

The Ministry of Finance and Domestic Affairs

# Political and Economic Report 2013

In accordance with the Finance Act, the Government of Greenland (Naalakkersuisut) shall present an annual Political and Economic Report at the spring sessions of the Parliament of Greenland (Inatsisartut).

Besides reviewing the Government of Greenland's economic situation and general developments in terms of revenue and expenditure, the purpose of the report is to analyse economic and activity developments in one or more central areas of expenditure and revenue, including in relation to the requirements of the Finance Act.

The purpose of the report is also to augment the volume of information concerning the Government of Greenland's economic situation and lay the groundwork for a qualified discussion of economic developments in the Government of Greenland and in Greenland as a whole.

Another purpose of the report is to highlight particular areas of concern and trends, and, pursuant to the Act, the form of the report must be suitable for inclusion in the considerations of Naalakkersuisut and Inatsisartut concerning economic developments and priorities.

Naalakkersuisut's present 2013 Political and Economic Report should be seen in the context of Naalakkersuisut's work on the forthcoming resolution for the 2014 Finance Act. This will be published in August 2013.

## Foreword

Elections for both Inatsisartut and the municipal councils were held in 2013. Once the votes were counted, it was clear that the people of Greenland wanted a change of direction.

The new Naalakkersuisut seeks to balance developments in Greenland, raise the general level of education, focus on combating unemployment, develop both traditional and new industries, modify the mineral resources policy (including by introducing royalties on mineral resources), amend the Large Scale Projects Act (storskalaloven), and other initiatives.

This requires stable, responsible governance of Greenland's economy and additional investments to ensure higher capacity in the educational sector and to increase the number of apprenticeships. In addition, we must ensure an appropriate airport and sea port infrastructure to provide proper, competitive transportation of passengers and goods within Greenland and to and from Greenland.

These goals must be achieved, even though we are faced with great economic challenges. Far too many people are outside the labour market, at the same time that we import a high percentage of foreign labour. Part of the explanation is our generally low level of education and the uneven distribution of job creation. Also, we are fortunately faced with an increasingly elderly population concurrent with gradually increasing life expectancy and the aging of the baby boomers.

All of this requires us – as responsible politicians in Naalakkersuisut, Inatsisartut and the municipal councils – to make some important strategic choices and decisions on how we wish to adapt our society. We must do this on the basis of our general political goals and common principal values so we can move forward with confidence to exploit the abundant opportunities facing Greenland.

Sustainable development – economically, socially, culturally and environmentally – is crucial. This requires open dialogue about necessary reform measures and about setting priorities and taking an intersectorial approach to our tasks. We must bolster cooperation between the Government of Greenland and the municipalities and work for sound interaction between the private and public sectors. This requires visionary decisions and a willingness to act. Some of the reform initiatives will be difficult and will spark debate, but this should not render us incapable of action; on the contrary, it will provide a good opportunity to discuss the issues in more depth.

Unfortunately, unemployment continues to rise. Initiatives have been taken to resolve this problem, including by creating provisions for the unemployed here and now, skill-development initiatives



and adjustments to the fishery policy to increase production in Greenland. Some towns and settlements are harder hit than others, and inequality among the municipalities is rising. We must balance the development of Greenland so that all four municipalities experience progress. This means, among other things, that public construction projects should be distributed more evenly, even though we should obviously ensure that the construction projects focus on actual needs and are not done for their own sake.

In the long term, national growth will particularly be driven by developments in the mineral resources industry. If we exploit the opportunities ahead, we can jointly create a future for Greenland where we can create jobs and fund our level of welfare and education. Our intention to develop a mineral resources industry does not mean we should disregard traditional industries, such as fishery, hunting and agriculture. On the contrary, we must adapt and further develop these food-producing sectors to become more revenue-generating, just as the tourism industry needs an additional boost in the future.

Therefore, export earnings should not depend on an individual sector, which is actually the case today. We must make a targeted effort to create support industries relating to the principal industries. For instance, there will be a great need for a versatile support industry once the mineral resource industry starts up. Therefore, we must ensure that our local businesses are ready and that we have a suitable framework for domestic companies, to ensure that not only foreign companies land the orders.

Current developments demand a targeted national effort and make demands on each individual. Greater responsibility and skills development are important catchwords for the future of Greenland. If we fail to make a robust, persevering educational effort, we will not be capable of providing industry with the sought-after skills and we will be unable to fill key positions in the public sector with our own employees. All of us need to take responsibility for our own learning and, as a society, we must ensure that as many people as possible complete a qualifying education or training programme.

Greenland's future is created by solving today's problems. One of these is that 70% of young people aged 16 to 19 do not enter youth education or training after leaving lower secondary school. This is unsustainable for our economy, unsustainable for our business community, and particularly unsustainable for the young people themselves. As a society, we must never be satisfied with having a basic school system and an educational capacity in which more than half of the students have difficulty advancing in the educational system and are thus cut off from making their own decisions in life. The area of education is one of our top priorities in the years ahead.

We need to sharpen our focus on primary and lower secondary school and take the decisions required to ensure that students are given a satisfactory education which constantly challenges and qualifies them. We must target the use of our ICT options to improve how we use Greenland's

teachers and exploit the opportunities provided by ICT, now and in the future. Fortunately, a number of municipalities are increasing their ICT use, assisted in many instances by foundation funds, etc. We of Naalakkersuisut will actively take part in developing this area and seek to ensure wider use of ICT in the classroom in all municipalities and throughout the educational system. This will be a top-priority action area for the revision of the ICT Strategy and the forthcoming education plan.

We must also ensure that children's families and the local community are willing to support and back-up the children before they start primary school. Strengthening prevention and detection efforts aimed at preschool children is important. We must focus on children up until school age by boosting family centres and by choosing holistic solutions which put the individual first. We must stress the importance of parental responsibility by providing family care workers and new treatment programmes targeting the whole family.

Naalakkersuisut takes responsibility and will deliver the results. Naalakkersuisut will ensure sustainable development using the funds allocated in the Finance Act. All of us must take responsibility for ensuring that future development is widely embedded in our beautiful, magnificent and enormous country.

We hope you enjoy your reading and we welcome a hearty debate.

Vittus Qujaukitsoq

Minister for Finance and Domestic Affairs

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# 1. Economic Trends

Enormous challenges are inherent in the current economic trends. Climate change, demographic trends and potential areas of growth in the extraction of mineral resources make increasingly greater demands and present new opportunities. At the same time that Greenland is moving towards greater independence from block grants, the consequences of climate change are changing the conditions for traditional industries such as fishery. The extraction of oil and mineral resources has growth potential, but requires enormous foreign investments and has sparked a debate about foreign policy and security.

Demographic trends show that our population is aging. This reduces the number of young people who provide for increasing numbers of elderly. At the same time, long-term financial and economic policy goals must be sustainable over a longer period of time and generate genuine GDP growth. To ensure an efficient welfare society, economic reforms and structural changes in society are needed to put more people to work and generate private-sector growth.

## 1.1 Current business trends

The international financial crisis which affected the global economy in 2008 had only a minor impact on Greenland. Despite declining business activity in 2009, Greenland's GDP was strikingly higher in 2011 than in 2007, which was not the case in Denmark and a number of other European countries. Growth was especially driven by investments in exploration activities, the laying of the submarine cable and other large-scale capital investments, as well as a stable fishery sector. The block grant and agreements with the EU are also stable revenues which uphold income flow.

**Table 1. Key economic figures (2006–2013)**

	2006	2007	2008	2009	2010	2011	2012	2013
Real GDP growth, %*	5.4	3.4	2.1	-2.7	4.9	3.2	-3.3*	-2
Affected by urban unemployment, no.	2,387	2,199	1,783	2,008	2,408	2,791	2,980	3,000*
Inflation, %	2.8	1.7	9.3	0.6	2.3	2.1	4.3	2.0*
Operating and investment and loans (OIL) account balance, DKK mill.	-40	-267	-318	-950	3	-161	-65	-114
Operating and investment (OI) account balance, DKK mill.	65	28	-94	-515	207	49	149	1

*Note: Figures marked with an asterisk (\*) are the Economic Council's estimates. Figures for "Affected by unemployment" for 2013 and "Inflation" for 2013 are the Ministry of Finance's estimates. Inflation is calculated as the two-year increase in the consumer price index, from July to July. "Real GDP growth" is based on preliminary national accounting figures from Statistics Greenland (2012:1, revised on 3 December 2012). Figures for "Affected by urban unemployment" are monthly averages in the year concerned.*

Table 1 shows a number of economic trends.



Declining investments in oil exploration and lower shrimp quotas explain the Economic Council's assessment, in the autumn of 2012, that growth was negative in 2012, and its forecast of low growth for 2013. There are now signs of declining economic activity in 2013 as a result of additional reductions in shrimp quotas and curtailed exploration for mineral resources. It also appears that construction activity will decline in 2013.

Relatively low wage increases combined with rising prices for food and energy undermine real earnings and general economic activity. Overall, therefore, there are signs of negative economic growth in both 2012 and 2013.

The prospects for the years ahead largely depend on whether exploration for mineral resources will resume and, not least, whether new mines will be established. Such activities could create the basis for new growth and more jobs. But if for various reasons these activities are postponed once again, there is a risk of a further decline in general economic activity.

### ***Inflation***

The consumer price index rose by 1.6% from January 2012 to January 2013, compared to a 4.8% increase over the preceding 12 months. This low rate of inflation means that real earnings are not being undermined to the same extent as previously.

The consumer price index is rising particularly due to higher housing and transportation costs, caused by rising oil prices at world level.

### ***Fishery***

Fish prices have sharply increased since mid-2010, thus helping to increase fishery earnings, in spite of shrinking quotas within shrimp fishery (see Table 2).

*Table 2: Fish prices, 2008–2013*

Prices, DKK/kg Q1	2008	2009	2010	2011	2012	2013
Shell-on shrimp, frozen	11.95	11.69	9.99	17.00	13.44	16.80
Fan-tailed shrimp, peeled and frozen	28.77	26.54	26.17	29.13	32.14	34.12
Cod, frozen, whole	22.90	12.53	9.96	11.56	13.64	11.70
Cod, frozen, fillet	33.75	19.96	16.12	26.87	20.79	20.07
Greenland halibut, frozen, whole	19.75	19.25	19.12	25.58	19.96	21.95
Greenland halibut, fillet	27.39	28.11	33.02	24.44	18.97	17.88
Haddock, fillet or whole (fresh or frozen)	12.61	11.14	13.56	20.01	22.40	19.79

Source: Statistics Greenland

Shrinking shrimp quotas are largely due to climate change, as shrimp fishery activities have been forced to move further north. The volumes landed can fluctuate from one year to the next, whereas quotas are adapted to biologists' recommendations.

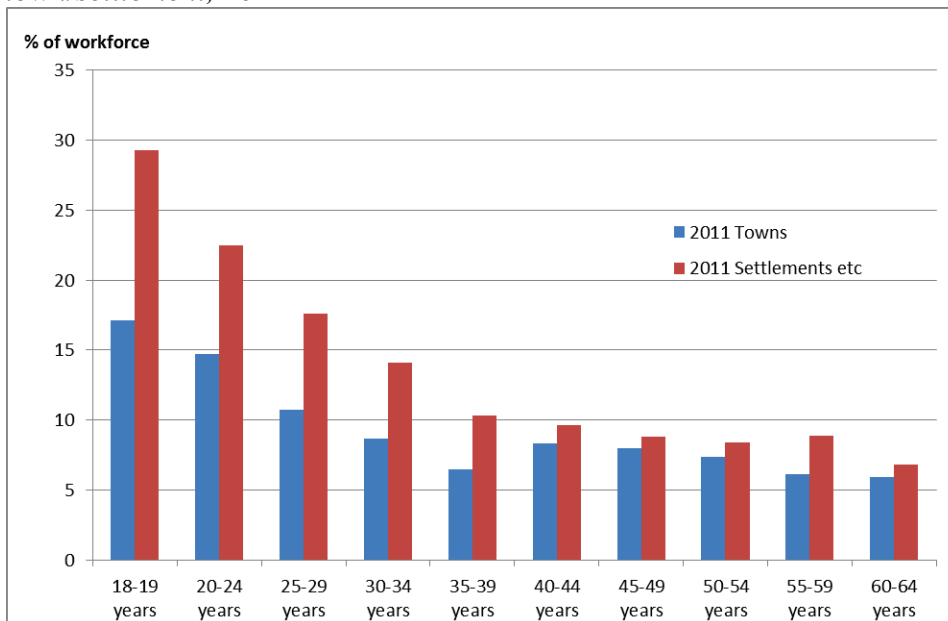
The cod population is growing, explaining why cod-fishing quotas have increased in coastal waters. A cod quota for open-water fishery was set in 2013. In addition, quotas for experimental fishery of mackerel, herring and other schooling fish were allocated in 2013. The experimental fishery project was initiated by the fisheries industry and Pinnngortitaleriffik (Greenland Institute of Natural Resources), and aims to investigate the possibilities within the economic and biological frameworks. Naalakkersuisut is working to introduce a more generally applicable "resource tax" on the most significant species. In these efforts, there will continue to be a differentiation between processed and unprocessed species in relation to the Coalition Agreement. In addition, user payment for licence issuance has been abolished, and there is a proposal to reduce the tax on shrimp not subject to the mandatory landing obligation.

### ***Unemployment***

Table 1 shows that the number of registered job applicants rose sharply from 2008 to 2013, which calls for a markedly greater effort in the area of unemployment. Naalakkersuisut's actions aimed at unemployment are reviewed in section 2.5.4. The sharpest increase took place from 2009 to 2010 and 2011, whereas the rise in unemployment slowed after 2011. The lack of an unequivocal correlation between societal growth and unemployment (in Table 1) is apparently puzzling. These challenges are reviewed in section 2.5.4, which also includes a more in-depth look at the challenges of compiling unemployment statistics.

Figure 1 shows the unemployment percentage in 2011 broken down by age and town/settlement. There is a definite tendency for unemployment to be greater among persons aged 18–19, after which the rate declines up until the age of 35–39. The figure also shows that unemployment is higher in settlements than in towns, which is true of all age categories.

Figure 1: Unemployment as a percentage of the workforce, broken down by age and town/settlement, 2011



Source: Statistics Greenland

Unemployment statistics do not include youths below the age of 18, as there is usually no eligibility for public benefits until the age of 18. Section 2.6 on education also describes a large problem involving 15–18-year-olds in terms of education and employment. Thus, there is a large group of young people who are not employed or in a formal education or training process. These problems are particularly prevalent in small settlements and therefore require a special effort.

## 1.2 Significant socio-economic factors

Climate change and changes in the aquatic environment affect the general conditions for existing fishery, but can also create new opportunities for fishery and trading. High fish prices on the world market can offset lower quotas resulting from climate change in the short term, but not the long term. The fishery industry is still crucial for Greenland’s economy, but the terms for traditional procurement and subsequent processing of the landed fish are facing changes caused by external competition and fluctuating fish populations. The last-mentioned actualises the need for commercial fishery or experimental fishery for species that have not been economically significant for Greenland previously – or at least not for a number of years.

Based on the current economic situation, block grants create a gap between revenue and production. Thus, the level of consumption vastly exceeds the level of production in Greenland. The scope of both freedom and responsibility will increase concurrently with the gradual reduction of block grants as a percentage of national revenue. In the future, the level of production must generate a level of earnings to replace the block grants in order to maintain the current level of consumption. This places great demands on the educational sector, the labour market and the business community. In order to ensure that we are in control of developments – and not controlled by them – we need to structurally change our society, including by increasing the level of education, skills

and geographical mobility. As there are good possibilities of extracting our mineral resources, our natural resources and a “resource tax” can help to increase our level of prosperity and welfare in the future. However, this will require huge investments from foreign companies, and will require both labour and management to possess a high level of education and expertise in both the private and public sectors.

There are great expectations of the mineral and oil strategy, which will be renewed for 2014–2019, and of the royalty taxes resulting from the Coalition Agreement. London Mining’s iron-mine project at Isukasia is the furthest advanced and has the potential to become the biggest construction project in Greenland so far with a capital expenditure of around DKK 14 bn. This project could have a major impact on economic activity through the jobs it creates during the construction period (3,300 employees) and the production period (680–810 employees), as well as in the derivative effects of the project. The iron-mine project is still uncertain and depends on being adequately funded.

Greenland still has a zero-tolerance policy for the extraction of minerals with radioactive elements, which are contained in some deposits of rare earth metals. A decisive factor for advancing some of the possible mining projects is the extraction of rare earth metals, and thus the abolition of the previous zero-tolerance policy in respect of the mining of uranium. The abolition of the zero-tolerance policy would improve the possibility of extracting rare earth metals at Kvanefjeld and other sites.

Sustainable development to ensure economic sustainability in the public sector is an important indicator for Naalakkersuisut’s development of policy. We must maintain at least the same level of welfare as today and conduct a finance policy which is sustainable both now and in the long term. The increasing number of elderly citizens poses major challenges to society. An aging population puts increasing pressure on public expenditure for pensions and health care. At the same time, there are fewer young people and people of working age to shoulder these costs, in part due to lower birth rates but also because many young people emigrate, primarily to Denmark. In addition, there are social problems and inequality which must and should be addressed.

This means that sector strategies are necessary to ensure a sustainable public-sector economy and to control expenditure trends. Sector strategies with future targets and a plan to achieve these targets must be prepared and implemented in each sector. An area’s sector strategy must include joint plans for investment and maintenance, as well as methods to measure the impact of the actions implemented to achieve the goals. It must be possible to evaluate projects on an ongoing basis and to measure a project’s impact. Municipalities, the Government of Greenland and publicly-owned bodies must all measure the impact of the public funding they use.

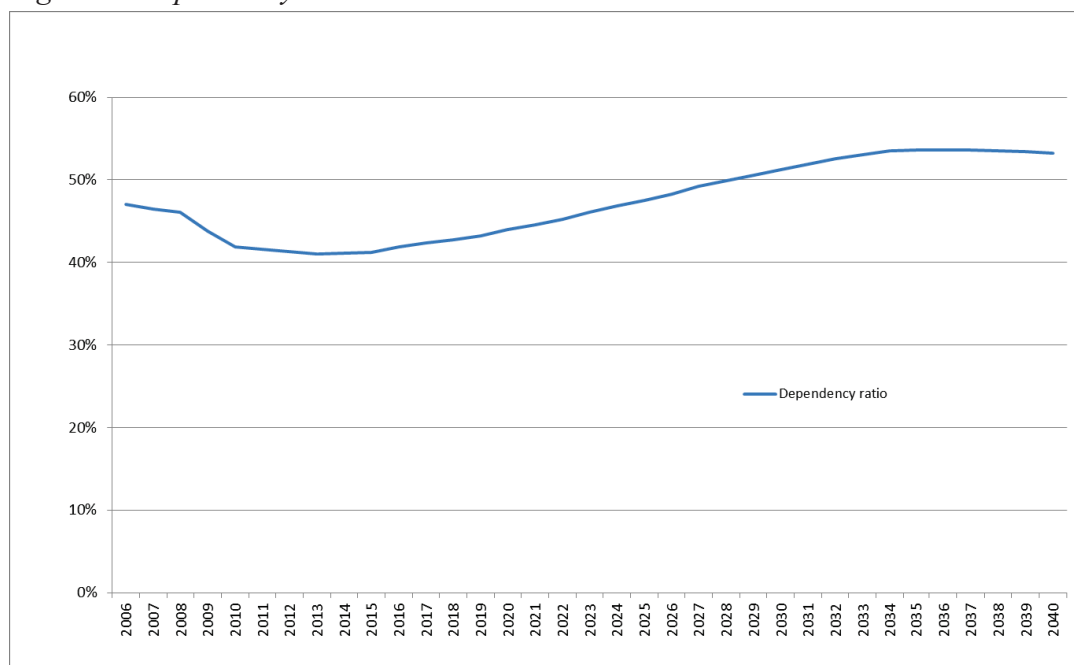
### 1.3 The public-sector economy

To support the general political goals in a restrictive economic framework, several areas require that results must be generated in the short term, while ensuring the long-term sustainability of economic policy at the same time.

- Actions aimed at education and training must support the need to develop the labour market and infuse the business community with more dynamism.
- There is a need to create better incentives for getting a job and to improve the interaction between social services and taxation.
- Sustainable developments in using and generating revenues from natural resources must be ensured.
- A joint effort is required to maintain our fixed assets. The general operation of the Government of Greenland and the municipalities cannot be funded with loans. Therefore, there is a need to prioritise possible and ongoing projects. In addition, projects and initiatives must be evaluated on an ongoing basis. As intentions alone do not generate results, it is necessary to stipulate common overriding criteria for measuring the efficiency of spending areas and capital investments.

Economic policy is under pressure, particularly in terms of expenditure to accommodate an aging population (see Figure 2). The figure shows that each individual of working age must provide for relatively more people in the years ahead.

Figure 2: Dependency ratio



Note: Figure 2: The dependency ratio indicates the percentage of the population which is outside the workforce (0–16 years and 64 years and over), in proportion to the potential workforce (17–64 years).

Source: Statistics Greenland

In addition, the national economy is under pressure on several fronts. Expectations for and demands on the health service are increasing concurrently with a heightening public awareness of health and possible healthcare services. More investments are needed to meet the increasing demands for education and training and to narrow the skills gap in Greenland.

The Tax and Welfare Commission recommended a series of reforms in the areas of taxation, housing and social services, which include reducing “interaction problems” to make it attractive for people of working age to get a job. The commission also recommended widening the tax base and focusing subsidies, including in the area of housing.

The Tax and Welfare Commission also recommended reforming the public sector to enable it to continue to provide a high level of service. Naalakkersuisut will initiate a series of modernisation measures for the public sector, including:

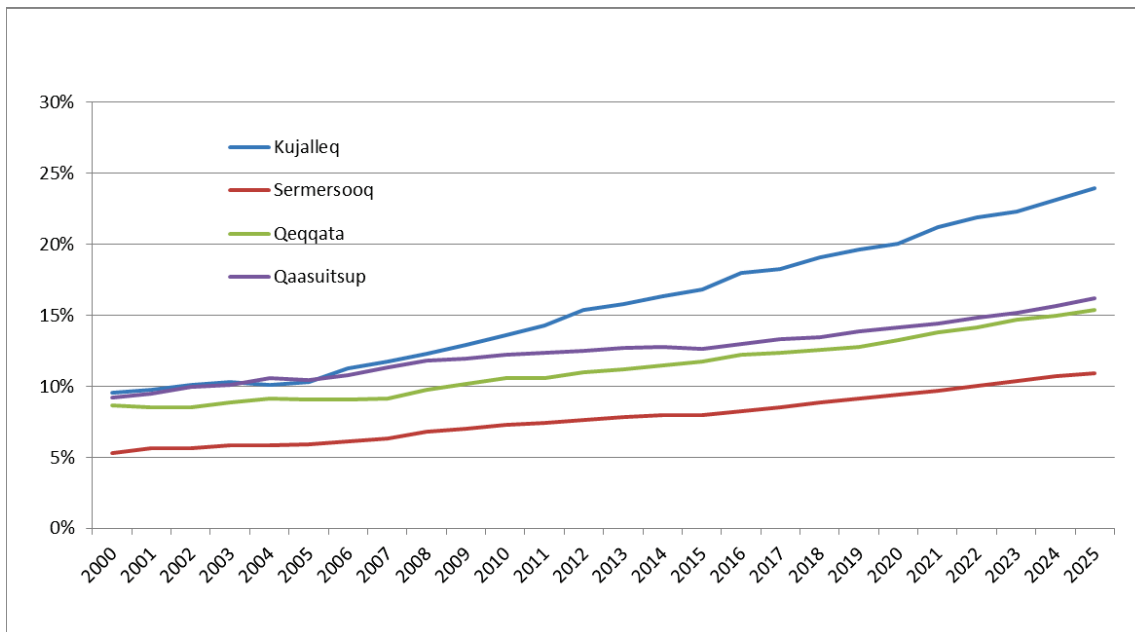
- renewal of joint budget planning with the municipalities;
- increased digitisation of the public sector;
- improvement of public levying processes;
- better procurement policy and other efficiency-improvement initiatives.

The effects of the reform process will also affect the municipalities, and many of the efforts required will actually take place in the municipalities. Accordingly, there is a need to boost the collaboration between the Government of Greenland and the municipalities. This will include ensuring the measurement of the effects of the actions implemented in the most important welfare areas.

In the forthcoming reforms of the public sector, joint public collaboration has commenced to revise the budget collaboration agreement between the Government of Greenland and the municipalities. In preparation for this, an analysis of the collaboration between the municipalities and the Government of Greenland has been launched to upgrade the framework (see section 2.2).

The economic consequences of demographic trends for municipalities will be significant (see Figure 3). The sustained rise in the dependency burden will impose big demands on planning and the setting of political priorities in the municipalities, and efficiency-improvement measures will be needed to strike a balance between expenditure and revenue.

Figure 3: Dependency burden, broken down by municipality



Source: Statistics Greenland

Negotiations between the municipalities and the Government of Greenland concerning the 2013 block grant have been concluded. The ongoing dialogue between the Government of Greenland and the municipalities gives priority to increasing the growth and development of all four municipalities, which will be included and reflected in the distribution of capital investments and investments in education.

### 1.4. National indebtedness

Table 3 specifies the expected borrowing trend in the public sector, including the borrowing of limited companies owned by the Government of Greenland. The general assessment is that the level of debt in the public sector could be kept at an acceptable level in the next fiscal year and estimated years if a responsible borrowing and investment policy is pursued.

Table 3. Expected borrowing trend in the public sector, DKK mill.

Gross interest-bearing debt	2009	2010	2011	2012	2013	2014	2015	2016
Biggest limited companies owned by the Government of Greenland	3,706	3,449	3,387	3,024	3,451	3,033	2,823	2,656
Illuut A/S	-	23	263	463	568	653	743	833
Municipalities	109	196	196	196	196	196	196	196
Government of Greenland	0	250	250	600	600	600	800	800
<b>Total</b>	<b>3,815</b>	<b>3,918</b>	<b>4,096</b>	<b>4,283</b>	<b>4,815</b>	<b>4,482</b>	<b>4,562</b>	<b>4,485</b>
New port facilities in Nuuk	0	0	0	0	0	574	559	543

<b>Total, including new port facilities in Nuuk</b>	3,815	3,918	4,096	4,283	4,815	5,056	5,121	5,028
<b>Interest-bearing debt, net</b>								
Biggest limited companies owned by the Government of Greenland	3,037	2,836	2,613	2,411	2,557	2,202	2,067	1,876
Illuut A/S	-	17	328	425	535	618	708	798
Municipalities	-350	-68	-68	0	0	0	0	0
Government of Greenland	-1,320	-797	-677	-463	-258	-82	107	154
<b>Total</b>	1,367	1,988	2,196	2,373	2,834	2,738	2,882	2,828
New port facilities in Nuuk	0	0	0	0	0	551	531	512
<b>Total, including new port facilities in Nuuk</b>	1,367	1,988	2,196	2,373	2,834	3,289	3,413	3,340

Sources: Financial statements of the Greenland Treasury and the municipalities, various financial statements and in-house calculations.

Note: The biggest limited companies owned by the Government of Greenland include companies that are included in the specification of the consolidated debt of the Greenland Treasury and which have substantial debt. This specifically involves Royal Arctic Line A/S, Royal Greenland A/S, TELE A/S and KNI A/S. Consolidated debt is defined as debt in limited companies in which the Government of Greenland owns more than 50 per cent of the shares.

Overall, the biggest limited companies owned by the Government of Greenland expect their debt level to decrease in the years ahead. This is particularly because Royal Greenland A/S is pursuing an active strategy focused on reducing its debt level.

In relation to last year's specification, Air Greenland is no longer included in the specification of debt in the biggest limited companies owned by the Government of Greenland. Air Greenland's debt is not included in the specification of the Greenland Treasury's consolidated debt, because the Government of Greenland now owns less than 50 per cent of the company's shares.

The municipalities are assessed as not having net debt at present, but any future loans raised for construction activities, particularly in the area of housing, could contribute to increasing the debt level. These possible municipal loans are not included in the specification above.

The Government of Greenland expects to raise loans of around DKK 200 mill. to fund its construction activities. Apart from an expected investment in the establishment of new port facilities in Nuuk, the total debt level appears to be stabilising. The establishment of new port facilities in Nuuk requires the approval of Inatsisartut. An investment in new port facilities at Nuuk would increase the debt level compared to today, but comprehensive analyses indicate that the project is profitable. In other words, transportation expenses will increase if new port facilities are not built. A precise financing model for new port facilities at Nuuk has yet to be determined. Yet regardless of whether the loan financing is raised by the Government of Greenland or by a publicly-owned company, total public indebtedness would increase.



The general debt trend is assessed as being stable. This assumes, however, that Royal Greenland A/S in particular continues to pursue its active strategy focused on repaying its debt. Also, initiatives which increase the debt level should only be launched if the activity generates revenue which can finance repayment of the loan's interest and instalments.

## **2. Political and Economic Objectives**

The principal objective of the economic policy is to achieve economic independence of block grants from Denmark and to increase political freedom of action.

In the short term, the fiscal policy goal is to maintain the balance of the operating and investment (OI) account balance in the Finance Bill with the budget year and the three estimated years together. The second short-term goal is to have liquid resources in the Greenland Treasury which constitute at least 10 per cent of total annual expenditure.

This means that fluctuations may occur during the individual years, but over a four-year period, the average OI account balance should be zero or higher, and liquidity should be more than roughly DKK 650 mill. during this same period. These targets are the basic assumptions of the annual priorities for the Finance Act. In this context, the focus is on the operating and investment (OI) account balance and not on the operating and investment and loans balance (OIL). This makes it possible to make investments which have a deficit in the year in question but which generate a profit in subsequent years. This requires liquidity of at least 10 per cent of total expenditure in order to be able to accommodate the ordinary fluctuations of incoming and outgoing payments, e.g. construction works or taxes. At the same time, it is important for Naalakkersuisut to have freedom of action to respond quickly if the need for urgent action arises. This was the case in 2009, for instance, when Royal Greenland A/S was in urgent need of capital.

The economic policy pursued must ensure a long-term fiscal balance between revenue and expenditure to ensure the sustainability of economic policy. The sustainability of economic policy is measured as the difference between the revenues and expenditure of the entire public sector (both the Government of Greenland and the municipalities) over a prolonged period of time. Measuring the expected surplus and deficit for total public finances over a long period of time makes it possible to assess whether the actual structure of the public sector can be funded in the long term. Specifically, this is measured using an economic indicator which operates with a horizon up to 2040.

The latest calculations show that it is unsustainable to continue the existing structure of public finances. This was recently documented in the report of Economic Council from 2012. Accordingly, there is currently a need to consider reforms which can guarantee a sustainable structure for public finances in the long term. The objective is to create pronounced, genuine economic growth.

Naalakkersuisut's objective is to define the general framework, which can in turn form the basis for higher productivity in both the public and private sectors, and to establish framework conditions which promote high-growth enterprises. This can be done by improving the underlying incentive structures and by focusing the use of public funds.

The specific objectives of Naalakkersuisut's economic policy are summed up in the text box below.

### **Economic policy: Objectives and Principles**

General economic policy objectives:

- Independence of block grants from Denmark
- Short-term objectives
  - Bring OI into balance with the estimated years
  - Liquid resources of at least 10% of total expenditure in the Greenland Treasury
- Long-term objectives
  - Sustainable economic policy in the long term
  - Genuine socio-economic growth

Economic policy principles:

- Joint criteria for assessing public investments
- Measure the effects of all significant areas of expenditure, both existing and new
- Incentives structure which supports the policy objectives
- All subsidy schemes must be limited in time and, in relation to business subsidy, the Greenland Treasury should only grant subsidy or issue guarantees to projects which have been credit-rated by a bank or similar credit-rating institution
- Common guidelines to ensure the maintenance of fixed assets to prevent the existing maintenance backlog from increasing
- Extraordinary action to reduce the existing maintenance backlog
- Extraordinary income is to be prioritised for the construction of educational facilities which support the general economic policy objectives and not for increased operations

The economic policy principles outline the framework for the administrative and political controls of the national economy. These principles are explained in more detail below.

Joint criteria must be set for public investments. Thus, coordination of investments must be ensured within the Government of Greenland, the municipalities and limited companies owned by the Government of Greenland. See also section 1.4 on controlling the combined borrowing of the public

sector (consolidated debt). This ensures that alternative investment options can be compared and that the priorities can be set on an informed basis. Efforts are currently in progress to prepare guidelines for assessments of socio-economic consequences, which can be used ensure comparability for prioritising among different projects. The guidelines require that considerations must be presented both concerning the economic aspects of a given investment and concerning regional, social, environmental sustainability, etc.

Basically, the effects within all significant areas of expenditure must be measured. The use of impact measurements makes it possible to assess whether a specific initiative or project should be implemented or continued. Public funds are to be used with keener focus and effectiveness by defining specific, quantifiable indicators and by prioritising actions depending on how well these meet the indicators selected. Great strides in this respect have already been made in some areas, including particularly in the area of education, as a result of EU requirements stipulated in the Partnership Agreement. In other areas, sets of indicators need to be developed and basic data need to be compiled before satisfactory impact assessments can be made. Naalakkersuisut will follow up on this in the years ahead.

As far as possible, all new initiatives must help to secure an incentives structure which supports the political and economic targets. This applies both within the individual sectors and across the sectors. By defining a better framework (e.g. for the interaction between the labour market and social services by reducing the combined marginal tax rates), it is possible to achieve gains for both the national economy and the individual taxpayer. The Tax and Welfare Commission and the Economic Council have documented possible interaction problems in an individual's economic incentive to work instead of receiving public benefits or subsidy. For some groups there is no genuine economic incentive to get a job. There is still a risk of problems related to exclusively focusing on economic factors in the public sector, both within the Government of Greenland and between the Government of Greenland and the municipalities. The assessment of the effect of the overall incentive structure is the basic element of new political initiatives.

Whenever a subsidy scheme is initiated, a guarantee is issued or other types of subsidy are granted, these must be limited in time as the point of departure. Existing subsidy schemes should also be assessed in terms of their impact. Basically, the Greenland Treasury should only grant subsidy in instances where a credit assessment has been made by a bank or similar credit rating institution. Schemes are available under the Business Promotion Act which aim to help entrepreneurial start-ups in the earliest phase of development. There may be areas here where requiring such a scheme is deemed inexpedient.

A building which is not properly and continuously maintained has to be torn down after 40 or 50 years, whereas a building which has been maintained does not have to be torn down until 75 or 100 years later, depending on how it is used. Today, a relatively substantial amount of funds on the Finance Act are used for new construction and removal of public buildings. It would be less costly

for the national economy to allocate more funds for maintenance instead of for removal and new construction. Therefore, efforts have been launched to ensure up-to-date housing and institutions while ensuring at the same time that the existing maintenance backlog does not grow. A similar effort must be made to reduce the existing maintenance backlog. Specifically, this means that the economic framework for maintenance projects must be widened in relation to today, and that new construction projects must include a specific plan for funding and for the maintenance required after construction.

Extraordinary income should not be used to increase operating expenditure. As was the case with extraordinary income from large-scale, temporary oil-and-mineral exploration projects in 2010 and 2011, Naalakkersuisut prefers that this revenue be prioritised for the construction of educational facilities and for education actions which can generate permanent increases in the population's individual incomes. Derivative operating expenses for the construction of educational facilities are funded by the Education Fund (uddannelsesreserven). Actions aimed at increasing employment must be planned so that jobs are created in the short term, gains are generated in the long term and structural unemployment is reduced. This could involve skills development of the workforce so it is prepared to become part of the development of high-growth industries. In addition, there is a need to fill positions where companies have difficulty finding labour and therefore have to import labour or outsource the jobs abroad. Today, there are already jobs which remain vacant (e.g. at certain shrimp factories) or which are filled by unskilled labour from abroad.

It is important to emphasise that there is a need to carry out a combined assessment across the individual actions. The most important areas are individually reviewed in sections 2.2–2.12, with a focus on the process for greater use of impact assessments in conjunction with public-sector actions. A more consistent use of impact measurement and key performance indicators (KPI) will provide a better basis on which to set priorities across areas.

## ***2.1. 2014 Finance Act***

Naalakkersuisut's economic policy aims and principles form the basis for preparing the 2014 Finance Bill and arise directly from the government platform which requires responsible and stable governance of the national economy. Economic policy is an important tool for Naalakkersuisut in relation to setting priorities in the Finance Act process and for ensuring continuity between general economic objectives in both the short and long term, and economic policy in the individual sector strategies.

A genuine fundamental dilemma of economic policy is that priority must be given to solutions which contribute to resolving long-term structural challenges, e.g. a generally low level of education, and solutions to short-term challenges in the form of high unemployment, for instance. Economic policy objectives must address both short-term and long-term challenges.

Long-term objectives for greater independence, an economically self-sustaining society, a coherent intersectorial effort and a more equal development of Greenland are indicators for these priorities.

But the possibility of supporting general policy objectives – through comprehensive reprioritising of operations and viable construction investments – is impeded by several factors in the 2014 Finance Bill.

- The planning of sector strategies and proposals for their implementation – including in the areas of health and education – is currently taking place in a number of key areas.
- At present, there are no sector construction plans which support the overall policy objectives and ensure a sustainable economy in the long term. Therefore, there is no satisfactory decision-making platform on which to set multiyear construction priorities for the 2014 Finance Bill.
- The slump of 2012 and 2013 reduces revenues and increases expenses for combating unemployment.

Therefore, to a certain extent, the 2014 Finance Bill expresses the art of the possible. Naalakkersuisut proposes a focused reprioritisation process to alter trends relating to the previous government and initiates a planning process which will have a more sweeping impact in the 2015 Finance Bill.

In its work on the 2014 Finance Bill, Naalakkersuisut has considered the recommendations of the Tax and Welfare Commission and the reforms needed to make the national economy sustainable in the long term. The reforms must contribute to meeting the economic policy objectives to strike a fiscal balance between revenue and expenditure for the period 2014–2017, specified in terms of the operating and investment account.

Naalakkersuisut has presented a 2014 Finance Bill with a deficit of DKK 73.6 mill. in 2014 for OIL (operating, investment and lending account). Specified for OI (operating and investment ) only, there is a DKK 102 mill. deficit in 2014, but for the combined period 2014– 2017, there is a OI surplus of DKK 41 mill.

The total OI surplus for the period 2014–2017 arises from the fact that reforms are budgeted to improve public funds by DKK 10 mill. in 2015, DKK 112 mill. in 2016 and DKK 173 mill. in 2017.

*Table 4. Budgeted expenditure and revenue in the 2014 Finance Bill*

	<b>2014 FB</b>	<b>2015 BE</b>	<b>2016 BE</b>	<b>2017 BE</b>
Operating costs	2,807.80	2,797.00	2,687.70	2,632.70
Statutory expenditure	1,052.80	1,075.30	1,102.50	1,128.80
Subsidies	2,080.90	2,079.00	2,040.20	2,001.80

Construction expenditures	739.6	639.1	555.2	545.2
Revenue	-6,604.80	-6,527.60	-6,491.90	-6,479.50
<b>Total OIL (operating, investment and lending)</b>	<b>76.3</b>	<b>62.9</b>	<b>-106.3</b>	<b>-171.1</b>
<b>Total OI (operating and investment )</b>	<b>102.0</b>	<b>108.2</b>	<b>-98.1</b>	<b>-153.2</b>

Source: 2014 Finance Bill

The new Naalakkersuisut took over a national economy characterised by recession. To reduce the harmful effects of the recession, actions targeting job creation will be increased and a number of construction works will be launched outside Nuuk. This explains the deficit in the Finance Bills for 2014 and 2015.

These recession-contingent deficits must be temporary and must be followed by surpluses when the trends turn around and the requisite reforms aimed at reducing structural expenditure and increasing the public-sector earnings base have been implemented.

Naalakkersuisut expects mineral resources activities to be launched within a few years and that these activities can help to improve the employment situation, boost tax revenue and contribute to restoring public finances in the process. It is crucial for long-term sustainability, however, that pensions, social services, housing subsidy and tax systems be reformed and that revenue generated from mineral resource activities is not allocated to new operating and construction activities but is used to restore the fiscal balance of the respective economies of the Government of Greenland and the municipalities.

## ***2.2 Modernisation of the public sector***

As previously mentioned, the pressure on public expenditure will increase in coming decades due to demographic trends, and the solution must be jointly found between the Government of Greenland and the municipalities. Based on the current prerequisites, the public sector needs to be adapted and genuine growth needs to be generated in the private sector.

Adaptation of the public sector is necessary to stay within restrictive budgetary limits and to ensure that sufficient investments are made in education and the labour market. This requires expenditure to be kept in check and task performance in the public sector to be streamlined. In continuation of the Coalition Agreement, there are goals and initiatives for streamlining public administration, providing responsible and stable governance of the national economy, and reassessing the public sector structure. Therefore, an evaluation of the 2009 Structural Reform should also be carried out, including to determine whether the reform had the desired effect.

The financial statements of the municipalities for 2012 (2011) and the budget for 2013 are shown in Table 5.

*Table 5. 2012 financial statements and 2013 budget, DKK mill.*

	KUJ FS2012	KUJ B2013	SER FS2012	SER B2013	QEQ FS2012	QEQ B2013	QAA FS2011*	QAA B2013	TOTAL FS2012*	TOTAL B2013
Operating	418	451	1,332	1,308	600	551	989	1,023	3,339	3,333
Investment	8	16	100	295	110	61	37	47	255	419
Total expenditure	426	457	1,432	1,603	710	612	1,026	1,060	3,594	3,732
Revenues	446	480	1,496	1,464	662	618	1,089	1,115	3,693	3,677
Surplus/deficit	20	13	64	-139	-48	6	63	45	99	-75

\*2012 financial statements for Qaasuitsup Municipality were not available for the preparation of the 2014 Finance Bill. Therefore the 2011 financial statements are used in the table.

Note: The 2012 financial statements have yet to be approved.

Source: The Municipalities

The Ministry of Finance and Domestic Affairs joined forces with the municipalities and KANUKOKA in the autumn of 2012 to launch an analysis of the possibilities for cutting costs and streamlining both in the municipalities and in the Government of Greenland.

The purpose is to establish a general overall view and more detailed insight into the public sector economy, including the composition and level of public expenditure in and across the municipalities and the Government of Greenland. Reports are available for a first phase of analyses of expenditure in the Government of Greenland and the municipalities. It is intended that additional analyses will be carried out.

Naalakkarsuisut considers productivity analyses to be desirable and necessary for developing the public and private sectors of the future. A higher level of productivity in the private and public sectors is a prerequisite for raising the level of prosperity.

### ***Collaboration between the Government of Greenland and the municipalities***

The action plan for reforms of the public sector and the distribution between the Government of Greenland and the municipalities is described in more detail in a forthcoming analysis concerning collaboration between the Government of Greenland and the municipalities.

The analysis prepares the ground for collaboration between the Government of Greenland and the municipalities where the joint guidelines for continuing collaboration are defined.

The terms of reference for the analysis include goals and initiatives from the Coalition Agreement:

- responsible and stable governance of the national economy;
- reassessing the public-sector structure to achieve wider intersectorial collaboration;
- streamlining public administration without impairing the level of service;
- studying whether the formation of large municipalities lives up to the purpose of the merger process.

The analysis prepares the ground for transferring large spheres of responsibility for capital investments to the municipalities, among other reasons to avoid future maintenance backlogs and to

ensure continuous responsibility for operation, maintenance and construction in the individual areas.

### ***Prioritisation and evaluation***

The analysis prepares the ground for innovative approaches to the public sector's task performance and distribution of responsibilities between the Government of Greenland and the municipalities. The Tax and Welfare Commission emphasises the joint public challenge to national finances, which will manifest itself in a financing gap if joint action is not taken to control behaviour through focused action involving project management and evaluation.

This means that, in conjunction with public projects and initiatives, a keener focus on goals and impact measurements is required, and this includes defining indicators of whether predefined goals have been achieved. By compiling the lessons learned from project evaluations, ideas and initiatives in the areas of manufacturing and service can be transferred across municipal borders, professions and technical areas.

The aim of the joint public ERP project – Pisariillisaaneq – is to ensure a common and better platform from which to control the economy and deliver relevant management information, methods and tools to support performance and framework management. With a common public platform for financial control and management information, gains are expected to be achieved in a number of areas over time:

- financial skills development of both financial staff and management;
- management information about financial issues, resources and activities; collection, presentation and quality-improvement of relevant data; joint registries, including joint maintenance of creditors and debtors;
- shared content, including shared maintenance of rates, statutory bases, codes, etc.; data embedded centrally, but used locally;
- shared knowledge: knowledge rooted in the organisations, not with individuals;
- higher efficiency: financial control and resource optimisation through systemic continuity and data integration;
- intensified collaboration across the entire public sector;
- increased digitisation;
- greater uniformity of service provided to citizens;
- increased control and documentation.

Being able to document the results and impacts delivered provides financial freedom in task performance, as impact measurements ensure a better basis for decisions. Most sector areas should therefore be able to measure the impact of initiatives and projects launched, and key performance indicators (KPIs) must be incorporated into project descriptions and must be evaluated and assessed



on an ongoing basis. The measured impacts of a specific initiative or project must be subject to knowledge-sharing across municipal boundaries, public bodies and technical fields.

### 2.2.1 Arrears

Based on an arrears report from December 2011, a joint task force of representatives from the municipalities and the Government of Greenland was appointed. Their work has been delayed due to both parties' lack of resources and due to efforts involving the new collaboration agreement between the municipalities and the Government of Greenland in which the arrears issue is also included.

Table 6. Arrears trends from January 2012 to January 2013

Type of arrears	January 2012		January 2013	
	No. of cases	Arrears sum	No. of cases	Arrears sum
	No.	DKK	No.	DKK
Maintenance payments	63,108	272,559,820	64,531	289,157,716
Outstanding taxes	5,092	42,557,130	4,457	44,726,196
Business subsidy/loans	109	67,346,414	103	64,715,667
Income tax	433	202,485,019	2,296	173,313,090
Corporation tax	86	3,244,341	73	3,361,858
Rent	7,336	59,638,916	7,349	64,741,796
Tax interest	5	34,064	1,635	3,196,140
Misc. outstanding municipal payments	16,781	37,429,153	17,697	39,545,172
Help with repayment obligation	5,758	25,410,855	5,562	25,143,991
Student loans	671	10,597,634	648	9,930,689
Childcare institutions	18,443	14,832,613	18,139	14,199,822
Refuse collection	61,316	16,667,533	68,378	18,287,110
Municipal business loans	391	4,497,244	360	4,241,885
Misc. outstanding payments, Government of Greenland	1,520	13,835,663	2,218	12,385,676
Housing support loans	458	24,623,764	358	18,215,717
DIY loans	591	7,977,890	509	6,771,317
Electricity/water	8,106	4,742,232	6,614	4,007,442
Parent payment, children in out-of-home care	14,245	21,350,018	16,663	24,560,407
Nordic claims	1,562	25,685,878	1,576	24,088,094
Other arrears	6,728	3,188,577	6,751	4,457,087
<b>Total</b>	<b>212,739</b>	<b>858,704,758</b>	<b>225,917</b>	<b>849,046,872</b>

Source: Tax Authorities

The total arrears sum declined slightly from January 2012 to January 2013: in particular, outstanding income tax declined significantly. It is assessed that the automatic deduction system

launched in early 2012 is the primary explanation for the sharp decline. Consequently, the total arrears sum to be collected has declined. At the same time, the number of arrears cases has increased by around 13,000. For some types of arrears, such as refuse collection and parent payment for children in out-of-home care, the large number of cases is administratively taxing and the possibility of having them repaid is relatively limited in relation to the costs. This is cause for considering modification of the collection and deduction procedures of both the municipalities and the Government of Greenland to achieve a justifiable outcome from the use of these resources.

### **2.2.2 Digitisation and new ICT Strategy**

The years ahead will require targeted investments in digitisation. This is necessary to ensure that administrative IT solutions and self-service solutions for citizens can contribute to a coherent, efficient and transparent public sector.

Important prerequisites for the eventual success of digitisation are as follows:

- a general overview of public-sector digitisation projects must be maintained. This will make it possible to prioritise among new initiatives within the financial framework and to coordinate ongoing projects. Everyone needs to establish sound project plans with visible gains;
- shared public-sector methods and standards for digitisation development are to be consolidated and must serve as the framework for efforts involving all new projects across the public sector;
- lessons learned from successful project implementation are to be embedded in a digitisation body, to ensure the best platform on which to carry out new digitisation projects.

Digitisation projects frequently focus on technical elements and disregard contractual factors and the start-up of organisational operation in particular, which requires employees to change procedures and thus requires training and change management. This can often lead to fewer (or no) benefits such as quality improvements or streamlining. By using expert IT resources to contribute to professional collaboration with suppliers, it is hoped that this will optimise the process to ensure returns on the investment in the form of quality improvements and efficiency gains, without added costs.

In a modern society, information and communication technology (ICT) is an important tool for achieving growth and prosperity. Prosperity can be achieved through quality improvements and efficiency gains in the public sector, for which ICT is an important tool. Efficiency gains can be achieved by simplifying rules, ensuring coherent administrative systems and other measures.

By using ICT, the public sector can also engage in rewarding dialogue with citizens who live far away from the local town hall. A recently completed analysis shows that citizens are ready and willing to use the internet and mobile telephony for this dialogue. By introducing the personally encrypted “NemID” for user login, the ICT Strategy has provided the platform on which to conduct a secure dialogue between citizens and the public sector.

As an element of the ICT Strategy, a *business portal* and a *joint public video platform* will be completed this autumn. These measures are intended to widen the democratic dialogue and contribute to deeper insight into public administration.

Some of the lessons learned also indicate a need for adjustment. Telecom and internet connections are required for the use of ICT in areas such as education in primary, lower-secondary and upper-secondary schools, as well as in higher education programmes. These connections are also vital for innovation in the business community, where highly-educated young people need to contribute to Greenland's general growth and position in a global context. There is a need to define a clearer framework for telecom providers and to improve the use of electronically-based systems for specific administrative tasks.

The ICT Strategy's projects involve the municipalities and the ministries of the Government of Greenland, which means they draw on the same resources responsible for carrying out daily administrative tasks. As these resources are scarce, it is important to prioritise and maintain focus. Controlled change of task performance by administrative bodies is key to achieving lasting gains and growth for Greenland.

The above is the basis on which a Digitisation Agency will be established, based on the lessons learned at the IT Secretariat of the Government of Greenland and in collaboration with the municipalities concerning joint public-sector IT projects.

### ***Reorganisation of digitisation efforts***

The Digitisation Agency must ensure operational IT stability within the Government of Greenland's administrative bodies, but will also focus on business development in the Government of Greenland and joint public-sector solutions. Thus, the Digitisation Agency's tasks will include:

- supporting a Digitisation Council, tasked with advising the digitisation projects and contributing to prioritising the projects; maintaining a general overview of upcoming investments and planned gains; and monitoring joint public-sector master data. Lessons learned abroad show that civil ID registries, business registries and other common databases can be combined with advantage for inter-ministerial use. This serves as a platform for innovation and more openness and transparency in the public sector;
- development of skills, the collection and sharing of lessons learned in the areas of business development, and the procurement of systems to ensure a return on the investments;
- working with joint public-sector methods and standardisation processes, and ensuring coherence across the public sector both commercially and systemically;
- securing the statutory authority to use new technology and contributing to maintaining breadth of view in this area,
- ensuring the management of IT contracts by stipulating standardised requirements and terms of the Government of Greenland vis-à-vis providers/suppliers.

### 2.2.3 The Government of Greenland's limited companies

The limited companies owned by the Government of Greenland constitute a large share of Greenland's total economic activities. Their services help to safeguard Greenland's infrastructure, supply of goods and earnings through product exports. At the same time, it should be noted that several of these companies operate in areas where competition is weak, which increases the need for efficient, targeted management of these companies.

Structured management of the corporate development of these companies is in the interests of the Government of Greenland. This makes it possible to assess expedient dividend payments, ensure cost-effective operations, and ensure continuity with other initiatives managed and launched by the Government of Greenland and the municipalities.

In collaboration with the individual company, ten key performance indicators (KPIs) were selected in 2011 and 2012. The objectives of the companies differ, which is only natural seeing that the companies operate on different terms and in different business areas. The objectives include financial key figures and selected targets for positive contributions to Greenland and generally cover the above-mentioned interests of the Government of Greenland in the operation of the limited companies.

*Table 7: Key figures for the five biggest companies wholly or partly owned by the Government of Greenland*

	2008	2009	2010	2011	2012
<b>Tele Greenland A/S (100%)</b>					
Net turnover, DKK m	699	743	777	796	831
Result for the year after tax, DKK m	70	47	47	48	71
Net profit ratio, %	16	14	13	13	17
Return on equity, %	8	6	6	6	8
Equity ratio, %	48	46	46	47	51
Interest-bearing debt, net, DKK m	636	681	573	475	371
<b>Royal Arctic Line A/S (100%)</b>					
Net turnover, DKK m	847	789	831	897	864
Result for the year after tax, DKK m	6	19	29	73	6
Net profit ratio, %	2	3	5	13	1
Return on equity, %	2	5	7	15	1
Equity ratio, %	56	60	62	53	61
Interest-bearing debt, net	77	-105	-184	-51	-272
<b>KNI A/S (100%) *</b>					
Net turnover, DKK m	2,282	2,105	2,174	2,537	2,468
Result for the year after tax, DKK m	-11	36	70	62	35
Net profit ratio, %	2	3	5	3	2

Return on equity, %	4	4	8	7	4
Equity ratio, %	37	56	52	53	47
Interest-bearing debt, net	621	602	471	418	454
<b>Air Greenland A/S (37.5%)</b>					
Net turnover, DKK m	1,152	1,113	1,135	1,220	1,167
Result for the year after tax, DKK m	57	37	41	51	71
Net profit ratio, %	6	4	5	6	10
Return on equity, %	11	7	7	8	11
Equity ratio, %	51	53	55	50	53
Interest-bearing debt, net	-116	-154	-179	35	-22
<b>Royal Greenland A/S (100%)</b>					
Net turnover, DKK m	5,136	4,740	4,249	4,724	4,976
Result for the year after tax, DKK m	-78	-196	-43	79	136
Net profit ratio, %	1	-2	2	4	5
Return on equity, %	-9	-24	-4	10	16
Equity ratio, %	23	22	22	22	27
Interest-bearing debt, net	2,343	1,859	1,976	1,773	1,599

\* The most recent financial statements of KNI A/S (2012) have yet to be approved.

Negative net interest-bearing debt means that the company has more liquid resources than interest-bearing debt.

Source: Chairman's Department (GL), Secretariat for the Board of Directors

Each year, Naalakkersuisut issues a report to Inatsisartut which reviews the status of these companies and focuses on the achievement of the goals and targets agreed, etc.

*Figure 4: Goal-achievement hierarchy*



Source: Chairman’s Department (GL), Secretariat for the Board of Directors

### 2.2.4 Procurement policy

The staffing of the central Procurement Department of the Government of Greenland was increased in 2013. The combined purchases of the Government of Greenland must be streamlined to reduce operating costs in the Government of Greenland. This requires agreements to be entered into across the Government of Greenland to ensure that these agreements are as attractive as possible. As regards the Partnership Agreement between the EU and Greenland, the Government of Greenland is obliged to pursue a fair, transparent and efficient procurement policy to which enterprises have equal access.

The 2014 Finance Bill proposes general cost-cutting measures resulting from an intensified procurement effort. Ministries, agencies and underlying institutions must make a disciplined effort to implement these savings. A new feature of procurement policy is that specific requirements are imposed on suppliers to set up apprenticeships and traineeships. The purpose of this is to cater to the education-policy target of increasing the number of apprenticeships. In addition, the procurement policy gives priority to ensuring that suppliers have a CSR (Corporate Social Responsibility) policy to take due account of social sustainability in the public procurement process.

The effectuation of cost-cutting measures in the area of procurement is contingent on:

- discipline in using the agreements concluded by the central procurement department;
- communicating the procurement agreements to all underlying bodies;

- the central Procurement Department entering into interdepartmental agreements in several areas;
- the central Procurement Department entering into a greater number of compulsory agreements to achieve better prices;
- the bodies conforming to the procurement policy;
- the bodies being better at subjecting their procurement agreements to competition by calling for more tenders and outsourcing in areas where framework agreements do not exist;
- the internal auditors of the Government of Greenland following up on the implementation of procurement agreements.

Furthermore, for the benefit of Greenland as a whole, steps have been taken to draw up a CSR policy for the purpose of involving CSR criteria whenever procurement is made.

## ***2.3 Tax, pension, housing and social services***

As mentioned in section 1, public finances will be subject to great pressure in terms of expenditure in the years ahead. For this reason, Naalakkersuisut is preparing the ground for a number of reforms aimed at reinforcing the foundation for a sustainable economic policy. The reforms are inspired by the recommendations of the Tax and Welfare Commission, but in the view of Naalakkersuisut there is a need for further analyses in the area of housing, etc.

The reform projects are closely interrelated with the requisite modernisation of the public sector, which has become oversized and unwieldy. Successful modernisation can only be carried out in close collaboration with the municipalities and their employees.

Naalakkersuisut is working to ensure that, as far as possible, the reforms and how they affect individual citizens, the business community and society in general will be illuminated before implementation.

Another key aspect of the work ahead is to quantify the impact of the reforms. This quantification must be used to support the subsequent evaluation of the reforms.

Specifically, reforms are being prepared in the following areas:

- pensions
- social benefits
- taxes
- housing and the uniform price structure.

### **2.3.1 Pension reforms**

The high level of immigration and emigration challenges existing pension rules. Today, pension savings qualify for a tax deduction, whereas pension payments are only taxed in Greenland if the recipient resides in Greenland at the time of payment. In the light of current emigration and

immigration patterns, a large portion of pension payments are not taxed in Greenland, which therefore misses out on significant tax revenue under this scheme. It is necessary to convert pension taxation rules by adapting them to the actual situation. Therefore, Naalakkersuisut is focused on reforming pension taxation rules. The reforms aim to abolish the present deductibility/exemption for contributions to pension plans and, in continuation of tighter taxation of other capital returns, to tax pension returns.

Like many other countries, Greenland is facing dramatic changes to the age composition of its population. The number of elderly people is increasing and average life expectancy is increasing at the same time. Consequently, pension costs and expenditure for elderly care, health services, etc., are increasing. The retirement pension scheme also holds a number of challenges in terms of elderly persons' possibilities of being affiliated with the labour market. The area of retirement pensions needs to be reformed by both taking account of life expectancy trends and ensuring that it is worthwhile for elderly persons to be employed. This will benefit society in general and the individual elderly person.

The economic perspectives also necessitate ensuring that as many people as possible save up for their own retirement pension. Therefore, Naalakkersuisut will make it mandatory for everyone of working age to set up a pension plan.

In the autumn of 2013, dialogue was entered into with pension funds and other relevant parties to clarify how these reforms could best be carried out.

### **2.3.2 Social benefit reforms**

Tax-funded welfare payments serve as a framework for the living conditions of the socially and economically most underprivileged members of society and even out income differences in society.

Some welfare benefits are intended for people who, due to age, disability or similar, are unable to provide for themselves.

For instance, the disability pension scheme is part of the welfare society's social safety net and is an important financial safeguard for people whose working capacity is permanently reduced.

The disability pension scheme provides basic subsistence to people without the capacity to work. The scheme is inexpedient in some respects, however, as there are disability pensioners with limited working capacity who are capable of holding a job (part-time or in a protected position). The disability pension scheme could therefore be improved so that it safeguards the weakest groups to a greater extent and at the same time, encourages the initiative of anyone wishing to lead a more active working life.



The purpose of other welfare benefits is to help the individual to be as self-sufficient as possible while providing a financial safety net at the same time. Today, it is difficult to strike a balance between providing a financial safety net without removing the incentive to provide for oneself and one's family. Studies have shown that, in many instances, it is financially more advantageous to receive welfare benefits than it is to work or to work more than necessary. This is due to the way in which the various welfare benefits and the tax system interact. Studies have also shown that, in a few instances, welfare benefits are paid to recipients who do not actually need them. Conversely, there is no certainty that everyone in need of maintenance benefits receives the welfare benefits they should receive or are entitled to receive. This is related to the fact that some benefits are granted according to arbitrary criteria.

The social welfare system has undergone a continuous development process over the years. This has resulted in a system which is unwieldy and needs a comprehensive service overhaul to ensure that it and the individual schemes meet the requirements of a modern society.

The reform efforts will be based on the principle that it must be worthwhile for each individual to provide for himself/herself and his/her family. Also, efficient interaction between the various welfare benefit schemes needs to be established, not least including the tax system.

Efforts to collect data from all over Greenland have been launched to develop a model in which the aggregate effects of benefit or rate changes can be calculated and analysed. Collaboration with municipalities concerning the reporting of data has begun, and analysis efforts are expected to start during 2014.

### **2.3.3 Tax reform**

The basic purpose of taxation is to secure the funding of the welfare society. The societal significance of taxation cannot be assessed solely in terms of its impact on revenue. One should also consider how taxes influence the behaviour of citizens and companies. A high tax on work affects the availability of work, for instance.

The current set-up of the tax system causes problems. There are number of exemptions, loopholes and deduction options in the existing tax system. This is true for both personal taxes and business taxes. At the same time, taxation on earned income is relatively high, which impedes employment and production, whereas it is zero or almost zero on a number of forms of capital return, which incentivises investment in capital goods, such as shares and bonds.

Ideally, incomes should be taxed at the same level, regardless of whether they are generated from work or capital investment. As long as there are genuine differences in the effective tax rate, this will invite tax avoidance and create imbalances. In practice, however, it is quite complicated to completely eliminate certain differences, but it still makes sense to narrow them.

The tax system should also weigh considerations between, on the one hand, the wish for a set of rules which complies with contemporary standards and addresses the multitude of multifaceted problems, and on the other hand, the limited resources that a small population can allocate to taxation administration. Today, the tax system is costly and difficult to manage and is characterised by a skills gap.

Prospects of substantial foreign investments in Greenland in the years ahead give new relevance to developing a corporation tax system which is internationally competitive both economically and in terms of quality. Therefore, Naalakkersuisut has asked the administration body to give top priority to these efforts.

Personal taxation reforms will have to be closely coordinated with social benefit reforms, etc., so the large interaction problems which exist today can be prevented in an appropriate manner.

#### **2.3.4 Housing**

The incentive to own instead of rent housing must be strengthened. In addition, housing subsidies must be reviewed to ensure that the subsidies are received by the recipients with the greatest need. In addition, it is necessary to look into how to improve the coordination of the housing, social benefits and taxation areas.

The review of housing subsidies should therefore take place along with the analyses of social benefits and taxation.

#### **2.3.5 Reform of the price structure for electricity, water and heat**

The subsidy for the public utility Nukissiorfiit through the Finance Act has been reduced by more than DKK 10 mill. p.a. since 2011. Naalakkersuisut will continue to phase out this subsidy.

There is a need to analyse whether the redistribution which currently takes place by means of the existing price structures is expedient and, if so, how any inexpediencies could be alleviated while simultaneously taking account of the consequences for social services and employment. Reorganising the price structure could possibly contribute to promoting climate-friendly consumer behaviour and generate societal growth and development. It is crucial, however, than any reorganisation measures are socially balanced and consider the terms and development potential of outlying areas so that a new price structure does not worsen unemployment or the conditions for small communities.

Naalakkersuisut has decided to initiate an analysis of the price structures for electricity, water and heat. The analysis will be linked to considerations of reforming social benefits and taxation, and to housing studies to ensure that this will be an overall assessment of the financial consequences for each individual.

### **2.3.6 Organisation and planning**

Naalakkersuisut bases its work on the following schedule:

2014 Autumn Session:	Reform of pensions and business taxation
2014:	Study and analysis of housing and of the price structure for electricity, water and heat.
2015/2016:	Reform of social benefits and personal taxation

The efforts to prepare reforms of social services and taxation and the study and analysis of housing and the price structure for electricity, water and heat will be based at the Ministry of Finance and Domestic Affairs. Other relevant ministries will be included in these comprehensive projects through the provision of both staff and financial resources.

It is expected that five to ten FTEs (full-time equivalents) will be used to prepare the reform measures.

Successful implementation of the reform projects requires that the reforms, etc., of the individual sub-areas are included in an overall programme to ensure that account is taken of key financial, practical and political objectives on an ongoing basis. It is crucial that all relevant parties are involved and that they make constructive contributions to the process moving forward. This applies to the municipalities, labour and management, etc., but other parties are also invited to present their proposals for resolving the challenges currently facing Greenland in these areas.

### **2.3.7 Effects of the reforms**

In order to be able to analyse the specific consequences, a wide range of data – including data for social benefits and payments from the municipalities – needs to be collected. As mentioned above, this process has already been set in motion. A data model for disability pension, housing subsidy, child benefits, etc., will be prepared in collaboration with the municipalities to make it possible to analyse the specific reform initiatives.

The effects of the various reform initiatives will be significant for financial conditions in both the municipalities and the Government of Greenland. These conditions will be discussed with the municipalities on an ongoing basis for the purpose of establishing a sustainable budget and economic policy. In this context, a model needs to be designed to show how the gains are to be distributed among the municipalities.

Together with the modernisation of the public sector, the reform initiatives in the areas of pensions, social services and taxes will generate revenues of DKK 10 mill. in 2015, DKK 112 mill. in 2016 and DKK 173 mill. in 2017, which are budgeted under general account no. 20.11.51, “Effects of reform initiatives”.

In the year ahead, the total economic impact of the reforms will be analysed in more detail to ensure a sustainable economic policy.

## ***2.4 Construction***

There is a need for coherent planning of physical structures at national level. The mergers of municipalities have created a new basis for physical planning in the municipalities, and forthcoming mineral resource projects will also have consequences for how land is used. National planning must be carried out on the basis of a societally holistic assessment which protects the countryside, promotes commercially, socially and environmentally favourable developments and which involves the general public in the planning of land use. At the same time, physical and economic planning must be coordinated.

Therefore, Naalakkersuisut has decided to draw up sector plans containing continuous ten-year construction plans to support the sector policy objectives. It is particularly important that long-term planning takes account of the expected demographic trends and the general mobility of the populace.

The sector plans are to be prepared by the individual ministries of the Government of Greenland in collaboration with the municipalities. The national planning department of the Ministry of Housing, Nature and the Environment, and the Ministry of Finance and Domestic Affairs must be involved in preparing the individual sector strategies to ensure a coherent, holistic approach to the planning process across the sector areas.

The maintenance of housing, infrastructure and institutions is a major task for all of Greenland. In many instances, maintenance is no longer profitable, as the buildings are worn down or otherwise unusable. Generally speaking, too much money is spent on replacement building projects, which is an inefficient use of construction funds.

There is a need to improve maintenance throughout Greenland and there is also a genuine need for the construction of new facilities in many places. Naalakkersuisut's policy is to prioritise construction funding for areas with a specific need, but it is also important to distribute these activities all over Greenland. Local needs must be assessed in close dialogue with the municipalities. Thus, the forthcoming white paper for the future collaboration agreements of the Government of Greenland and the municipalities prepares the ground for closer collaboration and stronger coordination in the area of construction.

The lack of maintenance in previous years is an important reason for the mould problems which have necessitated giving high priority to replacement buildings in the 2014 Finance Bill. It is necessary to ensure that the number of housing units does not decline, that rental housing does not

cause health problems for its residents, that users of institutions can use these facilities without concern, and that public jobs are not harmful to employee health.

It must be ensured that this large-scale maintenance problem is dealt with in close collaboration with the municipalities. By improving the organising and coordinating of these efforts, the need for replacement buildings can be reduced in the long term. These large-scale maintenance problems also mean that only limited public funds are available for making the capital investments arising from the sector-policy objectives. Concurrent with the reduction of maintenance problems, more funding can be allocated to supporting these objectives.

Naalakkersuisut's policy is to actively use public construction activities as far as possible to ensure stable growth in the construction sector in general. Therefore, assessments of the job-creation effect need to be carried out at both regional and national level in conjunction with the setting of annual construction priorities. Stable development and a predictable level of activity will benefit the whole sector, but especially those small and local tradesman and contractors who have relatively high costs relating to employment and redundancy. Naalakkersuisut also intends to improve the possibilities for young students of obtaining an apprenticeship in public construction projects. For this reason, Naalakkersuisut will present a proposal to Inatsisartut in which the requirements for the use of apprentices will be tightened.

#### **2.4.1 Investment guidelines**

Socio-economic impact-assessment guidelines have been prepared and issued for public consultation; and it is intended that major investment decisions will in future be based on analyses, etc., which use the guidelines' principles as their point of departure. The final version of the guidelines is expected to be published during the autumn of 2013.

The purpose of the guidelines is to provide a specific description of the requirements for preparing socio-economic impact assessments and thus for taking a structured approach to assessing the impact of the individual project and for being able to compare various investment options.

A good socio-economic impact assessment provides a clear picture of a project's impact – both its advantages and drawbacks. The results will contribute to the overall basis for decisions in the political prioritisation process. Consistently using socio-economic impact assessments will make it easier for political decision-makers to assess whether projects conform to the political visions.

The guidelines are structured around four analyses: an economic welfare analysis; an economic budget analysis; an analysis of social and environmental sustainability; and an analysis of regional and national trends. The first two analyses quantify and value the impacts, in keeping with classic socio-economic analyses. The results of the last two analyses provide a qualitative description of consequences which cannot be valued, but which could be significant for the overall decision-making process.

Already now, there are several potential investments which must be included in the overall list of priorities in the finance acts. It is intended that the results of the analyses of large-scale public investments which affect the next Finance Act must be available no later than 1 May, so they can be included in the preparation of the Finance Bill. Therefore, efforts to prepare analyses of the socio-economic impact of a new airport in South Greenland are already being initiated.

#### **2.4.2 The Port of Nuuk**

Naalakkersuisut is submitting a proposed resolution to the 2013 autumn session concerning the construction of a new container port at Nuuk. After discussion in Inatsisartut, it is intended that a limited company, wholly owned by the Government of Greenland, should be formed and that this company will be responsible for establishing and operating the new port. With Naalakkersuisut's proposed resolution, it is expected that a new port could be ready for use in 2016. The adoption of the proposed resolution by Inatsisartut would also mean that capital would have to be invested in the company in 2014. Therefore, it may be necessary to incorporate a proposed amendment which is OCL-neutral in conjunction with the discussion of the 2014 Finance Bill.

The establishment of a new port paves the way for optimising freight transportation, which is comparable to the containerisation which took place 20 years ago. Improvements to the basic infrastructure benefit all of Greenland, by shortening transportation times, improving competitiveness and ensuring efficient freight transportation. The forthcoming proposed resolution to enlarge the Port of Nuuk defines an important indicator for the entire port area and, at the same time, an overall sector plan for port investments is being prepared to support the new transportation pattern which puts Nuuk at the centre of all sea freight.

#### **2.4.3 General runway structure**

Today, there is a potential need to enlarge and establish some runways. Similar financial gains can be achieved by closing down selected runways. To avoid making decisions which could deadlock future possibilities of changing the general airport structure, the general runway structure must be considered from the top down. Therefore, efforts are being initiated to identify and assess various possible runway structures with a view to taking a general strategic decision concerning the future location of an Atlantic airport.

Once a decision has been made concerning a general strategy, this will define the framework for future traffic patterns and thus for assessing and prioritising investments in local airports.

The sector plan will involve possible plans for other airports as outlined in the report of the Transportation Commission. The final sector plan is expected to be prepared over the next year and published during 2014.

#### **2.4.4 Qaqortoq Airport**

In 2011, the Transportation Commission analysed issues such as the conveyance of passengers in South Greenland. The commission concluded that the establishment of a new airport at Qaqortoq

would be socio-economically profitable, provided that Narsarsuaq is closed down and that passenger transportation in South Greenland is generally optimised. The biggest single investment is the possible establishment of a new airport at Qaqortoq. To ensure a coherent, financially justified and efficient transportation system, road and sea connections between the biggest towns should also be included in the overall plan for the region.

An airport at Qaqortoq and a downgrade of Narsarsuaq Airport entail a number of advantages and drawbacks which are not equally distributed.

The decision to establish an airport should be taken on the basis of the following considerations:

- the investment should contribute to creating a better framework in which to transport passengers to, from and within South Greenland. Passenger-transportation improvements should primarily be measured in terms of direct costs (ticket prices) and indirect costs (e.g. total travelling time and frequency);
- the investment should be future-proofed in relation to possible development scenarios from a logistics and commercial perspective;
- the investment should support regional development in South Greenland;
- the investment – and the financing – should be assessed on the basis of politically determined criteria and principles of loan financing;
- the organisational set-up should promote national productivity;
- the stakeholders should have an incentive to operate commercially so that the potential of the overall passenger transportation process is utilised to the utmost.

Thee Greenland Parliament's Act No. 12 of 5 December 2008 on airports is a detailed specification of requirements for establishing a new airport. A possible investment in an airport at Qaqortoq should comply with these statutory requirements, and analyses should also be prepared in accordance with the principles for socio-economic impact assessments (see the above section).

It is assessed that the decision to possibly establish a regional airport at Qaqortoq could be viewed independently of the placement of an Atlantic airport, as a regional main airport will also be needed in South Greenland in the future.

Thus, it is intended that a preliminary decision concerning investing in an airport at Qaqortoq could be taken as part of the finance bill process for the 2015 Finance Act.

## ***2.5 Business and the labour market***

It is the intention of Naalakkersuisut to pursue an active business policy for the purpose of establishing a sound framework for the business community and, accordingly, strengthening entrepreneurship. At the same time, Naalakkersuisut intends to adapt the service contracts in the

area of business promotion and boost competitiveness in the business community. Subsidy funding throughout the business and infrastructure area should stimulate development, should be effective and should not be anti-competitive.

With the adoption of a new business promotion structure in the 2011 autumn session, Naalakkersuisut laid down the objectives for the business promotion efforts. The specific implementation of these objectives is apparent in the service contracts entered into with Visit Greenland, Greenland Business and Rambøll concerning mineral resources projects and large-scale projects.

The new business promotion structure focuses on sector-specific business consultancy and the professionalisation of capital intermediation. Sector-specific consultancy which supports the municipal business-development action focuses on start-ups, growth, innovation and higher productivity. The areas of focus include mineral resources, tourism and foods.

### **2.5.1 Upgrading Greenland companies for the mineral resources industry**

Naalakkersuisut has set an objective of making the mineral resources sector a principal industry. For this reason, a focused effort was implemented in 2012 and 2013, aimed at upgrading and developing the expertise of local companies to enable them to become qualified suppliers for the mineral resources industry. This prioritised effort was implemented in the form of a service contract for the delivery of specialised consultancy to local companies that wish to become external suppliers for large-scale mineral resources projects.

A GAP analysis was carried out in 2012 to describe the “gap” between the skill-sets sought after by the mineral resources industry and the skill-sets which Greenland companies can provide today. The results of the GAP analysis prompted the planning of a training course focused on developing locally rooted companies with a view to strengthening the skill-sets sought after by the mineral resources industry in the future. This will improve our companies’ possibilities of becoming – in terms of price and quality – competitive suppliers for large-scale mineral resources projects. Thus, these training courses complement the courses currently provided by the sector schools. During the first half of 2013, fourteen courses were held in the towns of Qaqortoq, Nuuk, Sisimiut and Aasiaat. The course participants were very satisfied with the courses, and most participants expressed an interest in attending additional courses. Therefore, a similar initiative is expected to be carried on in the next two years.

### **2.5.2 Business Promotion Act**

The Business Promotion Act for land-based businesses came into effect on 1 January 2013. The Ministry of Industry and Mineral Resources spent last spring preparing an executive order for the act which has been sent out for consultation. Work involving the guidelines has been set in motion.



The administration of the business subsidy schemes under the Business Promotion Act for land-based businesses is the responsibility of Greenland Business, a development company. By the end of June 2013, Greenland Business had supported fourteen companies with product-development support totalling DKK 1.65 m, and issued 32 “multi-clip punch cards” totalling DKK 382,000. Thus, subsidy totalling more than DKK 2 mill. was disbursed during the first half of 2013.

### **2.5.3 Biological resources**

The Ministry of Industry and Mineral Resources also manages the legislation regulating commercial and research-based use of biological resources; previously, this had been managed for a period by the Ministry of Domestic Affairs, Nature and the Environment. The level of activity was good in the first half of 2013, in that 31 exploration permits were issued as of early July. These involve a wide range of different research projects, many of which are affiliated with the Zackenberg research station in the national park.

The Act on commercial and research-based use of biological resources was adopted in 2006. The ministry ascertained a need to prepare guidelines intended for applicants seeking permits and has therefore initiated efforts in this regard.

### **2.5.4 RDS**

The Regional Development Strategy (RDS) aims to support business development in the municipalities. Therefore, funding has been earmarked for business spearhead projects and development conferences in each municipality, but due to a delay, subsidy has only been granted to business spearhead projects totalling DKK 3 mill. in two of the municipalities as of mid-2013. The remaining applications are expected to be accepted in the near future, bringing the total sum to DKK 6 mill. Naalakkersuisut has adopted a plan for a business and employment action in settlements and outlying districts to replace the RDS from 2014. The aim is a focused effort to help to generate development in settlements and outlying districts in the areas of fishery, hunting, agriculture and food, mineral resources and tourism.

In addition, profitability studies have been launched to shed light on the business development potential in a number of areas. These efforts focus on land-based foods and livestock and fishery-based foods, and on increasing the use of sustainable energy in settlements. The analyses within the above themes are being carried out on an ongoing basis and are expected to be completed by the end of 2013.

### **2.5.5 Tourism**

A tourism strategy for the period 2012–2015 was adopted in the summer of 2012. The purpose of the strategy is to ensure economically, socially and environmentally sustainable growth in the tourism and experience industries. The strategy focuses on the following five strategic action areas: marketing, accessibility, legislation, the experience industries, and statistics/documentation.

In relation to legislation, Inatsisartut Act No. 19 of 3 December 2012 on licences for tourism enterprise in selected regional areas was adopted during the 2012 autumn session. The purpose of the act is to secure reasonable safeguards for substantial private investments in the tourism industry to provide a greater incentive for private tourism operators to invest in the sector.

In addition, a major action to improve tourism statistics in Greenland was launched. The purpose is to secure more valid statistics within the tourism industry which could create a better general view of and a basis for decisions on how to best develop the framework conditions for the tourism industry in the years ahead.

In addition, an analysis of barriers to developing Greenland's tourism potential will be prepared during 2013.

### **2.5.6 Large-scale projects, including the ISUA mine**

#### ***Tripartite agreements***

Tripartite impact and benefits agreements (IBA) between mineral resources companies, the Government of Greenland and the municipalities were implemented for the first time in conjunction with Cairn Energy's exploratory drilling in 2010 and 2011. A tripartite agreement is being prepared between London Mining, the Government of Greenland, Kommuneqarfik Sermersooq and Qeqqata Kommunia in continuation of London Mining's application to exploit a site near Isukasia. It is also intended that the tripartite model will be used for future land-based mining projects and offshore exploratory drilling.

The tripartite agreement is a tool for ensuring local embedment of the mineral-resources activities planned by the company. The primary focus of the agreements is the involvement of the local workforce and local companies in the projects. As far as Greenland is concerned, it is important to be prepared for these developments so that not only foreign companies land these orders. In addition, it is important that the scope of calls for tenders issued is manageable for local companies to submit tenders for and that local companies also get the opportunity to be responsible for deliveries.

It is also important that the tripartite agreement ensures apprenticeships for local apprentices and skills development and training of the local workforce and supports the goal of sustainable development.

At the 2012 autumn session of Inatsisartut, Act No. 25 of 18 December 2012 on construction works for large-scale projects (the Large-Scale Projects Act) was adopted. Naalakkersuisut's Coalition Agreement includes the aim of modifying a number of sections of the Large-Scale Projects Act, including in particular Section 10 concerning collective agreements. A proposed amendment to the Large-Scale Projects Act is expected to be submitted to the 2013 autumn session.

### ***Royalties***

The Coalition Agreement also includes a stipulation that royalties from the extraction of mineral resources will be introduced in the future. As part of the discussion of London Mining's application for an exploitation permit, a contractual basis is therefore being negotiated for the payment of a turnover royalty already from the first year of production.

### ***London Mining***

Naalakkersuisut has decided to issue an exploitation permit to the iron mining project at Isukasia pursuant to Section 16 of the Mineral Resources Act. This approval makes it possible for London Mining to commence negotiations with prospective investors. The total capital investment is expected to be DKK 13–14 bn. The approval pursuant to Section 16 of the Mineral Resources Act does not entitle the company to begin constructing the mine, however. Approvals pursuant to Sections 19, 43 and 86 of the Mineral Resources Act and also an approved IBA are still needed before the project may be initiated. If investors are found in the near future, the remaining authorisations are obtained and the IBA falls into place, construction of the mine is expected to begin in 2015. Besides the fact that the project will ensure employment in the form of several hundred jobs from the outset, income taxes will started to come in from employees, both domestic and foreign, as well as corporation taxes from all the external suppliers.

### ***Other mineral resources projects***

Other mining projects are expected to be authorised in the years ahead, if the companies comply with the statutory requirements. This is true of True North Gems' ruby mine at Qeqertarsuatsiaat, which is expected to be sent out for consultation in 2013 and the eudialyte mine at Narsaq, which is expected to be sent out for consultation in 2014. It is expected that around 160 employees will be needed for the operating phases of these two mining projects, most of whom are expected to be recruited in the local area.

### ***Aluminium project***

Negotiations between Alcoa and the Government of Greenland are still in progress. Naalakkersuisut has confirmed that negotiations will continue on the basis of the framework conditions for the continued negotiations with Alcoa which were approved as an Inatsisartut decision under point 113 of the 2012 autumn session.

The principal elements of the framework conditions for the project comprise a mining concession model in which the Government of Greenland becomes co-owner of the aluminium project with hydropower plants and with a prolonged mining concession period of 60 years. This will require an amendment to the Hydropower Act, whose present wording provides for a mining concession period of 40 years, with the option of an additional extension of up to 20 years. In collaboration with Qeqqata Kommunia, Naalakkersuisut will search for possible alternative financing models for derivative construction investments for infrastructure, housing, schools, etc.

Naalakkersuisut will present proposals for amending the Tax Act and the Hydropower Act for the purpose of making it possible to fix a level of remuneration (in the permits issued pursuant to the Hydropower Act) to replace the corporation tax.

A report entitled “Aluminiumprojektets økonomisk betydning” (Financial Significance of the Aluminium Project) from 2010, prepared by Niras Greenland A/S, analysed the indirect and induced income and expenditure from the aluminium project.

The analysis results showed that the establishment of one aluminium smelter and two hydropower plants would increase both revenue and expenditure for the Greenland Treasury far into the future, with the biggest effects taking place during the construction phase.

The start-up of the project could also be affected by the global demand for aluminium and by energy prices, which could have a decisive influence on a decision to start the project.

### **2.5.7 Strategy for rare earth metals**

Many different deposits of rare earth metals are found in Greenland. The most advanced project is at Killavaat Alannguat (Kringlerne), and Tanbreez Mining Greenland is expected to submit an exploitation application during 2013. An exploration project has also been launched at Kuannersuit (Kvanefjeld), but its success largely depends on whether Greenland changes its uranium policy.

Greenland maintains a zero-tolerance policy for the extraction of minerals with radioactive elements, such as uranium and thorium, which are contained in some rare deposits of earth metals. This zero-tolerance policy is on the agenda for Inatsisartut’s autumn session for the purpose of discussing the possibility of amendment or abolition.

A strategy for rare earth metals is currently being developed. The strategy is intended to help to support the development of possible and actual projects for exploration and extraction of rare earth metals in Greenland. The most advanced exploration and extraction projects involving rare earth metals are described in brief below.

#### ***Killavaat Alannguat (Kringlerne), South Greenland***

Tanbreez Mining Greenland A/S is exploring deposits of rare earth metals at Killavaat Alannguat between Narsaq and Qaqortoq. The composition of the minerals is characterised by a high content of niobium, tantalum, zirconium, feldspar and rare earth metals. These minerals can be used in mobile telephones, aircraft engines and glass. The deposits are estimated to contain more than four billion tonnes of ore, equivalent to several centuries’ production.

Based on the available information, 35 to 135 people are expected to be employed during the construction phase and about 80 people during the operating phase, if the project becomes a reality. Of these numbers, 75% are expected to be local, while the remaining 25% are expected to be foreign labour.

### ***Rare-earth-metal project at Kuannersuit (Kvanefjeld), near Narsaq***

Greenland Minerals & Energy is exploring for rare earth metals at Narsaq. In addition to rare earth metals, the deposit also contains zinc and uranium. The company has completed a pre-profitability study and, based on the existing scenario, expects to employ around 380 people during the operating phase and 1,000 people during the construction phase.

As part of collecting data for the application, a number of stakeholder meetings have already been held in South Greenland. In addition, a number of public meetings have been held over the years to provide information about the project. In recent years, the company has found several interesting new deposits which have increased the volume of the known resources. Drilling has been taking place in this area since 2005.

### **2.5.8 Fishery industry**

Fishery exports continued to increase in 2012, and fishery remains Greenland's most important export industry. Naalakkersuisut intends to implement reforms, particularly within coastal fishery of shrimp and halibut.

The total export value of shrimp, halibut and cod increased by DKK 100 mill. in 2012 compared to the figure for 2011. Cod export volumes have increased, but the volume of shrimp exports declined in consequence of the reduction in total allowable catches (TAC). Coastal cod fishery is around 10–15,000 tonnes. In 2013, Greenland has access to a combined catch of 9,400 tonnes of cod in the Barents Sea, and also has access to haddock and pollock.

Fishery's total revenues were higher in 2012 than in 2011 as a result of rising prices on the world market.

Fishing pressure is fairly stable for halibut. By contrast, shrimp quotas continued to decline in 2013, which will lead to a further reduction of activities involving this fishery. In addition, MSC labelling is now required for shrimp fishery. This tightens the requirements for adapting the fishery effort to biologically recommended quotas. In collaboration with relevant ministries and the Tax Agency, Greenland's Ministry of Fisheries, Hunting and Agriculture will prepare a proposal to define the framework for future efforts to revise the Fisheries Act. This includes efforts to set up targets and actions to increase the total socio-economic gains from exploiting fishery resources. Prior to issuing licences for new fishery, suitable models must be found to describe the expectations of the economic impact and of the effect on local employment associated with exploiting the licence.

### **2.5.9 Employment**

#### ***Employment plan***

Naalakkersuisut set up a labour market council in June 2013, comprising representatives of management and labour. The purpose of the council is to serve as a consulting, coordinating body for Greenland's national employment efforts. The National Labour Market Council is tasked with advising Naalakkersuisut on the formation of employment policy and with coordinating and

developing joint solutions to Greenland's challenges in combating employment. In addition, the council is tasked with monitoring results and impacts of local and national employment efforts. Another intention of the labour market council is to be a forum for discussing a number of well-defined issues and to present proposals for specific measures which, in the view of the council, would have the biggest impact on unemployment. The work of the council will particularly focus on the following current issues:

1. foreign workers,
2. a single national job market,
3. better structural monitoring,
4. the available-for-work concept,
5. the inclusive labour market,
6. the right of unemployed persons to a personal action plan and counselling, and
7. youth unemployment.

### ***The inclusive labour market***

The inclusive labour market aims to ensure that there is room for everyone at Greenland's workplaces, including for individuals with reduced working capacity or weaker qualifications. An inclusive labour market is a broadly defined concept which particularly expresses an expectation that workplaces will accommodate individuals who cannot live up to prevailing performance requirements in all instances.

The target group comprises a wide circle of people who have difficulty obtaining or keeping a stable affiliation with the labour market due to reduced working capacity, physical or mental disabilities, prolonged unemployment or illness, etc.

The National Labour Market Council must also discuss the issue of how the public sector can support the business community in terms of boosting at-risk groups, including Match Group 3, individuals receiving disability pensions, the disabled, convicts, etc., and help them to return to the labour market.

### ***Extraordinary unemployment action***

An extraordinary action targeting the unemployed was launched in 2011 and 2012 based on the rising unemployment rate noted in the municipalities in recent years. The extraordinary action aimed at the unemployed is being carried on in 2013 and should be regarded as an action which supports the intentions of the employment policy inherent in "Employment Plan for a Transitioning Economy".

As many unemployed individuals have a short-term education or no formal education at all, a general boost of unemployed individuals' skill-sets is needed. First and foremost, top priority will be given to academic skills-development processes and to workshop projects for young people so they can pursue other educational options. Wherever a job opening arises, relevant courses must be offered to the unemployed. If it is not directly possible for an unemployed person from the local

area to be hired, the unemployed person's skills development must as far as possible consider the qualifications required for future growth jobs in the area of mineral resources.

The action targeting the unemployed comprises the following:

1. PSE courses. PSE courses are technical courses provided by the sector schools or by other players on behalf of the sector schools whereby the sector schools are responsible for the quality and technical standard of the course. Only unemployed persons in Match Group 1 will be referred to these courses.
2. Clarification courses. Clarification and advisory courses focusing on new occupations, mobility enhancement, job searches, and business contact for Match Group 1. The courses are held in the local area in accordance with the Government of Greenland's model for the holding of courses.
3. Piareersarfik/Piorsaavik workshop projects for young people. One-year clarification process aimed at continuing education.
4. Piareersarfik's academic skills-development initiative AEU/FA. One or two-year training processes with study advisers aimed at continuing education.
5. Vocational rehabilitation. Vocational rehabilitation processes are to be established for Match Group 2 in collaboration with employers from both the public and private sector. Typical vocational rehabilitation processes last one or two years.

The funding for the extraordinary action targeting the unemployed totals around DKK 33 mill. for 2013.

The impact of all courses held under the extraordinary action targeting the unemployed will be evaluated. Follow-up of all participants will take place six months after the action so that a report for the action in the first half of 2013 will be available in late October 2013.

In 2013, Naalakkersuisut has intensified its efforts targeting the unemployed with another initiative in the construction sector. For instance, a housing renovation project in towns with large housing shortages and high unemployment will be moved forward.

In addition, a number of fishery initiatives which could have a positive impact on employment have been set in motion. An initiative has been taken to possibly increase some of the coastal halibut fishery quotas for Disko Bay, Uummannaq and Upernavik. Another initiative will allow fishermen in Aasiaat to land and sell cod, rose fish and Atlantic wolf-fish for a trial period lasting until September. Finally, experimental pelagic fishery for mackerel, herring, blue whiting and greater argentine has been launched in East Greenland.

### *Unemployment statistics*

Complete and satisfactory labour market statistics are important for being able to target and launch efforts to combat unemployment. In recent years, efforts have focused on bringing Greenland's labour market statistics up to the international standards recommended by the UN International Labour Organisation (ILO). Efforts to improve labour market statistics are still in progress.

Unemployment statistics specify the number of people who have reported to a municipal labour-market office as job seekers in the course of a month. However, the administrative practice of registering job seekers is not uniform across the municipalities. Therefore, some of the fluctuations in the number of job seekers can also reflect modified administrative practices in the municipalities. This may especially be true of reports dating from before 2012, after which there was an effort to standardise the reporting submitted by case officers and the labour market offices. These statistics can also be inadequate due to a lack of registrations from individual localities.

Up to now, the counting of registered job seekers has not included settlement residents. From 2013, Statistics Greenland has modified its specification method and now includes job seekers residing in settlements. The statistics from settlements are in some instances based on estimates or calculations and are therefore subject to some uncertainty.

Another problem is that unemployment statistics cover all unemployed persons registered, which includes persons who are not necessarily available for work. A match-group system was introduced in 2012, which divides job seekers into three match groups depending on their readiness for employment. Match Group 1 comprises individuals who are prepared to accept ordinary work. These unemployed persons have qualifications which match the requirements of the labour market. Match Group 2 comprises individuals with significantly restricted working capacity where some type of activation or treatment is required before they are ready for employment. Match Group 3 comprises individuals who currently have problems of such severity that they are unable to work or to take part in efforts involving active provisions aimed at employment. Based on the ILO definition of unemployment, statistics should only include individuals from Match Group 1. The lessons learned from initial efforts involving match groups show that it has been difficult for case officers to assign job seekers to the right group. Therefore, efforts are currently ongoing to upgrade the skills of case officers at the labour market offices so they are able to correctly categorise job seekers.

As mentioned in section 1.1, there is no unequivocal correlation between the number of job seekers and societal growth. A possible explanation of this could be emigration where persons of working age leave Greenland to find work. In addition, there are signs of structural problems in the labour market. The net immigration of unskilled labour combined with a high unemployment rate indicates that there are one or more barriers between the work provider and the job seeker. These barriers appear to be related to education and mobility. Consequently, there seems to be a mismatch between the qualifications of the unemployed and the qualifications sought after on the labour



market, as well as a geographical barrier between the work locality and the wage-earner's residence which weakens mobility in the labour market.

## ***2.6 Education and training***

The most important goals of education policy are that Greenland's young people should become qualified to accept all types of jobs here in Greenland and that young people should become globally oriented. This is in conformity with Naalakkersuisut's policy to minimise the hiring of foreign workers concurrently with Greenland's higher degree of independence.

Naalakkersuisut expects to present its Education Plan II at the 2014 spring session based on a revised education strategy.

At present, Naalakkersuisut has given priority to initiatives in areas such as preschool, primary school, lower secondary school, language strategy, 15–18-year-olds, and youth study and training programmes.

### **2.6.1 Preschool**

Thirty-one per cent of children aged 0–5 (1,500 children) are not receiving public or private childcare. At the same time, projected statistics predict that this age group will grow up to 2018. This means that there is a growing need for educationally stimulating provision for preschool-age children. In the long term, Naalakkersuisut wishes to provide public services to all preschool-aged children and therefore continues to enlarge institutional childcare capacity by earmarking a construction allocation of DKK 10 mill. a year.

In 2012, 44% of the staff in public institutional childcare did not have a formal preschool teaching education. Naalakkersuisut believes that the preschool age is important for children's personal development and possibilities for higher educational processes. Therefore, Naalakkersuisut proposes that funding be allocated in the 2014 Finance Act to upgrade these skills through supplementary education based on distance teaching of unskilled staff at childcare institutions.

Naalakkersuisut is working on an executive order on screening and a school readiness test for children aged 3 and 5 in preschool and expects these tools to be tested in the upcoming 2013–2014 school year.

### **2.6.2 Primary and lower secondary school**

The year group which left lower secondary school in 2013 is the first year group to have left primary and lower secondary school since the implementation of the Atuarfitsialak school reform. Naalakkersuisut notes that there are still far too many students in primary and lower secondary school who do not receive education on a par with the quality aimed for in the reform.

Therefore, Naalakkersuisut wishes to continue in the general direction indicated by the school reform, but there is a great need to evaluate and further develop the level of teaching in the primary

and lower secondary school system and its ability to accommodate the needs of and support all students, including those with special needs. Naalakkersuisut notes that, until recently, no attempt had been made to implement many of objectives of the school reform and that efforts to ensure the complete implementation of the Atuarfitsialak school reform are still needed at all schools. Naalakkersuisut wishes to collaborate closely with the municipalities, IMAK, parents and students to implement these changes.

Schoolteachers in particular play a key role in the provision of sound, caring education. Naalakkersuisut wishes to strengthen teachers' possibilities of relevant supplementary education so that supplementary education programmes conform with the principles of the Atuarfitsialak reform and teaching practices, and Naalakkersuisut will engage in dialogue with the municipalities and IMAK to this effect.

Naalakkersuisut will engage in dialogue with the municipalities and other stakeholders to determine whether the current division of responsibility between institutions supporting the development of primary and lower secondary schools is expedient. An effort must be made to ensure that clear, unequivocal distribution of tasks exists between Inerisaavik (Institute of Learning), the Ministry of Education, Church, Culture and Gender Equality and the municipalities to support the Atuarfitsialak reform. If necessary, Naalakkersuisut will take steps to secure better framework conditions for primary and lower secondary school so that the resources are used in the best possible way.

Naalakkersuisut wishes to implement and exploit the latest developments in the areas of IT and distance teaching in the primary and lower secondary school system. Naalakkersuisut is pleased that more and more initiatives and projects are being launched in the school system and will, in the years ahead, launch initiatives to support these developments academically and financially. Naalakkersuisut deems it important, however, that initiatives are thoroughly planned and evaluated to ensure that resources are used in the best possible way. Finally, Naalakkersuisut deems it important to strengthen school counselling for further study and training programmes so that students on the final step of lower secondary school are given good, thorough insight into their further educational options after they leave lower secondary school.

### **2.6.3 Language strategy**

Naalakkersuisut wishes to strengthen our native language, Greenlandic, in the public administration system, the business community and as a principal language of society and culture. Through legislative measures and other initiatives, Naalakkersuisut will ensure that public services are provided to each individual in his/her own language. Naalakkersuisut will engage in dialogue with Inatsisartut to reprioritise both human and financial resources to support this goal.

Naalakkersuisut will strengthen the role of the Language Secretariat in boosting and developing the Greenlandic language. In this respect, Naalakkersuisut is focusing particularly on the new opportunities IT provides to make language accessible to the general public, in the form of language

instruction; online, updated terminology databases; and the development of online interpreting tools to ensure quality and uniformity.

Naalakkersuisut finds that it is important to strengthen the general public's possibility of learning a foreign language, both in the educational system and through supplementary education. We must continue to prepare ourselves linguistically to operate in an international environment and to particularly exploit the employment-related opportunities made available through the potential large-scale projects.

#### **2.6.4 Young people aged 15 to 18**

Many young people still receive no education after leaving lower secondary school, and many are slow to register for a youth education. For example, 44% of a class leaving lower secondary school in 2012 did not continue directly to an educational process. At the same time, only 30% of young people aged 16 to 19 are currently enrolled in a youth study or training programme. In addition, after leaving lower secondary school, many young people spend a year at a continuation school. The capacity of Greenland's two continuation schools is 150, while about 250 students travel to Denmark for continuation school each year.

Naalakkersuisut prioritises an extraordinary effort running from 2013 to 2016 targeting young people aged 15 to 18 who are outside the educational system. The action includes extra quotas for stays at continuation and folk high schools and a number of skills-development programmes. In addition, a database will be established to provide a better knowledge base for any actions launched. With a wish to provide more and better advice to young people, Naalakkersuisut allocated funds in 2013 to increase admissions to the study adviser programme and has released funds for experiments involving full-time study advisers in the school system.

#### **2.6.5 Youth study and training programmes**

Youth study and training programmes have experienced a steadily increasing influx of students. The number of active students was 47% higher in 2012 compared to 2005, and the number of young people having completed an upper secondary or vocational training programme was 80% higher in 2012 than in 2005. The sharpest increase took place in the upper secondary school segment, where the first year group under the new reform started in August 2012. An evaluation of the reform is scheduled to start in 2013.

At the 2013 autumn session, Naalakkersuisut will present a proposed resolution for an Inatsisartut law on study advisers and vocational counselling. The legislation arises from sharper focus on the advice given to young people in particular to reduce faulty study choices and not least to reduce the attrition rate at youth study and training programmes. The legislation includes initiatives for proactive counselling, collective counselling, and counselling collaboration between primary and lower-secondary schools, the municipal Piareersarfiit centres and the educational institutions.

A shortage of apprenticeships is a big problem for vocational training programmes. According to the estimates of the vocational schools, there was a shortage of 375 apprenticeships compared to demand in 2013. At the same time, the business community seeks qualified labour. Naalakkersuisut wishes to make an extra effort to ensure that more young people get a vocational education and that they start on the programme sooner after leaving lower secondary school. Today, the average age for a student in a vocational training programme is 25.

To encourage more young people to sign up for a vocational training programme, the extraordinary action in 2013 allocated funds to set up more apprenticeships. The funds will be used to enlarge school apprenticeship facilities and to set up apprenticeships in Denmark. In addition, in the 2014 Finance Act, Naalakkersuisut proposes that additional funds be allocated to the development and running of school apprenticeship schemes, and Naalakkersuisut is preparing to change the public procurement memorandum as a way of increasing the number of apprenticeships. The existing executive order concerning the use of apprentices must be revised to tighten the requirements for the use of apprentices in large-scale construction projects and to strengthen the control of apprentices. IBAs in the area of mineral resources also prepare the ground for ensuring more apprenticeships.

Fifty-four per cent of students who start an upper secondary programme complete it, whereas this is true of only 44% of the students who start a vocational training programme. By upgrading the counselling system, Naalakkersuisut seeks to ensure that more young people choose the right study or training programme, which will increase the completion rate as a result. At the same time, the educational institutions seek psychological and social counselling for students. This is because the institutions have many students with psychological and social problems. Therefore, in the 2014 Finance Act, Naalakkersuisut proposes that nationwide psychological and social student counselling services be set up to increase the efforts being made in this area and, in so doing, reduce the attrition rate.

In early 2014, the Ministry of Education, Church, Culture and Gender Equality will complete its proposal for a new general education plan which, among other things, will consider the issue of the weighting attributed to various educational activities in Greenland and other countries.

## ***2.7 Children and adolescents***

The strengthened special action targeting the area of children and adolescents focuses on municipal involvement, improved interdisciplinary collaboration and coordination, and particularly family treatment efforts at family centres and family folk high schools.

In recent years, skills development programmes and study trips have been organised for family-centre staff. In addition to technical development, these initiatives have contributed to heightening interdisciplinary collaboration and knowledge-sharing throughout Greenland. In the years ahead,

Naalakkersuisut will collaborate with municipalities to prepare a plan aimed at further developing the work of the family centres.

A particularly at-risk group comprises children whose parents suffer the after-effects of having been sexually abused in their childhood, which makes it difficult for them to cope with daily life. Therefore, a “travelling squad” made up of psychologists and therapists who offer treatment for adults suffering from sexual abuse sequelae will be set up. This will give the adults more energy to raise their children and thus promote the well-being of these children.

To ensure better provision for children and adolescents throughout Greenland, focus will be brought to bear on the drop-in centres in outlying districts. In the spring of 2013, a network meeting for drop-in centre employees was held for the specific purpose of charting this area.

In the area of foster care, a seminar was held last year for foster-care families focusing on skills development, mentoring and knowledge-sharing. In the future, Naalakkersuisut wishes to give higher priority to and develop course and training options for foster-care families.

There is a need to focus on municipalities’ case processing. The municipalities must be professionally prepared in terms of resources to undertake actions in the area of services aimed at children and adolescents, particularly as this relates to the most at-risk groups of children and adolescents. Otherwise there is a risk of undermining the effect of actions already launched.

The proposed resolution for Inatsisartut concerning the provision of assistance to children and adolescents gives higher priority to increasing legal protection in this area and strengthening the case processing; this resolution is scheduled to be presented at the 2014 spring session. In addition, a resolution for the final prioritisation of funds for the Strategy for Services to Children and Adolescents for 2014 and subsequent years is being prepared, which Naalakkersuisut can discuss together with the recently completed evaluation of funds earmarked for the special action targeting services for children and adolescents. This proposal focuses on early intervention and prevention.

A new Inatsisartut act on the use of force, which is expected to be discussed at the 2014 autumn session, is intended to regulate the use of force vis-à-vis children placed in out-of-home care schemes, but not children placed in foster care. At the same time, the act is intended to regulate the use of force vis-à-vis adults with significantly and permanently reduced functional ability who receive personal and practical assistance and socio-educational assistance, etc., in accordance with the rules of social services law. This area has not been regulated previously, which has been a legal rights problem.

## ***2.8 The elderly***

Naalakkersuisut will carry out an analysis of the current situation for the elderly for the purpose of laying the groundwork for a plan to improve the living conditions of elderly persons.

Statistics Greenland's population projections show that the percentage of elderly persons will increase in the years ahead. This increase is not offset by an increase in the percentage of individuals of working age. This will challenge public budgets in terms of central welfare benefits, such as retirement pensions and the provision of care services to the elderly, which are otherwise intended to ensure a dignified existence in old age.

Naalakkersuisut intends to increase the interest in pension savings among the population as well as work to prepare the possibilities of providing added income for the elderly.

The preparation of new legislation for retirement pensions and new legislation governing institutions, etc., for the elderly is being planned. Increasing numbers of elderly also means that there will be more people afflicted with dementia, a trend for which both the healthcare system and the municipalities must proactively prepare. In this light, Naalakkersuisut will present a proposal for a dementia care plan. The changing demographic trend towards more elderly persons will also affect illness patterns and the pressure on expenditure in the healthcare system. Welfare benefits for the elderly should therefore be included in the National Health Strategy.

A construction sector plan also needs to be prepared for the elderly services area to strengthen planning and preparation of requisite investment in additional elderly housing units and institutions in the years ahead as a result of demographic changes.

## ***2.9 Greenland Broadcasting Corporation (KNR)***

The 2012 financial statements for KNR show that this media institution has focused intently on reducing its operating costs over the past two financial years. These efforts succeeded in 2012, when KNR turned a profit of DKK 3.9 mill. This profit is remarkably positive, and Naalakkersuisut appreciates the effort made at KNR over the past two financial years.

KNR's financial situation has been strained for years. From 2000 until 2012, KNR had a total deficit of more than DKK 21 m, in spite of annual subsidy during this period of around DKK 62.5 mill. (2011 prices).

At the end of December 2012, KNR had negative equity totalling DKK 19.5 mill. The financial results for the past five years are shown in Table 7.

*Table 7: Financial results for KNR, 2008–2012*

Financial year	2008	2009	2010	2011	2012
DKK '000	-1,286	-1,646	-1,984	-1,908	3,872

Source: Ministry of Education, Church, Culture and Gender Equality

The management of KNR launched a number of initiatives in 2011 to adjust the capacity of the media organisation and cut costs. The aim was to improve the financial situation to lay the groundwork for allocating resources for developmental tasks.

As KNR has been incapable of paying off its debt, in 2012 Naalakkersuisut decided to phase out the drawing rights over four years by writing off one-quarter of the debt every year.

This tight fiscal course is being maintained in 2013, and a new public-service performance contract has to be concluded with the new management.

Funding has been earmarked in the 2014 Finance Bill for rehousing KNR and for the construction of new buildings for KNR, as widespread mould contamination rendered the previous buildings unsuitable as a workplace. A decision needs to be taken concerning whether new technical equipment is required and, if so, how this can be funded.

## ***2.10 Strengthening the veterinary and food safety response***

The Government of Greenland is responsible for both veterinary and food safety in Greenland, i.e. monitoring, prevention and restriction of livestock, human and food-borne diseases and unintended incidents, as well as the obligation to report pursuant to international obligations (OIE, WHO, etc.).

### **Veterinary response**

To prevent and future-proof the population and livestock health, there is a need to strengthen monitoring and diagnosis relating to zoonosis/infectious diseases in both wild and domestic animals. Within the next year, Naalakkersuisut expects to present a proposal for an overall plan to this effect. This must be done in collaboration with the relevant bodies in Greenland and at global level.

### **Food safety response**

To optimise food safety, Naalakkersuisut seeks the following:

- to develop databases in the area of food imports, businesses, commercial hunters and fishermen who are certified as primary producers;
- to collect all information (including physical, chemical, and hygienic monitoring results) concerning the area of water quality;
- to strengthen the aquatic laboratory's technical level and output.

Food safety requires understanding, holistic evaluations – risk-managed responses – and from-farm/fjord-to-fork approaches, which must be implemented in all links of the food supply chain. This is demanding, i.e. it requires training in basic hygiene and in the significance of voluntary internal control programmes. Therefore, Naalakkersuisut will work to increase the amount of information, training and campaigns to support this goal.

The training of primary producers and supervisory technicians could be done using existing national training funds and possibly using available EU funds and is to be carried out in collaboration with Inuili and others. Strengthening the veterinary and food safety response must be funded not least through users' fees, a measure commonly used abroad.

### **Outcome targets**

The strengthening of veterinary and food safety will also strengthen the plans included in the forthcoming national health strategy. The outcome targets for the expected forthcoming initiatives for the entire area of veterinary and food safety will include:

- higher, safer turnover of food in Greenland;
- a larger number of independent food companies with modern internal control programmes and thus higher efficiency;
- fewer animal abuse cases, including fewer cases of savaging and deaths deriving from this;
- general focus on maintaining sledge dogs and their welfare; this will strengthen this traditional occupation, tourism and cultural self-perception;
- fewer food scandals, food-borne diseases and deaths.



## ***2.11 Preparation of a National Health Strategy***

The healthcare system must continuously adapt to meet technical, demographic and economic challenges. This adaptation requires an overarching national health strategy characterising the healthcare system and setting the priorities in this area.

The purpose of the national strategy is to further develop a coherent healthcare system which revolves around the user and brings healthcare to the user.

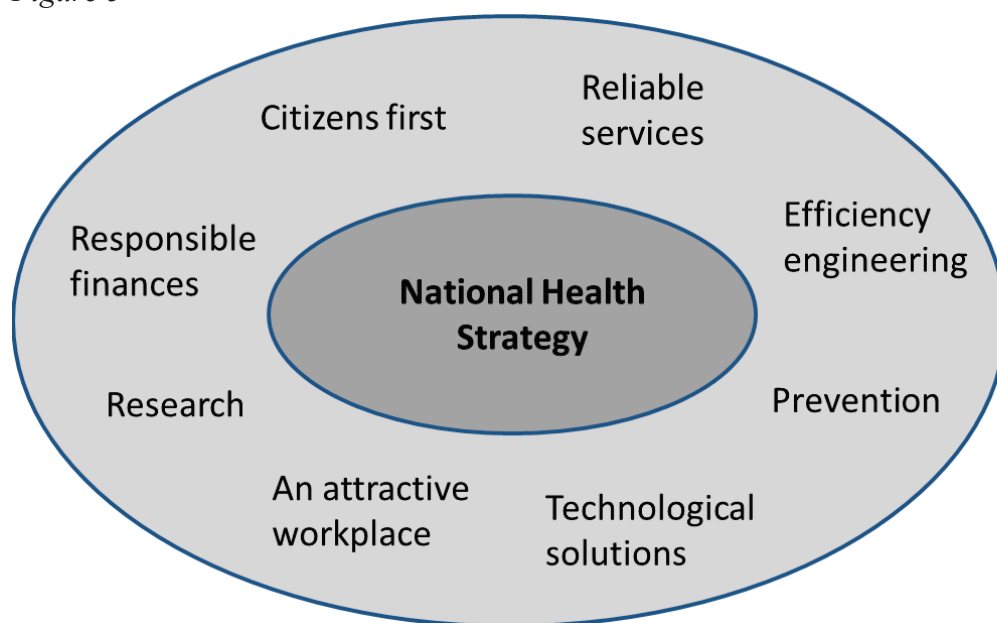
A national strategy for the period 2014–2017 will make it possible for the Ministry of Health and Infrastructure and the healthcare system to plan and focus their efforts in the years ahead. The National Health Strategy for 2014–2017 will be distributed to Inatsisartut at the 2014 spring session.

A strategy of this type is the platform for a political discussion of health priorities, including a discussion of this by Inatsisartut and its committees. The Ministry of Health and Infrastructure is responsible for the strategy and will involve other relevant ministries.

The vision for the work moving forward is “Putting the Citizen First in a Future-proof Healthcare System”.

The National Health Strategy will be an umbrella strategy combining prevention with information, treatment, procedural streamlining, ICT and telemedicine all in one. These cover a number of subsidiary strategies that will be initiated on an ongoing basis and launched across the ministries. Treatment plans for dementia, cancer, alcoholism and suicide have been or will be launched. The plans will be evaluated on an ongoing basis in terms of various key indicators of public health. To ensure the efficient use of resources, impact measurements of both the National Health Strategy and the specific treatment plans for action areas must be carried out on an ongoing basis. The strategies implemented can thus be evaluated and assessed to determine whether they achieve the political goals for the healthcare system.

Figure 5



Source: Ministry of Health and Infrastructure

The overview in Table 9 below specifies the indicators of the level of general public health.

Table 9: Indicators of public health

<b>Health indicators</b>	
<b>Self-assessed health</b>	
My personal health is:	
Excellent	19.8%
Good	45.4%
Fair	32.2%
Poor/very poor	2.6%
Total	100%
<b>Mortality rate per 1,000 citizens (public mortality rate)</b>	
2006: 14.2	
2010: 11.5	
<b>Average life expectancy</b>	
Women: 72.87 years	
Men 68.18 years	
<b>Cardiovascular disease</b>	
2001–2004: increase in deaths attributable to cardiovascular disease	
2008–2010: decline in deaths attributable to cardiovascular disease	
<b>Health economic indicators</b>	
Discharges in Greenland	
<b>Bed days per patient hospitalised at Rigshospitalet</b>	
2008: 7.38 days	

2012: 5.76 days	change: -22%
<b>Health expenditure per capita</b>	
2008: DKK 18,851 per capita	
2012: DKK 19,598 per capita (2008 prices)	change: 12.8%
<b>Expenditure for locum agency employees</b>	
2008: DKK 71 million	
2012: DKK 15 m	change: DKK -56 m
<b>Cost per bed day at Rigshospitalet</b>	
2008: DKK 17,760/bed day	
2012: DKK 21,270/bed day	
<b>Pharmaceutical expenditure</b>	
average annual increase of 6.23% (2001–2012)	PL increase: 2.68%
<b>Preventative health indicators</b>	
<b>Alcohol</b>	
alcohol intake, 2012:	9.65 litres per capita
(by comparison, alcohol intake in 1987 was 22.23 litres per capita)	
<b>Smoking</b>	
65% of men smoke	
68% of women smoke	
2012: 4.22 cigarettes per capita per diem (cut in half since 1994)	
<b>Suicide deaths</b>	
Number of suicides: 50 a year, two-thirds of whom are men	

Source: Ministry of Health and Infrastructure

## ***2.12 Climate, energy and the environment***

The energy statistics published annually and Greenland's emission reports under the UN Climate Convention provide a good quantitative overview of the climate and energy area. To strengthen our insight into the impact of the climate action and the sustainability of our energy supplies, it would be expedient to work on developing two primary key figures, i.e. 1) emissions of greenhouse gases (adjusted for economic growth); and 2) the percentage of public spending invested in renewable energy. To ensure that the indicator is meaningful, emissions of greenhouse gases should be seen in the light of economic developments. In many instances, carbon emissions increase proportionately with economic growth. A sustainable climate policy reduces the proportional correlation between these graphs and indicates economic growth with a limited strain on the environment. Specifically, this is done by basing new industrial activities on renewable energy. Investments in renewable energy are a sound indicator of the future-proofing of our energy supplies and reduce our emissions of greenhouse gases, particle pollution and dependence on imported oil.

In the climate area, Naalakkersuisut actively supports international negotiations aimed at stabilising the level of atmospheric greenhouse gases. Efforts under the Climate Convention are entering a new

phase where the architecture for a forthcoming global climate agreement, for adoption in 2015, is beginning to take shape.

In the lead-up to COP21, in 2015, a number of important meetings are expected to take place which require Naalakkersuisut to participate and which, concurrently with the specificity of the negotiations, will give rise to considerations about the terms on which Greenland wishes to be included in an upcoming global climate agreement and assessments of the societal and economic consequences deriving from this.

Greenland's greenhouse gas emissions in 2011 amounted to 763,827 tonnes of carbon dioxide equivalents. This is a 15.8% increase compared to 1990, which is the base year for the Kyoto Protocol. Although hydropower generation increased in 2010 and 2011, total greenhouse emissions increased substantially in 2010, reaching the highest level ever in 2011. This is due to energy consumption relating to oil exploration activities along the west coast of Greenland.

If Greenland undergoes major commercial developments in the years ahead resulting from things like the establishment of an aluminium smelter, the initiation of oil and gas extraction, the development of large-scale mining operations, and continued oil exploration activities, this will have dramatic consequences for national emissions and could lead to multiplying Greenland's emissions many times over.

### **2.12.1 New climate agreement**

The 18th international climate conference under the UN Climate Convention was held in Doha, Qatar in 2012, and the parties decided to extend the Kyoto Protocol for the period 2013–2020 in the absence of a new global climate agreement. However, only a few countries (which are jointly responsible for 15% of the world's total greenhouse gas emissions) were willing to assume obligations during the second period of the protocol.

On 2 October 2012, the Ministry of Housing, Infrastructure and Transport submitted an official request to Denmark's Minister for Climate, Energy and Construction that Denmark, in conjunction with the national ratification of the second obligatory period of the Kyoto Protocol, to issue a territorial proviso for Greenland. This request is expected to be approved by Inatsisartut at the 2013 autumn session.

The consequence of the effectuation of Greenland's request for a territorial proviso will be that Greenland will not be bound by international reduction obligations from 2013 to 2020 under the Climate Convention. Thus, the agreement will have no negative economic consequences for Greenland, such as in the form of potential requirements to purchase CO<sub>2</sub> credits.

Under the Climate Convention, it was also decided that a global legally-binding agreement must be concluded in 2015 which applies to all parties to the Climate Convention and will take effect from 2020. As far as Greenland is concerned, clarification efforts will remain next year which,

concurrently with the specification of the negotiations, must clarify the implications of a global climate agreement for Greenland.

### **2.12.2 Possible restructuring of Nukissiorfiit into a limited company**

The organisation of the energy company Nukissiorfiit – and the public utilities sector in general – has been unchanged since 1998. There is a need to assess whether the public utilities sector is organised as expediently as possible in terms of achieving Naalakkersuisut's energy policy goals in the light of the challenges facing the supply of electricity, water and heat today.

A new ownership structure would consolidate the commercially-based management of the company with a view to creating more efficient company operations for the benefit of consumers and the general public.

Therefore, Naalakkersuisut will appoint a task force charged with examining the advantages and drawbacks of converting Nukissiorfiit into a limited company. The task force is expected to present a report and a basis for decisions to the 2014 spring session.

The reorganisation is intended to support the distribution-policy considerations adopted by Inatsisartut and ensure an efficient, sustainable supply of heat, water and electricity at the lowest possible prices. Therefore, in its report, the task force must illuminate a number of consequences, including how they will affect wage levels, prices and the Greenland Treasury, and analyse the need to reform electricity, water and heating prices.

Reorganisation into a limited company must at the same time be balanced in relation to the continued need for public regulation of public utilities. As mentioned below, there is a need to assess whether the incineration of waste should be included in the planning and reorganisation of the ownership structure of Nukissiorfiit. In so doing, it is possible to incorporate collaboration between Nukissiorfiit and the municipalities concerning waste incineration and better utilisation of residual heat from a waste incineration plant.

It must also be clarified whether a new ownership structure should make it possible for Inatsisartut to intervene in the event of anti-competitive pricing of the supply of water, heating and electricity and whether there is a need to have powers of authorisation in relation to important investment decisions and the control of raising loans by Nukissiorfiit as a possible limited company.

### **2.12.3 Waste management**

The objective of waste management is to prevent and combat pollution and contamination and ensure the proper handling of waste in terms of the environment and human health. This must be done on a sustainable basis, and at the same time the process must limit the wastage of resources and promote recycling. Therefore, efforts must focus on developing an efficient waste-management system which reduces local inconvenience and nuisance and promotes waste minimisation and recycling.

A waste management plan will be prepared every four years, and elements of the 2010 proposal are in the process of being implemented. The waste management plan has eight subsidiary goals, and DKK 4.8 mill. has been earmarked in the 2014 Finance Bill for parts of the implementation. This includes the initiation of pilot projects for transporting waste suitable for incineration from small settlements and towns to big towns with incineration plants and the provision of investment subsidy for establishing receiving facilities and sorting at source.

Most of the existing proposed waste management plan is not funded. Subsidiary goal 5, “Incineration solutions”, entails the biggest expenditure by far and also accounts for most of the proposal’s lack of funding.

Environmentally and socio-economically, the project has reached a point where the best solution is to gradually move towards a more centralised solution for processing Greenland’s waste.

The project recommends that, for this to be achieved, the municipalities would have to enter into formal collaboration concerning waste management. This could possibly be done by forming a joint municipal waste-management company.

The establishment of a modern incineration solution over a twenty-year period is estimated to require an investment of around DKK 580 mill. This sum includes the funding of feasibility studies, construction projects, baling systems and transportation equipment. In conjunction with continued efforts involving incineration solutions, it is possible to make use of the recommendations of the investigatory project and lessons learned from ongoing pilot projects concerning the transportation of waste.

Waste-management investments must be funded in part by both the Government of Greenland and the municipalities where, in accordance with current law, the municipalities are primarily responsible for waste disposal. No specific plan exists for the breakdown of funding between the Government of Greenland and the municipalities, apart from the principle that the polluter pays.

At the same time, there is a need to assess whether waste management should be included in the reorganisation of the heat supply system, which is included in considerations dealing with the future organisation of Nukissiorfiit. This should include an assessment of whether waste incineration heat could be used in the heat supply system to a greater extent than it is today. Incineration heat could thus be used in the supply of heat at the same time that there would be economies of scale by gathering these tasks in one body. This should be included in considerations of an overall proposal for reforming the pricing structure, reorganisation of Nukissiorfiit and the drafting of a waste-management plan.

The Ministry of Housing, Nature and Environment – in collaboration with the Ministry of Finance and Domestic Affairs – is initiating efforts aimed at illuminating the socio-economic consequences of implementing the proposed waste-management plan.

For the drafting of the 2015 Finance Bill, a construction sector plan for waste management must be drawn up to replace the existing plan. This should specify the planning and preparation of the requisite investments in the years ahead. This must be prepared in collaboration with the municipalities, and the funding must be clarified as part of this process.

### ***2.13 Foreign policy and foreign trade***

Naalakkersuisut's international activities are described in the annual Foreign Policy Report, which also includes foreign trade policy.

In relation to the EU, the EU-Greenland framework agreements in 2011 and 2012 were the subject of renegotiation for the next EU budget period. The negotiations for the new Fishery Partnership Agreement for the period 2013–2020 concluded in 2012 with the only remaining sum which depends on EU's budget for the period 2014–2020.

The Partnership Agreement applying to the area of education between the EU and Greenland has been through a mid-term evaluation which prompted the European Commission to present a number of recommendations for the partnership. The EU economic framework for 2014–2020 is expected to be adopted in late 2013.

In the autumn of 2013, a new Partnership Agreement will have to be negotiated concerning budget support for the area of education for the years 2014–2020. The existing budget support from the EU is at a level of DKK 200 mill. a year. Greenland's negotiation strategy will be based on Naalakkersuisut's education strategy and the results achieved during the present agreement framework for the period 2007–2013. The negotiations are expected to be difficult and protracted. As part of the EU's overall budgetary adaptations for the period 2014–2020, the budget framework for OCT countries has been reduced by 16%, which will naturally affect the negotiating process. In addition, it should be expected that the European Commission wishes to illuminate the total expenditure for education and training, tax and duty trends, arrears, and public access to budget and economic information. Finally, it is expected that the EU's negotiating strategy will give priority to the sustainability of economic policy, the possibility of any new tax revenues, future prospects of becoming independent of block grants from Denmark and of budget support from the EU, as well as tax exemptions and tax expenditure.

It is unlikely that a new Partnership Agreement for the period 2014–2020 can be signed before Inatsisartut adopts the 2014 Finance Act. Therefore, it will be uncertain whether the level of EU income assumed in the Finance Act relating to the Partnership Agreement will remain unchanged.

By virtue of the EU's OCT scheme, Greenland continues to have duty-free access to the EU's single market. In addition, OCT countries are entitled to take part in all EU programmes. The existing OCT scheme expires in December 2013 and negotiations are still under way for the next period of 2014–2020. Over the past year, in following up on South Korea's official visit to Greenland, a business delegation subsequently travelled to South Korea. A number of collaboration options have been launched, including a business collaboration agreement. The preparation and negotiation of a trade agreement have been initiated.

In the years ahead, efforts will be made to lay the groundwork for entering into trade agreements with other countries.

The decision has been made to open a Greenland representative office in Washington D.C. in 2014. The tasks of the representative office will include working to achieve more favourable trade relations with the US and Canada.