



Keeping our competitive edge in mining

Speaking Notes for Perrin Beatty

PDAC 2013
Wednesday March 6
Toronto, Ontario

Please Check Against Delivery

It is a great pleasure to be here with you today. I would like to extend my thanks to Ross for inviting me to speak, and to thank each of you as well.

I arrived last night from Saskatchewan where the Canadian Chamber's Board met this week. On Monday we toured PotashCorp's Allan Mine. Canada is the acknowledged world leader in potash and for our directors, most of whom had not been underground before, it was an incredible experience to travel several miles through the drifts that have been cut over half a mile underground. The resource is so huge that it will continue producing jobs and wealth for another three or four generations of Canadians.

I was here in Toronto a few weeks ago with a variety of our members involved in the mining sector, chambers of commerce from mining communities, and partners like Pierre Gratton from MAC and our host here today, Ross Gallinger, to open the TSX and launch the first report the Chamber has produced on the mining sector.

The report is entitled Mining Capital: How Canada has transformed its resource endowment into a global competitive advantage. It illuminates the breadth and depth of the sector and its enormous contribution to the Canadian economy, its strategic value as a global brand, some of the challenges being faced by the sector and a series of recommendations as to how our federal and provincial governments can take measured steps to enhance the competitiveness of firms doing business in Canada.

It is the findings from this report that bring me here today.

In conjunction with the market opening, we convened a roundtable with a broad cross section of the mining industry. Giants like Vale, Xstrata, Yamana, Sherritt and Aurico were present, but also representation from the legal community, the finance sector, the mining services sector, the TSX, and a variety of other stakeholders.

The people in the room that day are an indication of the strength of the mining sector in Canada. They are representative of why companies come from all over the world to invest and work here: not only are we blessed with vast metal and mineral reserves, but the expertise Canada can bring to the table in all of the support sectors is world class and not available in any other country in the world.

That is something we should be proud of, an advantage that we need to preserve as we look forward into the future, and the focus of our report's recommendations, from support for innovation to responsible business conduct to appropriate tax incentives.

Mining also features prominently in our list of Top 10 Barriers to Canadian Competitiveness. For those not familiar with our initiative, last month we launched the second iteration of what we see as the most important obstacles and challenges faced by Canadian companies. Barriers that hold us back. Self inflicted wounds that affect our competitiveness. The effects of these barriers are felt in your industry.

For example: One of the barriers is lack of innovation and investment in research and development. In 2011, the most recent year for which data are available, Canadian mining and metals companies invested \$590 million in R&D. Mining's investment surpassed that of the motor vehicles and parts sector, the machinery sector, and the wood products and paper sector; the 6,000 people employed in mining R&D are more than both the aerospace and pharmaceutical sectors.

Infrastructure is another one of our barriers. One essential element for Canada's long-term economic growth and prosperity is high-quality, modern public infrastructure. According to the Mining Association of Canada, the Mining sector is the single largest customer of Canada's transportation sector. Our core public infrastructure was built in the 1950s and 60s and is approaching the end of its useful service life. Much of it will need to be rehabilitated or replaced within the next ten to fifteen years. How Canada renews and invests in its aging infrastructure will help determine our quality of life. But it will also directly serve the competitiveness of our businesses.

Few industries are as deeply interwoven into the fabric of Canada's economy as the mining sector. Yet, many Canadians do not realize that we are a major mining country and a top ten global producer of seventeen key metals and minerals, or that the sector employs some 320,000 people.

When the Canadian International Development Agency was looking to anchor its investment in a sector and leverage our good name internationally, it was natural that Minister Fantino would turn to the mining sector: one that has been investing globally for decades, and applying the Canadian consultative model as an example of how industrialized countries can invest responsibly in natural resource development projects in the developing world.

Now let's go back to the report we issued on the Mining Industry.

The research we undertook pointed to a number of key factors that account for Canada's success in mining:

- First, our financial institutions and tax policies are tailored to the nuances of the industry;
- We possess much of the physical and intangible infrastructure required to access our resources;
- We also have a strong tradition of innovation;
- And, finally, we boast a pool of human resources uniquely knowledgeable about the sector.

These are areas where we have been historically strong, and many are the same areas where we need to focus our efforts to ensure that we remain strong for decades to come. We need to keep our competitive advantage in mining. We need to remain vigilant because others are watching. I was in Hong Kong recently and every time I go to Asia I am reminded of how fragile our economic position in the world is and how we need to constantly reinvent ourselves.

The mining sector is highly sensitive to issues of taxation and finance.

The Canadian tax and finance system has been particularly successful in fostering a collection of approximately 2,000 junior mining firms – the largest concentration of small-capitalization mining companies in the world, which has given the Canadian mining cluster several competitive advantages in terms of providing a critical mass to support suppliers, specialized professional services firms and technology developers.

To help bridge the exploration financing gap being faced by these firms, the Chamber calls upon the federal government to develop a targeted exploration tax credit (over and above the METC) to incent exploration in remote regions of Canada where exploration costs are prohibitive.

During our consultations, we consistently heard that the Canadian Exploration Expense was inconsistent in its application and that this problem was undermining the ability of many exploration firms to properly consult and engage at the community level.

This fact led us to recommend that the government of Canada update its 2007 guidelines to clarify which expenses are eligible for treatment under the Canadian Exploration Expense, particularly as this work relates to the work firms are doing as a result of the Crown's Duty to Consult.

Among the reasons that Canada is viewed as a favorable investment environment are our existing tangible and knowledge-based infrastructures and systems. For firms investing within Canada, physical and other kinds of infrastructure are needed to ensure mining companies have the ability to find, extract and remove ores at a competitive cost.

The development of large-scale projects like the Canadian Pacific Railway in the 1800s, the St. Lawrence Seaway in the 1950s and large hydro-electric installations in the '60s and '70s have been key factors supporting the success of Canada's mines. A more modern example is the ongoing extension of the Highway 37 transmission line in northeast B.C. that, for a capital cost of \$400 million, will facilitate an estimated \$15 billion in mineral projects.

There are other forms of infrastructure to take into consideration.

The quality of the geological information provided by government has long acted as an advantage for firms seeking to locate and exploit Canada's mineral resources. An often used rule-of-thumb is that one dollar in government spending on geosciences leverages five dollars in private sector exploration.

Just like physical infrastructure, geoscience has become an important public good with impacts well beyond the mining industry.

While Canada's investment in both physical and intangible infrastructure has supported the general competitiveness of the Canadian economy in the past, investment in both areas of late has been lacking.

Accordingly, the Chamber has called upon the federal government to continue to invest in the infrastructure necessary to promote growth not only in the mining sector but across the whole Canadian economy, investments that will help unlock the resource potential of the North and expand the markets for Canada's products.

We also call for increased predictable government investment in geoscience to help address the challenges posed by our dwindling access to a handful of key resources, and to continue to leverage private investment.

These strategic investments will continue to allow the sector to innovate.

Labour productivity in the mining sector has increased over time, but it is being more than offset by the pace of growth of the sector coupled with the natural effects of an aging workforce.

And let's talk about the biggest challenge for Canada and for your industry: skills shortages. It's our number one priority at the Chamber and I know it's been on everyone's lips over the last few days here.

Data from the Mining Industry Human Resources Council indicates that forty percent of the industry is at least 50 years old, with one third eligible to retire by 2015. Knowledge transfer will become a challenge as experienced workers depart the labour force, and yet the overall shift in the Canadian labour market means that increasing the representation of women, new Canadians, youth and Aboriginal peoples in the mining sector will only partially offset the impact of the aging workforce. In the medium term, the need to replace older workers will outstrip the availability of younger talent in the labour pool.

Throughout Canada, the current number of graduates from mining-specific post-secondary programs is not sufficient to meet your needs – which are forecast in the range of one to one hundred and fifty thousand highly-trained employees over the coming decade. The need for highly-educated workers is increasing because of the importance of advanced technology in today's mining and exploration industry. The industry will require geologists and geoscientists, metallurgists and mining engineers, as well as employees skilled in computer and information technology, among others.

Given the intense competition for these newly graduated knowledge workers, the mining and exploration sector will need to ensure that its opportunities, incentives and work environments are competitive with other sectors.

Your sector has traditionally relied on lucrative wages and the chance to engage in exciting, challenging work to attract new workers. However, there are a number of unique lifestyle challenges and deterrents to working in the industry. These issues might factor more heavily in the career plans of young knowledge workers and women of all generations than more traditional benefits can address.

Access to capital is the other key challenge facing Canadian firms, exploration companies in particular. Traditional finance models are proving less reliable, owing in part to falling commodity prices but also to steps being taken by governments across Canada that make foreign investment in the sector less attractive.

There is a need to clarify the use of consultation expenses to cover activities related to Aboriginal consultations, and to revise the Foreign Affiliate Dumping (FAD) provisions that are proving hostile to foreign investment.

Our claim as a global mining capital goes beyond the simple extraction of metals and minerals in Canada or around the world. We have leveraged our rich natural resource endowment not just by extracting and processing raw materials, but by creating and marketing the knowledge of how to effectively and responsibly develop these resources.

Our expertise across the full spectrum of the mining sector has been on display here these past four days. There is a reason that this meeting is taking place in Toronto: Canadian firms have demonstrated leadership in everything from mining finance to exploration, and in so doing have established Canada's mining brand as one of excellence around the world.

But our accomplishments to date only hint at our potential for the future. If we act wisely now, we can build on these achievements to provide opportunity and prosperity for our children and grandchildren. In mining as in hockey, Canadians should never accept less than being the very best in the world.