

Tens of Billions of Dollars in New Investment – A Course of Action for Ministers

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The Mining Association of Canada (MAC), the Prospectors and Developers Association of Canada (PDAC) and the fifteen other mining-related associations that are members of the Canadian Mineral Industry Federation (CMIF) appreciate this opportunity to provide federal, provincial and territorial Mines Ministers with views and recommendations regarding policy issues of importance to our industry. The CMIF 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 and thermal coal, potash and mined oil sands.

1.0 OVERVIEW OF CANADA'S MINERALS INDUSTRY

The Canadian Economy

After seven years of strong performance from 2000 to 2007, a global recession took hold in late-2008 and served to reduce Canadian GDP by 2.5% through 2009. Mineral prices fell in most commodities, operations in mines and smelters were reduced and mineral exploration spending curtailed. However, global economic growth, again led by China, resumed in the final quarter of 2009 and has continued to be strong through 2010 and the first two quarters of 2011. Mineral prices have increased significantly as a result. In response, the utilization of Canadian mine capacity has grown from 50% in mid-2009 to 70% at end-2010, while use of smelting capacity grew from 72% to 80%. In examining growth projections in China, India and elsewhere, and assuming a positive and efficient investment environment, it seems evident that strong economic prospects face the Canadian mining sector over the coming decades. Information compiled by MAC suggests that proposed, planned and in-construction mining industry projects amount to well over \$100 billion, comprising multiple-billion dollar investments through the territories and in six provinces, with still significant investments in the other provinces. Major projects are seen in mined oil sands, coal, copper, gold, iron ore and diamonds, among other sectors, with large investments also occurring in environmental and processing areas. These investments, which hold the promise of thousands of new jobs and significant new revenues for governments, could not come at a better time.

Economic Impact of the Canadian Mining Industry

Canada's mining industry is a major contributor to Canadian prosperity - contributing \$35 billion to GDP in 2010 and, based on Natural Resources Canada definitions, employing 308,000 workers in mineral extraction, processing and manufacturing. While the industry is important in remote communities, it also generates prosperity in our major

cities – Toronto, Vancouver, Montreal, Edmonton, Calgary and Saskatoon all feature areas of global mining leadership. As well, there are over 3,200 companies who provide inputs to the industry, ranging from engineering services to drilling equipment. The industry pays around \$10 billion annually in taxes and royalties to F/P/T governments. Alberta, Saskatchewan, Newfoundland and Labrador, New Brunswick, Manitoba, and British Columbia all typically derive a significant portion of government revenues from the mining industry.

Global exploration spending has increased significantly during the past year, from \$8B in 2009 to \$12B in 2010. Canada remained the top destination for global exploration, attracting 19% of world spending in 2010 - with exploration spending in Canada growing by 35% to \$2.6 billion. Post-recession, the industry's trade levels also increased significantly, with exports growing by 27% during 2010. The industry accounts for 21% of total Canadian goods exports – a consequence of this global reach is that over half of the freight revenues of Canada's railroads are generated by the mining industry. Canada also features world-leading mineral exploration capabilities - there are an estimated 1,000 Canadian exploration companies active in over 100 countries.

Progress in Social and Environmental Areas

The Canadian exploration and mining industry places a high priority on social, environmental and health and safety issues. MAC's *Towards Sustainable Mining* (TSM) initiative and the PDAC's *e3 Plus: A Framework for Responsible Exploration* help mining and exploration companies continuously improve their social and environmental performance. Provincial and territorial associations have also implemented effective social and environmental initiatives, for example the Mining Association of BC has adopted TSM for its members, while companies and stakeholders are actively engaged in the Mine Environment Neutral Drainage program (MEND) and National Orphaned/Abandoned Mine Initiative (NOAMI), important focal points for dialogue and research on water quality and tailings management.

As the largest private employer of Aboriginal Canadians, the mining industry has a largely positive relationship with the Aboriginal community. A TD Bank study released in June 2011 noted that the global commodities boom of the past decade has helped double the income of Aboriginal Canadians and their businesses. As reiterated in a recent speech by AFN Chief Shawn Atleo, there is also potential to draw upon this source in greater numbers. Toward this end, MAC and the PDAC have each signed memoranda of understanding with the Assembly of First Nations in recent years, furthering cooperation on policy initiatives. At the company level, business agreements with Aboriginal groups facilitate progress on extractive projects while providing investment in education, training, and jobs. Including MOU type agreements guiding projects at earlier stages, there are a total of 170 bilateral agreements in place between companies and Aboriginal groups relating to mineral projects.

Canadian mining companies operate in dozens of countries, paying taxes and creating jobs and supply linkages in these countries, while also investing in corporate social

responsibility (CSR) practices. Beyond direct project investments, individual companies are helping to pay for schools, roads, hospitals, clinics, community halls, and child health and nutrition programs. Global CSR initiatives are also housed within the UN, the World Bank, the OECD, the global commercial banks and others – Canada’s mining companies are typically leaders in adopting and implementing these kinds of commitments.

2.0 CHALLENGES FACING THE INDUSTRY

Governments have contributed positively to the competitiveness of Canada’s mining industry in recent years. For example, the Geo-mapping for Energy and Minerals (GEM) program, a five-year \$100 million re-investment in geological mapping that also brings enhanced provincial spending, will help address Canada’s challenge of declining levels of proven and probable mineral reserves. The GEM program also provides jobs for skilled geologists - in addition to a 5:1 spending leverage triggered in private sector exploration. On the tax front, reduction of the federal corporate tax rate to 16.5% by 2011 is positive, as are recent technical clarifications from the revenue agency. The Mineral Exploration Tax Credit associated with Canada’s flow-through share mechanism, combined with relevant provincial credits, have enhanced mineral exploration and discovery in Canada. In the regulatory area, recent changes in federal Budget 2010 have served to help minimize delays in initiating environmental assessments and to reduce barriers to better coordination between federal and provincial assessment. It is important that these undertakings continue and that other possible improvements be considered.

Countering these positive moves, there remain challenges facing the Canadian exploration and mining industry, including the following:

- Land Access – The ability to explore large tracts of land is fundamental to Canada’s record of success in exploration and mining - the extent to which the land base is available for exploration directly influences how often new mine-worthy deposits are found. There remain significant and in some cases increasing problems at the provincial and territorial government level with ill-defined land use plans, unclear decision-making processes, and lack of understanding of the economic benefit and relatively light environmental footprint associated with mineral exploration.
- Regulatory Effectiveness - Federal regulatory processes can operate in an inefficient and duplicative manner, generally lacking commitment to timelines - project review processes for example can take 5 years or longer. The Auditor General’s office of the sustainable development commissioner has itself stated that these delays and lengthy timelines do not contribute to improved environmental outcomes. Further, federal progress to coordinate with provincial and territorial processes has been slow, though the amendments to CEAA cited above are leading to noteworthy improvements, as is the federal government’s new willingness to use delegation to provincial processes for some environmental assessments – which we heartily support and encourage.

- Energy – Mineral extraction and processing operations are energy-intensive and the competitiveness of Canadian facilities is affected by the availability and cost of electricity and related inputs. In some jurisdictions, such as Ontario, these costs are increasing significantly, damaging the feasibility of future capital investment. There is also a risk that proposed federal regulations constraining coal-fired power could serve to significantly increase natural gas prices if the US followed suit.
- Infrastructure – The mining industry is the largest customer for Canada’s transportation sector and requires good service, efficient logistics and competitive prices. This can sometimes be a challenge in the freight rail sector where a CN/CP duopoly exists. Investment is also needed in areas such as northern all-weather roads, sea ports, rail and inter-modal links and marine facilities such as Ridley Terminals (where the recent granting of borrowing authority is a positive development). Well-directed public investments can improve the economics of numerous potential mining projects in remote regions.
- Innovation - The mining industry invests an estimated \$650 million annually in R&D, more than that of key sectors such as automotive and forest products, although there is a need to do more. Evolving technologies relate to 3-D data maps, systems to improve blasting, drilling and hoisting efficiency, tailings management and hydro-metallurgical processing, among other areas. The industry feels that government research mechanisms do not provide support commensurate with the industry’s needs, priorities and contributions.

3.0 RECOMMENDATIONS TO MINISTERS

To help address these and other challenges, the CMIF proposes the following recommendations to Canada’s natural resources ministers.

1) Develop a National Mining Strategy – to the best of our knowledge, Canada has never developed a coordinated national mining strategy. It is timely for F/P/T ministers to mandate officials to develop such a strategy for approval in one year, fall 2012. Canada has a window of opportunity over the coming decades to capitalize on the large-scale economic development being seen in China, India and elsewhere. The Canadian mining industry has been one of the key contributors to Canada’s economic strength, throughout history though also equally true in recent years – the industry’s technological capabilities and global presence should be viewed as a source of national pride. A national strategy would underscore the above challenges and outline the commitments of governments to work with industry and stakeholders in the aim of enhancing industry competitiveness, sustainable investment and economic development, and should focus on the issues and recommendations that follow below. A national mining strategy would also be the proper vehicle in which to articulate measurable ministerial targets and F/P/T government targets for enhanced mineral development in Canada.

2) Address Regulatory Impediments and Inefficiencies – As noted above, some improvements have been seen in recent years, though many challenges remain. We recommend that officials within relevant departments be mandated to work with industry and stakeholders to improve regulatory efficiencies that will stimulate investment, improve project timelines and at the same time support responsible environmental stewardship and conservation. In particular, the interpretation and application of the Fisheries Act should be clarified and made consistent, with a compliance system that is predictable and proportionate to risk. If necessary, regulatory or legislative amendments should be considered. The Canadian Environmental Assessment Act should be amended to recognize provincial processes that meet or exceed minimum federal requirements as equivalent to the federal process, and the use of delegation to provincial processes should be used more frequently in the meantime. Regulatory improvements should also be made to the Migratory Birds Convention Act and the Species at Risk Act, to provide industry with greater compliance certainty, reduce the potential for litigation and align better with provincial actions and requirements.

3) Improve Land Access and Permitting Processes – In recent years, important questions have been raised regarding the inter-related issues of Aboriginal consultation, land use planning, protected areas and revenue sharing. Continued ambiguity in these areas could have a negative effect on Canada's status as a destination for capital investment. The PDAC position statement of January 2011 on land access outlines eleven important principles regarding land use planning for crown lands – these are clearly articulated and should be carefully considered by F/P/T governments involved in these issues.

4) Continue Addressing Skills Issues – The Canadian mining industry requires some 10,000 new workers per year over the coming decade to meet production targets – at a time when the skilled core of the industry is reaching retirement age and output of post-secondary programs is falling short of needs. Governments must work with industry, schools, Aboriginal groups and other communities 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 Council is valuable, as is support for the Construction Sector Council and the Petroleum Sector Council – all are supported through the federal government's sector council program. The Aboriginal Skills and Employment Partnership (ASEP) program has been highly successful since its creation in 2003, helping prepare over 18,000 Aboriginal Canadians for skill jobs. It is very important that this program be funded beyond the present 2012 timeframe – the ASEP helps enhance the synergy between Aboriginal skills and mining industry prospects.

5) Make Strategic Investment in Infrastructure and Innovation - The ongoing extension of the Highway 37 transmission line in northeast BC is a good example of the positive impacts of infrastructure investment – this capital cost of \$400 million will enhance the economics of an estimated \$15 billion in mineral projects. Similarly, the planned extension of the Monts Otish highway in northern Quebec would improve future prospects for development of gold, diamond, copper and uranium projects in the surrounding region. In the far north, investment is needed in priorities such as all-weather roads and sea ports. Governments should work closely with industry to identify

and invest in other key infrastructure projects relating to transportation, logistics and electricity supply. Regarding the innovation challenge, the Canada Mining Innovation Council is in discussion with government agencies in the aim of enhancing support to the industry's priorities – there are several F/P/T programs and agencies that should broaden their understanding and funding of these innovation priorities.

6) Implement Rail Service Commitments – The federal government issued its response to the Rail Freight Service Review panel in March 2011. The response was constructive and contains useful measures relating to rail service agreements, commercial dispute resolution, non-performance penalties and metrics for ongoing measurement. The federal government should proceed with these legislative and operational improvements on a priority basis.

4.0 CONCLUSION

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