

# The Challenge of Natural Gas Development in Canada's North

## **APG Director Nellie Cournoyea explains the importance of responsible resource development to Northerners**

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I must start by thanking you for the opportunity and the honour of delivering the Donald Gow Memorial Lecture. Events such as these that bring together a diverse and distinguished range of students and practitioners of public policy are important forums in Canadian society and it is my pleasure to join you today.

All Canadians look forward to the arrival of spring, but I think there is something more vibrant to it north of the Arctic Circle, when the winter night gives way to long hours of sunlight, when it is still cold enough to travel on the sea-ice, but warm enough to be comfortable when residents are out on the land to greet the first geese back from their winter sojourn in the south.

So what am I doing here, in Kingston - nice town but too hot - missing my favourite season at home? To be entirely honest, I am here because Hugh Segal asked me to come.

Hugh did Inuvialuit an important service six years ago. He agreed to sit on the Board of the Inuvialuit Investment Corporation, to help work out new rules, new investment policies, to restore security to our equity position, to ensure that Inuvialuit would continue to benefit in the long term from the settlement negotiated with Canada. He gave freely of his time and crossed the country many times to work with us, serving on a board that in practical terms would have no impact at all on his life. Hugh understood how important the goal of economic self-sufficiency is for Inuvialuit, and the difficulties we faced and at a time when there were very few economic opportunities available to our communities.

### The Inuvialuit Final Agreement

Inuvialuit were the first Aboriginal people in the Northwest Territories to conclude a comprehensive land settlement agreement with the Government of Canada. Our determination to reach a settlement was motivated in part by our experience with the first round of oil and gas exploration and development in the 1970s. Although many Inuvialuit and other northerners participated in these activities, it was clear that the control was entirely out of our hands and indifferent to our interests, driven by remote-control decisions of regulators in Ottawa and corporate decisions from head-offices all over the continent. The Inuvialuit Final Agreement of 1984 provided us with the tools to assert our interests within a specified region, in particular three goals:

- To preserve Inuvialuit cultural identity and values within a changing northern society;
- To enable Inuvialuit to be equal and meaningful participants in the northern and national economy and society; and
- To protect and preserve the Arctic wildlife, environment and biological productivity.

The IFA requires that Inuvialuit be consulted on decisions that will affect the Inuvialuit Settlement Region. Through direct ownership of certain lands, a guaranteed role in co-management institutions, requirements for participation agreements to assure employment, training and business opportunities, as well as financial compensation, the IFA set out terms for our relationship with government and with developers

wishing to work in our region, and set the foundation for our future. Having dedicated so much time and sweat to forging this legacy, you can understand how concerned we were to protect it, and how valuable the assistance of Hugh and others like him was to us.

## Renewed Interest in Northern Gas Resources

So I am here today because Hugh Segal asked me, but I am also here for the same reason that he dragged himself across the country, because it is important. It is important because for the first time in thirty years, Canada's North is back on the national public policy agenda.

For the past three decades, the focus of federal public policy has been on constitutional matters, on growth of the state versus freer trade and deregulation, on fiscal restructuring. In this context, the North has been a side-issue of fiscal transfers, gradual progress on settlement of aboriginal land claims, and a splash of devolution to territorial governments from time to time. There has been no coherent attention to northern public policy for several years. As important as NWT economic, political and social priorities may have seemed to northern political leaders such as myself, they were far down the list of concerns on the federal Cabinet agenda. Even developments that attracted international attention, notably the establishment of a new diamond production and processing industry, barely registered in Ottawa. It amazes me to encounter Canadians who are still wondering if the rumours about the diamonds can possibly be true.

This indifference may be changing. With stronger continental energy markets and prices, natural gas producers are again looking north, and as they do so does Ottawa. It is not as simple as federal bureaucrats just dusting off the old briefs and speeches from the 1970s. Much has changed since the last time northern resource development received national attention.

It is in the context of revived interest in northern resource development that I speak to you today. I appeal to you to engage with northerners in forging public policy approaches that will serve the interests of northern aboriginal people, and other northern Canadians who have invested their lives here, and of Canadians generally.

Engage, but first become informed. Northern Canada has changed dramatically over the past three decades since the days of Berger and the moratorium on pipeline development. There are new leaders, new governance structures, extensive demographic and societal changes. We have made real progress on land claims and in setting up institutions to prevent long-term environmental damage from development and to ensure that our people have a full opportunity to participate in resource development. Vast areas of the north have been set aside for protection of wildlife, for representation and for bio-diversity.

The scope and character of the northern economy has also transformed. In the 1970s the Berger Commission concluded that the North could manage without oil and gas resource activity, that the renewable resource economy would meet northern economic needs. Thanks to the destruction of the fur-trapping industry caused by Greenpeace and other southern-based organizations, we have learned that the renewable resource economy cannot alone meet the expectations of a young and rapidly growing population. The land and wildlife remain vital to our culture and way of life, but a wage-based economy is also needed. While many families still rely heavily on the land and wildlife for food and for spiritual strength, others are seeking a balance between a land-based way of life and wage activities. This balance is difficult to achieve with an economic cycle of sharp "boom-and-busts", starting as long ago as the whaling industry, later DEW-line construction, the fur industry, the Beaufort-Delta boom in the 70s, mine construction and closures.

It is important to Northerners, and I think to all Canadians, that engagement in northern public policy be

founded on an informed understanding of northern Canada as it truly is today. We do not need decisions to be distorted by the uninformed yearnings of some urban Canadians, nostalgic about canoeing trips they will never take anyway into a wilderness they only imagine.

I am appealing to this Forum to consider northern resource development policy because this is a matter that deserves serious thought, the kind of examination that governments seem less and less willing or able to undertake. This is not the sort of issue that will deliver well in the manic welter of sound-bites and red urgent tags that characterizes policy shops in Ottawa these days. There are many, many irritating issues that northern resource development will raise that will make it much more attractive for federal bureaucrats to let the opportunity just slip by, abdicating to special interest groups like CARC and others conveniently located in Ottawa or in Washington, rather than listening to northerners themselves.

I cannot hope in a short speech to do justice to the full range of issues in the north. I intend instead to offer you my perspectives on the public policy challenges that northern resource opportunities pose. But before getting into my perspective, I should be clear about my biases.

I am speaking here as an Inuvialuk, born on the Western Arctic Coast, and having lived most of my life there. My family lived on the land, trapping and prospecting, and saw the oil boom in the Beaufort Sea in the 1970s and the bust that followed. I was party to the Inuvialuit Final Agreement with the Government of Canada, and served in the Government of the NWT. I now Chair the Inuvialuit Regional Corporation, which is the corporate body that represents the interests of Inuvialuit. I also Chair the Executive Committee of the Aboriginal Pipeline Group.

It is not surprising that northern resource development is a "top of mind" issue to a person with this background. But I encourage this Forum to appreciate that field development of Canadian frontier reserves of natural gas and a pipeline to connect these reserves to southern markets represent not just a local make-work project, but a project of national scale and significance.

#### Northern Natural Gas Development: A Project of National Significance

To start with, consider the numbers just for a Mackenzie Valley pipeline. Analysis of Mackenzie Valley pipeline options forecasts very large returns in employment, income and fiscal benefits, not only to northern economies but to the Canadian economy as a whole, in the order of \$US 5 billion, making it the largest single capital project in northern Canadian history. Depending on the option, pipeline construction would bring between 6,000 and 11,000 person years of work to the NWT, and five times that in total to Canada.

But this is about more than just building a pipeline. There are in fact (at least) two competing route proposals: one along the Alaska Highway route connecting US gas reserves, the other connecting Canadian reserves (and potentially some US reserves).

Much more important to a northern, and I think to a Canadian perspective, is the potential for development of Canadian frontier natural gas reserves. It is field development rather than simply pipeline construction that offers the opportunity for long-term benefits from local, regional, territorial and national economic development.

The Beaufort-Mackenzie basin represents one of the last major undeveloped hydrocarbon basins in North America, containing what is estimated to be 64 TCF of Canadian natural gas reserves, plus additional and significant oil reserves. To put this in perspective, projected offshore East coast reserves are about 40 Tcf.

The reserves in the Beaufort-Delta occupy both federal Crown lands as well as lands owned privately by

aboriginal people pursuant to settled land claims. Included in this total is 6 Tcf of already proven reserves of natural gas in the Delta. Field development would offer more lasting returns, both in revenues and employment: Mackenzie field development has been estimated to yield 7,000 person years of employment in the NWT, and three times that for Canada as a whole.

The problem for resource owners, both Crown and private, is that competing pipeline options have very different implications for when and even if Canadian gas will ever get to market. The Alaska Highway Pipeline may be a worthy construction project, but once complete, it represents just a right-of-way across Canada to deliver American gas to market, with limited long-term benefit to Canadians.

Should Canadian reserves be stranded indefinitely, the loss will be felt not only by resource owners, but by a much broader public interest. Without this gas, other fuel sources will continue to be used to meet the demand for energy, with a much greater production of carbon dioxide and other gas emissions. Closer to home, generations of Inuvialuit, Dene and Metis, and other northerners will have lost the most important opportunity available to us for economic development and self-determination. Development of frontier reserves can set the course of northern economic development for decades; can serve the Northwest Territories' ambitions to diversify and to become economically self-sufficient; and can help aboriginal people and other northerners to become full and equal participants in the northern and Canadian economies.

## Timing

The opportunity is here now and the North needs it now. A vital lesson of living in a resource-based economy is that timing is critical. Such opportunities come when they do, and once missed, may not return, ever or within a lifetime. Such opportunities also come with costs, risks and challenges for all stakeholders. Timing is all the more significant in this instance because there are strategic implications to the question of which of the competing pipelines is built first.

Analysis of pipeline options suggests that if an Alaska Highway option goes first, it could be much more difficult to link up Canadian gas later. This follows from the scale of the Alaskan reserves and their potentially dramatic effect on supply and price in North American gas markets.

In putting this matter on the national agenda, we are not asking for the federal government to diverge from current policy commitments, but instead to act to ensure that it meets its existing responsibilities and meets them in time.

We in the north accept that we have a great deal to do, to forge the partnerships with each other and with industry, to fulfill our responsibilities. But we are few: the population of Kingston is twice that of the entire NWT. We badly need the Canadian government to take its responsibilities seriously. We will need all our resources to deal with our own accountabilities: we do not need, nor are we equipped to assume the burden of federal responsibilities as well.

## Federal Government Accountabilities for Northern Resource Development

One facile response we hear often is that the federal government can have no energy policy role in a context of deregulated energy markets and free trade with the USA. To be clear, we are not in the slightest interested in federal government intervention in market decisions. It's just not something the federal government does well. But the federal government still has accountabilities that it must meet, even in a deregulated market, accountabilities for fairness, for clarity and for its obligations to northerners and to

Aboriginal people.

If this description appears to cast a larger role for the federal government than in other parts of the country, remember that in the Northwest Territories many of the functions of public government that elsewhere have been transferred to provincial governments and Yukon remain the authority of the federal Crown. The federal Crown owns and manages sub-surface resources on Crown lands throughout the NWT, and owns and is responsible for management of most land and water resources as well.

**Accountability for Canadian Energy Policy:** Since the demise of the National Energy Program in the mid-80s, the central theme of national energy policy has been reliance on market-driven decision making in a deregulated context, with government's role being to assure fiscal and regulatory neutrality and an even playing field. Unfortunately, it is clear from recent events in the US Congress and Alaska State Legislature that some American political interests do not fully share this respect for the role of markets and for the need for producers to determine project design and scheduling.

In keeping with a market-driven energy framework, and given our relations with the U.S. in a highly integrated supply system, the Canadian government must ensure that alternative pipeline proposals really are competing on an even regulatory basis. Just as the federal government had to be carefully neutral in relation to competing pipeline proposals in eastern Canada, so must care be taken here: impacts of alternative routes on northern and Canadian economic development must be considered fully and fairly.

**Accountability for Northern Resource Development:** Non-renewable resource development may not be as fashionable in the high-technology belt of the Ottawa Valley, but vast regions of northern Canada are almost entirely reliant on it for non-government economic activity.

Canada has a particular accountability in the NWT as the owner of sub-surface rights on Crown lands. Rights to explore and to develop these resources are issued by Indian and Northern Affairs Canada. In the past 18 months, bidding processes for Crown and for aboriginally-owned lands have resulted in over \$1 billion in work commitments. This imposes an obligation on Ottawa to ensure that, provided high environmental standards and requirements are met, rights-holders are able to exercise these rights in a responsible manner and in a reasonable time-frame.

Ottawa also has obligations through Indian and Northern Affairs to promote the economic and social development of Canada's North, an obligation all the greater because of the jurisdictional role of the federal government in the NWT.

**Accountability For Regulatory Clarity, Risk and Performance:** Major resource projects in northern Canada face an extremely complicated constellation of regulatory requirements, the result of two decades of consecutive (and typically uncoordinated) legislative initiatives, including requirements based on commitments undertaken in various land claim agreements.

This is an especially acute problem for oil and gas activities, for which authorities and mandates were rearranged in the early 1990s with the dismantling of COGLA. The activities now coming forward are testing this framework, and processes are being developed on the fly. It doesn't help that geology is no respecter of jurisdictional boundaries, with the result that widely different frameworks apply to similar activities in adjacent areas.

It is not so unreasonable to demand regulatory clarity. Northerners need a regulatory process that is fair, consistent, transparent, effective, enforceable and workable: one that can provide in a reasonable time frame answers to questions of whether and how a project should proceed.

Clarity is also necessary to meet the requirement for regulatory neutrality toward pipeline options. The

ANGTS Route is perceived, rightly in my opinion, as having a regulatory advantage over the Mackenzie Valley route, with many of the necessary authorizations already in place and obtained in an easier framework. The federal government must ensure that processes in the NWT are made to work, so that a Mackenzie Valley line has the same regulatory advantage/disadvantage as the ANGTS line.

The decision on which line will be applied for, or which one first, is a decision that must and will be made by natural gas producing companies, serving southern markets that are concerned only with supply and price, indifferent to source or route. It is in the interest of northerners, of Canadians, and of all energy consumers, that these decisions be made on a correct assessment of economic, environmental and regulatory factors. It is the responsibility of government that relative regulatory risk does not bias the decision.

For "Northern Sustainable Development" No single entity, even one as large as the federal government, can deliver "sustainable development". But the federal government has a commitment to the goal, and an obligation to ensure that regulatory processes are consistent with the principles of sustainable development, that decisions are made in a balanced way that considers the northern and Canadian public interest.

Aboriginal people and other northerners are more confident today about making companies understand our priorities. We feel better equipped to assess and to manage the consequences of development. The territorial government has also learned from dealing with the new diamond projects that it is possible to manage resource development both to protect the environment and to retain benefits in the north.

We are seeing that the oil and gas industry today has changed: it is spending its own money this time, in a deregulated and highly competitive marketplace. Companies are leaner, more prudent, and also much better equipped with expertise and less intrusive technology. We have made it clear that our expectations are high. We welcome development, but not at a cost to the land and resources that have sustained us over past generations and must continue to sustain future generations. We have challenged the industry to make this project an example to the world of what sustainable resource development can be, using the best technologies and practices possible to protect the land and wildlife.

For Aboriginal Economic and Political Development: In keeping with "Gathering Strength", with long-term commitments of the Northern Affairs Program of DIAND, the federal government has repeatedly and publicly committed itself to furthering the constitutional, social, political and economic development of Aboriginal people in Canada . Rather than wasting another second on assessing whether or not the federal government has lived up to these commitments in the past, can we instead seize this opportunity to live up to those commitments to the Aboriginal peoples of the NWT?

This obligation goes beyond general policy statements. In the NWT, the federal government has concluded comprehensive land claim agreements, the terms of which are legislated in constitutionally-protected statutes, that explicitly require the Crown to promote the "equal and meaningful participation in the northern and national economy and society".

It is in the interest of such participation that Aboriginal leaders in the NWT came together in January 2000 to form the Aboriginal Pipeline Group. In June 2000, more than 30 Aboriginal leaders signed a Memorandum of Understanding on a collective commitment to work towards equity participation in a Mackenzie Valley Natural Gas Pipeline. This demonstration of solidarity among northern leaders is unprecedented.

Our objective is to ensure that the benefits of field and pipeline development to our people extend beyond the initial construction boom, providing returns that can be invested for long-term gains in infrastructure,

education and social well-being.

Understand that in the north discussions of benefits from development can readily fragment into competition among communities and groups. A tremendous effort is needed to work out the principles and then the details of such an arrangement. Territorial and federal governments have provided some funds to support these discussions. Our needs go much beyond this however. None of the parties to the Group have funds anything close to the figures needed to take a share in the pipeline. We need the federal government to provide a financial contribution sufficient to make the Group a substantial and effective partner in the project. Government coffers stand to gain substantially from Mackenzie Valley pipeline development - gaining hundreds of millions in net revenues as well as reductions in fiscal transfers.

The partnership that we are proposing with government and industry would invest a small part of these fiscal returns in ensuring that Aboriginal northerners have a genuine and enduring stake in development on our traditional lands, and in forging a collective interest both in the opportunities for benefits and the challenges involved.

We see this proposal as being in keeping with several features of federal policy, with the notion articulated by Gro Bruntland, that sustainable development of non-renewable resources requires that finite project returns be re-invested in human and environmental capital. It serves obligations under land claim agreements to promote the full and equal participation of Aboriginal people in the northern and national economy. By retaining some returns in the north, it also serves broader northern objectives of economic diversification and self-sufficiency. By assuring the distribution of returns over a much longer term, it will also help to moderate the boom-and-bust resource cycle in our economy, to provide a more reliable and more stable economic foundation for our region.

It all makes tremendous sense to us, but we have had limited success in getting Ottawa's attention so far.

### Building Capacity Through Partnerships

For most of the past two years, my colleagues and I have been working hard to meet the challenges presented by field development and a pipeline. In calling on government and industry to meet their accountabilities, we must also meet our own responsibilities.

We must ensure that the institutions and processes established pursuant to land claim agreements work and work effectively. We must ensure that the rights to lands and resources that we worked so many years to negotiate produce real and lasting benefits to our people.

We must forge a true partnership among ourselves and with industry, one that will not only share rewards but that will weather the disagreements, that will stay at the table and work through the difficult points. We must work to keep perspective, to make processes work, to be reasonable about expectations and costs, and to compromise.

As northerners and aboriginal people, we must work to define a vision of sustainable northern resource development, a vision of economically and socially healthy communities in an ecologically rich and healthy environment.

We must also work to define the environmental issues. Now while the opportunity presents itself, not later. After all, it is residents of the Mackenzie Valley and the Western Arctic, not bureaucrats in Calgary or Ottawa who will bear the risks and costs of the environmental, economic and social disruption that development may bring. The definition of environmental issues is a job for northerners, not for southern or international environmentalists, nor for corporate or government bureaucrats whose families are

thousands of miles away from the impacts.

These are our traditional lands - not an empty wilderness. We are not just a quaint artifact of a past way of life to be photographed by tourists. Northerners have already allowed vast areas to be set aside as protected areas, areas several times the size of some Canadian provinces. It is time to come to terms with decisions on our future.

We must work to understand the choices involved. The time has come for aboriginal and other northerners to decide whether there should be a change of land use for a small percentage of our land, from wilderness to industrial use. We will have to work hard to understand the issues, the technical options and to work with regulatory processes to achieve the best possible result.

We must also work to understand the risks involved. We need companies to be clear and honest about the risks related to field development and construction and operation of the pipeline, but we must also work to achieve a fair assessment of these risks and perspective on the short-term and long-term risks of disruption.

There is a remarkable degree of confidence among northerners about this project. The territorial government is actively supporting field and pipeline development. While the will is strong, there are real limits to our capacity to deal with the tasks before us. We realize that we have neither the expertise nor the manpower ourselves to deal with a project of this scale and complexity. Partnerships, among ourselves and with other groups, are vital if we are to deal with the challenges ahead.

We have not been idle. Aboriginal leaders have found common ground in the Aboriginal Pipeline Group: our communities and organizations are consulting closely with companies to develop a joint understanding of the opportunities and challenges: environmental assessment organizations at all levels are discussing options for coordination. And I am here today to ask for your partnership in dealing with the public policy challenges presented by this development, in helping to articulate a coherent vision of northern development that fits with the realities of North American energy policies and markets; that meets the necessary standards of regulatory clarity, risk, and performance; that ensures that government meets its long-standing obligations to Aboriginal people and to northerners.

Until very recently, there was no sign that the federal Cabinet was even remotely aware that northern gas development might warrant a closer look. I was very relieved to hear the Prime Minister's remarks earlier this month in Calgary, where he said:

"We must develop Canadian natural gas resources in the NWT and the Mackenzie Delta, and bring this gas south as soon as possible to meet market demands. The government of Canada will do what is required to ensure that the proper regulatory regimes are in place to facilitate the earliest possible movement of Canadian and American gas from the North to southern markets."

This acknowledgment is a start. But the task of fully meeting the federal government's accountabilities is more complicated, as I have explained. Action is needed quickly, and we have neither time nor resources to waste. Markets move far more quickly than governments in assessing opportunities and challenges. The issues of regulatory clarity, neutrality and capacity are urgent, with regulatory risk already a significant and negative factor in decision-making. And we as Canadians, as Aboriginal people and as northerners, need fair terms of engagement, so that, whatever the decisions of a deregulated energy marketplace may be, we are assured a real and enduring stake in northern gas development.

It will be a long time, if ever before northern Canada will be economically self-sufficient. Some reliance on federal authorities and on fiscal transfer is likely for many years yet. In the prospect of field and pipeline development, we see an opportunity to make a start, to create an economic future for our families and

communities that will also contribute to the national economy. The challenge for northerners is to use opportunity to achieve a healthy and productive balance in our lives.

Thank you for your time tonight. I have tried to describe a small part of a much larger perspective on the north of the country that does not fit easily into economic and political models of southern Canada. I hope that some of you will be able to travel the north, to understand some of the challenges we face, and maybe some of our local meats - musk-ox and caribou - guaranteed foot-and-mouth disease free!

Even if you do not have the opportunity to fly north to see it for yourselves, I hope you will turn your mind northward, become informed, and engage with northerners in turning our revived resource potential into economic and societal gains both for the north and Canada as a whole.

Thank you.

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About The Author: Nellie J. Cournoyea is the Chair and CEO of the Inuvialuit Regional Corporation as Past Chair, and a current Director of the Aboriginal Pipeline Group. She made this presentation as part of a lecture at the Queen's School of Policy Studies Policy Forum on April 27, 2001.

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