

Building on our Strength in Natural Resources

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1.0 INTRODUCTION

The Mining Association of Canada (MAC) and the Canadian Mineral Industry Federation (CMIF) appreciate this opportunity to provide federal, provincial and territorial Mines Ministers with views regarding policy issues of importance to our industry. The CMIF speaks on behalf of a wide spectrum of mining industry interests across Canada. Its members represent the majority of companies engaged in mineral exploration, mining, and processing – accounting for most of Canada's production of base and precious metals, uranium, diamonds, metallurgical coal, mined oil sands and industrial minerals.

2.0 OVERVIEW OF CANADA'S MINERALS INDUSTRY

The Canadian Economy

The natural resource components of the Canadian economy have performed strongly in recent years, with high oil and commodity prices driving capital investment and generating significant job creation and tax revenues. The national unemployment rate is presently at a quarter-century low. The Canadian dollar continues to show strength in response to these fundamentals – approaching or exceeding par with the US dollar for much of 2008.

Robust economic activity in emerging economies, particularly China, is driving global demand for minerals and metals. In 2007, China bought over 25% of the world's base metals versus a 5% share in the 1980s and, in the coming decades, will face an increasing gap between supply of and demand for minerals and metals. This consideration, along with growth in India and other emerging economies and the still inherently low relative metals intensity, suggests that global demand will remain strong for many years to come, in keeping with the now commonly used notion of the commodities "super-cycle". This trend is affecting the Canadian industry in two ways – first as a supplier of product to these markets and second as a price-taker benefiting from global price increases.

Economic Impact of the Canadian Mining Industry

The mining industry contributed \$42 billion to Canada's GDP in 2007, employing 363,000 workers in mineral extraction, smelting, fabrication and manufacturing. While the industry is important in remote and northern communities, it also generates prosperity in our larger cities. Toronto is the world's leading city for mining equity finance and Vancouver is home to the leading cluster of exploration companies. Montreal houses important aluminum and iron ore companies while Edmonton has become a global centre for oil sands expertise and Saskatoon for uranium and potash. It is estimated that 3034

suppliers provide expertise to the industry, including hundreds of engineering, geotechnical, environmental and financial firms.

The mining industry is an important contributor to government coffers. According to a recent study by ENTRANS Consultants, the industry paid \$8.15 billion in taxes and royalties to federal and provincial/territorial governments in 2006. These payments increased significantly from the prior year and, given global price trends, have likely continued to increase in 2007. Oil sands mining operations contribute an estimated \$2.9 billion of this figure. The fabricated metal products stage is not included – including this stage would bring the overall total to around \$10.65 billion.

On the international scene, Canada remained the top destination for global exploration in 2007 - receiving 19% of world spending, followed by Australia at 12% and the United States at 7%. The industry accounts for 19% of Canadian goods exports, with key exports including iron and steel, aluminum, nickel, copper, gold, uranium, coal, potash, zinc, diamonds and iron ore. A consequence of this global reach is that around 55% of the freight revenues of Canada's railroads are generated by the mining industry – high portions of Canada's port and marine revenues are also attributable to the industry.

There are almost 1000 Canadian mineral exploration companies active in other countries and the industry accesses new capital, ideas and opportunities through high flows of inward and outward investment. Canadian mining companies have an accumulated stock of \$54 billion in investment abroad as of 2007, while there is an accumulated stock of \$65 billion in foreign direct investment in Canada. This represented 13% of total foreign direct investment stocks in Canada, up from a 6.2% share in 2005, and reflective of the foreign acquisitions that occurred in the minerals and metals sector in recent years.

Progress in Social and Environmental Areas

The Canadian industry places a high priority on social, environmental and health and safety issues. As one illustration, the Globe Foundation awarded the *Industry Association Award for Environmental Performance* to MAC in 2005 in recognition of the industry's progress in launching its Towards Sustainable Mining (TSM) initiative. TSM addresses the industry's social licence to operate – and includes performance targets in four key areas as well as policies being developed on biodiversity, Aboriginal relations and mine closure. Canadian firms are also involved in the Mine Environment Neutral Drainage (MEND) and the National Orphaned and Abandoned Mines Initiative (NOAMI). These are important focal points for dialogue and research through which the industry addresses water quality, tailings management and other environmental and social issues.

MAC member companies have made significant progress in reducing releases to the environment since 1993. Mercury releases have been reduced by 91%, lead by 79%, zinc by 68%, cadmium by 47% and copper releases by 46% between the 1993 to 2006 period. In energy and greenhouse gas management, the industry improved energy efficiency by 16% and GHG emissions intensity by 36% between 1990 and 2005. These improvements reflect investment in cleaner processes, fuels and technologies.

The mining industry has a positive relationship with Canada's Aboriginal community. Mining is the largest private employer of Aboriginal Canadians and there is potential to draw upon this source in greater numbers. Toward this end, MAC aims to finalize a memorandum of understanding with the Assembly of First Nations in the fall 2008 and is also developing the TSM architecture needed to help guide company undertakings in the area of aboriginal relations. The PDAC is also focused on this area, having signed an agreement for further cooperation with the AFN in March. At the company level, bilateral agreements with Aboriginal groups facilitate progress on extractive projects while providing literacy, training, employment, and financial-sharing benefits. There are over 50 benefit impacting agreements in place and numerous other significant participation initiatives underway relating to mineral extraction projects – these involve many leading mining companies.

3.0 CHALLENGES AND RECOMMENDATIONS

The federal government has contributed positively to the competitiveness of Canada's mining industry in recent years. In early-2008, the government announced the Geo-mapping for Energy and Minerals (GEM) program, a five-year, \$100 million re-investment in geological mapping that should spark enhanced provincial spending while helping address Canada's declining reserves challenge. Being able to invest exploration dollars in areas where quality geoscience information is available improves the likelihood of finding commercial-scale mineral resources. GEM is a positive development for the long-term prosperity of the industry.

There have also been improvements on the tax front. The industry was pleased with the announcement in October 2007 that the federal corporate income tax rate would decline from 21% in 2007 to 15% by 2012. The industry was pleased as well with two technical clarifications from the Canada Revenue Agency during the past year relating to underground tangible expenses and exploration/consultation expenses. In an age of highly mobile capital, these measures serve to improve Canada's investment climate.

While times are good, neither Canadian policy makers nor businesses can afford to become complacent. There remain some areas where Canadian governments could continue to improve the investment environment supporting the industry. There are three general areas where Mines Ministers should focus their attention.

1. Overall Competitiveness and Taxes

There has been a significant decline in Canadian mineral reserves over the past 25 years in all major base metals. The most dramatic decline—over 80%—was seen in lead, zinc, molybdenum and silver, while copper and nickel reserves declined by over half. Canadian production volumes of key minerals have decreased in recent years, with an increased reliance on imported concentrate. At the value-added stage, Canadian smelters and refineries are also facing competitiveness pressures from China and other low-cost regions. Copper and zinc smelters face particular pressure in this regard, as do those

facilities located far from main shipping routes. The appreciating Canadian dollar adds a further competitiveness squeeze to an industry that pays many costs in Canadian currency while receiving revenues in US dollars.

Despite these pressures, value-added manufacturing in Canadian mining will not necessarily diminish. CMIF believes that, with appropriate tax measures for exploration and plant investment, Canada can continue to have an important presence in value-added activities. In particular:

- A deep drilling investment tax credit applied to exploratory drilling within a defined proximity of production areas should be defined and introduced.
- Accelerated capital cost allowance measures should be defined and implemented to encourage investment in the modernization of mineral/metal processing facilities. Tax incentives for investments that enhance environmental performance and protection should also be considered.
- With respect to interest deductibility on funds borrowed to make direct investments abroad, these interest amounts should be deductible.
- The complexity and administrative burden associated with the Scientific Research and Experimental Development tax incentive system should be significantly reduced, so as to make the system more predictable and effective.
- The super flow through share incentive should be maintained.

The intent of these tax measures would be to help discover deep ore deposits, to extend the reserve life of existing mines, to enhance the raw material supply chains for value-added facilities and to encourage capital investment in efficient companies and facilities.

2. Regulatory Issues

Energy and greenhouse gas policy issues have gained visibility in Canada in recent years. The Clean Air Regulatory Framework proposed by the federal government in April 2007 raises concerns with most industrial sectors, including mining. On the air pollutants side, we are hopeful that the effort of both levels of government working with industry and stakeholders will lead to a model of a coordinated federal-provincial regulatory system with reasonable targets and timelines that improves air quality for Canadians without burdening the economy with regulatory confusion and rigidities. Regarding greenhouse gases, the proposed limits on contributions to the technology fund and sun-setting in 2018 will curtail the plan's effectiveness and should be adjusted. As well, the proposed offsets system must be in place quickly or the timeline for targets should be delayed until a system is operational. All industry sectors, including mining, are concerned that the framework will lead to federal-provincial duplication – it is important that jurisdictions be synchronized so that companies are not faced with conflicting obligations.

In terms of regulatory review of proposed mining projects, Canadian companies and domestic and foreign investors depend on governments for a clear understanding of information requirements, approval processes, timetables and responsibilities. Recent independent reports describe Canadian processes as being costly, cumbersome,

inconsistent, and unfair. While the industry is pleased with the progress by the Major Projects Management Office in its first year, there remains significant scope for governments and specific departments to improve their project review processes and timeliness. This issue intersects with questions of Aboriginal consultation, land use planning, and government sharing of resource revenues. Related to this issue, it is important that the government commit to implement the key recommendations of the Northern Regulatory Improvement Initiative, recently submitted by the federal Minister of Indian Affairs and Northern Development's Special Representative Neil McCrank.

Another issue of concern to the Canadian mining industry is the designation of Tailings Impoundment Areas under the federal *Metal Mining Effluent Regulations* (MMER). The mining industry is committed to protecting aquatic and terrestrial integrity and to pursuing the best and safest environmental and socio-economic options for tailings disposal. The deposition of materials such as tailings is a fundamental necessity for most mines, and the best available science suggests that sub-aqueous disposal in a natural lake, if properly evaluated, implemented and compensated for, can be an environmentally sound permanent disposal option. The consideration of using natural lakes for tailings disposal is limited and site-specific, and occurs only after a review process that demands the highest standards of scientific rigour. A blanket prohibition on the use of natural water bodies would preclude the development of some mining projects and may lead to tailings disposal options that pose a greater environmental and safety risk.

3. Investment in Human Resources and Infrastructure

The Canadian industry requires an estimated 92,000 new workers over the next decade as the skilled core of the industry reaches retirement age. The workforce is aging, retirements are increasing, demand for workers is increasing, and enrollment/investment in post-secondary programs falls short of needs. There are no easy solutions to this challenge. Governments at all levels need to work with industry, educational institutions, Aboriginal peoples and other stakeholders to address the sector's skills training, mobility and immigration needs. In this respect, the federal government's support for the work of the Mining Industry Human Resources Sector Council is valuable.

There is also a need for investment in infrastructure. The mining industry is the largest customer for Canada's transportation sector and it is important that products be moved to market efficiently and at competitive prices. Transportation infrastructure must be modern and in some cases, such as northern Canada and the Pacific Gateway, there is need for significant government investment. Similarly, companies are facing increased energy management challenges related to rising energy costs and availability of electrical capacity. Strategic investments in transportation and electrical capacity can also serve to open up new regions for development. For example it is estimated that a power line into northern BC could attract \$3.5 billion in mining investment, while investment in roads in the NWT and Nunavut could enhance exploration and allow key mineral deposits to be developed.

4.0 CONCLUSION

Minerals and metals help build the products and infrastructure essential to modern life. The mining industry makes a significant annual contribution to the Canadian economy, including through payments to governments, and its output is fundamental to the emergence of clean energy technologies. The Canadian industry faces competitiveness challenges, both at the raw materials and value-added processing stage. As detailed in this paper, there are three priority areas worth particular focus – areas where continued effort and investment on the part of Canada’s Mines Ministers will contribute significantly to a stronger Canadian industry.