Ministry of Finance and Taxes

NAALAKKERSUISUT

GOVERNMENT OF GREENLAND

Political and Economic Report 2017

Ministry of Finance and Taxes

NAALAKKERSUISUT

GOVERNMENT OF GREENLAND

Political and Economic Report 2017

In accordance with Greenland Parliament Act no. 26 of 28 November 2016 on the budgets and accounts of the municipalities and the Greenland Government Authorities, the Government of Greenland presents an annual report to parliament's spring assembly on the economy of Greenland, including trends in public expenditure and revenues.

The annual report must include analyses of developments within the economy and activities within one or more key areas of expenditure and revenues.

The report will thus contribute to increasing information on the Greenland Government Authorities, and provide the basis for a qualified debate on the economic progress of the Greenland Government Authorities and Greenland as a whole.

As such, the report covers many issues and takes a form that can be incorporated into the considerations of the Government of Greenland and parliament for economic development and prioritising. The report highlights special problem areas and trends.

The Government of Greenland's current Political and Economic Report for 2017 should thus be seen in the context of its work on proposals for the Budget Act for 2018.

FM 2017 / 10

Political and Economic Report 2017

Ministry of Finance and Taxes, The Government of Greenland, Maj 2017

Final version approved in april 2017

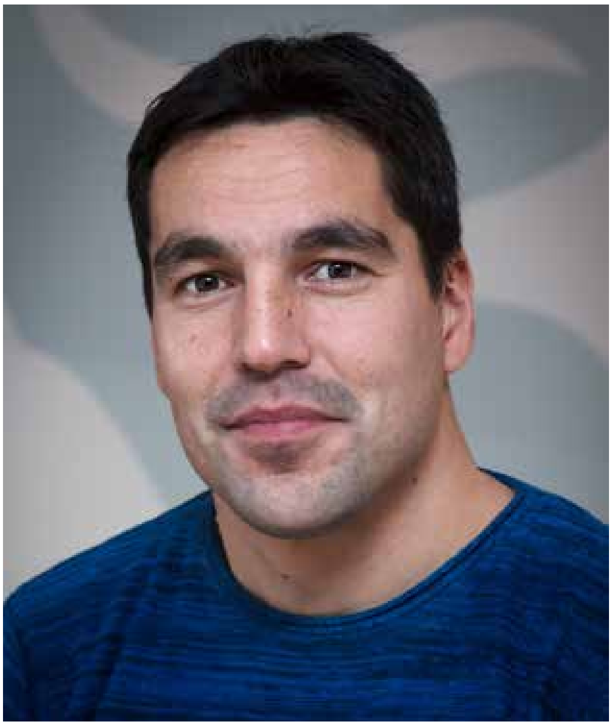
Layout & design: allu design, Monika Brune — www.allu.gl

Printing: Nuuk Offset, Nuuk

Ministry of Finance and Taxes
The Government of Greenland
PO Box 1037
3900 Nuuk, Greeland
E-mail: oed@nanoq.gl

TABLE OF CONTENTS

Foreword



Aqqaluaq B. Egede
Minister of Finance and Taxes

Aqqaluaq B. Egede

The annual Political and Economic Report looks at a number of the most important initiatives that the Government of Greenland plans to launch within the year it covers, and in future years.

The 2017 report describes the current economic situation and challenges to be overcome to secure sustainable development, which has also been covered in the reports of recent years, in the Economic Council's annual reports, and in the Tax and Welfare Commission's recommendations.

The report also contains a follow-up to the Sustainability and Growth Plan from 2016, with its four reforms that were included in last year's report.

The Sustainability and Growth Plan and follow-up in the form of reform measures, specific initiatives and targeted investment is intended to help achieve sustainability in the public economy, and higher growth and employment in the private sector on a sustainable basis. As such, it is intended to help achieve several goals:

- That the country's economy is healthy and stable, in a manner that is sustainable in the long-term and can gradually free Greenland from dependency on the block grant.
- Balanced development geographically and between the municipalities that can help maintain a suitable level of welfare throughout the country, and create growth in several locations.
- Generate greater purchasing power for households, including and especially providing a boost to low and medium income groups, to reduce the high level of social inequality.

The Political and Economic Report 2017 addresses these issues, including a special section on how the Government of Greenland can pave the way for better and more equal conditions for citizens through various proposed specific initiatives. This applies in particular to reforms within the following key areas:

- Education, including a special focus on schools and vocational education.
- Transport, including a special focus on expanding airports.
- Commercial fishing, including changes as a result of changes in the Fisheries Act and expected new tax structure.

- Housing, including preparation of devolvement to the municipalities and housing reforms.
- Social services, with special focus on underprivileged children and young people as well as public sector assistance.
- Job creation, including the creation of jobs in the export sector and combating unemployment.
- Taxation and duties reform, including reduction and prevention of debt.

The report also contains updated goals and principles for economic policy. This is an extension of the coalition agreement from October 2016 and passing of the new Budget and Accounting Act for the Greenland Government Authorities and municipalities during parliament's autumn assembly in 2016.

I wish you an enjoyable read and look forward to the ongoing debate.

Aqqaluaq B. Egede
Minister of Finance and Taxes

1 INTRODUCTION

The Government of Greenland generally wants to work to a greater degree on money circulating further in the country, to achieve a more self-supporting economy. This will not happen automatically but will require a concerted effort. The focus needs to be placed on the framework conditions that support this objective, along with more focus on competence development and creating a cost-effective infrastructure that will bind the country together. The current economic conditions for doing so are favourable. As in 2015, there were once again upward economic trends in 2016, after a period of downturn in the GDP between 2012 and 2014. The Economic Council also expects growth in 2017 according to its September report.

This is good news. It is also important that better economic trends are used to consolidate public finances, and for future investment that can promote progress in Greenlandic society, to achieve structural and long-term gains.

Greater equality in the population's living standards can and must contribute to positive social development. This is why the Government of Greenland will focus on the following:

- Proactive means of dealing with fewer taxpayers supporting a growing number of pensioners.
- Ensuring that far more youngsters enter education that gives them vocational skills, and at an earlier stage than is generally the case at the moment.
- As many members of the potential workforce as possible should be actively in work, and achieve permanent employment — or at least gain a better foothold in the labour market.
- Dynamic industrial development, with growth in every municipality, and reversing overall net emigration into net immigration to the country.
- Early and preventive action as a basic principle, including a particular focus on the areas of health and social services.
- Targeting subsidies within the housing area with greater latitude for residents to take more responsibility for their own accommodation, whilst ensuring social housing needs are met.

Increasing export earnings is vital in relation to reducing the importance of the block grant. This requires the development of more key business sectors, and also better utilisation of our fishery resource through such methods as:

- Systematic improvement of the country's competitiveness, which can make it more attractive for domestic and foreign businesses to invest.
- Setting up a cohesive, effective infrastructure able to bind the country together in a better and cheaper manner, whilst giving us better conditions for attracting trade and tourism.
- Targeted and effective initiatives with regard to education and skills development, to ensure the labour market focuses to a greater degree on filling vacant jobs with local, skilled labour to the benefit of the individual, families and the community.

The Government of Greenland would like to see more investment with private capital, thus avoiding having to always finance investment via public funds. Therefore, the Government of Greenland will continue to work to create healthy, stable conditions and suitable preconditions that facilitate this aim. In this connection, it is important that domestic and foreign investors and our partners can have faith in the policies we follow if they are to make significant investments. This is also important when we face the need for large investments in infrastructure, and need to ensure that we can afford more direct, public-oriented initiatives financed by taxes and duties.

The provisional figures for 2016 show that increasing consumer spending has given increased revenue from taxes and duties. This trend is expected to continue in 2017 but should also be seen in relation to the growing burden of expenditure. The Budget Act for 2017 projected an OI surplus in 2017, but an overall imbalance between 2017-2020. The budgeted result was based on streamlining the public sector and new revenues from reforms. Therefore, there is no economic latitude to initiate general improvements in services given the current situation.

Any non-allocated funds must primarily go to prioritised, growth-promoting or tax-cutting initiatives, such as a new airport structure. This will be the Government of Greenland's starting point for the coming financial discussions with the political parties, in which the question of continued follow-up and further definition of the Sustainability and Growth Plan will also be a key issue.

1.1 The economic situation and structural problems

The Economic Council's Chairmanship published its latest report in September 2016. Here it was estimated that the real economic growth experienced in 2015 and 2016 will continue into 2017. The growth is based on major construction projects raising the level of activity temporarily and healthy revenues from fishing. The Council expects an increase in GDP in 2017 of around 1% compared to 2016.

Actual figures and projections for economic development between 2010 and 2016 are shown in table 1.

Gross investment in the mineral and mineral resources area in 2015 was higher than in 2014, which was a low point as a result of a drop in demand in parts of the global economy that hit the mineral resources sector hard.

Table 1: Supply balance, annual real growth as a percentage of GDP and gross investment in fixed prices.[1]

		Share of GDP 2015	Growth rate, per cent						
			2010	2011	2012	2013	2014	2015	2016[2]
Linked values (2010 prices)	Private consumption	45,1	1,3	2,4	-1,3	-2,3	-1,7	2,1	2,1
	Public consumption	51,9	-1,4	-0,9	0,6	2,4	-0,8	-1,9	0,5
	Fixed gross investment	26,5	75,8	23,9	-41,1	-21,5	-21,7	11,7	27,5
	– excl, inv, in mineral prospecting	21,7	4,7	9,4	-10,9	-5,6	-9,4	5,9	32,3
	Export of goods and services	27,1	11,3	4,7	-2,0	3,5	-6,3	-10,9	12,0
	Totals, supply/final use	150,3	16,7	8,2	-13,8	-4,1	-6,5	-0,7	7,0
	Import of goods and services	50,4	40,1	16,1	-29,8	-5,7	-15,6	-5,2	11,4
	Gross Domestic Product	100,0	2,7	1,5	1,5	-3,0	-0,8	1,7	4,6
			Amount, MDKK						
	Total gross investment		6,950	8,601	5,151	4,063	3,090	3,451	
	Mineral and oil prospecting		3,709,1	5,174,4	2,000,5	1073,5	468,2	712	
	Gross inv, excl, prospecting		3,202	3,504	3,122	2,948	2,671	2,827	

Note: Figures for 2010-2013 are final, whilst those for 2014-2015 are provisional from Statistics Greenland.

1. *The Greenland Government Authorities have revised their method of projecting GDP growth targets retrospectively to 2003. The linked values now used show a more realistic growth target. The new method gives better grounds for comparison between the countries, and complies with international recommendations. An audit of the figures for private consumption and transportation such as sea and air has also been performed. The figures in table 1 are thus not directly comparable with those for GDP in the Economic Reports for 2016 and earlier. Further details can be obtained from: http://www.stat.gl/publ/da/NR/201701/pdf/2006-2015%20Nationalregnskab.pdf.*
2. *Figures for 2016 are provisional estimates from the Economic Council (annual report, September 2016).*

1.1.1 Trends in commercial fishing

Fishing continues to be the most important export industry. Figure 1 shows that the price of halibut has been rising since the latter half of 2013, reaching its highest level in over 5 years in Q4, 2015. However, the price dropped in the first three quarters of 2016 by around 12%. The price of cod began to rise as from Q4 of 2013 after falling since 2011. By Q3 of 2015, it had reached the same level it was in 2011. Between 2015 and 2016, the price remained at about the same level. Shrimp prices have been rising since 2010. Despite a minor dip in 2013, they have risen by about 138% up to Q4 2015. Prices fell off a little in 2016 but corrected somewhat in Q3. The generally good shrimp prices have helped considerably to maintain earnings from shrimp fishing, despite lower quotas for shrimp in the same period.

Shrimp fishing is still Greenland's most important industry, accounting for about 35% of total export value. The shrimp quota was set at 73,000 tonnes in Western Greenland in 2015. That's a fall of 61,000 tonnes since 2007. However, the biological advice was unexpectedly increased to 90,000 tonnes in 2016. Therefore, the quota for 2016 was set at 85,000 tonnes, an increase of 12,000 tonnes compared to 2015. The advice remained unchanged for 2017 at 90,000 tonnes, and the quota was also set at 90,000 tonnes. Canada and the EU were awarded 3,644 tonnes of the total shrimp quota for Western Greenland. With good prices and a relatively high quota for shrimps, there is every reason to expect a good profit for the industry in 2017. The biological advice for 2017 is 2,000 tonnes in Eastern Greenland. The actual shrimp quota is set at 5,000 tonnes, of which 4,150 are allocated to the EU by agreement.

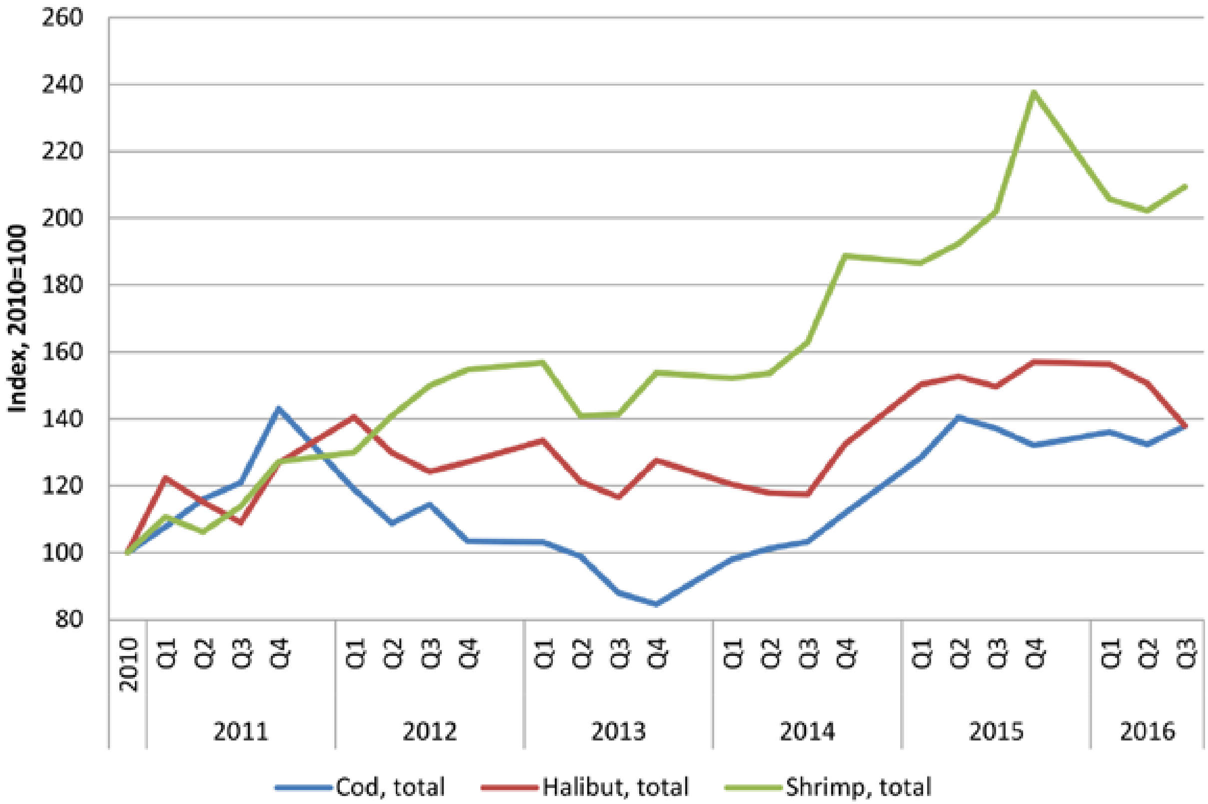
Table 2 shows catches of the three most important species of fish caught in Greenland, plus mackerel.

Table 2: Catches by fishermen and vessels on Greenlandic licences.

Tonnes	2012	2013	2014	2015	2016
Mackerel, total	5,284	52,797	78,382	30,390	35,827
Cod, total	21,625	25,504	31,117	49,031	56,380
Cod, seagoing	11,010	11,976	12,619	23,669	21,773
Cod, inshore	10,616	13,528	18,497	25,363	34,607
Halibut, total	34,569	34,795	38,172	38,170	42,219
Halibut, seagoing	13,062	11,348	11,464	13,318	11,564
Halibut, inshore	21,507	23,447	26,708	24,853	30,655
Shrimp, total	109,375	88,532	83,516	70,207	80,909
Shrimp, seagoing	51,169	44,879	45,287	36,346	40,905
Shrimp, inshore	58,206	43,654	38,229	33,861	40,005

Source: Greenland's fishing licence control.
Note: Catch figures for 2016 are provisional.

Figure 1. Index of average prices per kilo for fish and shellfish..



Source: Statistics Greenland.

Mackerel fishing is expected to give better revenues that can generate growth in the fishing industry via development of pelagic fishing. Over 50,000 tonnes of mackerel were caught in 2013, although the value per kg was much lower than for the other three species referred to in table 2. A quota of 100,000 tonnes was set in 2014 for mackerel for Greenland, and 78,670 tonnes were landed.

Only 30,390 and 35,827 of mackerel were landed in 2015 and 2016 respectively, which is less than half of the quota. This is thus a very uncertain form of fishing, as mackerel are a migrating species.

Therefore, there are no guarantees that large volumes of mackerel can be fished annually in Greenlandic waters. Apart from the mackerel quota in Eastern Greenland, a trial quota of 10,000 tonnes was set for Western Greenland, but which has not been used. Over 17,000 tonnes of herring were also caught in Greenlandic waters in 2016. Therefore, herring fishing is also very significant and is expected to become an important source of income for Greenland in the future.

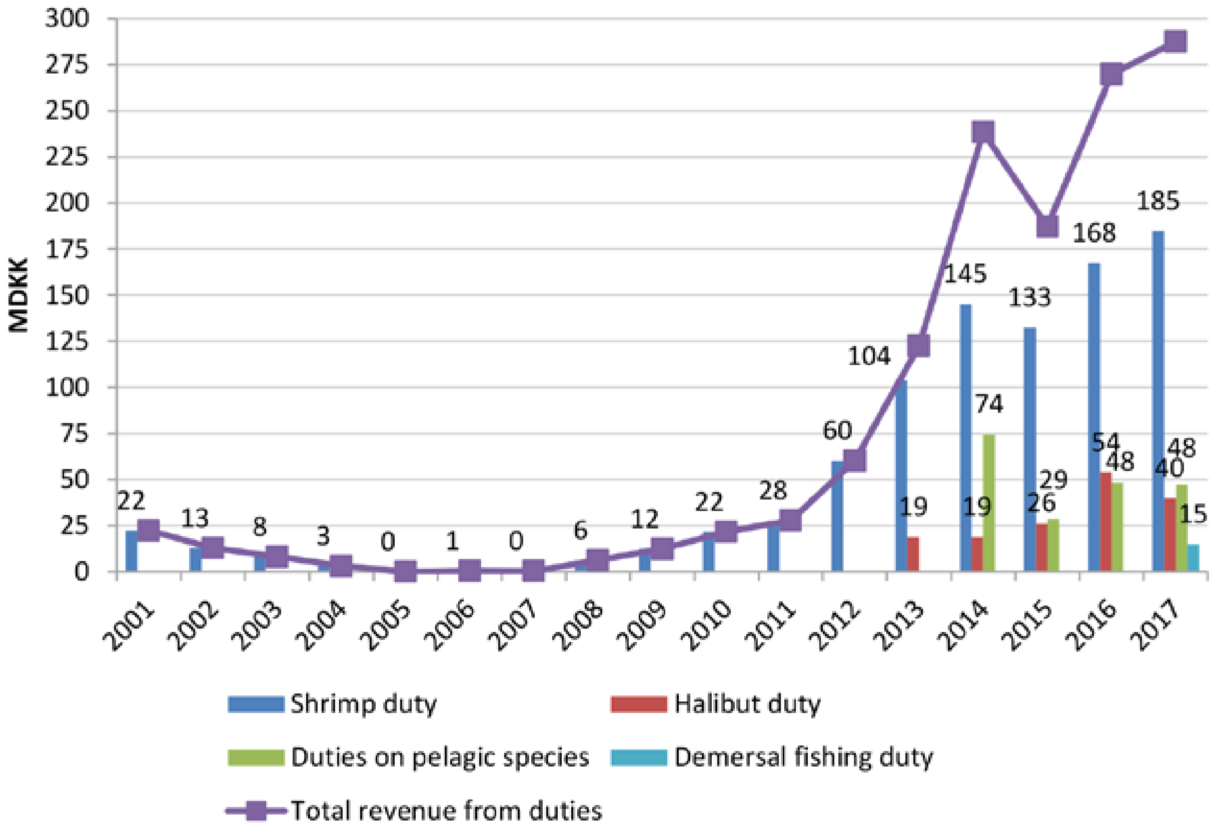
As can be seen in table 2, the catches of cod and halibut have been rising over the five-year period, but catches of shrimps have fluctuated greatly.

The above shows that there is certain potential for growth in fishing as a whole in the short term. At the same time, the general profitability and resource situation within parts of the industry also means that some vessels will find it difficult to make a profit. This underlines the importance of continuing to work to develop other private industries.

Fishing is a major contributor to public funds. Earnings from fishing duties (resource taxation) have also grown to a historically high level. This is partially due to new, major revenue streams in recent years from historically high prices for shrimp and halibut, plus duties on mackerel fishing. Duties on cod, haddock, pollack and redfish also came into force in 2017.

But the fact that a lot of public revenues come from fishing duties can be risky, as we know from experience that the fishing industry suffers from fluctuating income. There is also current uncertainty linked to trade policies, that can be important to earnings from fishing and thus future revenues from resource rents.

Figure 2. Revenues from fishing duties 2001 – 2017 in MDKK (budget figures for 2016 and 2017).



Source: Tax Agency. *Note: Bottom fishing duty consists of duties on cod, redfish, haddock and pollack.*

This is due to the possible consequences of Brexit (via which there may be import duties for exports to the UK) and CETA (the free trade agreement between Canada and the EU, that includes the prospect of removing duties on Canadian fish products imported into the EU). Figure 2 shows trends in revenues from fishing duties since 2001.

The level of revenue from resource rent duties has not necessarily peaked yet. A relatively large part of the fishing industry is not currently subject to resource rent taxation. As from 2016, inshore fishing for haddock has been the only inshore sector subject to duties. The duty was applied in expectation of good profits, which make it possible to apply taxation in line with other similar profitable types of fishing.

A broadly-representative working group has been set up to look at the development of a new resource rent duty model, in which all species of fish can — in principle — be taxed. The group is to submit a report with proposals for new models in the spring of 2017. A bill for an act on a new resource rent tax is expected to be submitted to parliament's autumn assembly 2017, providing the Government of Greenland wants to use the recommendations.

1.1.2 Mineral resources

Prospecting activity has been falling in recent years within the mineral and hydrocarbon areas, globally and in Greenland. A major cause of the fall in activity is that the mineral resources industry has experienced a decline in prices for metals, minerals and oil. It looks as if this trend changed in 2016 when there were general signs of stable — and for some minerals, rising — prices.

As can be seen from table 3 on selected mineral projects, several have been or expect to soon be granted exploitation licences.

The construction phase for LNS Greenland Gems A/S's ruby and sapphire project at Aappaluttoq has been concluded, and production started in early 2017.

After receiving an exploitation licence in 2015, Hudson Greenland A/S's anorthosite project at Naajat is expected to complete its construction phase in 2017, and production is expected to start in the latter half of the year.

Ironbark A/S's zinc and lead project was granted an exploitation licence in December 2016, and assuming that the company can secure the necessary financing, construction is expected to start in 2018.

Apart from the above projects, prospecting activities are expected on other mineral projects in 2017, whilst such activities in recent years within the hydrocarbon area in Northeast Greenland concluded in 2016.

The granting of an exploitation licence is not synonymous with the immediate start of construction and exploitation activities, due to such factors as financing being affected by trends in raw material prices. Therefore, it is hard to determine whether — and if so when — individual projects can be realised.

To ensure continued interest from the mineral resources industry with regards to investing in prospecting and exploitation of Greenlandic underground resources, continued efforts to ensure stable conditions, easy access to data and to promote the mineral resources potential of Greenland is essential. In addition, options for streamlining official processes and adjusting standard terms are under constant review to encourage the development Greenland wants.

A significant increase in prospecting — and more importantly — exploitation activities is essential for the chances of achieving economic self-sufficiency.

Current developments within the mineral field in 2017 are deemed to be positive, especially given the status of the industry on a global level.

Table 3. Current mineral projects (year stated is the earliest expected).

Project	Status	Expected no. of jobs from (construction) operation
Aappaluttoq (rubies and pink sapphires)	Production phase (exploitation permit granted in 2014)	Approx. 80 in 2017
Naajat/Søndre Strømfjord (anorthosit)	Construction/production phase (exploitation permit granted in 2015)	(20 in 2017) 61 in 2017
Citronen Fjord (Zn, Pb)	Planning phase (exploitation permit granted in 2016)	(300 in setup phase and 475 in operation phase)
Kuannersuit/Kvanefjeldet (REE, U, Zn, fluorite)	Application expected in 2017	(1,170 in setup phase and 785 in operation phase)
Isukasia (Fe)	Exploitation permit granted in 2013	(1,500-3,300 in setup phase) 680-810 in operation phase
Killavaat Alannguat/Kringlerne (Zr, REE, Nb, Ta, Y)	Application received in 2013. Revised application received in October 2016	Awaiting result of application processing
Maarmorilik (Zn, Pb)	Prospecting (exploitation permit granted in 2008)	Awaiting prospecting results
Nalunaq A/S (Au)	Prospecting (exploitation permit granted in 2003)	Awaiting prospecting results

Source: The Mineral Licence and Safety Agency.

1.1.3 Tourism

Tourism suffered a significant fall between 2010 and 2014 with respect to the number of cruise ship passengers, and the number of foreign air passengers, whilst hotel bookings stagnated. As can be seen from figure 3, a rise in the number of foreign air passengers was recorded in 2015 and 2016 after the lowest number was recorded in 2014 since records began. As such, the number of foreign air passengers in 2016 was the highest within the period.

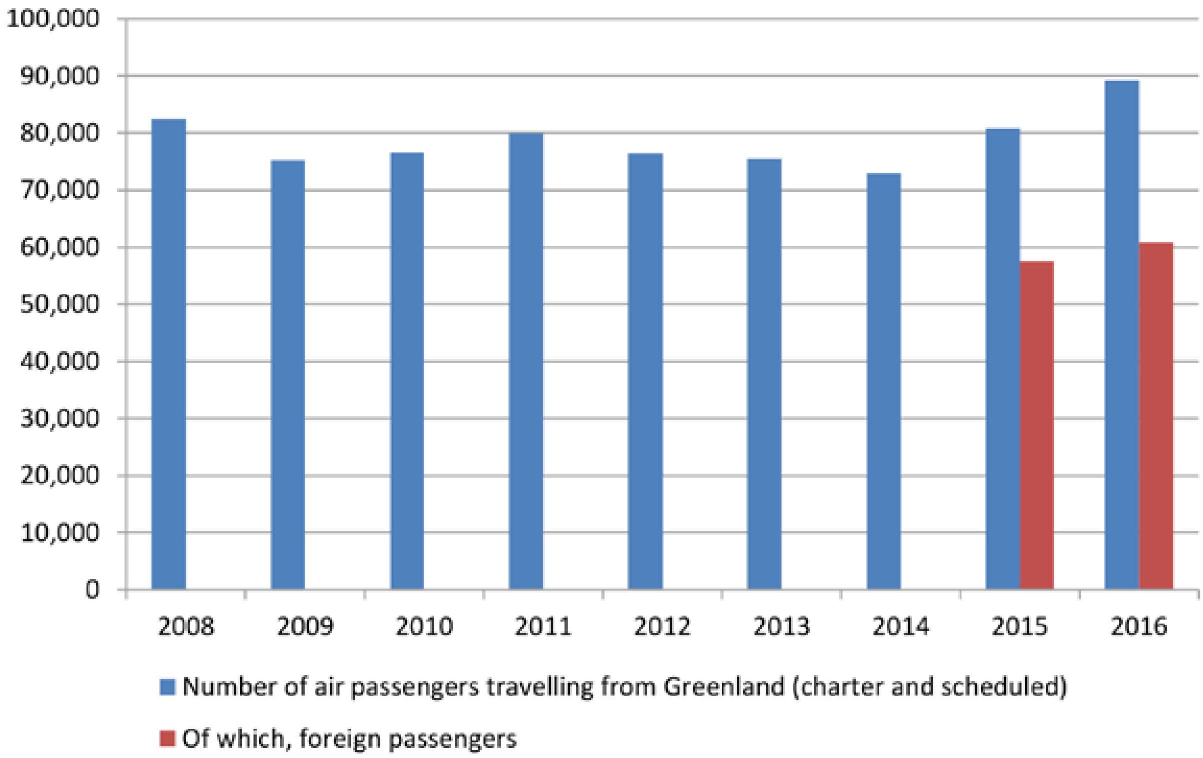
As part of efforts to improve the tourism figures, Statistics Greenland began to count air passengers by country of residence from 2015. This has made it possible to count the number of foreign passengers travelling from Greenland in 2015 and 2016. The number of foreign passengers travelling from Greenland in those years increased by 3,290.

The Government of Greenland reformed the Cruise Ship Tax in 2015 to boost competitiveness in that area. The reform made Greenland comparable with other North Atlantic destinations with regard to taxes. Despite a minor decrease in 2016, the total is still in excess of the years before the Cruise Ship Tax was reduced. The fall in cruise ship passengers can be due to uncertainty concerning the terms applicable to cruise ship lines caused by Denmark in connection with the very short implementation period for tougher rules on safety at sea in Greenland.

Figure 4 shows that the decline in the number of cruise ship passengers was reversed in 2015.

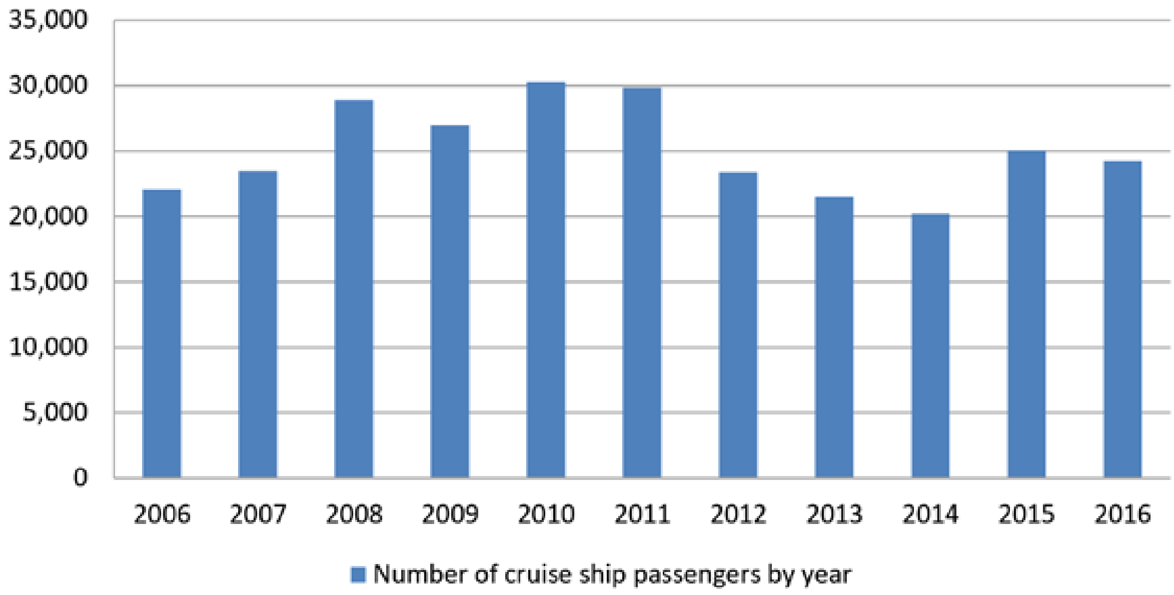
The number of hotel bookings rose between 2014 and 2016. Figures from Statistics Greenland show an increase in the number of overnight stays (cf. figure 5) and hotel guests.

Figure 3. Number of air passengers travelling from Greenland.



Source: Statistics Greenland 2017.

Figure 4. Number of cruise ship passengers by year.



Source: Statistics Greenland 2016.

Figure 5. Number of annual overnight hotel bookings.

Source: Statistics Greenland 2016.

1.1.4 Employment and unemployment

Figures 6 and 7 show the number of registered unemployed by place of residence and month for 2014, 2015 and 2016.

It is no surprise that the two figures show that unemployment is at its highest during the winter. Settlements are harder hit by seasonal unemployment. A look at options for reducing seasonal unemployment is needed, including via possible adjustment to the framework conditions for commercial fishing that could lead to more even utilisation of land facilities.

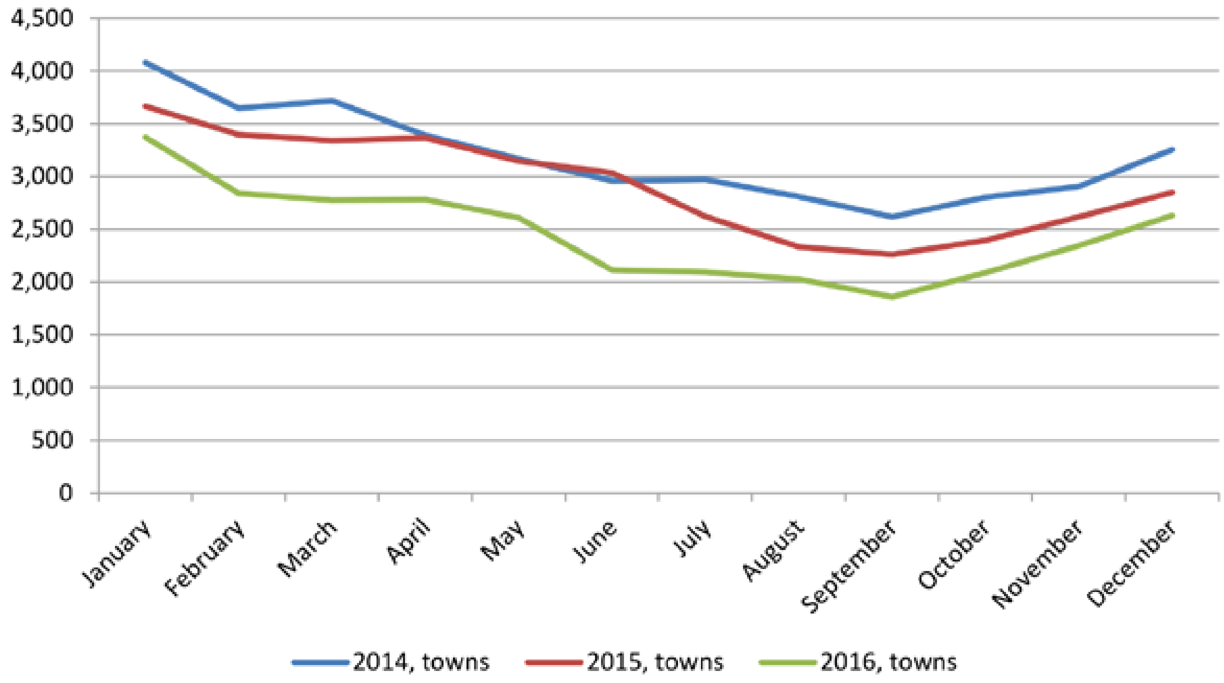
The number of registered unemployed in towns and settlements fell in 2016 compared to previous years.

Considerable political focus has been placed on tackling unemployment, not least by the adoption of a cohesive employment strategy.

The size of unemployment is not only dictated by economic trends, but also by more structural problems, including incentives and coordination problems in social legislation.

A working group has been set up with the participation of the 4 ministries involved, Statistics Greenland, employers and the municipalities to look at possible solutions to existing problems with incentives and coordination, to ensure that it will be worth working rather than be on public benefits. Please also see section 3.4.1

Figure 6. Registered unemployed 2014–2016 in towns by month.



Source: Statistics Greenland 2017. NB: the figures for December 2016 are not included.