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“Canada’s North and the Financing of Sustainable Development”

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Historical patterns in resource-based economic development

Northern Canada is one of the few remaining undeveloped parts of the globe. What we are discussing this week represents perhaps one of the last great opportunities to transform a sparsely populated, remote region and transform it into a strong economic asset. What is unique about this effort – as well as other efforts in Canada – is that the effort is developed within a philosophy of sustainable development.

It may be helpful here to look at historical experience, and sadly this represents at least some of the American experience, particularly in the 19th century. Mankind’s track record in developing large sparsely populated regions is decidedly mixed. In examining regions that have undergone rapid natural resource based development, several patterns emerge:

First, there is often a boom -- a very rapid private sector-based development of the available natural resources. In past centuries, these might be fur, timber, tulips, elephant tusks, gold or diamonds. Today it remains gold and diamonds, but also oil and gas and minerals, especially rare earth metals.

Second, historically speaking, this rapid exploitation of resources is very often at the expense of indigenous peoples and the environment.

Third, the natural resource-based regional economy develops (or continues to have) very high prices for labor and other factors of production. These high price levels often inhibit the growth of a more diversified regional economy. This lack of economic diversification puts the regional economy at long-term risk as natural resources are depleted.

Fourth, rapid development brings a rapid increase in population. This increase in population often overwhelms existing necessary infrastructure and community services development causing bottlenecks and often social problems.

Fifth, rapid development of remote regions often outstrips the availability of locally available skilled labor.

Within this historical perspective, let me offer some general ideas and observations based upon experience in observing economic development processes in the United States and other countries.

Attracting international partners and investors for sustainable development

Northern Canada has abundant natural resources, including energy, renewable energy, mining, and timber. For these natural resource-based projects, we are all familiar with the traditional commercial partners and financiers: energy companies, mining companies, and commercial banks. Today, however, to these traditional partners, we can now add relative newcomers, often with even deeper pockets and with interests that go beyond natural resource extraction.

- Private equity funds specializing in environmental and renewable energy projects
- Large construction-engineering firms ready to invest in major construction and infrastructure projects
- Renewable energy firms

The challenge is that these potential investors, both new and old, have many options for investment globally, and the competition is intense. Today, companies often focus on emerging markets, especially Brazil, Russia, India, and China – the BRICs. In this global environment, countries that are seen as already developed often have to aggressively promote the potential of their natural resource projects. And, sometimes, I have found that the key is travelling to where the potential investors have their offices, rather than expecting them to come visit you. I would like to say that attracting U.S. partners and investors for sustainable development of Canada's North is going to be a major priority of the U.S. mission to Canada, and we look forward to working with you on specific investment promotion efforts.

I would like to add a further and very important factor: use of public sector capital to reduce risk and increase potential rate of return. Most large-scale projects – anywhere in the world -- involve extensive use of imported goods and services. Imports often represent over 50% of the value of the project. When projects involve use of imported goods and services, export finance banks (such as the U.S. Export-Import Bank) can be very good sources of relatively low-cost project financing. This is particularly true in the case of projects involving clean and renewable energy, where the U.S. Export-Import bank (like many others) has specific programs to encourage this type of project finance. This in turn sharply reduces the risk and increases the potential rate of return for other investors.

Creating a future for indigenous peoples

As noted previously, resource-driven economies run the risk of financial ruin once resources are depleted. A large population is built up to extract the oil, the gold, and the diamonds. But what happens to this population (and the indigenous population) when the resource runs out? There is a need to consider the economic diversification of northern Canada, so that the region is not entirely dependent on its super abundant resources.

Looking at the Alaskan experience (which includes both success and some missed opportunities), there are several potential approaches to the diversification:

Tourism/eco-tourism: One of the most promising areas for diversification is tourism, including eco-tourism. Enhanced infrastructure will make this possible, but marketing is what will make it a reality.

International export of expertise in mining and renewable energy: Here, the Alaskan model is a good one. Expertise that Alaskan firms gained in extracting North Sea oil were immediately applicable to the Sakhalin Island projects in the Russian Far East. Resource extraction in Alaska led directly to the development of expanding firms (often owned by indigenous peoples) with internationally recognized and desired expertise.

Application of advanced renewable energy and mining technologies: The large scale of Canada's north makes it a potential test bed and start-up location for many advanced technologies (now in the hands of researchers or start-up companies) in the renewables, mining and infrastructure area. For example, where could you find better place to roll out a product that allows blackberries to operate at extreme temperatures, or to find new ways to generate solar energy at very remote locations? The development of the north could be used as an incubator for a number of high tech industries, which could start applying new technologies in the north, and then expand via global marketing.

It is necessary to address how to encourage – or even financially jump start -- this economic diversification. Fortunately, there is considerable international experience in this area, though the results have not always been successful. Ideas include:

- Ensuring development of local expertise by setting aside a portion of large development projects for local or indigenous-owned firms.
- Assigning a portion of public sector royalties from northern Canada projects to a Development Fund. This fund could be used to incentivize or jump-start infrastructure projects and to jump-start new ventures to diversify the economy.

Next steps

The world is full of potential investments of all shapes and sizes and Canadian proposals need to find their way somehow to the top of the pile in a very crowded desk. Canada has real comparative advantages as an investment location, including political stability, rule of law, and large project scale. It is encouraging that the Government is involving potential partners (both strategic and financial) from many nations in the development of these projects from the beginning. Dialogue is a very good way to ensure that projects are structured in an economically sustainable way.