



**Diamonds are
forever
Our mines are not**



**Recommendations to improve
and sustain the diamond
mining industry**

November 29, 2007

Acknowledgements

A report by Dennis Bevington, Member of Parliament, Western Arctic

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Alternatives North

Former and current mine employees (Both company-employed and contracted)

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A Statement from Member of Parliament Dennis Bevington

This project began seven months ago, in May 2007. Faced with numerous issues brought forward by constituents involved in the diamond mining industry, and recognizing the importance of this billion-dollar industry to the Northern economy, I decided it was time to take a close look at how it had evolved over the past 10 years.

Diamonds are a hot commodity which provide excellent earning potential for Northern workers. Faced with isolation and brutally high living costs, the income opportunities and economic benefits provided from two fully operational mines — and a third mine soon commencing production — means that the NWT could reap substantial economic benefits.

But in order for that to happen, the people of the Northwest Territories **MUST** have control over the direction of the mining industry. These diamonds belong to each and every one of us, and we must ensure that extraction of this resource is done in such a manner as to ensure long-term sustainability, economic security, and the creation of a Northern skilled workforce.

This is in no way an attempt to single out the companies developing and extracting the resource. It is an effort to reach out and encourage a working partnership between the GNWT, the federal government, the corporations, training facilitators, and the people of the Northwest Territories. The end goal is to develop a long-term sustainable industry for the benefit of all Northerners.

I look forward to hearing comments on this report and its recommendations.

Sincerely,

Dennis Bevington, MP
Western Arctic

Part I – The Industry, then and now

Much has changed since the opening of the Ekati Diamond Mine in October 1998. Although diamond-bearing kimberlite pipes had been discovered, there were no firm confirmations of the magnitude of the riches to be found beneath the permafrost. At the time, the labour market in the Northwest Territories was slow and plenty of skilled trades people were available to start up the industry. The NWT desperately needed development to get its economy out of a protracted slump. The mines were welcomed and not many conditions were put in the way of rapid development.



Diavik diamond mine, June 2007

In 2007, the Western Canadian economy is soaring, the Alberta oil and gas industry is extremely profitable, and competition is fierce for recruiting and retaining skilled workers. Energy costs have tripled from 1996, resulting in higher operating costs, and the capital costs of mine development are rising all across Canada. Factors such as deepening of the open pits and the transition to underground mining, decreased market prices and the strong Canadian dollar, and high taxes are challenges that have been reported by all three mining companies. Fossil fuel energy costs are escalating rapidly. Current projections by such conservative groups such as the International Energy Agency are for this trend to continue and worsen. Also, transportation issues arising from unpredictable and unreliable winter roads have intensified as a result of climate change and increased truckloads.

Currently we have two mines in production — Ekati and Diavik. The Northern economy has become highly dependant on the industry. In 2006, diamond mining contribution to the Northwest Territories Real Gross Domestic Product was approximately 50 per cent.

The mitigating factor for the two existing mines has been the incredible wealth of their high grade kimberlite pipes, and the timing of their start-up prior to many of these cost factors listed above. The DeBeers Snap Lake Project, which is scheduled to commence full production this year, has had to cope with these issues from the start of construction.

The mines are producing at high levels and in excess of their predicted tonnages. Production has been focused on the most profitable resources at both Ekati and Diavik. This has led to a situation where according to Ekati management, they are now contemplating how they can extend the mine life past the next five years of production running at \$160 per tonne, to a situation where they have 30 more years at \$70 per tonne. Although the unrestricted production will make the mines extremely busy over the next few years, there will certainly be troubles ahead.

Over the next few years, these three mines are expected to provide more than 2,000 new jobs. As an attempt to ensure that Northerners would obtain employment in the mining sector, the Government of the Northwest Territories signed Socio-Economic Monitoring Agreements (SEMA) with the mining companies.

These agreements set Northern employment targets that were originally intended to ensure that residents of the Northwest Territories get a big piece of the employment pie. However, these agreements are now proving to have some faults. The practice of using contracted labourers (being paid lower rates than permanent employees) to keep costs down and meet their Northern hiring quota is part of the picture. Todd Parsons, president of the Union of Northern Workers, which represents BHP employees at Ekati, says the SEMAs “have no teeth. They are not enforceable – that’s the problem. There are no penalties. Even the guarantee of employment is not great. It doesn’t guarantee skilled worker positions. Many of those positions are housecleaning, kitchen work.”

Another major economic obstacle currently facing the territory involves the high cost of living in the North. Although all three diamond mining companies offer incentives to Northern employees to keep them in the North, workers are being seduced by the economic benefits and big city dreams of living in the south. This is aggravated by company-funded or subsidized employee travel from pick-up points in Alberta to the mine sites. In order to ensure maximum Northern economic growth, we must find ways to keep Northerners at home, and make the territory more attractive to skilled southern trades people and their families. Without this achievement, we will continue to lose more than we are gaining from this profitable industry.

Business opportunities for Northern companies are extremely important to the creation of benefits for the Northern economy from the diamond mining industry. From transportation, trucking and aviation, to supply and service of materials and equipment, to specialized mining services, and the diamond cutting and polishing effort, the mines have had great impacts on the businesses of the North. As profitability scales back and their costs continue to rise, there may be difficulties ahead in many of these areas.

Employment and business opportunities constitute the major economic benefits that the North achieves from the exploitation of this limited natural resource. It is imperative that we understand and be prepared to deal with the changes in the industry over the next decade. We cannot rely on the promise of other resources such as oil and gas to take our focus completely away from the functioning of this major contributor to the Northern economy.

Part II - Northerners in the Diamond Mining Industry

Northern Residency vs. Southern Residency

Each of these three companies has its own definition of what classifies an employee or prospective employee as a "Northerner." Northern Aboriginal and Northern Non-Aboriginal hires take precedence over southern applicants, but the varying classifications between companies creates confusion.

Diavik, Debeers and BHP Billiton each provide incentives to existing Northern resident employees, and those who are willing to relocate to the Northwest Territories. These incentives include an increased base salary for NWT residents, remote mine site allowances, Cost of Living Allowances and relocation assistance to the NWT. In addition, Debeers provides a Home Purchase Incentive Program in the form of a forgivable loan for senior management to relocate to the North. Company policy also states that ALL Debeers senior managers must live in the North.

The Northern Residents Tax Deduction (NRTD) is an income tax deduction for residents of the Northwest Territories, Nunavut and the Yukon to help offset the higher cost of living. The deduction has not been increased since the federal government introduced it 20 years ago. Residents of Zone A, which includes the three territories, are entitled to a basic residency amount of \$7.50 per day, plus an additional amount of \$7.50 if they are the only person in a household claiming the deduction, as well as a travel deduction. Because this deduction is not indexed to the cost of living, the value to Northern residents has declined significantly.

In January 2006, when I was elected Member of Parliament, my election platform included a call to increase the NRTD by 50 per cent. Then in February 2006, the Legislative Assembly of the Northwest Territories passed a resolution asking the fed-

Hiring targets

as stated in Socio-economic Monitoring Agreements with the mining companies

Debeers

NWT Residency Employment Goals:

- At least 40 per cent of employees during construction will be NWT Residents
- At least 60 per cent of employees during operations will be NWT residents

Hiring Priorities:

- 1) Tlicho, Lutsel k'e and Kache Dene, North Slave Metis and Yellowknives Dene members
 - 2) Aboriginal people residing in the NWT
 - 3) NWT residents who have been continuously resident for at least six months
 - 4) All others residing in, or relocating to the NWT
- All others

Diavik

- SEMA Commitment to Employment: 60 percent Northern and 40 per cent Aboriginal

BHP Billiton

Employment Commitments:

- Northern Employment will equal at least 62 per cent of total BHP Billiton and contractor employment.
- Aboriginal Employment will equal at least 50 per cent of the Northern Resident Employment (31 per cent of total employment)

eral government to increase the NRTD and index it to the cost of living. In addition, at its 2006 annual meeting, the Canadian Chamber of Commerce voted in favour of having the residency portion of the NRTD increased. Yellowknife City Council and Inuvik Town Council also passed their own resolutions calling for a 50 per cent increase.

It's clear that there is an incredible amount of support for increasing the NRTD. Such an increase can assist the mining industry with retaining Northern resident employees and encouraging southern employees to relocate their families here.

The following issues relating to Northern vs. Southern classification have been brought to the fore over the past year:

- Mine employees who claim to be Northerners are using Northern home addresses to obtain the Northern incentives, but have a primary residence in southern Canada. In addition, the Northern home address allows access to NWT Medical Health Care Coverage, which has lower premiums compared to Alberta's health care system. This is putting pressure on our health care system, and contributes to higher costs to NWT taxpayers.
- Northern residents obtaining employment at the diamond mines are enticed by the opportunity to live in southern provinces, and take advantage of free or subsidized air transportation between Edmonton and the mine sites. This has resulted in relocations of Northern families to the south, and southern employees choose to stay in their hometowns rather than relocate to the North. Also, when employees are not living in the territory, the GNWT loses a federal per capita grant allotment — approximately \$20,000 per person — under the formula financing agreement.

Hiring Contractors

The opportunities for employment are of course not limited to simply working for the mining companies at the different sites. The mines contract out a great deal of their labour force requirement to various sub-contractors. Some are Northern businesses, and some are larger southern companies with Northern offices. There are many successful examples of Northern and Aboriginal companies taking on large components of the required construction and ongoing mining services. They are an important part of the Northern presence at the mines and have contributed significantly to the NWT economy. Where the contractors are providing highly-skilled labour and specialized services in trades or areas like underground mining, the situation is straightforward and the results are positive to a large degree.

Where this practise has been questioned, and where many individuals have approached our office with their concerns, is in the areas where contracting is providing jobs with lower formal skills. We have heard reports of contractors who provide camp services, but pay low wages and offer poor benefits packages. Although contracted Northern and Aboriginal employees applies towards a company's SEMA and IBA hiring

commitments, some of these jobs are neither providing stable healthy salaries for the high cost of northern living, nor opportunities for training and advancement. This situation may be satisfactory for young single workers, but those who have families to support can find themselves working at close to poverty level.

Other confidential reports to the Member of Parliament's Office have indicated that contracted employees working at mine sites for considerable periods of time have been passed over for permanent positions that become available with the company. These reports have been received from Aboriginal and Non-aboriginal life-long resident Northerners. While the mining companies have committed to hiring Northerners first, the SEMAs and IBAs, as stated in the introduction, are "unenforceable, out of date," and do not specify penalties for failure to meet the commitments.

There is a clear need to rationalize wages and benefits across the mining labour pool. The use of contractors cannot be discouraged, but the mining companies must take greater responsibility to ensure that all working conditions are compatible and reasonably equal across the labour force.

Apprenticeships and Training Opportunities

Apprenticeship opportunities are limited at some of the diamond mines. All three companies stated the obstacles in hiring Northerners (Aboriginal and Non-Aboriginal) for permanent positions include:

- A shortage of skilled workers in the North
- A competitive labour market in the NWT with other diamond mines

While all three companies are making efforts to train Northern employees, the number of apprenticeships working directly for the companies ranges from 10-25 per year. With an average of 250 skilled trades personnel at each operating mine site, that ratio is extremely low. A ratio of one apprentice for every skilled tradesperson employed at a mine site should be a goal to strive for.

Company representatives have stated that taking on apprentices is a costly move, but investing in training opportunities for Northerners can benefit the industry and the economy.



From left, Dennis Bevington and Mike Vaydik, President of the NWT and Nunavut Chamber of Mines, tour the Sandvik training workshop in Yellowknife with branch manager Nick Bourque.

Due to the shortage of skilled workers across Canada, training Northerners in the North will create a pool of highly trained workers who have family and cultural ties to the region. This in turn will provide the company with assurance that there is a lower chance of losing the employee to other mining projects in the south. An investment in an employee's professional development will create a sense of loyalty to the employer, which will result in a stable, long-term and dedicated labour force for the NWT diamond industry as a whole.

During the research and consultation stage for this project, other issues were identified that act as barriers for graduating high school students interested in entering the trades. Diavik, BHP Billiton, the Union of Northern Workers and the Mine Training Society confirmed that many students graduating from Grade 12 in the NWT are not passing the trades entrance exams. These sources stated the basic Math, Science and English skills are not up to par with national secondary school graduation requirements. This gap in our territorial education system is an issue that needs to be addressed if we wish to have more young people entering the trades, and staying in the NWT.

The territory's only post-secondary school, Aurora College, needs to take a more active role in training workers for the impending boom associated with increased mine activity over the next few years. While the college can take great pride in several of its high-quality training programs, mine training must become more of a priority. Since the mining industry is centrally located in Yellowknife, it makes sense to move quickly on planning for programs now — before the training void is filled by other southern colleges and private industry looking to cash in on the opportunity. Over the past eight years, three Alberta educational institutions — Grant McEwan College, University of Alberta, and Northern Alberta Institute of Technology — have visited Yellowknife, viewed property, and seriously considered purchasing land with the intent of building training facilities.

With the establishment of a training partnership between the three diamond mines, the GNWT, Mine Training Society, Aurora College, the NWT and Nunavut Chamber of Mines and other potential partners, a healthy, stable, substantial workforce of skilled Northern workers can be developed over the next decade. This would be a win-win situation for everyone.



T-Bo, centre, and his assistant Lee Fairley show an example of their impressive work at his shop in Yellowknife.

Expanding Opportunities: Developing a Secondary Jewelry Industry

The potential of establishing a jewelry-making industry in the Northwest Territories as a spin-off to the mining industry is highly possible. Our territory's incredibly talented mix of sculptors and designers can easily be trained to manufacture diamond-accented rings and pendants, according to Yellowknife artist and small business owner T-Bo.

In the 1990s, T-Bo hosted jewelry-making workshops in 11 NWT communities. He says our artists already have the skills to develop unique Northern designs that can be marketed successfully on the international market. One of a kind top-dollar diamond jewelry pieces are in high demand. In his tiny shop in the territorial capital, T-Bo casts 146-160 wax impressions every two days, which are used to create diamond-accented rings and pendants. He uses equipment in his shop (such as crock pots) that can be duplicated anywhere in the North. He is willing to host workshops in wax impressions, buffing, finishing, soldering and diamond-setting at the community level. This could lead to the development of a decentralized diamond jewelry industry across the entire territory.

With the investment of funding for training and the development of a Northern marketing strategy, NWT diamond jewelry can easily become a hot commodity on the international level.

Women in Mining: Barriers, Benefits and Equality

With less than three per cent of female trades people in the NWT, initiatives to encourage and assist more women to consider non-traditional occupations with high income potential are required. Barriers such as the struggle for equal work for equal pay, social problems, family commitments, difficulty finding child care, and financial barriers are the most common for women entering the trades.

All three companies in the NWT wish to hire more women in order to diversify the workforce and provide a balanced environment. On October 15, 2007, the Status of Women Council of the NWT commenced the Northern Women in Mining, Oil and Gas Project (NWMOG). In collaboration with Diavik, DeBeers, BHP and other education and government partners, the \$1.7 million project will provide women with the knowledge and skills to enter employment in the trades.



Students of the Northern Women in Mining, Oil and Gas Project practice their skills in the workshop of the Kimberlite Technical and Career Centre in Yellowknife. From left to right are: Emelda King, Nicole Sutherland, Sarah Tautaujuk, Maria Peterson and Doreen Desjarlais. Missing from photo are Doris Rabesca and Katrina Delorey.

The first intake began with 8 registered women from communities across the NWT, and as of the first day of classes, one woman had already been offered an apprenticeship at one of the territory's diamond mines. The Status of Women Council anticipates 104 women will directly benefit from industrial-based courses through this pilot project.

It is an exciting step in working towards a higher ratio of female participation in the booming diamond mine industry. I will be following the progress of this project very closely, and hope it will spark more innovative approaches to encourage young women to take interest in the trades while still in high school.

But the child care issue as is relates to a two-week work rotation still remains. While married women have the option of leaving children in the care of their father or other family members while working at camp, this is not possible for single parent females.



Laurel Jaques and her daughter Naya enjoy playtime with other children.

The Northwest Territories as a whole suffers from a shortage of day-time child care spaces. If a single parent was to take a position at a remote mine site, she would require constant 24-hour care for her child(ren) over a two-week period. Is this a possibility? And if so, what effect would this type of care and separation have on a child's development, especially in the first five years of life? When asked if daycares can be operated at the mine sites, company representatives said the possibility cannot even be considered because of safety issues. We challenge that position. If the mines can offer top of the line fitness centres, social events and other leisure facilities to camp employees, why is a full-time daycare centre such an outlandish request? As long as the facility is located indoors and away from the mine operations, there are no other foreseeable reasons as to why a daycare centre cannot be provided.

So what are the solutions? One thing is certain: women have a right to be a part of the mining industry, and women also have the right to have children. In order to wholeheartedly embrace female participation in the workforce, industry and government **MUST** work together to come up with a solution that works, and put it into action. That will likely require substantial monetary investment by the mining companies, and an agreement should be signed, sealed and implemented as soon as possible. Without efforts to find solutions to this child care dilemma, the participation of women in the diamond mining industry will remain low.

Maximizing Northern Employment in Remote Communities

The diamond mining industry continues to grow with the start of underground mining and opening of new mines, and so is the need for skilled workers. While Diavik, De-beers and BHP Billiton have established pick-up points of hire for employees in Yellowknife, Hay River, Fort Smith and a number of other communities, it's time to consider other options. With the cost of living so high in our remote communities, it would be an incredible economic boost to all regions to commence regular pick-ups for employees in every community across the NWT. During community meetings in places like Deline, Paulatuk and Inuvik over the summer, the potential for working in the mines on a regular rotation is very attractive to communities with high unemployment.

There is a recognition that training in mining will be a useful direction for young people across the North to be involved in. Since the companies provide free or subsidized regular trips from Edmonton and Calgary for southern employees, extending the same courtesy for Northerners is not an unreasonable request.

Other opportunities exist in training individuals chosen to take on appointments with the Mackenzie Valley Environmental Impact Review Board and other groups of regulatory and assessment boards throughout the NWT. The mining industry has long argued that assessments and renewals of water licenses is an extremely cumbersome, lengthy and expensive process. The reasoning is that each time a license is up for renewal, the company finds itself dealing with new board members. They spend several days training and familiarizing the new members with board procedures before moving on to the actual process.

To save time and improve the efficiency of the regulatory process, it would be beneficial to enrol new board members in a training session at Aurora College. Suggested sessions would include public consultation, library and research skills, conflict resolution, environmental assessments and sampling.

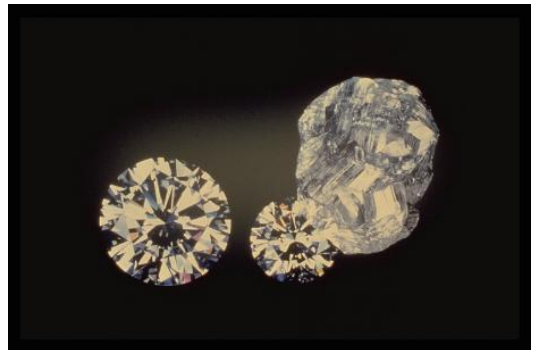
There is a role as well for the GNWT — in extending the reach of the mine training exercise throughout the North to ensure that all residents have the opportunity to benefit.

Part III: The Role of Governments in the Mining Industry

Indian and Northern Affairs Canada (INAC) – The Ruling Authority

The NWT, because of its particular status as a dependent of the Government of Canada, has a difficult time establishing its own interests in most manners of resource development, be it minerals or oil and gas. Authority for development resides by law of Parliament in the hands of the Minister of Indian and Northern Affairs Canada (INAC). In the case of mineral development, and especially diamonds, there can be no doubt that the bulk of the decision-making continues to reside in Ottawa. From the beginning of the process, in promoting exploration and servicing the information needs of prospectors, to the permitting and regulatory processes for mine development, INAC has full control.

INAC interacts with companies over the need for IBAs with Aboriginal Claimant groups, although there is no formalized policy to guide the IBA process. The Department has been working on a discussion paper in this regard for the past five years, without anything to show for it. There is only one legally-obligated IBA, and that is with the Tlicho government.



The Mackenzie Valley Resource Management Act (MVMRA) is the federal legislation that drives the process of mine development approval. This Act of Parliament, which was brought to life by the Mulroney Conservative Government in 1992, was the result of provisions included in the Gwich'in and Sahtu land claims agreements. Provisions within those agreements spelled out the requirement for a development approval process, where aboriginal and public government representatives in the NWT would have the ability to screen projects, conduct environmental assessments, recommend the issuance of permits and licenses, and develop land use plans to set conditions for all developments. The spirit and intent of the legislation was to give a meaningful role in these decision-making processes to the people of the North. However, the Minister of INAC still maintained the ultimate say in all projects and issues in front of the variety of Boards that were established to deal with the ongoing development issues.

NWT public government's role in all of this has been to recommend the appointment of 25 per cent of members to the Boards. INAC itself puts forward 25 per cent and the appropriate aboriginal claimant groups recommend the rest. The boards have a regional configuration at the land use, regulatory and licensing level, with distinct Boards created in each settled land claim. At the environmental assessment level there is a single board, the Mackenzie Valley Environmental Impact Review Board.

A common perception is that the MVMRA has created an unwieldy, slow and expensive

process for approving projects in the NWT. The common complaint is that this process is putting too many unnecessary hurdles in front of developers in their efforts to get resource extraction projects on-line. Yet for many people in the NWT, the process also does not seem to deliver the kind of conditions for development that favour the public interest.

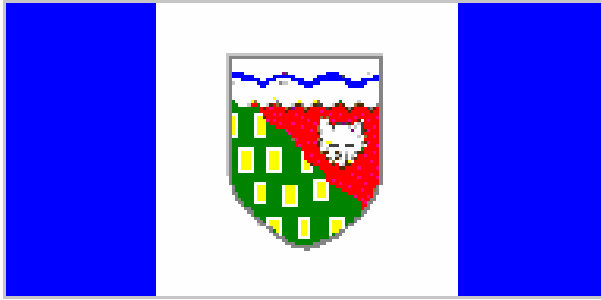
In some ways, the process established will remain difficult until all aspects of the MVMRA are fully instituted. This of course means that land-use planning must be fully implemented in all regions. If this is done as it is in the Dehcho, in which it is forwarded before a final settlement of the outstanding aboriginal claims, it may be a good interim solution. Claims must move forward in all unsettled areas. The Protected Areas Strategy needs to be in place. A cumulative effects assessment process needs to be in place with some confidence in its ability to actually deliver useful advice.

In most provinces in Canada, the development of new mines would be preceded by a healthy interaction between the provincial authority and the mining company. Issues such as mine life, pace of development, public infrastructure requirements, energy supply, business opportunities and employment conditions would be of great interest to the provincial government. Many arrangements would be considered prior to the formal development of the mining plan, and the company would be expected to have the support of the province in many aspects of the project before the public assessment process. Government economists would be analyzing the various scenarios for the exploitation of the resource to maximize the return to the public, and examining the public investment in infrastructure. At the highest levels with the provincial political masters, a strategic approach to the particular development would be undertaken. Because the provinces would have the final say on the project, these deliberations would be given full weight by the developer and generally, the project description would reflect this.

As it stands right now, an INAC representative with the Mineral Development Division says responsibility for INAC to speak to the NWT public interest on the diamond mines is “not spelled out in its mandate.” If INAC, the sole body with legislated authority over mineral development, is not speaking to the NWT public interest, it must be taking its direction from the vested interest of the Government of Canada. If we assume that the interest of the Government of Canada is in maximizing its return from the resources under the existing royalty and tax structure, then likely that interest would be to see: accelerated mine life to maximize profit; no concern over legacy infrastructure for the North; and little regard for Northern employment or business opportunities. In fact, there would be much more political consideration given to maintaining the return to the



MP Bevington tours the Diavik Processing Plant with Tom Hoefer, manager of internal and external affairs.



larger voting population in southern provinces that might resent conditions that favour Northerners.

Without that sense of long-term responsibility for planning that comes with an authority that puts the territorial public interest first, the development of the diamond industry has moved forward without strategic public investments. There has been almost no resource revenue return to the public government in the NWT, and there is a growing sense in the population that the deal is not working. It may be argued, as well, that the Industry itself is not well-served, with most of the revenues it shares with the Federal government simply ending up in Canada's coffers instead of being reinvested in the region that the Industry works in.

When it comes to the royalties that are collected from mineral development in the NWT, the rate at which they are collected is one of the lowest among countries in the world, and certainly lower than other provinces. The comment that Botswana does better off its diamonds than the NWT is very appropriate, but it is not just Botswana, rather many other jurisdictions. There have been no substantial discussions to review or change the royalty rates in many years.

Key to the maximization of benefits to Northerners is the length of time that the mines are scheduled to operate. During the lead-up to the opening of the diamond mines, expectations of mine life led to an understanding by the GNWT, Aboriginal governments, business and the labour force regarding likely benefits from mine operations. The length of time the mines were designed to operate is the basis for Northern benefits. Accelerated development and high grading of preferred ore bodies all lead to decreased benefits to the Northern economy – not just from the length of the mine life, but from the greater leakage from employment and business opportunities to the North.

Accelerated mine life increases both company profits and the federal return on royalties and taxes. There is a problem when we read: "during the last three months of 2006 and the first nine months of 2007, Diavik recovered 11.5 million carats from 2.33 million tonnes of kimberlite. These values are far in excess of what the partners initially planned for the mine in 2000, when Aber completed its bankable feasibility study. At that time, the mine was to deliver an average of seven million carats per year from approximately 1.5 million tonnes of kimberlite." (Rapaport 23-10-07)

Clearly this situation works against the public interest in the NWT. There are two avenues that can be pursued to remediate.

- 1) To go back to the regulator and demand that the mine life plan be re-established.
- 2) The GNWT can make claims with the federal government for compensation from their windfall royalties and taxes.

It may be that the process of adapting to new mineral development in a timely fashion is beyond the ability of INAC and the federal government. It is much more likely that a provincial regime — with direct responsibilities for the cost of development, local infrastructure and the provision of services — will act expeditiously to ensure that royalties are commensurate with the needs of the region.



Trucks at work in the Diavik Diamond Mine open pit.

The effective royalty rate is very low as well because no royalties are paid until capital costs are written down. This is a very large incentive to the industry, but needs to be considered in relationship to the consideration of public interest. This capital cost write-down does not seem to apply to required infrastructure that may have a public component. When we consider, for instance, the construction of transmission lines to the Slave Geological Province for the provision of hydroelectric power to the mining operations, this very significant and useful investment in the future of the mining industry does not seem to have the same fiscal incentives that have applied to the diesel generator sets, storage tanks and other equipment.

In the future, when resource revenue-sharing agreements are struck on the disposition of royalties to public and aboriginal governments, it may be more beneficial to territorial interest if capital cost incentives are linked to federal taxation. These are choices that have been made in other provinces to ensure the flow of fiscal resources to construct required infrastructure quickly. Certainly, an argument can be made that incentives for resource development should be constructed from federal fiscal resources in the future, rather than those of the region which has so many costs to bear in providing infrastructure and services to support development.

Government of the NWT – Public Interest Through the Back Door

Currently in place are fiscal authorities at the GNWT's disposal to influence the development of the diamond mining industry. There are areas of taxation that could influence the mines in one fashion or another. The GNWT had made great efforts early on in the 90s to ensure that the cutting and polishing sector of the diamond process could have a Northern component. The threat of a mining tax was the catalyst to making this happen. The end result of locating this type of operation within the North is still questioned, yet it was an effort to establish the public interest in resource development.

Another effort to utilize diamond mines to support public interest is the recently announced Mackenzie River Bridge, to be built over the next few years and financed to a great extent by a toll on large vehicle traffic. This traffic, to a certain degree, is related to mining re-supply traffic and could bring millions of dollars in revenues from the mines. Putting aside any question of the appropriateness of the project, the financing is a crude effort to replace the missing share of resource revenue. If the NWT had province-hood, that revenue would come directly from royalties and taxes.

As in the provinces, the GNWT has an active and real control over much of the hydroelectric energy available in the territory. Development of these resources has required the active participation of Aboriginal governments and there has been some good success in establishing these relationships. One attractive target for a new market for NWT clean hydro-electric power is the burgeoning requirement for electricity in the Slave Province diamond mines.

The failure to recognize this excellent potential through three extensive environmental processes that have taken place for the existing mines is an example of a serious shortfall in the process to date. Right now, the GNWT is negotiating to catch up and create an economic project in the middle of development. Although there are compelling national objectives in greenhouse gas reductions to push this project forward, it may be worthwhile for the GNWT to make the project more attractive by raising the non-motive diesel tax in the NWT to a rate similar to other provinces. As with the mining tax, this tax could be used to good effect by the GNWT to achieve one of its stated goals in the public interest. As an advantage for the industry, providing a long-term stable energy source like hydropower to the mines means the companies may find their goal of extracting lower value ore a more palatable reality in the future.



Aboriginal Claims and Self-Governments - Shared jurisdiction can create unity in NWT

With seven different Aboriginal Claimant groups in active pursuit of either proper implementation of existing Land Claims, or in various stages of negotiation on land and self-government agreements, the task of forging an effective shared jurisdiction between NWT public government and the Aboriginal governments has been a seemingly impossible task. Yet most recognize that it must occur for active control of lands and resources to pass into the hands of Northerners from INAC and the Federal Cabinet. In the 90s, there was a sense that some progress had been made on constitutional development, inclusive of these two authority streams. It was believed that developing an NWT Constitution was possible.

The Aboriginal Claimant groups have made progress in the intervening decade with the Tlicho agreement signed and ratified and a Tlicho government in place. The Akaitcho claim is still under negotiation, but in the intervening years, the diamond companies and the Akaitcho leadership have completed agreements similar to IBAs which have led to economic opportunities at the mines. The North Slave Metis have also been successful in initiating claims-driven economic relationships with the companies. Generally, mining and mining practices are well understood and accepted in the NWT.

Aboriginal governments have a very active stake in the present and future development of the diamond mining industry in the NWT. Both public and aboriginal governments have much to gain by coming together to exercise more control and direction over the industry. Mining offers a great opportunity for successful devolution of powers from INAC to the NWT.

Hydro power

A reliable and inexpensive source of hydroelectric power for the mines can be very attractive for the future of expensive underground mining in many of the existing mines, and in any new pipes that may come along. Electricity can fill many of the energy requirements at the mines, including heating, and perhaps even motive fuel for underground operations. The Northern mines could be a great opportunity to introduce electrolytic hydrogen as a clean fuel for the trams and loaders that are used underground. This process has been considered in Canada for the past decade, and could be a great innovation for the future of the mines. Hydro systems could also reduce the requirement for winter road traffic for transporting diesel fuel, and assist the mines in maintaining a shorter winter road season. That would translate into a significant cost savings for the companies.

Natural Resources Canada - Leading a National Diamond Strategy

Ten years ago, diamonds were an anomaly in the consciousness of Canadian resources. Today, we are the third largest source of mined diamonds in the world. This is remarkable progress in the exploitation of a resource that relies on its value by its perceived scarcity. In almost every other country in the world that has mined significant diamonds, the question of maintaining value and maximizing return has been foremost in the consideration of private profit and public interest.

There is little intrinsic value to diamonds, but through the careful development of marketing and supply management, they have become by weight the most valued commodity in the world. Without that careful management approach, there would be no mines in the NWT today and mines would not be opening in Nunavut and Ontario. Canada largely has had a free ride on the work of others.

Where we have not had a free ride is on secondary and tertiary value of the industry. The mining of diamonds only represents some 10 to 15 per cent of the total diamond economy. The addition of the 10 per cent of cutting and polishing of Canadian rough diamonds represents only a tiny fraction of the rest. It will take a coordinated effort on the part of the federal government, the territories and the provinces to see an improvement in the percentage of the industry retained in the country. The concept of a diamond exchange in the country that would balance the production of Canadian diamond resources with more of the activities that create wealth from these prize gems has been talked about, but in the absence of national interest, leadership will certainly not be created by international diamond dealers.

A National Diamond Strategy would certainly examine the role of Canadian production in the international marketplace. Maximizing diamond prices will allow the mines to run on lower value ore in the future, which will result in a better likelihood of continued production, continued employment for Northerners and long-term support for Northern businesses.

Greater emphasis on value-added production of jewelry in Canada and the North will give excellent opportunities to craftspeople and artisans. It will add weight to the Canadian branding of our diamonds and open up tremendous wealth growth from the industry in the North and in Canada. The value of diamonds increases almost ten-fold from rough stone form to finished product. This value tree MUST be a target of a National Diamond Strategy.

Natural Resources Canada is the likely driving agency for the creation of a National Diamond Strategy.

Recommendations

Improving the Labour Force

1) Establish a Northern Mining Employment Commission, made up of representatives of the mining companies, the Government of the Northwest Territories, training facilitators and organized labour to establish a plan to maximize Northern participation and benefits. The Commission would also identify and develop a plan to remove barriers to women interested in working in the mines. The goal would be to work towards developing a stable, well-trained, long-term Northern workforce for the Northern mining industry.

** NOTE: Many public and private efforts are currently underway to do just this. For example, the Mine Training Society's initiatives; the Northern Women in Mining, Oil and Gas Project through the Status of Women Council of the NWT; and Sandvik's CyberMINE Simulation Technology, just to name a few.*

2) That the mines should review their policies on contracting out of services. Employers are using the contracting method to retain employees in low-paying, entry-level positions, which destabilizes the Northern workforce. Contracting appears to be to the short-term benefit of the corporations, and to the disadvantage of workers. This hurts the industry, which needs a stable workforce now more than ever.

3) That the mining companies reconsider subsidizing and/or providing free employee travel between Edmonton/Calgary and the mine site.

4) That the mining companies establish **all** NWT communities as pick-up points for employees travelling to work at the mine sites. This will give more Northerners access to stable, high-income jobs and much-needed training opportunities.

Government Action

5) The Northern Residents Tax Deduction must be increased by at least 50 per cent. The deduction is not significant enough under the economic conditions that currently exist in the Northwest Territories. The high cost of living acts as a barrier to persuading southern skilled trades workers to move to the North, and makes it very difficult for Northerners to sustain themselves and their families.

6) New Housing Policies need to be developed between the GNWT and the mining companies to improve housing conditions and availability for employees. Also, mining companies who establish themselves here in the North should offer incentives to employees to encourage them to move North (such as DeBeers' Home Purchase Incentive Program for senior management personnel).

This offer for assistance could be extended progressively to mid-level management and skilled trades people. The territorial government's minimum downpayment program could be re-introduced, and public housing assistance should be available to everyone.

7) We must improve the efficiency of the diamond mining industry through the development of an electrical transmission system from Northern hydro resources, and innovative opportunities in underground mining (such as the use of hydrogen-powered underground mine vehicles). Reduced operating costs through reduced fuel consumption and less reliance on the unpredictable winter road system translates into both corporate savings and environmental benefit. This could open up more opportunities for investing in training opportunities or housing development for employees in the North.

Role of Governments

8) We need to see delegated authority for the mining sector to the Government of the Northwest Territories. With support from the Aboriginal governments and claimant groups, the GNWT should negotiate with the INAC minister to make this a reality. We need to move quickly to ensure the GNWT has a larger responsibility and a greater say in how all mines, but especially diamond mines, are operated in our territory. This can follow devolution, or can occur immediately through delegating authority of mineral development to the GNWT.

9) The responsible authority must ensure that rate or extraction of the diamond resource is considered and heavily weighed to ensure the mines are sustainable for a long period of time. Currently we have a rapidly-expanding, highly profitable industry which is in danger of having a short-term lifespan. Since the mines are now exceeding their original targets of tonnage mined per year — thereby improving their profit levels — compensation from industry and the federal government should be considered as a result of the reduction in mine life years.

10) We must develop a National Diamond Strategy to maximize benefits from an emerging diamond industry for Northerners and all Canadians. Such a strategy should be led by Natural Resources Canada, and would examine the role of Canadian production in the international marketplace.