



The Mining Association of Canada | L'association minière du Canada

Mining. The Future.

***Pierre Gratton's Speech to the NWT Chamber of Commerce
September 18, 2015***

It's a pleasure to be here in Yellowknife to talk to you about what's happening in the Canadian mining industry, and the ever-growing importance of Canada's North as a mining region.

Top of mind is the market – how the industry is coping through the current downturn.

It's easy to get swept up in doom and gloom stories. But we need to remember that the global mining sector has cycles where demand and prices drop, which is inevitably followed by a correction and strengthening.

Even during a stubborn downturn in global demand for many minerals and metals, it's no time to get down on mining. Because mining never goes away. Minerals and metals are the very foundation of virtually all of the goods we depend on in our daily lives. As the saying goes, if it's not grown, it's mined.

So today, I want to leave you with three main points.

- 1) Yes, the industry is in the midst of a significant downturn.
- 2) Despite it, Canada's mining sector continues to make enormous contributions to our social and economic well-being – in the NWT and across the country.
- 3) It is during a downturn that we need to focus on future opportunities, to take steps now to position the sector for success when the cycle turns again, as we know it will.

I say this because there is a tendency for policy makers – and as CEO of MAC good public policy for mining is my primary concern – to follow trends.

In the dot.com era, mining was abandoned, dismissed as a “sunset” industry whose time was over, as governments across Canada chased high-tech, looking to establish silicon valleys across the country. The dot.com bubble burst just when the full force of China's expanding economy was starting to be felt in the commodities world. Because we weren't paying attention at the time, policy makers spent a good part of the past decade playing catch-up, looking at ways to capitalize on the resource boom that had arrived.

As an aside, the NWT bucked this trend because of the discovery and development of its diamond industry. However, as I will stress later, the NWT today faces a different challenge, namely the danger of becoming complacent.

There are some who might say that we have spent too much time lately on natural resources, in particular on energy and pipelines.

They're probably right, too.

Because there is just one Canadian economy, and the secret is not to chase trends but to take a consistent, whole of economy approach, recognizing the interconnectedness of it all.

And, of course, this means not making the same mistake we made a decade ago by now abandoning natural resources, whether it's iron ore, coal, copper, oil or diamonds because they're slumping.

Because what we want is to be in a position to maximize our return when the cycle changes again.

We want to be in a position to have new mines open, to have Canada positioned as a choice destination for new exploration and mining investment.

We want to further open up the North to responsible mining development in partnership with communities so that northerners increasingly access the socio-economic benefits that mines bring to regions.

There are lessons to be learned from the past decade. We need to make sure we've learned them.

A Look at Market Conditions

So how bad is the market? Like all down cycles, it's been tough.

Global economic growth has been volatile in recent years, with annual growth projections consistently downgraded as market conditions unfolded. The Bank of Canada downgraded its 2015 global economic growth forecast, from 3.3% in April to 3.1% in July, due to faltering US and Chinese economic growth early in the year. Looking forward, the Bank of Canada anticipates growth to rebound at 3.6% and 3.7%, respectively, for 2016 and 2017, which is consistent with earlier projections. However, whether this forecast will have staying power in the face of recent global financial turmoil is now highly questionable.

Looking at emerging markets that have been at the heart of the commodity boom, both Brazil and Russia forecast negative GDP growth in 2015 at 1.5% and 3.4%, respectively. Meanwhile, China's growth is forecast to shrink annually to 6.8% and 6.3% consecutively through 2015 and 2016. This will lead to uncertainty over the strength of demand for materials given that China is currently the world's largest market for mined products. In contrast, however, India is forecast to grow by an annual 7.5% in 2015 and 2016, leaping forward from 5% growth forecasted for 2014. I should note, though, that these forecasts predate the global financial market events of late August.

Declining or weaker than expected economic growth rates, combined with increased supply of commodities that has resulted from investments over the past decade, have pushed prices downward. While, for some time, the story was mixed across commodities, trends have recently emerged to paint a gloomy picture pretty much across the board. From winter 2011 highs, the monthly average price of both nickel and copper has trended downward, losing approximately 60% and 50% of their respective value.

Similar trends with subtle variations are seen for silver, uranium and potash. And beyond gold's \$700 per ounce fall, iron ore and coal have experienced the most dramatic swings, both suffering a loss in value exceeding two-thirds since 2011. Diamonds, being somewhat unique in mining as a consumer product, are nonetheless invariably influenced by global economic trends, and are thus also facing headwinds.

Declining commodity prices and falling interest in high risk capital among investors has made it especially tough for mineral exploration financing, with global exploration budgets dropping by 30 percent in 2013. What's more, PDAC research indicates that more than 50 percent of all financings were for \$500,000 or less in 2013 compared to just 13 percent in 2010.

SNL Metals and Mining recently calculated that the mining industry's total budget for non-ferrous metals exploration was \$11.4 billion US in 2014. This contrasts with the \$15.2 billion in 2013 and the record \$21.5 billion in 2012. This decline is as worrisome as it is dramatic.

Sounds pretty grim, but even so, some perspective is needed.

A Bedrock of the Canadian Economy

Even in a slump, mining's contribution to Canada is enormous.

Despite some job losses at some operations, mining and mineral processing are directly employing over 375,000 Canadians, including well over 10,000 Aboriginal Canadians, paying the highest average industrial wage in the country. In the NWT alone, more than 1,400 people are directly employed by the sector, 50% of whom are Aboriginal.

Mining accounts for roughly 20% of the overall value of Canadian exports, valued at nearly \$90 billion.

Nationally, we pay an average of \$3.8 billion annually in corporate taxes and royalties to federal, provincial and territorial governments. Mining companies are also paying significant royalties to Aboriginal communities across the country. Take the NWT as an example where more than \$39 million in diamond resource royalties has already been shared with settled Aboriginal claimants. I understand from media reports that this is already increasing now with more royalty sharing under devolution.

We're sitting as a top five global producer of 14 minerals and metals, including diamonds. What's more, a recent report by the Kimberley Process for 2014 has confirmed that Canada continues to lead in diamond production value at the number three spot globally. And a staggering 95% of Canada's diamond production comes from the NWT, with the remainder coming from the Victor mine in Ontario (though with a second diamond mine in southern Canada now in commissioning in Quebec).

We're supporting the second largest mining-supply sector in the world. More than 3,700 companies in Canada provide a wide spectrum of services to the mining industry, such as legal, financial, accounting, engineering and environmental.

Indeed the mining industry relies on a whole ecosystem of suppliers. In the NWT alone, since the first diamond mine was built not that many years ago, mining has generated more than \$11 billion for northern businesses – over \$5 billion of which has been with Aboriginal businesses. Now that's truly staggering.

And so the point I'm making is that while it's tough out there, the industry remains strong; a bedrock of the Canadian economy. Our miners, long experienced in the ups and downs of this sector, are focused on controlling costs and preparing for the next upturn.

The prevailing view remains that the Canadian mining industry's economic prospects will be strong over the medium and long term. We continue to identify a substantial amount of potential new project investment in Canada. While this potential for mining growth is now more dependent on market realities, some projects continue to move forward and others will proceed with development when demand returns.

The expansion of Diavik mines, the proposed mine life extension of the Ekati mine, and the construction of Gahcho Kué are excellent examples of world-class operators demonstrating their commitment to their communities through thick and thin.

The fundamentals that drove the super cycle are still largely in place. China's growth, while slower, is still significant and over a much larger base. Consumption of minerals and metals remains significant and is expected to accelerate over the long term as other emerging economies, particularly India, take their place behind China. And the weaker Canadian dollar that has accompanied declining commodity prices, particularly oil, is

providing a bit of a buffer for Canadian mining operations. This is helping them weather the downturn a bit better than the decline in commodity prices might suggest.

It is in light of mining's overall strength and importance to Canada that we need to stay focused and ensure that Canada is recognized as the best place to find and develop mines, whose products the world needs.

Learning Lessons

To prepare for the next upswing, we should look at the fundamentals that drive mineral investment.

A global study by McKinsey a year or so ago ranked Canada very near the top across a wide range of indicators measuring investor attractiveness. We know what many of these are: political stability, skilled workforce, respect for the rule of law, low corruption, etc.

But the same study also showed that Canada is one of the most expensive places to build mines. There are a few reasons for this.

Cheap power used to be a Canadian advantage, but it is becoming less so. The price of diesel has doubled in a decade, while electricity rates in many regions have been increasing significantly.

The availability of skilled labour - or the lack thereof - has driven up labour costs in recent years. Innovation and investments in skills training to enhance productivity to counteract rising labour costs are crucial.

But if there's a major challenge facing mining in Canada's north today, it's lack of infrastructure. The north is our industry's future, but the territories and the northern parts of our provinces lack critical infrastructure—roads, electricity, ports, railways—to service mines and get products to market.

According to our research, it costs about 2 to 2.5 times as much to build and operate a gold and base metal mine in northern Canada off grid than in the south. Diamond mining is a bit better, but there is still a 20 percent premium on diamond mining in the NWT.

The elimination of mining tax measures in recent federal budgets, such as the Accelerated Capital Cost Allowance, has made capital intensive projects even more expensive. This is particularly true in the north with large infrastructure components.

We should be looking at ways to level the playing field in the North where infrastructure is lacking. Canada needs a strategic collaboration involving industry and governments to get this nation-building infrastructure in place. This can be done by increasing

government investment in new infrastructure, or by using the tax system to offset some of the costs incurred by companies for infrastructure components that also provide a broader public good. We are very encouraged by the study launched by Premier McLeod to consider converting the diamond ice road into a full-season all-weather road. This is the kind of strategic thinking and vision that the NWT needs to prosper in the long term.

Because, if I may risk saying as an outside observer, the NWT appears to me to have become a bit complacent. You've had the incredible benefit of having a world-class diamond industry for the past 20 years. At its peak, it represented 40 percent of NWT's GDP. The diamond industry has brought significant and highly paid employment, paid billions in government tax revenue, generated business opportunities for northerners, built new infrastructure and generously supported a wide range of community-based initiatives. I don't think it's an understatement to say that your diamond industry has been nothing short of transformational, particularly in terms of northern Aboriginal participation. Indeed, the diamond mines are consistently seen as role models for the rest of Canada.

But as is always true with mining, mines are finite, and the NWT has to start thinking about what next. There are bright spots on the horizon. De Beers' and Mountain Province's Gahcho Kué mine, currently in construction, is the world's largest and richest new diamond project. Diavik is completing work to mine its fourth kimberlite A21 pipe, which will keep it robust until the mine's planned closure in 2023. At Ekati, the Dominion Jay Pipe, currently in hearings, would extend its mine life to 2031 from the current 2020 horizon. Junior miners, Avalon and Canadian Zinc, have projects that, with financing, would help fill the gap that will emerge when the diamond mines close.

But there is not a lot more in the pipeline.

Let's not forget that all of the diamond mines, even Gahcho Kué, were discovered before 1998. Two decades later and there have been no new blockbuster discoveries (though the recent sampling results of Kennady Diamonds look really nice!), nor any other mine openings. Mineral exploration in the NWT has been steadily declining, dropping to just \$96 million last year from a peak in 2007 when it reached \$194 million, anchored by pretty much just two companies, Kennady Diamonds and TerraX Gold. Compare that to your neighbour Nunavut, which reached \$535 million in 2011, down but still at \$145 million in 2014. The Yukon is also outperforming the NWT in attracting new exploration spending.

That's what makes the proposed all-season road so important. It is this kind of investment that can turn interest around, and help the NWT make mineral exploration here more attractive by reducing costs. But there is much more you can do.

Time is money and our approval processes are complex and lengthy. At the national level, recent federal regulatory reforms for resource projects, including to the MVRMA, have had mixed effects and, in some cases, have created new uncertainties and delays.

Additionally, governments failing to fulfil their obligations to Aboriginal governments or communities, or delays in meeting these obligations, also contribute to delayed decision making on mining projects.

Devolution, arguably the single most important regulatory change of the past decade in the NWT, has the most potential to improve the NWT's prospects for new mining investment. Devolution in the Yukon ushered in a new era of mining activity; I am hopeful that the same will occur here and look forward to when complete control has been transferred from Ottawa to where it belongs in Yellowknife.

But all of these major regulatory reforms, well intended yet inadequate and, in some instances poorly implemented, were all introduced in the last 4-5 years, right at the end of the commodity boom.

Too little...but not too late.

As with all major reforms, devils are in the details. In Ottawa, MAC and its members have been very active stressing the importance of certainty in the review and permitting process – activity that in many instances we've undertaken in partnership with the NWT Chamber of Mines as the issues are more crucial in the territorial context because yours is a higher cost jurisdiction.

We need to use the time now to fine tune the regulatory system and approvals process to make sure it is truly efficient and effective.

We have to continue to improve the efficiency of decision making on new projects and avoid duplication.

The regulatory system, along with infrastructure, is the largest variable within your collective control that will influence mining investment. If all parties agree that mining is important for the territory, then you must also find a way to agree on how that investment can proceed with clear, consistent and predictable processes and timelines.

The recent past will otherwise remain the best indicator of the future; the NWT will be outpaced by Yukon and Nunavut for exploration investment. In turn, this will push crucial new discoveries, mining development and the benefits that flow from them further away. And, frankly, put the NWT at risk of serious economic hardship in the not-too-distant future.

Many, including Prime Minister Harper, have highlighted the potential of Canada's North to our future prosperity. But it's not enough to tour the North and talk about it.

This year's federal budget made a start, by allowing for the deductibility of Aboriginal community consultations as a Canadian Exploration Expense and by increasing the borrowing limits of the NWT and Nunavut governments to facilitate infrastructure investments.

But we need to do more. With a federal election underway, and with an NWT election about to start, it's a good time for all of us to be asking the contenders what their vision is for the north and what they would do to make sure the prosperity that the NWT has enjoyed from diamonds continues well into the future.

Having seen him in action at Energy and Mines Ministers' Conferences, I can tell you that the Honourable David Ramsay gets it, as does your Premier. But we all need to work together to make sure the NWT's potential is achieved.

The opportunity is there. We can seize it, but to do so we have to act now and not make the mistakes we made last time, playing catch-up and losing opportunities to our competition.

Thank you.