



**PRE-BUDGET CONSULTATIONS 2009
FOR BUDGET 2010**

September 28th , 2009



MINING ASSOCIATION OF BRITISH COLUMBIA (MABC)

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Executive Summary

The MABC is the pre-eminent voice of mining in the province of British Columbia, speaking on behalf of mine operators, smelters, advanced development companies and some exploration companies.

Our mandate is to encourage the discovery, development and operation of mining and related facilities in the province of British Columbia. MABC and its member companies place a high priority on issues of sustainability and environmental responsibility, as outlined in MABC's Environmental Principles. Presently the MABC and its member companies are working with the government of British Columbia to develop climate action policies that address green house gas emissions (GHGs) while ensuring the long-term viability of the mining and smelting industries in the province. BC's mining industry is also steadfast in its commitment to health and safety, and is today the safest heavy industry in the province.

MABC recommends measures that would assist BC's mining sector in capitalizing on the opportunities that lie before it as BC emerges from a severe economic recession, for the benefit of all British Columbians and for Canada. The recommendations are clustered into three areas:

Tax Policy

- Reduce the tax administration burden to the mining industry by reducing the statute of limitation for the BC mineral tax from 6 to 4 years;
- Extend the BC Mining Flow-Through Share Tax Credit for three years.

Sustained Funding for Geoscience

- Commit to long-term funding for Geoscience BC and re-invest in the BC Geological Survey.

Climate Change

- Raise the taxable income threshold for SRED Tax Credits for BC Green Technologies (implementing new technology; R&D in carbon sequestration)
- Create 2 for 1 Biodiesel Carbon Tax credit for operations that achieve greater than 10 percent reduction in fuel carbon intensity
- Move, over time, toward a revenue neutral Carbon Tax for industry, especially for trade exposed sectors

The BC Mining Industry

There are currently 19 coal and metal mines operating safely in the province, two smelters, over 30 industrial mineral operations, over 20 projects at different stages of development and over 350 exploration projects. One of the province's largest export-oriented industries, mining is very important to rural and remote communities across the province, paying the highest wages of any industrial sector.

While mining is often the lifeblood of many rural and remote communities, the sector's importance to Vancouver should not be overlooked. The city is home to approximately 800 mining and mineral exploration companies of various sizes, including major international companies such as Teck Resources and GoldCorp. Over 400 related consultant and supplier companies support the sector, including geological/geotechnical, law and accounting firms. While **Vancouver** competes in some

fashion with international mining centres such as London, Toronto and Perth, the city is clearly the world's centre for mineral exploration and sells its expertise around the globe. As Peter Brown of Canaccord Capital Corporation has said "Canadian miners and explorationists are world leaders in their industry and, in fact, export this expertise to all parts of the globe. Mining and mining finance are core industries in our province and Vancouver is world-renowned as a centre for this expertise."

Gross Mining Revenues¹:

- 2008 – \$8.4 billion
- 2007 – \$6.9 billion
- 2006 – \$8.1 billion

BC is Canada's largest coal producer, 90 percent of which is high quality steel-producing coal. Coal has a big future in the province, which hosts an estimated 20 billion tonnes of reserves. Almost exclusively exported, coal generated 53 percent of provincial mining revenues in 2008, derived from sales almost entirely outside Canada. BC's top coal markets, from largest to smallest, are Japan (33 percent), South Korea (20 percent), Germany (7 percent), Brazil (6 percent), United Kingdom (5 percent), Taiwan (5 percent), Netherlands (4 percent), Italy (4 percent) and Turkey (4 percent). China and India remain under-exploited potential markets for BC steelmaking and thermal coal.

Approximately 75 percent of BC's metal and mineral products are exported, with Japan being the destination for about 50 percent of the total product.ⁱ One quarter of product is sold within Canada for the domestic market. British Columbia is Canada's largest producer of copper, representing 18 percent of the province's mineral revenues in 2008.ⁱⁱ BC is also the country's only producer of molybdenum. Other BC mineral products include gold, silver, zinc, lead, magnesite, gypsum, limestone, dimension stone and aggregate.

Payments to government vary with the size of the sector, the number of operations and commodity prices. In 2008 the industry paid approximately \$545 million to governments, compared to \$463 million in 2007, \$799 million in 2006 and \$617 million in 2005. These include direct payments only and do not include multipliers.



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Over the last several years, exploration spending in British Columbia increased significantly, supported by high commodity prices, BC's favourable geology and a number of positive measures introduced by the BC government. British Columbia rated third for exploration and deposit appraisal expenditures in 2007 and experienced one of the fastest rates of growth in exploration spending among Canadian jurisdictions from 2002-2007. Exploration spending in 2008 was 12 per cent less than in 2007, the first decline since 1999, though still the second highest level in BC history. Due to the economic recession, expenditures in 2009 are expected to drop well below 2008 levels. Current coal prices are about \$140/tonne.

Current Context

The economic and financial crisis that hit Canada in the last quarter of 2008 led to major, rapid declines in stock prices and ongoing discouraging economic signs across many economic indicators. A lending crisis placed exploration and mining companies at serious risk, unable to secure capital to finance growth or strengthen balance sheets. In addition, commodity prices fell significantly (for example, copper fell from as high as \$4.00 U.S. to as low as \$1.30 U.S.). Both factors had a very significant and sudden impact on the global mining industry. A slowdown in exploration activity that began in mid-2008 worsened as this sector struggled to raise financing for exploration activity. Mining operations, while more resistant to market instability, entered a mode of significant restraint. Mines closed or scaled back, planned mine expansions and new projects were deferred or cancelled and investment in processing facilities was postponed or stretched out over longer periods. Many companies witnessed stock price declines exceeding 50 percent and in some cases over 90 percent.

Over the past several months, however, the economic picture for BC's mining industry has improved. Actions by governments around the world to address the liquidity crisis have started to take hold, while commodity prices have begun to recover. The 2009 price for metallurgical (steel-making coal) is better than expected, while the copper price rose to almost \$3 per pound a few weeks ago, currently trading around \$2.70 per pound. The prices of molybdenum and zinc, two other important BC commodities, have also doubled from their lows in December. As a result, not only is BC's mining industry on a much stronger footing today than anyone would have expected several months ago, it is now preparing for new growth, as several major BC mining projects advance through federal and provincial regulatory processes. Mineral exploration is slower to rebound, however, and this year's mineral exploration levels are expected to be much lower than previous years, highlighting the need for specific measures in this area.

The rapid economic decline in late 2008 came on the heels of a period of remarkable strength in BC's mining sector. The British Columbia mining industry posted record financial results in 2008, according to a PricewaterhouseCoopers (PwC) report, *The Mining Industry in British Columbia — 2008*. Aggregate pre-tax net earnings for the industry were up by 88 percent to \$3.2 billion, the highest amount in the 41-year history of PwC's annual survey. Returns on shareholders investments in BC's operating mines, based on pre-tax earnings, reached an unprecedented 98 percent in 2008, up from 46 percent the prior year.

British Columbia's mining sector achieved these impressive results amidst a crashing economy in the latter part of 2008, which was nothing short of outstanding. A coal price increase of 225



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percent to US\$261/tonne over the prior year was the primary driver of the record results; coal represents 86 percent of total product shipments in the British Columbia mining sector for 2008. If you fast forward to April 2009, the one-year prices announced were in the US\$125/tonne range, a decline from prices realized in 2008, but still high compared to historical averages.

As BC's mining sector recovers, it is poised to capitalize on the demand for minerals and metals in emerging markets in Asia, particularly China and India. BC is extremely well-positioned to meet this growing demand. The province's mineral potential is among the best anywhere, hosting vast reserves of steel-making and thermal coal and metals such as copper, gold and molybdenum. The long-term prognosis of a robust mining sector underscores the importance of taking action to protect BC's mining investments and Vancouver's preeminence as a global exploration centre and to continue to position the province as a major global supplier of commodities, mining supplies and services to the emerging markets.

New Mining Opportunities

The next 2-4 years holds much promise for BC's mining sector. A half dozen major copper and steel-making coal mines are nearing final regulatory approval and are scheduled to begin construction and commence operations as early as 2011. This is important, as in the same timeframe, two of BC's existing copper mines – Huckleberry and Kemess – will be closing. Unless the copper production of these two mines is replaced, BC's base metal mining sector will erode, affecting a number of northern communities, impacting BC's trade balance, the transportation sector and government revenues.

Taken together, the six new mines would create 3000 construction jobs and almost 10,000 direct operating and indirect jobs. They represent over \$3 billion in new capital investment. Just one of these mining projects – Prosperity – would add more to the BC economy than the entire fishing industry and is the economic equivalent of holding the Olympic Games each year for 20 years. Major mines are rare – but their economic impact is huge. BC's economy could certainly use this kind of economic injection at this time.

These half dozen mines are joined by another 20 or so mining projects in earlier stages of the regulatory process. The recent federal announcement of funding for the electrification of **Highway 37**, and the province's commitment to build this new powerline, heightens the attractiveness of another major geological region of BC to new exploration and potential development. The mining potential for BC, accentuated by the province's advantage as the Gateway to emerging Asian markets, is considerable. Steps must be taken to take advantage of this potential.



Steps to Fulfill BC's Mining Potential

Over the past decade, significant improvements have been made to BC's tax competitiveness in mining:

- Elimination of the Capital Tax
- Reduced Corporate Tax Rates from 16.5 to 11 percent
- Lowest personal income tax rates in Canada
- Mineral Exploration Tax Credit Program and Super-Flow-Through, plus the Enhanced Mineral Exploration Tax Credit in pine beetle affected areas
- Creation of the New Mine Allowance
- Resource Revenue Sharing with First Nations

We applaud the government's actions in these areas. A couple of months ago, the Province announced another major tax reform that is also very positive for the mining sector and the BC economy as a whole – the **Harmonized Sales Tax**.

The HST is estimated to reduce annual operating costs of most mines from between \$500,000 to 1.5 million per year. As an otherwise high cost mining jurisdiction, the HST significantly enhances the global competitiveness of BC's mining sector. The HST thus enables BC mines to weather economic downturns better, to retain employees and to continue to pay the highest industrial wages in the province. In addition, the HST is expected to lower construction costs of new mining projects by several million dollars. Taken together, this makes BC a much more attractive jurisdiction for new mine development and investment.

Tax improvements notwithstanding, major mine regulatory approvals are too time consuming and costly. The Province's efforts to persuade the federal government to move towards a one project/one process concept are appreciated and must continue. The Province's new resource revenue sharing policy for First Nations on new mining projects is another positive development, but the policy must move to the signing of actual revenue sharing agreements to demonstrate the policy's potential. Uncertainty with respect to First Nations rights and title has become one of the most challenging issues facing new and existing mining projects in BC today and steps to address this uncertainty are needed.

An attractive tax investment climate means little if it takes too long to bring new mines into production. We urge the government to look at all steps that would accelerate the development of BC's mining potential without compromising the integrity of regulatory oversight and review. We also urge the Province to continue to actively pursue the resolution of uncertainty created by unsettled land claims.



Recommendations

In addition to improvements to project review and permitting timelines, MABC makes the following recommendations to assist BC's mining sector in capitalizing on the opportunities that lay before it, for the benefit of all British Columbians and for Canada. The recommendations are clustered into three areas: tax/budget incentives, geoscience and climate change.

Tax/Budget Incentives

The intent of the following tax/budget measures would be to maintain long term exploration investment competitiveness while helping to spur exploration activity during this difficult period. Although commodity prices have rebounded since the beginning of 2009, grassroots exploration activity has declined significantly from previous years and continues to lag. To accelerate the return of a healthy exploration sector, MABC recommends that the Province:

- Extend the BC Mining Flow-Through Share Tax Credit for three years.

The elimination of the PST and its replacement by the HST will also benefit BC business by reducing paperwork. A few years ago, the Province had also moved to reduce the administrative burden on BC businesses by reducing the statute of limitations for the PST from six to four years. This change, welcomed at the time, was not applied to other BC taxes, such as the BC Mineral Tax. The MABC thus also recommends that the Province:

- Reduce the tax administration burden to the mining industry by reducing the statute of limitation for the BC Mineral Tax from 6 to 4 years.

Sustained Funding for Geoscience

Geoscience BC continues to be a success that has led to well over 1 million hectares of new mineral staking in the last few years. Geoscience is an essential building block of a mining economy and it is estimated that every dollar invested in geoscience stimulates \$5 in new exploration investment by the private sector. Given the current downturn in exploration, ongoing geoscience research could go a long way to re-invigorating exploration spending in this province. Therefore, MABC recommends that the Province:

- Commit to long-term funding for Geoscience BC and re-invest in the BC Geological Survey.

Climate Change

The MABC and its members continue to actively and constructively participated with the BC government on climate action. The mining industry wants to do its part to support the province's climate change strategy and also wants to be recognized for early action. Though opportunities for GHG reductions and energy conservation exist in the mining industry, hard emissions reduction targets have the potential to damage the industry. For example, a 30 percent reduction



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target applied to the mining sector, or 1,050,000 tonnes CO₂E, is more than two times the amount that would result from closing all major metal mines in the province.

Meaningful GHG reductions will be driven by new technologies and step changes in capital equipment. We believe that the recommendations below would begin to provide our sector with the tools and incentives necessary to help us develop made-in-BC solutions to address climate change:

- Raise the taxable income threshold for SRED Tax Credits for BC Green Technologies (implementing new technology; R&D in carbon sequestration);
- Create 2 for 1 Biodiesel Carbon Tax credit for operations that achieve greater than 10 percent reduction in fuel carbon intensity; and,
- Move, over time, toward a revenue neutral Carbon Tax for industry, especially for trade exposed sectors.

CONCLUSION

MABC thanks the Select Standing Committee on Finance and Government Services for this opportunity to provide a pre-budget submission. Our recommendations are focused on measures that would enable British Columbia to capitalize on the opportunities offered by BC's mining sector to emerge from the economic recession in a position of strength and to contribute to the well-being of British Columbians.

ⁱ Ministry of Energy, Mines & Petroleum Resources, Destinations of Major Metals from British Columbia, As found December 22, 2008 at: <http://www.empr.gov.bc.ca/Mining/MineralStatistics/MineralSectors/Metals/MarketsandPrices/Pages/MarketDestinations.aspx>

ⁱⁱ PricewaterhouseCoopers, Looks Who's 40: The Mining Industry In British Columbia in 2007, May 2008, p.14.