow non-aboriginal majority.

The population is small relative to the land area, and as in the rest of Canada, is becoming more concentrated in a few urban centres. Although there are 61 communities, almost half of the population lives in the 5 largest: Yellowknife, Iqaluit, Hay River, Inuvik, and Ft. Smith, each with more than 2,000 inhabitants. The concentration of population around Great Slave Lake, which includes 3 of these centres, creates local market opportunities unknown in the small and/or remote communities of the central and eastern N.W.T. Urbanization is particularly strong in the non-aboriginal population, which is heavily concentrated in the five largest communities. Seventy-five per cent of the aboriginal people live in smaller communities.

The N.W.T. population is young. This is both a consequence and a cause of the high birth rate. Only 3% of the population is over 65 years of age. One-third is under 15. This is in marked contrast to southern Canada, where there are insufficient young people to replace the aging "baby-boomers" when the latter begin to retire. These children, if they acquire productive skills, will be an increasingly valuable resource for the N.W.T. in years to come.

#### EDUCATION AND TRAINING

There are serious deficiencies in education and training among the N.W.T.'s aboriginal majority, while non-aboriginal adults have more education than the Canadian average. This disparity has arisen because employers must frequently "import" skilled and professional workers from southern Canada, when local job-seekers lack requisite training. The 1986 census found that only 17% of N.W.T. aboriginal people 15 or older have any post-secondary education. The majority lack even Grade 9, in an industrial society where a minimum of Grade 10 is usually necessary to enter skills training such as apprenticeships. Concern is compounded by a general perception that fewer young people are acquiring traditional northern skills, leaving them unequipped to support themselves in either economy.

Northerners recognize the need for education. The Ft. Smith and Iqaluit campuses of Arctic College, noted in the Circumstances of the 1987 EDA, have been supplemented by a third, at Inuvik. There is demand for adult upgrading, and average skill levels



have been steadily rising, despite language barriers faced by many of the aboriginal people. However, given the size of the gaps to be covered, the labour force will still have limited professional and technical skills over the life of this Agreement.

#### LABOUR FORCE

Due to the large proportion of children, the 65% of the N.W.T. population of working age, 15 to 64 years, is slightly lower than the Canadian average of 68%. The N.W.T. labour force survey in February 1989 found 70% of people 15 and over were employed or actively seeking work, a high participation rate which can be attributed to there being few people of retirement age, as well as movement out of a traditional sector devastated by the loss of sealskin markets. Even more, 76%, had worked at some time during 1988, illustrating the greater availability of seasonal jobs during summer, and the "discouraged worker" response of forgoing job-hunting at times when jobs are unavailable.

The proportion of the labour force involved in manufacturing is very low by Canadian standards. In contrast, involvement in government services and in mining and oil and gas is well above the Canadian norm. The greatest difference in industrial patterns for aboriginal and non-aboriginal northerners is the former's higher involvement in renewable resource production.

Unemployment has persistently exceeded the national average. This is not due to stagnation. The 1989 labour force survey revealed the total number of N.W.T. jobs had grown by about 2,500, or 14%, since the previous survey, four years earlier. Yet this expansion had brought only a marginal decline in the unemployment rate, from 17% to 16%, still well above the national average of 8%. New entrants to the labour force from the youth population and from the traditional sector had kept pace with job creation. For similar reasons, although employment had grown more rapidly for every aboriginal group than for non-aboriginals, disparity was still wide. Unemployment in February 1989 was 5% among non-aboriginals; 30% among aboriginal people.

Mobility tends to be high among non-aboriginal residents. Many have migrated to the N.W.T. for specific jobs, and leave fairly readily if work disappears. This is one reason for their low representation among the N.W.T. unemployed. Aboriginal northerners more often have strong family and cultural ties to a particular location.

There will continue to be large annual increments to the N.W.T. labour force, chiefly from natural increase in the number of young aboriginal people. A growing unemployment problem among this group can be expected unless there is not only a high rate of job creation, but also a better match between the jobs and the capabilities and locations of resident job-seekers.



## INCOME

N.W.T. average census family incomes of \$40,000 (1985) are close to the Canadian average of \$38,000. However, the high proportion of dependent children gives per capita income below the national figure, and because of high living costs in many parts of the N.W.T., purchasing power is not comparable to Canadian averages.

Most income is from wages and salaries, with proportions of both investment income and government transfer payments below the Canadian average. Non-aboriginals, having higher employment rates and more skilled jobs, average higher family incomes than aboriginals in all parts of the N.W.T. There are also regional variations, with average census family income persistently highest in the area around Great Slave Lake, and lowest in the Kitikmeot and Keewatin.

In addition to the above monetary income, GNWT estimates that subsistence harvest of renewable resources for food, clothing, and heat yields "in kind" values totalling \$54 million per year.

## SECTORAL SUMMARIES

### GOVERNMENT

Government is the sector responsible for the most local employment and purchasing in the N.W.T. During the life of this Agreement, government is expected to continue providing an important source of economic stability. It is not expected to expand significantly in absolute terms, although it varies as a proportion of the economy according to expansion and contraction of private sector activity. North American Air Defence Modernization, a major construction program which stimulated the economies of many communities during the previous EDA, will peak during the first year of the current Agreement, and be completed during the second year.

### NON-RENEWABLE RESOURCES

As discussed in the overview, non-renewable resource development is one of the most important base sectors of the N.W.T. economy, although once into the development stage it is highly capital-intensive. There is low direct employment at producing sites, relative to expenditures on equipment and supplies from southern sources, and many of the jobs require technical skills uncommon in the aboriginal labour force. Also, many aboriginal people are reluctant to leave their communities for multi-week shifts, or relocation near the development site. However, industry cash flows are so large that even a relatively modest share of them can dramatically affect local economies.

Each site is, in time, exhausted, so a healthy long-term industry



requires continuing exploration and development. Reduced exploration, the 1990 N.W.T. situation in both mining and oil and gas, signal both immediate job loss and long-term concern.

### Mining

The N.W.T. produces 23% of Canada's zinc, 20% of its lead, and 9% of its gold. With seven mines currently operating and several properties in the feasibility or environmental review stages, the N.W.T. mining industry is and can continue to be a major contributor to the territorial economy.

Exploration activity in the N.W.T. peaked in 1988. The N.W.T. Chamber of Mines annual survey indicated \$112.6 million had been spent that year. The figure dropped to \$55.5 million in 1989, and the Chamber projects that 1990 will show a further decline. Changes to national incentive programs for exploration work are cited as a major cause, combined with withdrawal of substantial areas of the western N.W.T. from staking, pending settlement of land claims.

The total value of minerals produced in the N.W.T. in 1988 was estimated at \$754 million. This represented 25% of the gross territorial product (GTP) or 80% of the non-government GTP.

Some 2,000 people are employed in operating mines, earning an annual payroll of \$100 million. 1,350 of these jobs are held by N.W.T. residents, the balance commuting by air from southern homes. Mining is commonly regarded as the leading private-sector employer; although the travel industry provides more jobs, many are seasonal.

The industry is estimated to support an additional 3,000 jobs indirectly. A study found that of the \$143 million spent on goods and services in 1986, \$54 million were sourced in the N.W.T. There is potential to increase this significantly, since many needs currently met from the south could be supplied by northern businesses.

Most N.W.T. mines concentrate on gold, since its high value to weight ratio offers the best prospects for viable mines at sites remote from refineries and markets. However, in areas adjacent to the extensive coastline, marine transportation can make base metal production feasible. The lead/zinc operations at Nanisivik and Polaris are among the lowest cost producers in Canada.

N.W.T. mining expanded rapidly in the 1970s and early 1980s. Since 1985, however, the territory's share of Canadian mineral production has remained essentially constant around 5.5%. There was concern that basic support to the industry was far behind provincial standards. For example, only about 40% of the N.W.T. is now covered by geologic mapping at the scale of 1:250,000 (compared to an average of 80% in the provinces), and less than 2% has been mapped at 1:50,000 (35% in the provinces).



The 1987 EDA was the first one in the N.W.T. to provide programming specifically targeted at the mining sector. Three programs were established under the Mineral Development Subsidiary Agreement:

Under the Geoscience Program, government carried out regional geological mapping and detailed studies of significant mineral deposits. This effort to bring the information data base closer to provincial standards was warmly received by the industry. Even in the early years of the program, there were companies which indicated the data produced had influenced their exploration plans.

The Northern Technology Assistance Program provided funding assistance to the private sector for the development or adaptation of technology for exploration, mining, and mineral processing. A 1990 program evaluation noted that successful projects in mining and processing show potential for application at other N.W.T. and Canadian minesites.

The third program supported information activities to promote greater awareness and understanding of the economic importance of the N.W.T. mining industry, and encourage participation of northerners in the industry.

#### Oil and Gas

Unlike the N.W.T. mining industry, which is in the production phase, when investments on exploration and development of a new area are recovered and profits eventually earned, the hydrocarbon industry as a whole is still in the exploration cycle.

Although both oil and gas are produced, and production increased dramatically during the 1980s, annual output is still in the \$200 million range. Production facilities provide about 250 jobs, and need about \$25 million annually in goods and services. Exploration is more important to the N.W.T. economy. Even in the present slump, it provided 2,100 seasonal jobs in 1989, many of them filled locally, and sourced \$25-30 million of its \$257 million purchases from the north.

Large hydrocarbon reserves have been identified in the Beaufort Sea and the adjacent Mackenzie Delta. A recent National Energy Board decision has allowed a consortium of major companies to seek contracts in the United States for gas from this source. Development will follow. Projections are for a \$6 billion pipeline, \$4 billion of which will lie north of 60°, and \$5 billion investment in field development. It is unlikely any of this work, with the possible exception of preliminaries such as surveys, will commence within the life of this Agreement.

Once construction is complete, large-scale production will commence, with an estimated increment of 650 direct full-time



jobs, and \$75 million in annual O&M needs. As in mining, exploration and development will continue as well.

## RENEWABLE RESOURCES

Until this century, renewable resources dominated the economy of what is now the N.W.T. In addition to subsistence harvest of various species, there has been a 300-year history of fur production for international markets. Northerners' proven ability to undertake simultaneously, without adverse environmental consequences, both commercial and subsistence harvesting, can provide a model for sustainable development of other renewable resources.

Harvesting is still an important source of food, fuel, and cash income for many northerners, particularly aboriginal people. In addition, guided hunting and fishing is an important part of the tourist industry. However, there are substantial unused sustainable yields of timber, wildlife, and fish.

Programming to promote economic development of renewable resources was established under the 1979 General Development Agreement (GDA). A number of stock assessments and feasibility studies were carried out, which indicated potential to expand the sector. Subsequently, the 1982 EDA's Natural Resource Development Subsidiary Agreement identified a variety of commercial development opportunities. The Renewable Resource Development Subsidiary Agreement established pursuant to the 1987 EDA provided programming for product development and test marketing, and for renewable resource business development. Although fewer opportunities than projected reached the business stage, an evaluation in 1990 concluded programming had been successful in promoting development of the sector.

Forests cover most of the Mackenzie drainage in the western N.W.T. 23% of this is considered "productive" forest land, which would support an annual allowable cut of 25 million board feet of lumber per year. Most of this potential is unused, production never having exceeded 5 Mbf. Areas unsuitable for lumber could produce greater amounts of cordwood for local heating than are presently harvested.

Potential for conventional agriculture lies within the forested area of the west. The Great Slave Lake area and Liard Valley have good capabilities for animal husbandry and market gardens. Game ranching and greenhouse food production are feasible both here and in other areas with sufficient access to markets. Commercial hunts or other organized harvesting is a potential use for surplus quotas on certain musk-ox and caribou herds.

The N.W.T. accounts for 10% of Canada's wild fur harvest. Historically, trapper's sales to outside markets have provided much of the cash income aboriginal people need to purchase goods they cannot produce themselves. The N.W.T. fur industry was hard



hit by the collapse of the market in 1982 and again by the European Economic Community's sealskin ban. In many small communities, particularly in the eastern Arctic, hunters have been cut off from subsistence harvesting by inability to buy equipment and supplies. Fur farming, which is more acceptable to the European market, now provides half of Canada's fur production. Developmental N.W.T. work in this industry was carried out under the first two EDAs.

There is a long-established commercial fishery on Great Slave Lake. High-value species such as Arctic char, which can cover transportation costs, can be harvested at sites more remote from markets. Potential fisheries were investigated under the first two EDAs. Turbot and scallops are two marine species which present possibilities for harvest for N.W.T. consumption or for sale in other markets.

#### ARTS AND CRAFTS

Several thousand N.W.T. residents, the majority of them aboriginal people over the age of 45, derive income from producing arts or crafts for sale. Some are internationally-known artists whose work commands high prices, but for most this activity supplements income from other sources, as well as providing an active link with cultural traditions. Annual sales are approximately \$22.5 million. While this is small compared to value of product in sectors such as mining, a comparatively high proportion of the figure represents payments to artists and artisans. This income can be particularly significant to individuals who lack industrial skills, or reside in communities where there are few employment opportunities.

Carvings dominate production. Besides sculpture, other fine art products include drawings and paintings, silkscreen prints, and wall hangings and tapestries. Other carvings, and craft products such as beading, are suited to gift and souvenir markets. Northern design or artwork may also be incorporated in industrial products for these markets. There appears to be significant potential for expansion in gifts and souvenirs, but since these will derive much of their cachet from association with Inuit and Dene fine art, demand will depend, in part, on continuing strength in fine arts.

Maintaining quality, and profile in fine art markets, are priorities. Other concerns include diversifying output, developing skills and interest among young people, ensuring access to raw materials, ensuring those with little cash income can obtain necessary tools, and providing workplaces for people who find it difficult or dangerous to work in crowded homes.

There also appears to be potential for commercial development of other cultural industries. Markets for performing arts, such as song and theatre, have yet to be explored.



Arts and crafts received some assistance under the Natural Resource Development Subsidiary Agreement of the first N.W.T. EDA. In the 1987 EDA, need was recognized for a distinct Arts and Crafts Subsidiary Agreement, which provided programming for materials supply, prototype development, market development, artist and artisan development, and management development.

A 1990 evaluation of the Subsidiary Agreement found indication that at least ten Inuit art exhibits held in the United States would not have taken place in the absence of EDA dealer support funding. Production workshops had succeeded in attracting new producers, improving technical and artistic quality of output, and developing and diversifying products. Raw material revolving funds had been successful, at least to that time, in improving low-cost availability of materials in several communities, in some cases prompting inactive producers to resume activity. Management development had been less successful, which the evaluator attributed to insufficient attention to targeting.

#### TOURISM

The travel industry provides about one-third of the jobs in the N.W.T. service sector. Industry expenditures in the N.W.T. in 1988 were about \$145 million. The non-resident pleasure travel (tourism) component of this industry is a growing one, which is tied closely to the natural resources and the cultural heritage of the N.W.T. It offers great economic potential for communities right across the N.W.T.

During the past decade, planning in the tourism industry has paid off in the development of new attractions, facilities, and skills. Northern ownership of tourism services and businesses has expanded. The number of visitors has increased. From 1979 to 1988, spending by tourists rose 179%, to \$31.4 million.

The 1979 GDA provided programming to assist tourism development, as did succeeding EDAs. Based on past success, tourism received the most funding among the industries assisted under the 1987 EDA. Nonetheless, much potential remains.

#### SMALL BUSINESS

While definitions of a small business may vary, it in general has more sales volume and more formal structure than the activities of a self-employed individual such as a trapper or craftworker. Due to limited market size, entrepreneurial experience, and availability of capital, small business is a realistic scale for many N.W.T. entrepreneurial ventures. Despite the modest size of individual firms, their number means that small business is in aggregate a major source of employment, in the N.W.T. as elsewhere in Canada.

Many service businesses fall in this category. This includes



both personal services, such as beauty salons and dental offices, and business services, such as legal and cleaning firms. Some retail outlets are also in this size range. These businesses share the characteristic that they depend on customers provided by the base sectors described above. But small businesses also share other problems which may impede development even when strong, growing base sectors provide ample opportunities. These include lack of management skills among potential entrepreneurs, high cost of commercial space, and lack of technical resources.

## POLICY SETTING

### GOVERNMENT OF THE NORTHWEST TERRITORIES

In 1990, the N.W.T. Legislative Assembly approved a sweeping economic strategy developed by the territorial government (GNWT): *Economy in Transition: an Agenda for Action*. The title was chosen to emphasize that while past measures to assist the dual economies had often treated them as discrete, special attention to the interdependencies would be needed to smooth the transition from a predominantly land-based economy to one based on wages and markets.

#### GNWT Policy

The Government of the N.W.T. is committed to maintaining the job potential of urban centres, and to providing rural residents with the skills needed to take these jobs, but will not try to force people to move into urban centres. It will continue to encourage outside investment, through provision of services, incentives, and a stable business climate. It will encourage economic diversification beyond the non-renewable resource sectors, with particular emphasis on development which will take advantage of residents' existing skills and abilities.

#### Strategic Goals for the Next Ten Years

- o Reduce employment and income disparities between and within communities and regions;
- o Generate new wealth as a result of economic growth and diversification; and
- o Ensure that N.W.T. residents receive a greater share of the benefits of economic development in the N.W.T.

#### GNWT Strategic Framework

While the private sector is the government's preferred option for development, GNWT is prepared to take a leadership role where



necessary to bridge the gap between the two economies, particularly in provision of physical and service infrastructure, and creation of employment opportunities suited to residents of the smaller communities. Development is to be fostered in ways which are acceptable to community values. An important principle is the need for involvement and commitment of all N.W.T. residents, communities, and groups.

The main elements of the GNWT framework are:

- o Adapting assistance to the needs of individual communities, with concentration on the least developed communities.
- o Building on available human and natural resources.
- o NWT production of more of the goods and services used by northerners.
- o Northern control of northern natural resources.
- o Balance of environmental and development concerns. GNWT is formulating a Sustainable Development Policy which will recognize the need to use resources and environment in ways that do not limit opportunities for their use by future generations.
- o Limited tax burden on individuals and corporations, to maintain incentives to work and do business in the N.W.T.

#### GNWT Strategy

1. Preparing N.W.T. residents for wage employment, with new emphasis on labour market planning; adult education and upgrading through flexible programs designed for community conditions; and employment support programs. Specifics are addressed through the Department of Education's Employment Development Strategy and Arctic College's 1990-95 plan.
2. Increasing employment and income opportunities in the less developed communities through business development. This is dealt with by the Department of Economic Development and Tourism's (ED&T) 5-year strategy: *Building on Strengths: A Community Based Approach to Economic Development*, which has four elements:
  - o Targeting communities to stimulate economic development in the less-developed communities, while maintaining support for urban economies.
  - o Building on community strengths by making the most of the natural and human resources which exist now. In medium-sized and urban communities, this means ensuring long term sustainable jobs. In small, traditional communities, focus is on creating jobs which can