

Table 10.6
FINANCIAL RESULTS OF THE SOUTHAMPTON ISLAND MEAT COMPANY
FROM 1999 TO 2002

<i>Financial Results</i>	1999	2000	2001	2002*
Sales	\$213,128	\$303,985	\$525,209	\$561,000
Expenses:				
<i>Accounting and legal</i>	5,105	4,161	4,774	4,500
<i>Administration fees</i>	11,000	22,826	29,721	28,000
<i>Amortization</i>	0	0	300	0
<i>Bad debts</i>	100	0	0	0
<i>Camp mobilization/ demobilization</i>	19,329	600	0	1,000
<i>Consulting</i>	11,000	14,700	0	15,000
<i>Food</i>	105,369	142,529	176,435	160,000
<i>Freight</i>	1,860	5,966	5,395	6,000
<i>Fuel</i>	2,418	9,949	20,709	20,000
<i>Inspections and permits</i>	250	1,100	12,996	10,000
<i>Interest and bank charges</i>	928	1,124	499	1,200
<i>Materials, equipment and supplies</i>	8,822	4,948	4,516	6,000
<i>Repairs and maintenance</i>	0	0	3,783	12,000
<i>Telephone</i>	835	2,382	2,461	3,000
<i>Vehicle</i>	11,321	1,676	668	2,000
<i>Wages and Benefits</i>	48,304	186,906	288,724	290,000
Total expenses	226,641	398,867	550,981	558,700
Net income or (loss)	(13,513)	(94,882)	(25,772)	2,300
Other income				
<i>Government funding</i>	0	103,700	75,000	75,000
Net income or (loss) before taxes	(13,513)	8,818	49,228	77,300
Income tax	0	0	8,076	13,141
Net income or (loss) after taxes	(\$13,513)	\$8,818	\$41,152	\$64,159

Source: Financial statements of Southampton Island Meat Company.

*Final audited results could not be obtained for this year. These figures are pro forma and based on third party inquiry.

1999, we may get a more accurate evaluation if we treat 1999 as an aberration and instead average the number of animals harvested over the other three years of operation – 2000, 2001, and 2002. In this case, we find an improved average of 3,200 animals harvested per year. While this number is encouraging, it should be borne in mind that a similar or different circumstance such as bad or unpredicted weather could arise in the future and once again throw the harvest statistics off course. So, in terms of analyzing the success of the harvest as a herd management technique, it would be imprudent to count on the higher average. Thus, the lesson to be learned from both this experience and those previous is that current herd management practices will only rarely meet the *TAH* of six thousand. The reality, then, is that while the caribou harvest was managed as a private operation the herd continued to move steadily, though less quickly than under the Aiviit Corporation, toward a population crash.

In terms of job creation, the same crew of approximately thirty-five part-time workers was required to operate the hunt. If more caribou were harvested this crew worked longer and earned more money. The employment of four person-years noted previously continued to apply here, give or take 20 per cent. What is noteworthy, however, is that the average annual subsidy declined to \$16,000 under the Southampton Meat Company. This was considerably less than had been required during the first four years. When the lower subsidy was taken into account the harvest looked more productive in terms of job creation. Discussions with Department of Sustainable Development staff indicated that subsidies at the level of \$75,000 would continue in order to allow departmental influence on herd management. A more important element of the private sector experience was that the streamlined carcasses were being processed in Rankin Inlet through Keewatin Meat and Fish. Thus fourteen full-time jobs were being created in another Nunavut community. Under Tunniq Harvest these jobs had been transferred south.

MANAGING THE CARIBOU HARVEST 2003 COMMUNITY DEVELOPMENT CORPORATION (CDC)

The contract for the Southampton Island caribou harvest is let by the Aiviit HTO in two-year increments. As described earlier, the first two increments of the contract had been let to the Aiviit HTO's wholly owned subsidiary. In 1998 the harvest was privatized and let to the Southampton Island Meat Company for two more increments. In 2002 the HTO compiled new terms of reference for the harvest. Under the new terms of reference the evaluation process for contract bids put greater emphasis on protecting the environment, and in particular, remediation of the abattoir site. Southampton Meat Company chose not to bid. The Coral Harbour Community Development Corporation (CHCDC) did place a bid, and was awarded the tender for the two-year period ending 30 April 2004.

The CHCDC was incorporated in June 2001 for the purpose of engaging in enterprise within the community, nurturing businesses to viability and then

divesting them to the private sector. It was incorporated under the Canada Business Corporations Act as a corporation without share capital. The venue of legal construct is not dissimilar from a society in that the votaries of the organizations are members and do not own shares, as would be the case in a corporation with share capital. Hence there is a one-member, one-vote effect. Anyone who is of age, shares and supports the objectives of the corporation, and is also a resident of the Hamlet of Coral Harbour, may apply for membership to the corporation. Membership is subject to the approval of the Board of Directors. Membership of the Board of Directors is largely based on ex officio appointments from community organizations such as the HTO, the District Education Authority, the Hamlet Council, and the Tourism Association, together with three elected members-at-large. The board was structured in this manner to guard against stacking the board with special interest groups that may not be at one with the corporation's objectives.

The 2003 harvest was the most successful to date in meeting its primary goal of herd management. At conclusion of its first year of operation it had exceeded the performance of all previous harvests by harvesting over 5,000 animals. It also set a half-day record of 120 animals harvested and a full day record of 226 animals harvested. Most importantly, the ratio of female to male animals taken improved dramatically, with 60 per cent of the harvested animals being female. In the previous year the number of females taken had been only 25 per cent. Disturbance to the environment was minimized as well, since the CHCDC did not have to move the camp to achieve this level of harvest. The stock of immediately available caribou seemed not to be disturbed by six weeks of hunting effort.

The CHCDC used the same meat processing plant that had been used by its predecessor. To allow for ease of administration rather than increased capacity, Kivalliq Arctic Foods (KAF) (formerly Keewatin Meat & Fish Plant) marginally increased its processing capacity. KAF also began to explore new markets so that the company would have a buffer should one of its existing markets collapse. It made initial forays into the European Union once it received its EU certification. While the EU offers the potential for a long-term export market, the KAF recognized that serious challenges existed in attempting to enter that market. Europe is a well established competitive venue for game meats. Scandinavian countries supply reindeer, for example, and New Zealand is a source of red deer. Nonetheless, the product of both these competitors stems from game ranching, which may be disadvantageous relative to free-range Southampton caribou. The caribou have not received hormones or other growth enhancers, they have not been injected with antibiotics or been genetically modified. In a marketplace fed on fears – founded or unfounded – most of the foregoing qualities could increase the appeal of Southampton caribou and the willingness to pay a premium for it. Despite the logic inherent in this analysis, the unexpected can and will occur. In the case of the 2003 harvest, KAF was able to buy the entire product only to find its own marketing stymied by a Mad Cow scare in an unrelated market. It is uncertain early in 2004 what the outcome will be for KAF.



Product ready for shipping. Photo by Department of Economic Development and Transportation, Government of Nunavut.

Reproduced in Table 10.7 below are the CHCDC's interim financial results as of the end of 30 April 2003. These financial statements have yet to be audited, but any changes that may come about as a result of an audit are not likely to change significantly the conclusion as to this year's success or failure. The level of operating subsidy remained the same as in previous years at \$75,000. However, given the level of the operating loss, an additional subsidy of \$60,000 was negotiated with the Government of Nunavut to allow for the harvest demobilization and clean up. A new capital subsidy of \$338,000 was introduced to allow for recapitalization in 2003. Such a capital subsidy had not previously been required. When the harvest was first proposed it had been projected that the harvest would be at least marginally profitable and in this way provide for its own capital replacement needs in the future. Unfortunately this did not turn out to be the case, and so the need for a continuing capital subsidy will have to be revisited.

General Analysis and Assessment

Evaluating the CHCDC's performance relative to that of the two earlier operators, and relative to the objectives of the harvest, is not a simple task. Regarding herd management, it is clear that the CHCDC substantially out-performed both the HTO's Corporation and the private sector agency. Not only were the overall harvest numbers up significantly, but the ratio of females to males was dramatically increased.

INTERIM FINANCIAL RESULTS OF THE
CORAL HARBOUR COMMUNITY DEVELOPMENT CORPORATION FOR 2003

Revenue:	
<i>Meat</i>	\$700,017
<i>Country food</i>	3,288
Total Revenue	703,305
Operating costs:	
<i>Ammunition</i>	17,168
<i>Casual labour</i>	585
<i>Food</i>	84,721
<i>Freight</i>	38,194
<i>Fuel</i>	72,057
<i>Inspections</i>	19,654
<i>Labour</i>	646,291
<i>Licences</i>	500
<i>Miscellaneous</i>	362
<i>Mobilization</i>	5,768
<i>Office expense</i>	214
<i>Overseer</i>	1,284
<i>Packaging</i>	23,675
<i>Propane</i>	863
<i>Rental</i>	84,720
<i>Repairs: Buildings</i>	2,002
<i>Repairs: Equipment</i>	5,985
<i>Small tools</i>	12,844
<i>Supplies</i>	24,805
<i>Telephone</i>	4,685
Total operating costs	1,046,378
<i>Net operating income</i>	<i>(343,073)</i>
<i>Subsidy</i>	135,000
Net income	(\$208,073)

Source: Financial statement of Coral Harbour Community Development.

From an economic development perspective, the CHCDC harvest was clearly the most successful of the three organizations. Gross sales were up substantially. Antlers, tail cartilages, and penises were put into storage to be sold to customers in the Far East pharmaceutical industry. If these can be sold as expected they will generate additional revenues of about \$100,000. CHCDC has initiated a pilot project to make use of the fur on the hides. It is hoped that this caribou felt project will make use of an otherwise discarded by-product. Hides at this time of year are not good for use in the leather industry because of the damage done by a caribou parasite, which has the effect of peppering the hide with holes. Employment rose from thirty-five to fifty-nine persons during the height of the harvest, and a felt project of the kind described would employ a substantial number of people on a more permanent basis.

Other obvious community benefits resulted under this organizational model. For example, harvest assets now belong to the community and are controlled by an organization with economic development as its purpose. The innovative and more efficient building techniques used by CHCDC when building housing for the crew will be applied elsewhere in the community. The CHCDC also took care to ensure that all parts of the animals were used. Carcasses that had been rejected by the inspectors for gut or shoulder shots, for example, were salvaged for local use when possible. Delicacies such as the tongues and tunniq were brought into the community for general distribution for the first time in the history of the herd harvest. No useable country foods were left on the land. Better land management practices included the daily removal of all harvest debris to the dump. When summer arrived it was buried. Previously this material had been left on the land. Finally, there has been a growth in understanding and participation. Former operators tended to withhold information from the community. The open and transparent structure of the CHCDC means more people know what is going on. As a result they can do their jobs better and are better able to step into the breach should there be staff shortfalls in critical areas.

Despite the innovations, the increase in gross profits and the many community benefits realized under the CHCDC's first year of operation, in terms of economic viability the CHCDC performance was a disappointment, showing a net loss of \$208,000. A number of factors contributed to the 2003 loss. The CHCDC assumed that the previous operator would leave the basic infrastructure and some supplies. Instead, these were removed and the CHCDC incurred unexpected start-up costs and delays, including last-minute construction of new facilities to house and feed the crew. Since they did not find out that they would receive nothing from the previous harvester until after the time of year when supplies could have been transported by ship, they had to rely on air transport, and so incurred extraordinary air freight costs. CHCDC operations were further hampered by the lack of adequate mobilization equipment such as bulldozers and Bombardiers. The bulldozers, Bombardiers, snow machines, generators, generator engines, and abattoir equipment they did have broke down frequently. Operations were further constrained by management inexperience in running

a commercial abattoir and harvest on the land, and new Canada Food Inspection Agency (CFIA) regulations and requirements added to considerably to the operator's workload. Finally, though concentrating the harvest on females was desirable from a herd management perspective, it led to an increased payroll burden since females yield significantly less meat per carcass. To survive in the longer run the CHCDC will need to produce a higher net profit. The CHCDC harvest suggests that the corporation has both a capable workforce and a viable product. The question is how to make it profitable. Strategies leading to a more profitable outcome have emerged through discussions with harvest staff and others involved.

The CHCDC's second year of operations should demonstrate a better financial return. It will not be necessary to re-capitalize the harvest infrastructure in 2004. The company now has the gear it needs to conduct the harvest and will not have to engage in an expensive scramble at the last moment to ready operations. Air freight costs will be dramatically reduced as substantial pre-planning was able to be done for the coming harvest. A small crew was maintained to the end of July 2003 to ensure that the harvest infrastructure would be ready for the 2004 harvest and equipment breakdowns should be minimized in 2004. Overall, the expertise gained from the 2003 harvest should result in more efficient operations. The CHCDC has complied with the new CFIA guidelines, and the CFIA has signed off on the harvest plan. This time-consuming activity will not be repeated in 2004. Finally, the wage structure will be changed to a per pound basis rather than the current per head basis to offset the decline in the average carcass weight due to concentrating the harvest on females. In 2003 the remuneration rate for line workers was \$1.60 per head. When changed to a per pound basis the rate will translate into 2.5 cents per pound. This will equate to a reduction in wages of approximately 17 per cent. This reduction in wages will likely be accepted by harvest staff, albeit grudgingly.

Transportation will remain a problem in for the CHCDC. The product will continue to have to be transported across the land via Cat train. Once it reaches Coral Harbour it has to be transported via air to Rankin Inlet for final processing. Both modes of transport are very expensive when compared to the costs of moving freight in the South.

CONCLUDING OBSERVATIONS

The initial reason for establishing a caribou harvest was not one of economic development but rather wildlife management. The Southampton Island caribou herd was growing so quickly that left unchecked the herd was expected to collapse as food sources were exhausted. Since this was a herd which supplied much of the country food for the people of Coral Harbour, there was some urgency to see the herd managed, particularly given the history of the extinction of the former herd in the 1950s. Culling the herd, while at the same time providing some economic benefit via a commercial harvest, appeared to be a viable solution. This chapter describes the three organizational models which

have been used to manage the Southampton caribou harvest, and evaluates the outcomes against two major criteria: herd management and economic development for the broader community.

The project has passed through two organizational frameworks and entered a third. The first included a wholly owned corporation of the local Hunters and Trappers Organization and subsequently an additional four years with a private corporation. The project is now in its third operational structure – a community development corporation model. The experience gained has allowed us a clear view of relative performance. In terms of bottom-line efficacy, the private operator substantially outperformed the HTO Corporation and the CDC. Initially this might suggest that a private operator is the management model of choice for this enterprise. However, it should be remembered that the first objective of the HTO was herd management. Further, the *raison d'être* for any Nunavut HTO is not making profit but rather wildlife management. That said, it might have been predicted that HTO and community efforts at managing the enterprise for profit would pale against those of an organization whose focus is profitability.

The community development corporation structure has a humanistic orientation which has a focus on profit but for the broader good. This broader *raison d'être* is more consistent with the values of the Aboriginal people in the local communities. The anticipated broader distribution of net profits in the community by way of reinvestment in other enterprises, and not via profit sharing, will likely generate more local economic activity than if the profits had gone to shareholders of a private corporation. In this latter case one might have expected the money to be spent on imported goods, new snow machines, and trucks.

Given the tenuous nature of the caribou herd discussed in this chapter, it is incumbent upon those that exploit them to do so in such a way that they will continue to be available for future generations. The Southampton Meat Company had profit as its goal. The CHCDC adopted what can be described as a humanistic approach, using profits from the harvest to improve community well-being (Johnstone 1998). The experience highlighted in this chapter suggests that the Hamlet of Coral Harbour is better off with the broadly based humanistic model of a community development corporation. Not surprisingly, then, and in keeping with the Aboriginal cultural backdrop of sharing, honing traditional skills and knowledge, and working collaboratively, a communal approach to organizing this commercial harvest of country foods has been most acceptable to the community of Coral Harbour.

This case study has demonstrated that the choice of organizational model and its goals and orientation are important considerations in creating a development model for the North. This finding is consistent with results of The World Economic and Social Survey conducted by the United Nations and published in 2000. The survey reports that "institutions, including the political system, are crucial in influencing who appropriates an economic surplus and how it is spent. For example, a more equal distribution of ... income ... results in a larger

snare of income gains being received by peasants. This reduces capital flight and the import of luxury goods and has a positive effect on the private expenditures on education and on the demand for locally produced goods and services, thus stimulating development" (United Nations 2000, 124).

The Southampton Island caribou harvest experience has been successful from a herd management perspective, and despite the lack of profitability, the most recent harvest suggests a turn for the better in this regard. As well, the harvest has had indirect economic benefits, as it has provided from thirty-five to fifty-nine part-time jobs in Coral Harbour and fourteen full-time jobs in Rankin Inlet. The harvest builds on existing community strengths by using local resources to replace imports and to enhance the export of these resources.

In conclusion, then, it is likely that the community development corporation will not perform as well as the private operator in terms of profitability. Wages are likely to be somewhat more generous, and environmental issues will be dealt with more responsibly. There will be a greater reliance on local personnel, goods, and services than might otherwise occur. These behaviours will reduce short-term profitability. Nonetheless the long-term viability of this operation and its indirect effects is likely to be enhanced. The community development model will remain viable and have greater positive long-run impacts on the community than either the HTO corporation or the private corporation model.

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NOTES

- 1 The numbers provided in this table represent the total number of animals that could be killed. During each harvest some of the animals harvested would be rejected for a variety of reasons including gut/shoulder shots and diseases. The number of carcasses rejected ranged from 2 per cent to 6 per cent, but averaged close to 3 per cent.