

participating in the wage-based economy. However, the size and often isolated nature of many regions of the territory, combined with the small population and the varying wage-based economy participation rate, have made it difficult to measure economic activity.

About two-thirds of the estimated \$1 billion in annual economic activity in the territory is generated by government spending. But the economy is in transition. The Nunavut government is progressing with plans to stimulate long-term, sustainable growth and development. These plans, combined with a positive business climate, including a 4% corporate tax rate, and potential increases in royalty revenue pursuant to the devolution of powers, should continue to reduce dependence on the federal government.

Nunavut is believed to be the richest area in Canada in terms of natural resource deposits. Despite the recent closings of operating mines that will cause the economy to contract this year, the territory remains optimistic regarding the long-term prospects for this key sector. This optimism is based on excellent geology, positive indications of gold, diamond and base metal deposits, and increasing exploration activity, which approached \$120 million in 2003 and was second in Canada to the Northwest Territories in terms of value. In preparation for the eventual opening of diamond mines, the government is working to ensure that value added activities, such as cutting and polishing, remain in the territory. It is also working with key partners on new ways to exploit the North's rich diamond deposits. This is seen as a way to increase the prosperity of the region by capitalizing on the rich artisan tradition of the Inuit, the local diamond resources and the growing tourism sector.

The harvesting of game meats is another important part of the local economy that brings together the traditional Inuit way of life with a careful science-based approach to conservation that is needed for sustainable development. Musk-ox and caribou are the most important commercial hunts. Small, local seal hunts continue to play an important role in maintaining Inuit traditions and close ties to the land. Recently there has been a resurgence of demand in some European markets for the by-products of this hunt; in 2002, for example, buyers from Denmark purchased 90% of the estimated 10 thousand seal-skins that went to auction. Commercial fishing of

arctic char, turbot and shrimp contributes approximately \$9 million annually to the Nunavut economy. A turbot processing plant is located in Pangnirtung which processes several hundred tonnes of turbot per year.

Tourism is a growing sector of the Nunavut economy, employing more than 500 people. Cultural industries, such as arts and crafts, also play a part in the regional economy and create synergies with the tourism sector.

International Trade

Exports of game meats, caribou and musk-ox, to the United States exceeded \$840,000 in 2003, despite the challenges posed by geography and a two-day trip to the U.S. border. An additional \$210,000 was exported to Europe after being prepared in EU certified facilities. Nunavut fisheries exported more than \$1.5 million worth of product to the United States in 2003.

Nunavut has signed an agreement with the federal government that will allow it to increase its international business development activity. Under this agreement Nunavut can access services of the Department of Foreign Affairs and International Trade to support its efforts to develop exports and attract investment. The territory has also undertaken a major initiative to supply broadband communications to each community in an attempt to remove disadvantages stemming from the long distance to markets.

Market Access Issues

Exports of *shrimp* from Nunavut to the EU, which face a relatively high MFN tariff of 20%, have been negatively impacted by competition from Greenland, a key competitor with duty-free access to the market. Because of the small size of this industry in Nunavut, changes to certification and packaging requirements enacted by the European Union have also placed Nunavut's exports at a disadvantage.

The *Marine Mammal Protection Act* (MMPA), which bans imports of seal products into the United States, severely restricts exports of one of Nunavut's key products (for more information on the MMPA see the U.S. section in Chapter 4).