Mining Association of Canada (MAC) 2017 Pre-Budget Submission
August 5, 2016

Industry Contributions:
The mining industry contributed $57 billion in GDP (3.4%) in 2014, employed 375,000 people, and paid an estimated $71 billion in taxes and royalties to governments over the decade through 2012. Proportionally, the industry is the largest private sector employer of Aboriginal peoples. Canada is a leader in mining finance, with the majority of the world's public mining companies listed on the TSX. These contributions cannot be taken for granted, and policy-makers must take steps to position the sector for future success.

Economic Trends and Outlook:
These enormous social and economic contributions are made despite the ongoing downturn. According to PwC, the top 40 global mining companies operated at a collective US$27 billion net loss, with market capitalization falling by 37%, effectively wiping out all the gains made during the super cycle. Together, they experienced $53 billion in impairments, and have written off the equivalent of 32% of capex spent since 2010. With a 17% drop in operating costs, companies have been focused on controlling costs. Of the top 40 companies, nine are MAC members.

Weak economic growth rates, combined with increased supply of commodities, have pushed prices downward. Since 2011, both nickel and copper values have fallen approximately 70% and 50%, respectively. Silver, uranium and potash have experienced similar trends. Beyond gold's $800/ounce fall, iron ore and coal have experienced the most dramatic swings. The monthly average price of iron ore (62% Fe) dropped by 72% from $187.18 per metric tonne in February 2011 to $51.36 in June 2016, up from a low of $37 in December 2015. Quarterly benchmark prices for seaborne metallurgical coal have dropped from a peak of $330 per metric tonne in May 2011 to $89 in May 2016.

The prevailing view is that the industry's economic prospects are strong over the medium and long term. China's growth, while slower, is still significant and over a larger base. Commodity consumption continues to increase and is expected to accelerate as other emerging economies, such as India, further develop.

Support from Government:
To compete globally, Canada must remain attractive and competitive as a destination for mineral investment.

Strategic policy developments and government investments are needed to support sustainable growth in Canada's mining sector and to maintain Canada's global leadership in mining. The support detailed below will enable the industry to help government achieve its objectives in the following areas:

- Establishing an effective regulatory regime that has public confidence, includes meaningful consultation with Aboriginal groups, and facilitates sustainable development;
- Providing new socio-economic opportunities for northern and Aboriginal communities, businesses and peoples.
- Establishing Canada as a global leader in mining innovation, and addressing climate change as Canada moves to a lower carbon future.

1. IMPROVE THE REGULATORY PROCESS
The mining industry has the most extensive experience with the *Canadian Environmental Assessment Act* and also has experience with other federal approval processes. After four years of transitioning to new federal legislation, the mining sector now faces added uncertainty resulting from the new proposed regulatory reviews.

The regulatory situation is exacerbated by increasing delays in permitting processes caused by departmental staff reductions, inconsistent policy interpretation, ongoing confusion in the application of the federal *Species at Risk Act*, and lack of coordination between federal and provincial jurisdictions and within the federal government. Simultaneously, the industry has been responding to issues, including climate change, air quality, a fragile commodity market, and escalating energy costs.

Unless addressed, this trend risks a return to past periods where Canada was perceived by the investment community as having a high level of investment risk.

In June, the federal government announced the reviews of the *Canadian Environmental Assessment Act* (CEAA), the *Fisheries Act* and the *Navigation Protection Act*. The outcome of these reviews, and the path government takes toward Indigenous reconciliation, is critical in determining whether Canada's mineral industry will rebound and thrive or wither in the coming decades. At risk is a Canadian economic stalwart and one of the most important economic partners of Aboriginal peoples in the country.

Ensure that the outcomes of the regulatory reviews strengthen public confidence by:

- Improving coordination between federal and provincial assessment and approval processes for mining projects;
- Seeking practical ways for mining projects to comply with the federal *Species at Risk Act*; and
- Ensuring the consistent application of the *Metal Mining Effluent Regulations* Schedule 2 and ensuring the timely delivery of approvals that are coordinated with environmental assessments and consultations.

The federal government should ensure that relevant departments have the requisite capacity to effectively carry out their regulatory responsibilities in a clear, consistent and coordinated manner.

2. TRANSPORTATION AND NORTHERN INFRASTRUCTURE
Mining accounts for the largest volume of goods shipped by rail in Canada.

To address significant rail service issues and ensure Canada's competitiveness, the Government should:

- Enable evidence-based decision making by establishing a rail data transparency regime and adequately resource its implementation.

Enabling sustainable economic development in remote and northern Canada is fundamental to the government's Aboriginal reconciliation and climate change policy objectives. Minister Bennett was mandated to "improve essential physical infrastructure for Indigenous communities" and to "promote economic development and create jobs for Indigenous peoples." Minister McKenna was mandated to work with the provinces and territories to "develop a plan to combat climate change and reduce greenhouse gas emissions." Without strategic and wealth-generating infrastructure, these regions will remain disproportionately reliant on transfer funding for core program delivery. Equally strategic investments in energy infrastructure are essential to reduce northern reliance on costly and high-emitting fossil fuels. The goal should be to combine the delivery of these objectives for the benefit of northern, Aboriginal and all Canadians.

Although the federal government has committed to establish a Canada Infrastructure Bank through a joint mandate shared by Ministers Morneau and Sohi, the mandate letters exclude mention of the territories. Given the disproportionately acute infrastructure deficit in the territories, which is preventing sustained socio-economic development activity, specific consideration for northern challenges and opportunities must have its place in the mechanism. Including a northern-specific fund within the proposed Canada Infrastructure Bank is consistent with a recommendation from industry's *Levelling the Playing Field* report, and is supported by the National Aboriginal Economic Development Board, as per its January 2016 report.

Unless assuming full responsibility for constructing the infrastructure required to open up northern Canada, government should:

- Establish a Northern Infrastructure Investment Fund based on the Alaskan Industrial Development and Export Authority (AIDEA) within the proposed Canada Infrastructure Bank;
- Provide the following fiscal support measures to resource projects in remote and northern areas in recognition of the public benefit that results from private sector investment:
  - **Create an investment tax credit (10%)** on all capital expenditures associated with remote and northern mines.
  - **Provide a supplementary 15% investment tax credit** on specified infrastructure investments (e.g., roads, ports).
  - **Assuming the 10% investment tax credit as a base, create a mechanism for conditionally repayable contributions related to infrastructure investments** (in lieu of the 15% investment tax credit) that would cover up to 25% of specified infrastructure investments, with the option of pardoning the loan in exchange for public ownership of that infrastructure at mine closure.

3. ENHANCE CANADIAN MINERAL TAXATION COMPETITIVENESS

Canada relies heavily on foreign investment, and the mining industry accounts for approximately 10% of FDI annually. Countries compete to attract resource capital and investments, and Federal Budgets 2012 and 2013 reduced Canada's global attractiveness for mineral investment by introducing the Foreign Affiliate Dumping rules, and the reduction or elimination of several mining tax credits.

Profit tax represents a large share of earnings in mining. Corporate income taxes and mining taxes or royalties range between 32-48%. Additional levies reduce Canada's attractiveness and make the playing field uneven both for investors and when compared to other jurisdictions. MAC believes that a review of these levies should be undertaken.

Specifically, the government should:

- **Phase Out Withholding Tax Rules:** Dividend withholding tax is an additional income tax that becomes payable when profits are distributed to foreign shareholders. Canada's dividend withholding tax varies between 5% and 25%, is not the same for all investors, creating an uneven playing field. When added to mining and corporate income taxes, total tax on profits remitted to foreign shareholders reach between 35% and 61%. To facilitate the flow of funds and cross-border investments needed for project development, many countries no longer require dividend payers to withhold tax. The United States has entered into numerous tax treaties that provide for a 0% dividend withholding tax rate. Australia does not require dividend withholding tax to be remitted when a sufficient amount of corporate tax has been paid. Similar statements can be made for many other countries that have augmented their competitiveness beyond Canada in this respect; and

- **Introduce a Substantial Shareholder Exemption:** While business is not static and corporations need to reorganize and focus on their strengths, the Canadian tax system is imposing a cost on those that are trying to do so, leaving assets in the hands of suboptimal owners. Many countries have dealt with this issue by providing capital gain tax exemption (Substantial Shareholder Exemption) on the disposal of shares of corporations that have been owned for more than a year. MAC recommends that Canada introduce a Substantial Shareholding Exemption in order for corporate reorganization performed by Canadian or foreign groups to be tax free and allow for a better allocation of capital.

4. CLEAN TECH, INNOVATION AND CLIMATE CHANGE

MAC supports a revenue neutral carbon pricing regime as the best way to balance the meaningful reduction of GHG emissions with competitiveness. Recycling revenue to facilitate industry innovation and technology development are also crucial in the transition to a lower carbon future. The Canada Mining Innovation Council (CMIC) has been identified as the umbrella organization to coordinate innovation in the mining industry. CMIC has created an innovation strategy, Towards Zero Waste Mining (TZWM), which provides a long-term vision of net zero waste in mining in 10-20 years.

CMIC has developed a business case, created technology roadmaps, and identified transformational targets. This work will result in the development of technologies that will significantly reduce energy consumption, GHG emissions, tailings discharge and water use. These new technologies will be deployed in Canadian mines and globally. This will increase FDI in Canada by international technology companies, make Canada a global centre of mining innovation, and increase Canada's export market share for new and cleaner mining technologies.

To support stated clean tech, innovation and climate change priorities, government should:

- Integrate MAC principles for climate change design within Canada's climate change framework.
- Invest $50 million in CMIC over the next five years, to implement the TZWM innovation strategy.

5. ACCELERATE ABORIGINAL INCLUSION IN MINING

The mining industry strongly supports efforts to facilitate full participation of Aboriginal peoples in our sector. Our members are committed to developing and maintaining strong and trusting relationships with Aboriginal communities impacted by, or with an interest in, mining activities.

A key mechanism through which economic opportunities have been created is company-community agreements. There have been a significant number of agreements signed since 1974; the majority (376) have been signed within the last decade. These voluntary agreements are progressive in their collaborative scope, particularly for production-stage projects, and are increasingly recognized internationally as a leading practice.

As a result of these efforts, the mining industry has become the largest private sector employer of Aboriginal people in Canada on a proportional basis, with employment increasing by 12% from 2007 to 2015.

To strengthen and enhance Aboriginal participation in mining, governments should:

- Enhance foundational social investments (health, housing, water, education) that contribute to better outcomes for Aboriginal people;
- Increase targeted funds for skills training and entrepreneurship to assist Aboriginal people in securing opportunities generated by the industry; and
- Establish and/or improve mechanisms through which governments share a portion of the revenues generated from royalties, mining taxes and/or fees in their jurisdiction.