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IISD COMMENTARY

Sustainable Development in Greenland: Perspectives from a preliminary stakeholder consultation

Christina Colclough, Christina J. Colclough, CEO of CJ Colclough, former acting general secretary of the Council of Nordic Trade Unions (NFS)
Oshani Perera, program leader, Public Procurement and Infrastructure Finance, IISD

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International Institute for Sustainable Development
Head Office
161 Portage Avenue East, 6th Floor, Winnipeg, Manitoba, Canada R3B 0Y4
Tel: +1 (204) 958-7700 | Fax: +1 (204) 958-7710 | Website: www.iisd.org

Geneva Office
International Environment House 2
9 chemin de Balexert, 1219 Châtelaine, Geneva, Switzerland
Tel: +41 22 917-8373 | Fax: +41 22 917-8054

About IISD

The International Institute for Sustainable Development (IISD) contributes to sustainable development by advancing policy recommendations on international trade and investment, economic policy, climate change and energy, and management of natural and social capital, as well as the enabling role of communication technologies in these areas. We report on international negotiations and disseminate knowledge gained through collaborative projects, resulting in more rigorous research, capacity building in developing countries, better networks spanning the North and the South, and better global connections among researchers, practitioners, citizens and policy-makers.

IISD's vision is better living for all—sustainably; its mission is to champion innovation, enabling societies to live sustainably. IISD is registered as a charitable organization in Canada and has 501(c)(3) status in the United States. IISD receives core operating support from the Government of Canada, provided through the International Development Research Centre (IDRC), from the Danish Ministry of Foreign Affairs and from the Province of Manitoba. The Institute receives project funding from numerous governments inside and outside Canada, United Nations agencies, foundations and the private sector.

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Written by Oshani Perera.

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The Context

In October 2013 the Council of Nordic Trade Unions and the International Institute for Sustainable Development (IISD) undertook a very preliminary study tour and series of meetings with stakeholders in Greenland. Our objective was to explore perspectives on and expectations for sustainable development, including how political leaders and policy-makers are working to ensure that foreign direct investment will generate positive environmental, social and economic externalities in the coming years. The consultation brief on which we based our discussions with Greenlandic stakeholders is given in Annex 1.

This commentary is based in part on the findings of our study tour. It also includes our perspectives on the strengths and opportunities for Greenlandic investment and development policy framework, including where further refinement may be needed in the coming years.

International interest in Greenland's petroleum, minerals, metals and rare earth resource potential is rising, but investment therein is still in its infancy. While the international media has highlighted growing investment interest, Greenlandic stakeholders are yet to experience the large-scale developments that are reported to be on its doorstep. Much expectation rallies around the iron ore mining project in Isua, which includes a deep-water port and surface bulk logistics infrastructure. As London Mining, the principle investor, enters into negotiations on the exploitation license, the project will be the largest such investment in Greenland to date and, in many ways, will serve as the "anchor investment" in extractive industrial development in the country.

Greenlandic policy-makers have indeed made sustainable development a key priority. They have fashioned safeguards based on best international practice and have prioritized compliance monitoring and public participation across the life cycle of extractive projects. The risks that are likely to arise are that, despite the best safeguards, theory rarely plays out in practice. Greenlandic stakeholders may need to be more vigilant; to better screen investors; to vet the assessments and records provided by them; to articulate terms and conditions on royalties, rents and revenue sharing; to plan for dispute resolution; and to increase awareness and preparedness on occupational health and safety, industrial emergencies and much more. We also recommend that stakeholders take more active steps to diversify industrial development and not focus only on the extractive sectors.

The Environmental and Social Safeguards

Greenland adopts best-in-class practices in requiring investors to conduct full-scale environmental impact assessments (EIAs) and strategic social impact assessments (SSIAs) before licenses for exploitation can be negotiated. Impact assessment and monitoring are also required to grant licenses for prospection and exploration. Many stakeholders attested to Greenland's practices on "shopping internationally" for best practices and then seeking to adapt and implement them in the domestic context.

Requirements under EIA and SSIAs are therefore modelled following best international practice from geographies such as Canada, Norway, Australia and the European Union. Developers are required to integrate social and environmental safeguards and include measures to increase domestic economic multipliers into development plans. They also have to make provisions for the monitoring and evaluation of impact mitigation measures during both the construction and operation of the project.

Of particular note is that SSIAs make provisions for Impact Benefit Agreements (IBAs) on the employment of Greenlandic nationals and on the terms and conditions for the use of migratory labour. Unlike traditional IBAs used in the mining sectors in Canada and Australia, the Greenlandic IBA model goes some steps further. IBAs in Greenland are designed as formal contracts between the investor, associated municipalities and the national government. As these contracts are signed by government authorities, they move from the domain of private contractual law to public law. This brings a raft of additional dimensions in terms of roles, responsibilities, compliance, dispute resolution and application to bilateral investment treaties that Greenland may seek to sign in the coming years. The Bureau of Minerals and Petroleum has gone to great lengths to ensure public participation in determining the scope and content of IBAs and have included elaborate provisions to the implementation, monitoring, reporting and evaluation of social sustainability performance, including the employment conditions, provisions for decent work and the up-skilling of Greenlandic workers.

Concerns arise about the early 2013 revisions to the Building and Construction of Large Scale Projects Act. Before the revisions, the act suggested that foreign workers could legally be covered by a foreign collective bargaining agreement, as long as the salary and employment conditions were deemed "acceptable" and "objectively and reasonably justified." While the revisions tighten the regulation of minimum wage considerably, the provisions for non-fixed minimum hourly wages related to foreign collective bargaining agreements have been omitted. Companies in Greenland can therefore pay foreign workers and offer them lower wages than Greenlandic workers. This could create serious imbalances in employment, education and skills development as well as serious tension between Greenlanders and foreign nationals. It is particularly dangerous in the sparsely populated Greenland—with its population of approximately 57,000 people—for large numbers of migratory workers will be needed if Greenland plans to further exploit its extractive resources in the coming years.

It is true that measures to counteract the above are being proposed—notably that foreign collective bargaining agreements are restricted from fixing wages lower than the minimum wage set forth by collective agreements of Greenlandic labour unions. This effectively removes the possibility of employing foreign labour on less favourable employment conditions and without influence from Greenlandic collective bargaining agreements. The minimum hourly wage is now fixed at DKK80.41, which is almost in line with national collective bargaining agreements. Companies are, however, not required to stipulate terms and conditions for holidays and overtime. In addition, employers can still deduct housing, meals, transport and insurance from wages, provided that the collective value of all these costs are below a given ceiling, which is yet to be introduced.

In terms of environmental sustainability, the EIA provisions set forth by the Bureau of Minerals and Petroleum and the National Environmental Research Institute are in line with best international practices and so are the ensuing licensing and monitoring obligations. Requirements are also in place for clean up, restitution and rehabilitation of the affected areas, both during and after the life of the project.

What does appear to be missing across both social and environmental safeguards are contingencies for emergencies and provisions to deal with social sustainability disputes, on both decent work and migratory labour. Preparedness for the environmental and social impacts of extractive accidents is critical, as they are extremely challenging to contain and could be potentially devastating to the pristine and sensitive ecosystem of the Arctic and population of Greenland. Given the geological and technological uncertainties that are intrinsic to extractive industries, emergencies do arise, despite the best-in-class technologies, expertise and safeguards.

We are also concerned that policy-makers do not yet appreciate the financial, industrial and marketing power of large investors that are characteristic of the extractive sectors. Several stakeholders suggest that if investors do not comply with Greenlandic laws, they would be shut down and asked to leave. Such rhetoric is not only simplistic; it is impractical. Greenland enjoys the status of a low-risk investment environment, and maintaining constructive but prudent dialogue with investors is essential. The better solution would be to develop the expertise to vet and screen developers' assessments, plans and records, ensuring rigorous monitoring and providing for adequate dispute resolution mechanisms to deal with breaches in compliance and wider social and environmental impacts that are sure to arise. Of particular concern will be measures in place for migrant workers. Policy-makers are planning measures based on the premise that workers will remain confined to extractive sites and have minimal interaction with Greenlandic nationals. This might be somewhat misguided, as the human instinct to seek contact and interaction cannot be so confined. Now is the time for Greenlandic policy-makers to again "shop globally" and look at the lessons learned from other geographies that deal with large migratory and expatriate labour, such as Singapore, the United Arab Emirates and others.

The Economic Multipliers

Extractive industrial development requires careful negotiation of product-sharing contracts in the case of oil and gas and mineral development agreements or mining exploration and development agreements in the case of minerals exploration and production.

Our consultations with civil society and private sector stakeholders revealed that there has been little debate on extractive resource-related taxation, royalties and rentals; hence, the provisions on the positive economic multipliers that the Greenlandic government seeks to obtain from the exploitation of extractive reserves remains uncertain. As Greenland negotiates its first "anchor" large-scale investment with London Mining, broad debate is advisable on how these payments can be secured and how extractive resource revenues no doubt will be re-injected into sustainable development.

Concerns also arise on the access rights to infrastructure. Typically, extractive industrial development contractors are granted the right to construct and operate infrastructure necessary for the project, including pipelines, railways, ports, roads, processing facilities and more. In Greenland, the prevailing trend is to ask the investor to bear these costs as the government lacks both the capital and the expertise to participate in public-private partnerships. Greenland has a small population base and much of the country remains difficult to access. If all extractive infrastructure is owned by developers and investors, the danger is that they would gain de facto ownership over large cross-sections of the country. Given the extreme climatic conditions and related geological risks of resource extraction in Greenland, there is the risk that investors will demand "resource for infrastructure" deals where payments on taxes, rents and royalties are diminished as payments or cost recovery measures against the infrastructure that was built. This will be symptomatic of the "natural resource curse" experienced by many other extractive resource-rich nations around the world.

Planning for Economic Diversification

Another major takeaway from our consultations is whether Greenland's policy leadership has the skills and experience to handle large-scale investments, both in terms of negotiating with investors and thereafter to develop business and supplier linkages with them. We found little evidence of investment incentives and business linkage facilitation in not only the extractive sectors but also in other potentially lucrative industries, including Arctic research and development, water and ice, tourism and hospitality, hydropower, sustainable fisheries, information technologies, arts and crafts. Business linkages are also essential to developing a knowledge economy in Greenland.

In sum, based on the findings of our study tour, the authors recommend that the following areas receive further attention in the immediate future:

- Policy-makers should be more vigilant to better screen investors, vet assessments and records provided, and articulate terms and conditions on royalties, rent and revenue sharing.
- Policy-makers should plan for dispute resolution, and increase awareness and preparedness on occupational health and safety and industrial emergencies.
- Policy-makers and the wider group of stakeholders should take more active steps to diversify industrial development and not only focus on the extractive sectors.
- Significant investments must be made in establishing monitoring teams who frequently visit the extraction sites. Although sound safeguards are in place, theory rarely plays out in practice.
- Attention must be paid to the short- and long-term effects and risks of a society divided into foreign workers on extraction projects and the Greenlandic labour force. This should cover the provisions in the act that allow for a two-tier wage system, but also the proposed total isolation of foreign workers from the Greenlandic society.
- Policy-makers must fully appreciate the financial, industrial and marketing power of large investors. Expertise to vet and screen developers' assessments, plans and records; to ensure rigorous monitoring; and to provide for adequate dispute resolution mechanisms to deal with breaches in compliance and wider social and environmental impacts are vital for the sustainable development of Greenland.
- Policy-makers must continue their practice of "shopping globally" and look at the lessons learned from other geographies that deal with large migratory and expatriate labour such as Singapore, the United Arab Emirates and others. The belief that there will be little, if any, interaction between migrant workers and the Greenlandic society is misguided.
- Policy-makers must seek to increase their capacities on the negotiation of investment agreements, product-sharing agreements and investment contracts.
- In order to increase positive economic multipliers in Greenland, more emphasis must be placed on developing investor aftercare services and on developing business and supplier linkages with foreign investors.

Annex 1: Discussion Document used for the IISD-NFS Study Tour on Sustainable Development on Greenland

The Context

Sustainable development in Greenland is a global priority, as it embodies one of the last pristine territories on earth. The pressure for action increases as the international media run anecdotal evidence on how the exploitation of extractive resources is causing environmental degradation and eroding traditional livelihoods. The sustainable exploitation of the island's natural resources is the responsibility of both the Greenlandic government and its key trading nations, including the Denmark, the United States, China and the European Union. However, the onus is on the Government of Greenland to provide the necessary legal and institutional frameworks to ensure that the country and its people will derive long-term gains in environmental stewardship, improved livelihoods, social equity, financial stability and macro-economic prosperity through exploiting its natural resources and opening the doors for foreign investment.

Greenland is in its early days of "raw material diplomacy" as the European Union, China, the United States and other Nordic powers vie to gain preferential access to the country's vast reserves of oil, natural gas and mineral wealth, including gold and uranium. In 2012 satellite data revealed that 97 per cent of the surface of the Greenlandic ice sheet underwent surface melting over four exceptionally warm days that July—a timely indicator that climate change and global warming will render the island's natural resources even more accessible in the coming decades. Moreover, melting ice sheets in the Artic will also give way to new northern sea routes, through the Russian territorial waters, the Eastern Siberian Sea and the Barents Sea. This offers drastically reduced shipping times between Asia and Europe, and hence fresh challenges in the Arctic geopolitical debate are on the horizon.

The leaders of Greenland are finding a delicate balance between stewardship of the natural environment, improving the domestic skill and knowledge base, safeguarding the island's political and economic autonomy and considering foreign investors' interests in the Greenlandic natural resource potential.

The leaders of Greenland have also realized the importance of long-term sustainable development. Measures have been taken to increase the scrutiny of mining investments and require investors to discuss migratory labour staffing plans before establishment. In March 2013 a moratorium on new drilling licenses was issued and investors are rightly being encouraged to employ domestic workers and up-skill domestic suppliers.

But much more remains to be done:

- The 2013 amendments to the Building and Construction of Large Scale Projects Act contain no strong provisions for compliance and monitoring of environmental and social safeguards. Nor does it provide for transparency on tenure, royalties and financing arrangements related to natural resource extraction.
- A dedicated focus is needed on foreign workforces given the demographics of Greenland. The priorities need to be on increasing the skills of the indigenous Greenlandic workforce while enforcing policies on the migration, integration and repatriation of migrant workers. The latter is critical given that large numbers of migrant workers will be required to service the projected growth of the extractive industries in Greenland.
- Better synergies are needed between investment laws and those related to public procurement, public-private partnerships, environmental stewardship and decent work.

- Concerted business and supplier linkage programs are needed to actively encourage industrial and economic diversification, skills building and sustainable growth.

In short, a robust and integrated framework for sustainable investment and sustainable industrial development is urgently needed. This project will aim to deliver on such a framework by drawing from lessons learned and current practice in extractive source-based industrial development from around the world. Key geographies of relevance include Canada, Australia, Norway, the Philippines, Indonesia, Brazil, Abu Dhabi, Qatar, Ghana, South Africa, Namibia, Chile and Cote d'Ivoire.

The Project

NFS and IISD are engaging with stakeholders in developing and implementing an integrated framework of policies and programs for sustainable investment in Greenland. The project will include:

- Extensive consultation with stakeholders in Greenland, including government, foreign investors, indigenous leaders, non-governmental organizations and unions.
- Formal round tables to debate challenges related to foreign direct investment (FDI) in extractive sectors.
- Exchanges with other emerging economies to debate on best practices in sustainable FDI and financial sector regulation.
- Implementation of policies and programs to advance sustainable development. These programs will cut across the target sectors for FDI: oil and gas, mining and minerals, financial services, fisheries and tourism.

We define sustainable development as industrial development that brings not only economic property and financial stability but also ensures environmental stewardship and social progress in the longer term.

The Preliminary Scoping Study in Nuuk, October 15–16, 2013

On October 15–16, IISD and the NFS will be working in Nuuk to engage with stakeholders on their perspectives and priorities for sustainable investment. Based on their feedback, the project team will develop a comprehensive proposal for further intervention and seek appropriate funding to get started.

The topics for discussion are listed below. At this point, we are casting a wide net to examine a range of investment and development dimensions. Thereafter, we will identify priority areas and develop an incremental program of work on investment and development.

1. Prevailing provisions for transparency and accountability on royalties, duties, taxes and tenure issues related to land and natural resource extraction.
2. Policies and procedures linked to the granting and monitoring of extractive licences in oil and gas, minerals and rare earth elements. The international press reports that the number of active exploration licences has increased six fold since 2002. Further, in July 2013, the Greenland Bureau of Minerals and Petroleum is expanding the areas for exploration all over the Island.

3. Arrangements on the expansion of transportation, information and communication infrastructure that will need to accompany extractive industrial expansion. These are likely to be deployed as public procurement and public-private partnership arrangements.
4. Implications on the relaxation of the zero-tolerance uranium policy. Since 2010 the government has allowed mining companies to explore prospects for uranium mining. While Greenland upholds its ban on the extraction of all radioactive elements, pressure is mounting to allow the extraction of uranium as a by-product of mines where other metals are the primary targets. Rare earth element deposits can only be extracted with uranium as a by-product.
5. Incentives offered to foreign investors to improve corporate governance and environmental and social performance.
6. Environmental and social conditions required in the awarding and monitoring of extractive exploration licences.
7. Whether model concession agreements and model contracts embed compliance with environmental and social safeguards. Do they include environmental, social and governance performance requirements? Particularly important are provisions on strategic environmental and social impact assessment, toxic waste treatment and migrant workers.
8. Policies and provisions that will be required to deal with the migration, integration and repatriation of foreign workforces.
9. Incentives that can be provided to investors to up-skill and employ Greenlandic nationals.
10. Provisions for the expansion of the financial services sector that will respond aptly to natural-resource-based industrial growth in the coming decades.
11. Programs to facilitate business and supplier linkages in the domestic economy.
12. Strategies to balance foreign investment interests, national sovereignty and wider geopolitical dynamics with Denmark and other Nordic powers. Denmark's contribute approximately $576 million to Greenland—nearly two thirds of the island's gross domestic product.

The Project Leaders

Oshani Perera

Program leader, International Institute for Sustainable Development, www.iisd.org

Oshani Perera leads the Public Procurement and Infrastructure Program at IISD. She advises national governments on the design of laws, policies and instruments to: 1) integrate environmental and social performance into public procurement and public-private partnership arrangements and 2) channel capital into sustainable assets and enterprises. Her geographical experience includes India, Sri Lanka, Abu Dhabi, Chile, China, Ghana, India, South Africa, Costa Rica, Lao PDR, the United States, the European Union, Vietnam, Mauritius, Egypt, Timor Este, Sri Lanka, Brazil, Jamaica, Mexico, Seychelles, Costa Rica and Thailand. Before working with IISD, Oshani worked at KPMG, the McKinsey Global Institute and the United Nations Environment Programme.

Oshani holds her Master of Science (MSc) Environment Technology, Imperial College of Science, Technology and Medicine; Master of Science (MSc) in Economic Policy from the University of Strathclyde; and a Bachelor of Science (BSc) in Business Administration from Cornel University and University of St. Gallen. Oshani works in English and French.

E contact: operera@iisd.org

Christina J. Colclough

CEO of CJ Colclough, former acting general secretary of Nordic Trade Union (NFS)

Christina Colclough was responsible for developing the strategies and policies of the Nordic Trade Unions in close collaboration with the 16 member organizations. She subsequently has started her own company that specializes on the sustainable and competitive development of Nordic and European companies and organizations.

Christina holds a doctorate (PhD) from Copenhagen University on social capital and its derived innovation capabilities in multinationals, a Master of Arts (MA) in political economy from Lancaster University and a Bachelor of Science (BSc) in cultural geography from Copenhagen University. Christina has seven years of research experience and 6 years of experience leading Nordic organizations. Christina has lived and worked in several different countries. She speaks English, Danish and Swedish fluently.

E contact: info@cjcolclough.com
www.cjcolclough.com

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International Institute for Sustainable Development
Head Office
161 Portage Avenue East, 6th Floor, Winnipeg, Manitoba, Canada R3B 0Y4
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International Environment House 2
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