ANNEX I

SUPPLEMENTARY COMMENTS
TO THE BRIEF TO THE
STANDING COMMITTEE ON INDIAN AFFAIRS
AND NORTHERN DEVELOPMENT

HOUSE OF COMMONS - CHAMBRE DES COMMUNES

SUBMITTED BY: Makivik Corporation
on behalf of the Inuit of Quebec

POSITION OF THE INUIT OF QUEBEC
WITH RESPECT TO THE START-UP
COSTS INCURRED IN ATTEMPTING
TO PROMOTE INUIT ECONOMIC DEVELOP-
MENT IN NORTHERN QUEBEC

INTRODUCTION

Representations have been made by Makivik Corporation to the Minister of Indian Affairs and Northern Development to obtain financial assistance for start-up costs. The following summarizes the increased costs incurred by the Corporation and its subsidiaries in establishing infra-structure facilities in northern Quebec to promote Inuit economic development.

It should be noted that it was foreseen (section 8 of the Charter of the Corporation) that the compensation monies received by the northern Quebec Inuit pursuant to the James Bay and Northern Quebec Agreement were to be used for purposes which include the following:

a. to assist in the creation, financing or development of businesses, resources, properties and industries belonging to the Inuit;

b. to initiate, expand and develop opportunities for the Inuit to participate in the economic development of their society through the application of their skills and capital; and

c. to invest in the securities of any corporation owning property or carrying on business intended to directly relate to the economic or other interests of the Inuit.

In furtherance of these objectives the Corporation has attempted to undertake a program of economic development in northern Quebec in order to increase the number of Inuit-owned enterprises and to create Inuit employment opportunities where few existed. To this end, the Corporation has established three major northern subsidiaries: Air Inuit Ltd., Kigiak Builders Inc., and Imaqpik Fisheries Inc.

Northern Quebec can best be described as a "slow growth area". An investor will normally, in deciding to locate an operation in a particular geographic location, especially in a slow-growth area, look to the possible sources of financial assistance available from government as incentives. While, for various reasons, no such assistance programs appear to be available to benefit northern Quebec development, generally, it was our belief at the time of negotiation of the James Bay and Northern Quebec Agreement that the Corporation's mandate was to concentrate its development activities in northern Quebec and that Canada's commitment under paragraph 29.0.39 of the Agreement to provide financial and technical assistance would be honoured.

The increased costs incurred in establishing the required infrastructures for the above-mentioned three subsidiaries were substantial. In all three cases, the companies were begun, not on the basis of strictly analyzed financial return, but in order to create in the north an industrial base, to generate employment and in the case of Air Inuit Ltd. and Kigiak Builders Inc., to provide services. To date, through Makivik and its subsidiaries, we have established for the Inuit approximately fifty permanent jobs and an equal number of part-time jobs.

We, like any investor, wish to see a bottom-line return. However, this has not been the case. While every attempt has been made to control operating expenses, we have had to bear increased overall financing costs for these necessary infrastructures which cost more to establish as a result of their location in the north.

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As stated above, if the same process had occurred in a southern region of Canada, government programs of financial assistance that use as their primary criteria, financial viability, job creation potential and the establishment of permanent infrastructure would have been available.

The underlying principle of such programs of financial assistance is to determine, first, whether a project without financial assistance will survive and, secondly, whether, with assistance, a project will survive and satisfy the above-mentioned criteria while generating some form of reasonable return to the investor.

Our representations to the Minister of Indian Affairs and Northern Development have underlined the fact that given the substantial outlays made to establish these companies, Makivik will either lose on its investments or realize a low rate of return.

It should be noted that the attached Schedules refer only to the increased costs associated with the establishment of the physical infrastructures for Makivik and its principle subsidiaries. More difficult to quantify, but a factor we contend with daily, are the increased operating costs resulting from inadequate or costly services such as fire protection, essential municipal services and transportation. As a result more of Makivik's working capital is tied up than would otherwise be the case.

To ensure the continuing viability of the principal Makivik subsidiaries and to ensure that Makivik's capital (represented by the compensation received under the James Bay and Northern Quebec Agreement) is not seriously encroached upon, direct financial assistance from the federal government must be forthcoming. To date, we have had no response from the Minister or his officials.

SUMMARY OF INCREASED

INFRASTRUCTURE COSTS

INCURRED TO DATE

AIR INUIT	Buildings Aircraft	$501,895 $497,152	$999,047
KIGIAK	Building	$852,116	$852,116
IMAQPIK	Fishing Research	$631,543 $286,421	$917,964
MAKIVIK	Buildings	$982,480	$982,480
			$3,751,607

Actual infrastructure costs incurred for the above amount in total to approximately $15,500,000.00 as follows:

Air Inuit:	$5,500,000
Kigiak:	$2,500,000
Imaqpik:	$3,600,000
Makivik:	$3,900,000

A I R   I N U I T   L T D.

a) Building Infrastructures

In order to establish the necessary infrastructures to operate on air service on the Ungava coast, Air Inuit Ltd. was required to construct a hangar building and office/housing building in Kuujuaq, Quebec.

As indicated in Schedule I, the additional cost to Air Inuit Ltd. in establishing these facilities in the north was approximately $500,000.00

b) Aircraft Infrastructures

Due to the lack of proper airstrips and airport facilities in the communities that Air Inuit Ltd. serves, the company is restricted to flying a daylight service. The company presently operates 5 aircraft: 3 - DH6 Twin Otter 300 series, 1 - DC-3, and 1 single engine Otter. This restriction negatively affects the utilization, in particular of the company's Twin Otters, thereby affecting more than half its fleet, representing more than 80% of its revenues.

Based on crew statistics (approximately 90 hours flying per man per month) and taking into account M.O.T. regulations in regard to maximum individual monthly flying hours (120 hours per month) we have calculated that our Twin-Otters are flying at only 75% utilization due to the inability to fly night hours.

As demand for the scheduled and charter services increases, the company is obligated to respond to such increase by the purchase and/or leasing of additional aircraft rather than the greater utilization of existing fleet. As indicated in Schedule 2, we estimate that the additional cost to the company due to inadequate airstrip conditions is approximately $250,000.00 per year.

SCHEDULE I *

AIR INUIT LTD.

Cost of hangar and building		$ 1,040.000.
Additional expenses are:		
a. Additional labour and engineering costs:		
Labour contents 65% of $1,040,000 =	$676,000	
Additional costs $676,000 X $\frac{90\%}{190\%}$		$ 320,210
b. Additional Material costs:		
Material contents: 35% of $1,040,000 =	$364,000	
Additional costs: $364,000 X $\frac{20\%}{120\%}$		60,666
		380,876
c. Interest expense of borrowed funds at an interest of 15% per annum.		
From June 1978 to December 1978: (Divide by 2 to average fund outlays)	$\frac{7 \text{ mths} \times 15\% \times \$380,876}{2 \times 12 \text{ mths}}$ =	16,664
		397,540
From Jan. 1979 to Sept.30,1980:	$\frac{21 \text{ mths} \times 15\% \times \$397,540}{12 \text{ months}}$ =	104,355
		$ 501,895

* For Criteria in determining higher northern cost please see Annex A

SCHEDULE 2

AIRCRAFT INFRASTRUCTURES

ADDITIONAL INVESTMENT IN AIRCRAFT

Yearly amortization of two Twin-Otters at 18% per annum over 15 years, bought at a cost of $2,274,708.	$ 427,078
Yearly lease of a third Twin-Otter	285,600
Yearly amortization of a fourth Twin-Otter at 18% per annum over 15 years at a price of $1,500,000.	281,628
Total yearly amortization of 4 Twin-Otters	$ 994,306
Average yearly amortization of one Twin-Otter being the additional investment in aircraft: $994,306. ÷ 4	$ 248,576
Additional investment in aircraft for the years 1980 and 1981: $248,576. X 2	$ 497,152

KIGIAK BUILDERS INC.

In order to establish a maintenance facility that would be large enough to take into account future growth in Kuujjuaq and the northern Québec area generally, and in order to house the company's office employees, construction and maintenance crews, Kigiak Builders Inc. has since 1979 established a service center, one staff house and two bungalows for staff.

As indicated in Schedule 3, the additional costs to Kigiak Builders Inc. in establishing these facilities in the north was approximately $850,000.00

SCHEDULE 3 *

KIGIAK BUILDERS C.

Cost of buildings:	Total	65% Labour & Engineering	35% Materials
Cost of the Service Center:			
Payments from July 1979 to December 31, 1979	$ 1,300,000	$ 845,000	455,000
Payments from July 1980 to September 1980	300,000	195,000	105,000
	1,600,000	1,040,000	560,000
Cost of the houses for the company's office, employees, construction and maintenance Crew.			
Payments from July 1979 to Nov.1979			
2 houses	200,000	130,000	70,000
1 staff house	150,000	97,500	52,500
	350,000	227,500	122,500
	$ 1,950,000	1,267,500	682,500

Additional expenses:

a. Additional labour and engineering costs:		
$845,000 X 90%/190%		$ 400,263
195,000 X 90%/190%		92,368
227,500 X 90%/190%		107,763
		600,394
b. Additional Material costs:		
$455,000 X 20%/120%	$ 75,833	
105,000 X 20%/120%	17,500	
122,500 X 20%/120%	20,417	113,750
		714,144
c. Additional insurance premiums for 1979 due to additional costs 1½% of $714,144		10,712
d. Interest:		
From July to Dec. 1979: $\frac{\$400,263+75,833}{2} \times \frac{6}{12} \times 15\% =$		17,854
From July to Nov. 1979: $\frac{\$107,763+20,417}{2} \times \frac{5}{12} \times 15\% =$		4,006
		746,716
From Jan. to Oct.1980: $\$746,716 \times \frac{10}{12} \times 15\%$		93,340
From July 1980 to Sept.1980: $\frac{\$92,368+17,500}{2} \times \frac{3}{12} \times 15\% =$		2,060
e. Additional insurance premiums for 1980		10,000
		$ 852,116

*For Criteria in determining higher northern costs

IMAQPIK FISHERIES INC.

a) Research

Due to the committment made by Imaqpik Fisheries Inc. to develop a northern shrimp fishery approximately $286,000. was spent in doing preliminary research into the feasibility of commercial fishing in the Ungava Bay (see Schedules 4 (c) and 4(d)). This research was carred out with the knowledge of the Minister of Fisheries and Oceans.

However, before such research had resulted in conclusive findings, the Minister of Fisheries and Oceans saw fit, at his discretion, to award limited-use licence to a number of Canadian producers to exploit the area. Therefore, not only did Imaqpik Fisheries Inc. spend its own money to a resource, but through ministerial decision, lost any economic advantage it might have gained from doing so.

b) Commercial Fishing

The Company has received licences for commercial shrimp fishing from the Ministry of Fisheries and Oceans that restricts it to the area of 0 and 1 in Davis Strait. Due to this restriction to northern waters, the company suffered higher fuel costs and obtained fewer fishing days resulting in lower revenues of approximately $631,500.00 over an eighteen month period. (See Schedules 4 (a) and 4 (b)).

It is recognized that if the company had access to waters south of Davis Strait it would still be fishing shrimp approximately four months a year in area 0 and 1. However, as the figures in Schedules 4(a) and (b) indicate if the company would fish "southern" waters (Labrador) for two-thirds of the year considerable advantage would be gained.

SCHEDULE 4A

IMAQPIK FISHERIES INC.

1979 Fishing Season

- Actual results based on fishing the area 0 and 1 off Baffin Island based in Greenland

Total Days Available	139
Fishing Days	114
Steaming Days	25
Total Catch	439,000 kg
Average Catch per Fishing Day	3,851 kg
Average price per kg.	$3.25
Total revenue from catch	$1,426,750.
Fuel cost per fishing day	$2,150.
Fuel cost per steaming day	$3,065.
Total Fuel Cost (139 days)	$321,725.

- If Company fished Labrador waters:

(Estimated catch per available fishing day and selling price remain the same as above)

However, of 139 available fishing days:

Fishing days	-	119
Steaming days	-	20

Estimated Total Revenue 119 X 3,851 X 3.25 -	$1,488,500.
Fuel Cost per Fishing day	950.
Fuel Cost per Steaming Day	1,354.
Estimated Total Fuel Cost	140,000.

- Difference

a) Additional Fuel Cost:		$ 181,725
b) Lost Revenue	61,750.	
Less 30% Crew Share:	18,525	43,225
TOTAL		$ 224,950

SCHEDULE 4B

IMAQPIK FISHERIES INC.

1980 Fishing Season

- Actual results based on fishing the area 0 and 1 off Baffin Island based in Halifax

Total Days Available	203
Fishing Days	131
Steaming Days	72
Total Catch	671,010 kg.
Average Catch per Fishing Day	5,114 kg.
Average price per kg.	$3.00
Total revenue from catch	$2,013,000.
Fuel cost per fishing day	$950.
Fuel cost per steaming day	$1,354.
Total Fuel Cost (139 days)	$221,938.

- If Company fished Labrador waters:

(Estimated catch per available fishing day and selling price remain the same as above)

However, of 203 available fishing days:

Fishing days - 167.7

Steaming days - 35.3

Estimated Total Revenue 167.7 X 5,114 X $3.00 -	$2,572,851.
Fuel Cost per Fishing day	$ 950.
Fuel Cost per Steaming Day	1,354.
Estimated Total Fuel Cost	207,111.

- Difference

a) Additional Fuel Cost:		$ 14,827.
b) Lost Revenue	559,851.	
Less 30% Crew Share:	167,955.	391,896.
TOTAL		$ 406,723.

SCHEDULE 4 C

IMAQPIK FISHERIES INC.

RESEARCH COSTS IN UNGAVA BAY

Costs as per Audited Financial Statements
for the period June 1 to December 31, 1979

Charter hire	$ 123,736.00
Crew shares and wages	51,650.00
Fuel	28,537.00
Production supplies	324.00
Crew transportation and accomodation	17,959.00
Finders fees	2,084.00
Operational agent fees and expenses	1,400.00
Insurance	1,900.00
Telephone, telex and other	17.00
TOTAL	$ 227,607.00

SCHEDULE 4 D

RESEARCH 1980 "LUMAAQ"

Seven Days' Research Costs

Fuel for 7 days at $1,228. per day	$ 8,596.00
Rental of vessel for 7 days @ $2,530. per day (11,000NKR @ .23)	17,710.00
Provisions for 7 days at $144. per day	1,008.00
Crew costs:	
($4,500. per day X 7 days) X 30%	
(5 tons per day X $3,000. per ton X 7 days) X 30%	31,500.00
TOTAL	$ 58,814.00

MAKIVIK CORPORATION

In addition to renovating a building in Kuujjuaq, converting it into office space, the Corporation, in order to house its staff from outside of Kuujjuaq, established the following buildings at its head office location:

a. 4 - duplexes acquired during 1977 - 1978;

b. 1 - fourplex and 1 - sixplex buildings acquired during 1979 and 1980.

As indicated in Schedule 5, the additional cost to Makivik in establishing these facilities in the north was approximately $982,000.00.

SCHEDULE 5*

MAKIVIK CORPORATION

Cost of buildings:	Total	65% Labour & Engineering	35% Materials
Acquired from July to Jan.1977	$ 793,000	515,450	277,550
Acquired from July to Jan.1978	42,000	27,300	14,700
Acquired from July to Jan.1979	148,000	96,200	51,800
Acquired from July to Jan.1980	950,000	617,500	332,500
	$1,933,000	1,256,450	676,550

Additional expenses:

a. Additional labour and engineering costs:

$515,450 X 90%/190%		$ 244,160
27,300 X 90%/190%		12,932
96,200 X 90%/190%		45,568
617,500 X 90%/190%		292,500
		595,160

b. Additional material costs:

$277,550 X 20%/120%	46,250	
14,700 X 20%/120%	2,450	
51,800 X 20%/120%	8,633	
332,500 X 20%/120%	55,417	112,750

c. Additional insurance premiums to the end of 1980:

1977 Bldgs: $244,160 + 46,250 = (290,410 X 1½%)X4 yrs	17,425
1978 Bldgs: $ 12,932 + 2,450 = (15,382 X 1½%)X3 yrs	690
1979 Bldgs: $ 45,568 + 8,633 = (54,201 X 1½%)X2 yrs	1,620
1980 Bldgs: $292,500 +55,417 = (347,917 X 1½%)X1 yr	5,220
	732,865

d. Interest due to loss of interest income which could have been used to finance the subsidiaries losses instead of borrowing funds from bank:
(Calculations below are not compounded nor did include interest on insurance premiums)

1977 bldgs:	$ 290,410 X 15% X 4 years =	$174,245	
1978 bldgs:	15,382 X 15% X 3 years =	6,922	
1979 bldgs:	54,201 X 15% X 2 years =	16,260	
1980 bldgs:	347,917 X 15% X 1 year =	52,188	249,615
			982,480

*For Criteria in determining higher northern cost, please see Annex A

The [illegible]iteria used in determinin[illegible] the higher cost of construction in the north are based on the following:

a. Labour costs are approximately 90%* higher than in the south due to the fact that northern construction workers must be lodged, fed and given travel expenses and northern allowance and due to the short construction season, must pay overtime hours; and

b. Material costs are approximately 20% higher due to added transportation and transportation insurance costs.

It should be noted that the construction industry in Canada uses a multiple of 2.2 in comparing the northern to southern construction costs.

On the basis of southern hourly construction costs recommended by the Association des Constructeurs du Québec utilizing 50 hour work week - Cost per hour		$ 27.84
Additional Costs per Hour for Northern Construction:		
Food	-	$ 3.50
Lodging	-	10.50
Travel	-	2.01
Operating Costs (Tool, Trucks, etc.)	-	4.32
Workmen's Compensation	-	0.40
Additional Minimal Hourly rate due to Overtime	-	4.17
		$ 24.90

Percentage Increase in Costs:

$$\frac{\$24.90}{27.84} = 89.4\% \text{ - say } 90\%$$