



Pierre Gratton's Speech for National Mining Week 2013

The Canadian and Global Mining Scene: Contributions, Opportunities and Challenges

Thank you for the invitation to speak to you today.

I'm going to talk about the powerhouse that is Canada's mining industry and why I firmly believe there's a prosperous future for our industry.

I want to impress upon you three key points:

- 1) the super cycle is not over;
- 2) Canada thrives on free trade and has to avoid the trap of protectionism; and
- 3) we need to continue the steps we have begun to solidify Canada's future as a mining leader.

Canada as a Mining Powerhouse

When I say Canada is a mining powerhouse, what do I mean? I mean much more than the minerals and metals we dig out of the ground.

Canada's mining sector reaches far past the mine gate and the communities where we operate. As a recent study by the Canadian

Chamber of Commerce shows, it beats in the heart of our cities and in our financial sector.

Mining employs 320 thousand employees, paying the highest average wage in the country. We operate 220 mines, and 33 smelters and refineries.

Last year, the industry contributed some \$9 billion in taxes and royalties to governments and represents about \$20 billion in capital investment annually.

Canada is a top five world producer of uranium, potash, nickel, platinum, aluminum, diamonds, zinc, and steel-making coal. Minerals account for 23% of Canada's total goods exports.

We attracted 18% of world exploration spending in 2011, the top spot. But that's just part of the story.

In 2011, Canada had more than 3,200 firms supplying the industry, in Canada and abroad, second only to the United States. Our stock exchanges, the TSX and TSX Venture, are home to 58% of the world's public mining companies. These exchanges traded \$450 billion in mining stock in 2011, 47% of whose mineral projects are outside Canada.

Over the last decade, up to and including 2011, the TSX and TSX Venture have transacted over 80% of global mining equity financings. Together, they account for over one-third of total global equity raised for the same period – over \$105 billion.

In 2011 alone, 90% of all global mining equity financings were done on the TSX and TSX Venture exchanges, and together, these comprised 39% of the equity capital raised globally for the same year.

It is the depth and breadth of our mining industry that has enabled Canada to weather the recent economic turmoil better than any other G-8 country.

China and the Super Cycle

So now let me turn to this “super cycle”. But before I talk about the future, let me rewind a bit.

The past two decades have been marked by two major developments that, combined, are giving shape to a new age: globalization and the rise of Asia, China in particular.

Globalization has opened up new markets across Asia, Africa and Latin America.

The mining sector flocked to these jurisdictions to pursue largely untapped and unexplored geology and, in many cases, lower costs. Capital is now more mobile than ever, thanks to globalization.

Meanwhile, in the space of 26 years, China’s growth has increased by a factor of 10.

By comparison, it took Britain 70 years after 1830 to grow by a factor of 4.

China is also now the world’s largest exporter and second-largest importer of goods and has developed an insatiable appetite for commodities to fuel rapid industrialization and a rising consumer class.

The combination of globalization and Chinese growth led to the mining “super cycle,” which has presented a huge opportunity, and some pretty big challenges for the industry.

Rising commodity prices have led to an increase in resource nationalism and more community protests as societies struggle with how to best handle and distribute a growing amount of mineral wealth.

Higher metal prices have also led to increased job creation that - combined with an aging workforce - is creating a severe skills shortage. It is leading to both fierce competition for workers and rising costs, but also concerted efforts around the world to find longer-term solutions.

My focus – as head of the organization that champions mining growth and development in Canada – is how to address these challenges to help our industry build the best plan for a prosperous future.

Part of that mission is to ensure that Canada remains a leader in the competitive global mining industry. More on this in a moment.

This vision first begins with a better understanding of our industry's largest customer: China.

CHINA: Demand for commodities

Ever since China introduced market-based economic reforms in the late 1970s, the country has become the world's fastest-growing major economy.

What's driving this growth? China has the world's largest population: 1.3 billion people and counting.

That is propelling remarkable growth in its cities. Urbanization is growing at an unprecedented rate, from 17% to about 50% over the past 30-plus years. Should China reach the same level of urbanizations

of western industrialized countries, it would mean putting another 300 million people in cities, or the entire population of the United States.

We've all seen pictures of China's rapid industrialization – the cities built seemingly overnight, the state-of-the-art infrastructure and the number of cars on streets once dominated by cyclists.

This has led to massive consumption of commodities; the coal, iron ore, copper, nickel and aluminum that goes into building roads, bridges, buildings and vehicles.

China consumes about 40% of minerals and metals today, compared to just 5% in the 1980s.

And it's not just China's story. It is also Indian, Latin American, African, Russian and South East Asian.

The developing economies currently represent in excess of three quarters of global growth and just about 50% of the global economy. By 2050, these economies will account for almost 80% of global GDP.

This amazing growth – and the wants and needs of a growing consumer class emerging in these economies – are what is expected to keep fueling demand for minerals and metals.

The Skeptics

Still, there are jitters in the market today that can't be ignored. We remain in a period of economic uncertainty.

Europe is still in bad shape and will be for some time. The US recovery is slow and uncertain. Chinese growth is no longer in double digits, but at over 7.5% on a larger base, that is a lot of growth. And, as we've

recently been reading, Chinese exports and imports are rebounding again.

The fact is, mining remains and will always be a cyclical industry. There is still a “cycle” in supercycle. But the long-term fundamentals for our sector are very strong.

It's important to put today's issues in perspective.

On the basis of the growth I've described, the next 20 years or so will see a doubling of demand for most mineral products. The pace of this growth will be checked from time to time, as it is being presently, but it will not materially shift from its axis.

And China is only a part of the story, albeit presently the most important part.

India is on China's coat tails, growing at 7.8% on a trajectory that mirrors China's of a couple of decades ago. India will overtake China as the growth leader by 2030.

Sub-Saharan and Africa have seven of the top 10 fastest growing economies, albeit off a low base. In Latin America, Brazil (3%), Chile (6.5%) and Peru (6.2%) are all playing the game of economic catch-up. In South East Asia, Indonesia's growth is 6.4%, Malaysia's is 5.3%, while Vietnam's is 5.8%. Kazakhstan, Uzbekistan and Kyrgyzstan are all growing in the order of 7%.

Hence, even the most pessimistic economist cannot deny that opportunities in mining should remain strong for the foreseeable future.

A lot of the pessimism has been generated by stories of some major project delays, some of which have been here in Canada.

But these delays are not due to waning confidence in the future.

They reflect a responsible pause by the mining industry in light of current commodity price declines and market volatility.

It is also a response to rising costs, which is especially affecting major greenfield investments with large infrastructure components, such as the massive Baffinland iron ore project in Nunavut or some of the investments in the Labrador trough.

It is also an adjustment by companies to re-assess the projects they want to advance first and in what time frame, recognizing that there is only so much capital to go around. This is also an important reminder to our governments that we are competing with others around the world for private sector investment. The super cycle will last – no country's participation in the super cycle, including Canada's, is guaranteed.

Other factors affecting new projects are higher risks from less predictable and lengthening lead times for major equipment, exacerbated by the fact that many related industries, such as oil and gas, are competing for the same.

We have skills shortages worldwide and rising labour costs in some jurisdictions.

The junior exploration sector is currently facing enormous difficulties on the equity markets, which are spooked by all of the factors I've just mentioned. This part of the business is definitely in for very tough times in the near term.

All of this, however, only slows the speed with which new supply comes to market, which should also have a longer-term positive impact on the price of commodities.

It is really just simple economics.

Capital into Canada

Rapid Chinese growth is propelling investment in the resources sector.

The worst-case scenario for China is to run out of resources, which would threaten the pace of its industrialization.

That's why the country is making plans today to secure resources it will need to meet demand tomorrow.

China is strategic about how it invests. That includes how much, where and when. Canada has clearly been a country of choice for Chinese capital investment.

One of the big public policy challenges Canada is facing today is what to do about this new foreign investment potential.

We've recently seen the federal government take some steps to clarify its views on how it will assess foreign investment from state-owned enterprises. This is a fine line we need to walk. If we close the door too tightly, we risk leaving Canada behind in the race to supply minerals and metals to emerging markets.

We need to remind ourselves that Canada has always thrived on trade and the two-way free flow of goods and capital. The Canada-US trade agreement stands out as arguably the most significant economic policy

achievement of the past 50 years and has certainly done more for our sector than most anything else we can think of.

Now, with our economic future so clearly tied to China, all of us have to encourage the free flow of goods and capital with China and other emerging markets.

Sure, trading with China is not the same as trading with the US or Europe, who share a common history, ancestry and philosophy.

Many US, European or even Japanese and Korean firms are household names in Canada; Chinese are not.

The fact is, **China fascinates us and intimidates us.**

But we have to overcome this. Canada is less prepared than, for example, Australia, which has for some time been positioning itself as the "Asian Gateway", actively building relationships and promoting trade.

We need to get prepared to seize the opportunity ahead of us, and do so in a way that Canadians have confidence in.

So where do we go from here?

We need to make sure policy makers avoid the trap of allowing a fear of the unknown to lead to harmful protectionism.

We need to stay the course as a free trader, and proactively engage the emerging new world order or be left behind.

We support Prime Minister Harper's active trade agenda, and his significant accomplishments in Latin America, Africa and Asia.

We also have to do our best domestically to make sure it's our talent and resources that are put to work to serve global demand. So far, we seem to be on the right track.

Canada's mineral production reached a record \$50.3 billion in 2011. It declined to \$46.9 billion in 2012 due to falling commodity prices, but is still at a historically high level.

Mining contributed \$35.6 billion to Canada's GDP in 2011 – a 4.5% increase from 2010.

The industry's trade levels also increased significantly with exports growing 20% to \$101.9 billion, or 23% of Canada's overall total.

Across Canada, we have new major investments totaling some \$140 billion over the next 5-10 years.

To keep Canada competitive, we need to:

- Maintain low inflation;
- Reduce and eliminate government deficits and reduce debts; and
- Preserve and improve competitive tax levels

Together, both levels of government made important progress addressing these fundamentals over the past decade. Unfortunately, the past couple of years have been less encouraging, particularly in some jurisdictions.

Even at the federal level, new foreign affiliate dumping rules enacted last year reached well beyond their stated objective to impose unwelcome barriers on foreign investment, while two successive budgets have included the elimination of mining-specific tax measures.

We need to make sure that, combined, both levels of government do not erode Canada's ability to attract investment.

And we need to take action on three broad public policy fronts: regulatory, people and infrastructure:

Regulatory

Canada's government has taken major steps to improve the regulatory environment for major projects.

After 20-to-30 years of having both provincial and federal governments add layers of regulatory reviews of major projects, we were getting mired in duplication and lengthy, unproductive process.

During this same period, our industry's knowledge and application of environmental practices has steadily improved, reducing the risks of environmental harm.

The new federal reforms are welcome and overdue. They are also not finished.

As with any major reform, the devil lies hidden in the details. As such, our association is actively working with the government to ensure that the promised reforms result in their intended outcomes, namely equally robust but more timely, efficient and predictable reviews of major projects.

I would like to comment, however, on the perception that these reforms have weakened environmental oversight.

Let me emphasize that MAC neither lobbied for less oversight, nor did we obtain it. Rather, MAC consistently pursued process and timeliness improvements and clarity of application of federal regulations.

I am pleased to say that the reforms to the Canadian Environmental Assessment Act (CEAA) have been successful, not just through better legislation, but through application. Federal EAs are much better managed today than they were five years ago and the Agency is to be commended for its efforts.

We also welcome the newly proposed CEAA project list regulations, which address MAC's concerns and will ensure that essentially the same projects assessed by the federal government in the past will continue to be assessed in the future – no more, no less.

I also want to applaud the effective role of the Major Projects Management Office in providing overall project management coordination, for helping our industry work through and understand the federal project review process and for trouble-shooting when required. The past year has been one of tremendous change, and let me assure you that your work is very much appreciated.

People

Let me turn to another major challenge. People. According to Natural Resources Canada, the Canadian mining industry added 12,000 more workers in 2011, totaling more than 320,000 workers in mineral extraction, processing and manufacturing.

Due to a combination of growth and an aging workforce, it is estimated that the mining sector will need approximately 14,000 new workers per year over the next 10 years.

We are encouraged by recent reforms to Canada's immigration system, moving Canada away from a "first come, first serve" approach to one that specifically targets and ranks applicants according to the skills needed by Canada's economy. We will have to look outside Canada to fill our skills' requirements.

But we can do and are already doing a lot within Canada to better meet our HR requirements. Governments, industry, schools, Aboriginal groups and other community organizations are working together to address the sector's skills training, mobility and immigration needs.

Through the Mining Industry Human Resources Council, our sector has been partnering with the AFN, the ITK and the MNC to develop a range of tools and training programs to facilitate and accelerate the participation of Aboriginal people in mining.

I have served on the Board of the BC Aboriginal Mine Training Association, whose work is, frankly, transformational. I was very pleased when HRSDC found new funding for BC AMTA last year so that it could continue its excellent work.

In addition to increasing Aboriginal participation in mining, we need to focus on other long-term, sustainable solutions, such as increasing the number of women in our sector. Leading companies like Xstrata and Rio Tinto have made major commitments to increase the participation of women in their companies, which will pay dividends for years to come.

I am pleased to tell you, if also a little embarrassed given it is long overdue, that next month a woman is set to chair the Mining Association of Canada for the first time in its history when Zoe Yujnovich of the Iron Ore Company of Canada assumes this leadership position.

Infrastructure

Given the significant prospects for continued growth in mining operations, overcoming Canada's vast geography to deliver products to ports and smelters in a timely and effective manner is crucial.

This is especially important considering that Canada competes against other countries with significantly shorter logistical supply chains.

Given the medium to long-term outlook for global commodity demand, we need to be thinking about how we invest to ensure marine and rail capacity are able to service the industry effectively. This requires strategic investment in infrastructure, and measured public policy decisions in consultation with stakeholders who are most affected.

Earning Public Confidence

And last, but not least, industry has to do its part. With growth will come heightened public scrutiny and the potential for opposition to new development. We will have to make sure we continue to **earn the trust and confidence of Canadians** and, particularly, of the communities where we operate.

In some countries, mining growth has engendered resource nationalism leading to uncompetitive royalty regimes and, in some cases, outright expropriation and nationalization of assets.

Elsewhere, we have seen major protests of new developments, some with tragic consequences.

These actions have harmed the investment attractiveness of these countries, but can also cast a shadow on our sector.

As I mentioned earlier, Canada is recognized as a global leader in the mining industry, housing a majority of the world's listed mining companies. That's the money side of the business.

We must also remain leaders in responsible mining, including maintaining the ever-important social license to develop and operate. We must never lose sight of our role to manage and mitigate the impacts resource extraction has on the planet. I can tell you it's a responsibility our industry takes very seriously.

As an industry we communicate this respect and responsibility by engaging with communities, working with government and being open-minded with our critics. At MAC, we do this formally through our national advisory panel, which includes representatives from Aboriginal groups, organized labour and civil society, and we do this through a number of collaborative, multi-stakeholder public policy initiatives.

While there may always be people who oppose the mining industry or certain mining projects, we believe most Canadians support mining as a job creator and supplier of the metals and minerals that allow us to enjoy our high standard of living – including those smartphones and cars we don't want to live without.

Public opinion research we conducted this year and last shows that about 75% of Canadians have a favourable view of mining. This is better than forestry, utilities, pipelines and oil and gas - and increasing over time.

We must also remind Canadians that our industry practices the highest environmental standards with a deep commitment to sustainable development and production. Mining has become one of the safest industries in Canada; in some cases the safest. This is all part of the

Mining Association of Canada's "Towards Sustainable Mining" (TSM) program.

TSM was developed by MAC members to improve the mining industry's overall performance in critical risk areas. It is the only system in the world that includes site-level performance evaluation, public reporting and third-party verification of results. It is the only system that can provide the public, governments, investors and civil society with a meaningful assessment of how our companies operate, how well we manage our risks and live up to our responsibilities. It has been recognized as "best-in-class" by several independent groups, setting a global standard that is now starting to attract international interest. In fact, Finland is considering adopting TSM and I was invited to Istanbul a few weeks ago to introduce our program to Turkey.

TSM performance results over the past five years show meaningful improvements by MAC members in all areas. We are proud of what the program has helped industry achieve so far and look forward to the advancements of the future.

MAC has also taken a bold step to address the issue of transparency of payments to governments. Over the past year, we have been working with two NGOs, Publish What You Pay-Canada and the Revenue Watch Institute, to develop a made-in-Canada approach for the mandatory reporting of payments to governments. This would be an anti-corruption measure to provide citizens in the developing world with information regarding what monies their governments receive from the extractive sector.

This industry/NGO partnership underscores our commitment to responsible resource extraction wherever we operate. We are also working with our members to develop a human rights framework, recognizing that as investors in parts of the world with weak local

governance, we have a responsibility to do our part to respect and defend human rights.

On Monday, the Honourable Joe Oliver expressed the Government of Canada's support for our work. The "endorsement" of the federal government, if I may call it that, is very much appreciated.

It's these values that will allow Canada's mining industry to continue to grow over the long term, and maintain its position as a dominant global player.

Conclusion

So, market jitters notwithstanding, I am among those who remain bullish about mining's prospects.

If we keep doing the right things with our wealth of resources here in Canada, Canadians will continue to thrive through the development and production of new mines here in Canada, the continued growth of our industry abroad, and the numerous spinoff economic and social benefits that flow from both.

Thank you.