#4 Resource Revenue Regimes around the Circumpolar North

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Residents of northern regions are likely to have mixed feelings about resource development. While national governments and resource companies see the additional jobs, revenues, and profits that come from development, residents of northern regions have more mixed feelings. Past experience suggest that northern regions may share more of the costs than the benefits of resource development.

Northern communities are looking for ways to insure that resource development contributes to their material well-being. In the past, much of the gains from resource production went to outside investors, commuting workers, and national governments. The “resource curse” is often used to describe the problems created by resource development in remote regions. One “resource curse” argument that may be strange to northern residents is the government’s misuse of resource revenues, since historically few revenues remained in the region. Staple theory provides a clearer view of the problem of resource development for these regions. Development depends on expanding the linkages between resource projects and the local economy.

One important linkage is the fiscal linkage which determines the revenue that is taken by local government. The resource revenue regime is the rules that describe how the resource revenues are shared with local governments. These regimes include the system of taxes, royalties, rents, profit-sharing, and government revenue sharing. These rules vary by regions and type of resource:

⇒ In Alaska, state government gets much of the economic rent produced by oil production. These revenues fund just over half the State budget and 90% of discretionary spending. They also collect a corporate income tax and property taxes from oil and gas companies. As a result, Alaskans do not pay a state income tax or sales tax.
⇒ In Canada, revenue regimes vary provincially and across the territories. Recent studies point out that current royalty rates across the Canadian north are among the lowest in the world and offer few benefits to northerners.
⇒ In Greenland, revenues used to flow to Denmark. In 2009, the Greenlandic government took over control of resource development. In 2013, the government established a new agreement in order to guarantee that the government would receive some income.
⇒ In Norway, a central government captures about 80% of rents from oil and gas development. They also tax offshore oil and gas at a rate of 78%. The government saves the majority of this money in order to ensure that future generations are able to benefit from these non-renewable resources. Mining is taxed at the normal corporate tax rate, 28%.
⇒ In Russia, State-controlled companies dominate the oil and gas sector. Mining is run by the private sector. The revenue regime is a combination of taxes and royalties.

Areas that need further study:

⇒ Where does the money go in Arctic resource development?
⇒ Which resource regimes give the greatest benefit to northern communities?
⇒ What are the best ways to save resource revenues? What attempts have northern governments made to save resource revenues? What factors have limited savings?
⇒ What are the best ways to distribute revenues to communities?
⇒ To what extent do resource regimes influence production decisions?

Researchers need to provide a clear explanation of how resource development can be done in responsible ways that benefits northern communities.