



THE  
FUTURE  
IS DUE  
NORTH

# STRATEGIC ASSETS IN UNCERTAIN TIMES

Unlocking Energy and Resources  
in Canada's North

JULY 2019

BY DR. NICK POUHINSKY & PIERRE ALVAREZ





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The authors asked that their honorarium for preparing this paper be donated to the MS Society – Whitehorse Chapter.

# TABLE OF CONTENTS

Introduction.....3

The North: Strengths and Weaknesses .....3

The Opportunity .....5

A Final Comment.....9

**‘When you look at other Arctic states and how they perceive and treat their north it just seems like we’re not getting it. We look at the North as a welfare issue, it’s a cost and we don’t realize what a huge return on investment it could be. There is so much potential for the North to help Canada become globally competitive in a much greater way.’**

**Jessica Shadian, President, Arctic360**  
Financial Post, March 23, 2019

## INTRODUCTION

Although this paper focuses on the massive undeveloped resource base in the Yukon, Northwest Territories and Nunavut, it is really about Canada as a whole: our prosperity and our place in circumpolar geopolitics. As a region, the North is contiguous to seven provinces and Alaska, and links across the Arctic Ocean to Russia, Finland, Norway, Iceland and Greenland. As a result, how and if northern resources get developed will increasingly matter both domestically and internationally.

We won’t recount in detail the enormous resource potential in the North. Suffice it to say, the North is replete with oil and natural gas, minerals, hydroelectric potential and, as ice-free shipping seasons lengthen, it is an emerging northern marine transportation corridor. Rather, we will focus on the implications of this potential wealth and discuss strategies that would see the sustainable development of Canada’s northern resources to the benefit not only of northerners—and Arctic Indigenous communities in particular—but to all Canadians, from both economic and sovereignty perspectives.

## THE NORTH: STRENGTHS AND WEAKNESSES

The North is geographically massive, achingly beautiful and incredibly diverse—in 2017 its population was about 0.3% of Canada’s total and almost 50% Indigenous. Combined, the territories account for about 0.5% of Canada’s GDP.

While Canada is seen as increasingly uncompetitive from a global talent perspective, it is even less competitive in the North due to limited educational and career opportunities. Canada was once seen as a world leader in economic stability and predictability; in the North the potential associated with such stability is diminished by a growing regulatory lag. While progress is being made on Indigenous self-government and finalizing land claims, confusion over who has authority over resource development among federal, territorial and Indigenous governments acts to send mixed messages to investors. The resulting regulatory slowness has resulted in a decline in investment, domestically and internationally, at the same time as resource development in other Arctic nations is surging both onshore and off.

A stark example of this slowness can be seen in the oil and gas inactivity in the Beaufort Sea. In addition to the decline in commodity prices, the complexity of interests has dampened any enthusiasm for activity. Governments have stopped development by: a) instituting a Strategic Environmental Assessment; b) simultaneously instituting a moratorium on activity; c) embarking on a five-year scientific assessment; and d) sending mixed messages about devolving managing offshore resources to territorial governments, in spite of having done so for Quebec, Nova Scotia and Newfoundland. Meanwhile, the federal government provides virtually no mitigation to coastal processes that continue to dramatically destabilize the northern coastline.

Weak and missing infrastructure in the North further lowers its competitiveness.

The North generally lacks road connectivity. Limited ice road systems in winter are an exception but, even then, climate change is reducing the viability of some corridors. Where there are roads in the North, primarily in the Northwest Territories and Yukon, they generally run south to north enabling little connectivity with neighboring northern territories.

There is poor access to reliable, competitively priced electricity, whether hydro or other renewable sources. Communities outside of the Yellowknife and Whitehorse corridors are generally not connected to an electrical grid, but rely primarily on stand-alone power sources, typically diesel generators. High-speed internet connectivity lags the rest of the country. Northern communities are relatively well-served by a network of modest airports, but sea-based transportation has suffered as companies like Northern Transportation Company reduce their presence in remote communities due to a decline in resource activity.

Research and development expenditures, both private and public, have languished. Many countries, most notably Russia, China and the U.S., are aggressively developing resources and military science throughout the North.<sup>1</sup>

Finally, climate change is altering the physical fabric of the North and needs to be understood and planned for.

During all this, Canada has essentially closed most of its research stations in the North, has made only the most modest efforts to map the sea bottom, and discourages resource assessments. Other countries are pushing ahead on each of these fronts, adding military outposts and spreading military hardware throughout the North.

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<sup>1</sup> For an excellent review of the issues, see the Report of the Standing Committee on Foreign Affairs and International Development [“Nation-Building At Home, Vigilance Beyond: Preparing for the Coming Decades in the Arctic”, presented to the House on April 10, 2019](#)

## THE OPPORTUNITY

The result is that northern Canadian resources remain relatively untapped, with many older projects in all three territories either nearing the end of their economic lives, closed or abandoned, and leaving behind enormous environmental liabilities. Private sector employment is therefore relatively weak. Current circumstances are a tremendous opportunity for Canada as jobs and infrastructure in the North will benefit the south and reinforce Canadian sovereignty.

There are a number of strategic elements that are germane to the development of next steps for the North.

An Arctic Policy Framework is under development in Ottawa and we hope it will be a forward-looking and insightful document that reflects the challenges and opportunities experienced in the North. It must, at a minimum, embrace background elements such as climate change, global and circumpolar politics, and the rush to develop transportation corridors in an ice-free marine environment. Consideration must be given to the confusion that exists in Canada about the environment, the economy and resource development. In addition, the necessary linkage of Indigenous reconciliation, self-government and economic development is a critical strategic element.

Only by locating the northern economy in a national and international context will the serious issues of the decade ahead be adequately dealt with. Northern and Indigenous governments have a variety of policy levers that can help the development of sustainable growth in the North, but due to limited fiscal resources and marginally effective policy levers, the reality is that the federal government will have to lead in many areas.

The 2019 federal budget and announcements over the last few years have signaled a modest case for optimism in that significant monies are targeted over the next several years to address many of the concerns listed above. Examples include:

- upgrades to the Alaska Highway;
- the completion of an all-weather road from Inuvik to Tuktoyaktuk;
- a P3 road in the North Slave Region to reach the community of WHATÌ and the new Fortune Minerals precious and rare minerals NICO Mine;
- multimillion dollar studies into the feasibility of roads from Yellowknife to the Arctic coast and hydro development and transmission lines into the Slave Geological province (NWT's Taltson Hydroelectricity Expansion Project) and the Keewatin region from Manitoba;
- access to the \$1.7-billion Universal Broadband Fund to develop high-speed internet access to remote communities; and

- the commitment of over \$400 million for other infrastructure and a top up of \$75 million to northern economic development.

While the cumulative total of over \$700 million sounds incredibly rich for a population of less than 150,000, the reality is that the infrastructure deficit is so great and the costs so high that this injection of cash barely scratches the surface. Much of it is “study money” and only when focused, large-scale financial commitments are made will meaningful change result.

The balance of this paper focuses on two of the levers available, infrastructure development and stimulating northern science, but readers should be aware that many more are available.

## INFRASTRUCTURE DEVELOPMENT

Infrastructure is an obvious need in Canada and particularly in the North, where the lack of roads, ports, renewable electricity and digital infrastructure puts the region far behind other Canadians and other northern countries. The economic multipliers associated with additional infrastructure and particularly northern infrastructure are staggering. In the North, roads open mineral and oil and gas resource basins for exploration and development. Electricity from hydro and other renewable sources reduces costs and dramatically reduces the production of greenhouse gases. Access to high-speed internet supports e-commerce, logistics and resource exploration. The Mining Association of Canada [has been vocal](#) in this area.

The recent failure of the Government of Nunavut to obtain federal funding for an all-weather road from the Izok Lake area to the Arctic coast stands as a disappointment for new mineral development. The proposed NWT road to link to the rejected Nunavut road has only now begun to be studied. Similarly, the Mackenzie Valley Highway, which could open the western Arctic as the Dempster Highway did in the last century, is also just beginning. Electricity transmission lines and a road from Manitoba to Nunavut would open mineral resource-rich areas.

To bring greater certainty to infrastructure development, the Government of Canada should establish a dedicated federal fund for feasibility studies (with a focus on the impacts of climate change). Pre-engineering and, ultimately, construction should be carried out so that when opportunities arise action can be taken quickly, unfettered by the risk of notoriously unpredictable commodity prices.

The private sector may also need incentives that can assist it in managing the risks attendant to a region with a small population and weak infrastructure. Ideas for such incentives include:

- reinstituting a mechanism like “super” flow-through shares for oil and gas, mining and private power investment in the North;
- greater use of P3 strategies to leverage the northern infrastructure investment from southern Canadians. A good example is the Fortune Minerals-related [Tlicho All-Season Road](#);



- a fund to help defray the costs associated with climate change and the opportunities it may open.

## STIMULATING NORTHERN SCIENCE

Canada once stood proudly among the developers of northern science. Successive federal governments have reduced our role. We need more northern science and more scientists whose work focuses on understanding northern challenges.

In our view, several potential strategies for 'jump-resuming' northern science in Canada include:

- tax relief for private sector Arctic-focused science and innovation;
- an enhanced [SRED-like](#) program focusing on northern science that will encourage private sector investment; and
- a return to the emphases of our past where Canada played a leading role in northern science, with government- and university-supported research stations throughout the North coordinated with other Arctic countries.

In short, Canadian scientists need support to develop a better understanding of global climate change and how to target research to mitigate its consequences for the North. Scientific research and technological innovation will help resolve problems and seize opportunities related to the following:

- There is little doubt that winter ice roads will have a shorter season as warming occurs;
- Winter snow packs are declining, affecting hydro capacity;
- Shipping will have a longer season and pressure will increase for marine access to areas that are poorly charted and even more poorly understood from an environmental perspective;
- Coastal processes are changing dramatically as the foreshore permafrost melts and the shore erodes;
- Changing permafrost will enable access to, until now, inaccessible resource deposits.

## WHY ARE NORTHERN RESOURCES STRATEGIC?

We started this paper by stating that the development of Canada's northern resources has important strategic implications across a broad spectrum, so let us return to those themes. Done properly, and sustainably, resource development has the potential to provide benefits at multiple levels. While tourism, arts and crafts, local agriculture and related activities can provide modest economic spinoffs and help support community and transportation infrastructure, the size of the prize associated with resource development is far, far greater:

## **1. Benefits to northern territories**

- injection of significant wealth into small and isolated communities across the North through the generation of direct employment at a scale not available through any other economic sector;
- direct financial benefit to Indigenous communities through resource revenue sharing agreements as part of settled land claims and Indigenous self-government; and
- support for keeping communities in place at a time when those in Northern communities are the only Canadians in much of the Arctic for most of the year.

## **2. Benefits to provinces**

- resupply and investment will for the foreseeable future come largely from the south, so those provinces bordering the North will always see positive returns from activity in the North; and
- the lack of comprehensive research and post-secondary teaching institutions in the North, along with its small population, means northern science must be Canadian (and even global) science.

## **3. Benefits to Canada**

- Indigenous reconciliation through sustainable resource development supported by new forms of benefits sharing and, even more importantly, Indigenous involvement in project planning and approval and ultimately equity participation;
- economic growth in areas of high unemployment where young people have few prospects of work that will allow them to be both challenged and stay in their home communities;
- access to significant supplies of key rare-earth minerals required for the digital economy; and
- assert Canada's presence and thus reinforce sovereignty through permanent settlements and research bases that are becoming increasingly important given Canada's lack of a meaningful military presence in the Arctic.

In short, Canada either commits to and invests in the Arctic or we risk giving up our claim to the Arctic and its many benefits.

## A FINAL COMMENT

The authors of this paper have spent years living, travelling and working in the North. Both have seen the introduction of new infrastructure and new technologies, have watched as regulatory complexity and confusion has slowed and often stopped resource development, have participated in the changes in traditional lifestyles as land claims have become a reality, have puzzled at the mismanagement of older resource projects leaving a trail of missed opportunities and enormous environmental liabilities and scars on the landscape and, most recently, have experienced the impacts of climate change. The authors have also seen first-hand the benefits associated with properly managed resource projects, including providing northern youth the ability to stay in the North and connecting Canada, via the territories, to the domestic and circumpolar opportunities the Arctic has to offer.

Much is still needed: road networks; hydro-electrical power generation and transmission; networks of e-support like fibre-optic cables; clarity and simplification of the regulatory system in place; and more leveraging of our understanding of the North and exporting it to the Arctic world.

The financial investment will be undeniably large, but the returns will be infinitely greater.

