

**FINAL: Pierre Gratton speech to the Vancouver Board of Trade  
Sept 7, 2012**

Thank you. It's a pleasure to be back and to reconnect with so many friends and colleagues, past and present.

Thanks everyone for coming to spend some time today to hear about the powerhouse that is Canada's mining industry and why I firmly believe there's a prosperous future for our industry – despite current volatility and price declines.

I want to impress upon you three key points:

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

Before we talk about the future, let's rewind a bit.

It's with hindsight that one can look back at a period and observe that it represented a major turning point in human history. The Enlightenment, the Industrial Revolution, the first World War and the end of European colonialism, World War II and the rise of US domination.

In between are a scattering of events, some of which may seem significant at the time but may turn out not to be, others that may have seemed inconsequential, but turned out to be prophetic.

The past two decades have been marked by two major developments that, combined, are also 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, dominated by Canada, has 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, growth in China is exploding at an annual rate of nearly 10 % over the last three decades to become the world's second-largest economy after the US.

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 has led to what many have called the mining "super cycle," which presents 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 work force - is creating a severe skills shortage and leading to both fierce competition for workers and to concerted efforts around the world to find longer-term solutions.

These challenges and opportunities have profound implications for the industry in general, as well as Canada as a major mining nation.

British Columbia finds itself at the centre of the increasingly influential mining sector, not just as a mineral-rich, mining-friendly province but as Canada's gateway to key Asian markets.

My focus – as head of the organization that champions mining growth and development in Canada – is how 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. That vision begins with a better understanding 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.

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.

This amazing infrastructure growth - and the wants and needs of a growing consumer class – are what is expected to keep fueling demand for metals such as copper and steel-making coal, which of course are two of BC's top-producing commodities.

### **The Skeptics**

Still, there are jitters in the market today and that can't be ignored. Commodity prices have retreated from record highs set last year and companies are watching their costs.

This is the nature of the mining business. It's cyclical.

Right now, the caution comes largely from debt concerns in Europe and a slowing of growth in China.

The last time around it was the US financial crisis that had markets most concerned.

The crisis of 2008/09 caused many in the industry to draw breath, some surviving near-death experiences.

But lessons were learned and the industry is generally better prepared for the current slowdown than it was then. Some will doubtless take advantage of the current slowdown and emerge stronger from it.

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

Sure, China's economic growth has slowed. China's GDP was 7.6% in the second quarter. However, 7% plus growth is still very good growth and it's over a much larger base. By 2020, China's GDP growth will be as large as the entire economy was in 2009.

The fact is, China cannot afford to let its economy falter; demand for urban housing is projected to rise to 200 million units by 2030, meaning that the country will need to build 10 million units a year over the next two decades just to meet projected demand.

Hence, even the most pessimistic economist can't deny that growth will remain strong for the foreseeable future. A lot of pessimism at the moment has been generated by stories of some major project delays.

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 market volatility and also a response to rising costs, which is especially affecting major greenfield investments with large infrastructure components.

New projects are facing 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.

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.

### **Capital into Canada**

This rapid Chinese growth is what's 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.

A high-profile attempt to acquire Noranda a few years ago met with failure.

But since then, we have seen MinMetals acquire and pursue the development of the Izok Lake property in Nunavut, one of the largest undeveloped zinc deposits in the world. Undeveloped largely because what has been lacking is the capital heft to build the infrastructure needed to make it happen.

We may now have that. Chinese investment is here in BC's mining sector. And of course they're investing in Canada's oil industry in a big way.

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

From a purely business perspective, the answer may be obvious. But for government policy makers, politicians, columnists, journalists and pundits, it's an issue; consequently, it's an issue for industry and we should talk about it.

It's important that we remind ourselves that Canada has always thrived on trade and the two-way free flow of goods and capital. And with our economic future so clearly tied to China, we have to encourage the free flow of goods and capital with it.

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; Chinese are not, though I make this statement in general about Canada, knowing that there is a long Asian history and a large, established Chinese community here that makes BC different.

While proactive western businesses may be familiar with Chinese businesses, many others may have lingering questions about their political system and the involvement of the Chinese state in Chinese businesses – although I would like to point out that a French crown corporation has had a stake in Canada's uranium industry for years and another French crown corporation has a major stake in the oil sands.

And some, including in our sector, worry about China's safety record and commitment to environmental protection, but it must be recognized that, like everywhere else, there are leaders and laggards in China. Safety performance is improving rapidly and the Chinese are very interested in learning from others in this regard.

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

But we have to overcome this. We are 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 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 lead to harmful protectionism, as it has in other countries.

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

The Prime Minister's active trade agenda, and his significant accomplishments in Latin America and, most recently, with the Trans Pacific Partnership, are to be supported and encouraged.

Yes, it is legitimate to raise issues of reciprocity – the free flow of goods and capital is not free if it is one-sided – and the federal government would be right to advocate for this.

But do it with a view to advancing free trade, not as a smokescreen for protectionism.

The Conference Board of Canada recently published a report, *Fear the Dragon? Chinese Foreign Direct Investment in Canada*, that sets out some clear recommendations on how Canada should modify its FDI regime to encourage Chinese investment.

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 value increased for the second consecutive year, rising 21% to a record \$50.3 billion. Mining contributed \$35.6 billion to GDP in 2011 – a 4.5% increase from 2010. The industry's trade levels also increased significantly with exports growing 20% to \$101.7 billion, or 23% of Canada's overall total.

We have major investments occurring across the country, with estimates of some \$140 billion in new mining investments over the next 5-10 years.

BC has an important part of this growth. More broadly, BC has significantly widened its trading relationships, aggressively pursuing Asian markets and reducing its dependency on US trade.

In mining over the past decade, BC's mineral production has more than doubled, while mining's contribution to government revenues has increased 9-fold.

In 2010, BC held the number four spot for new mine development, with \$1.5 billion in capital spend. In the past 5 years, BC has built 4 new coal mines, four metal mines and expanded or extended the life of several others.

I will be back in BC again next week to join in the celebrations of the opening of New Afton, outside Kamloops, BC's newest metal mine.

This follows on the heels of Copper Mountain, which began operations last year, breathing new life into the town of Princeton.

Meanwhile, two other major metal mines, Mt. Milligan and Red Chris, are in construction. Many other mining projects are undergoing review.

This has meant jobs and, in the case of communities such as Princeton, an economic revival. As for the future, about \$30 billion of the \$140 billion I just mentioned is slated for BC.

How do we maintain this momentum? Focus on keeping Canada competitive:

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

All governments should stay the course to maintain these economic fundamentals. BC has been one of the country's stalwart performers on pure economic fundamentals and should be commended for this.

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

### ***Regulatory***

The federal 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 of and application of environmental practices has steadily improved, reducing the risks of environmental harm.

Fortunately, both Victoria and Ottawa have taken steps to reduce duplication and unnecessary process -- the BC government being the original and most vocal advocate for one project, one review in the country.

I disagree completely with those who assert that the new changes will reduce environmental protection.

All mining projects under the new regime will continue to be subject to either comprehensive studies or panel reviews - the highest levels of evaluation.

The depth and breadth of review will not change. All that changes is that when there are joint federal-provincial reviews, they will be coordinated; in some cases, when

agreements are reached by governments, the review may be run by one instead of both of them.

### ***People***

According to Natural Resources Canada statistics, 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 work force, it is estimated that the mining sector will need approximately 10,000 new workers per year over the next 10 years.

Governments must work with industry, schools, indigenous groups and other community organizations to address the sector's skills training, mobility and immigration needs.

For example, we applaud a recent decision to continue funding the BC Aboriginal Mine Training Association through the federal government's Skills and Partnership Fund. BC AMTA is an excellent example of government, industry, First Nation and education collaboration.

Without compromising Canada's historic humanitarian commitment to welcoming refugees from strife-ridden parts of the world, the direction the federal government is taking to more effectively match immigration to Canada's skills needs is the right one.

### ***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.

We need to invest to make sure our ports have the capacity to handle increased volumes. And we need a rail system that is competitive and efficient.

Railways are often considered a typical example of a natural monopoly, and the Canadian context is case in point.

The high costs of laying track and servicing Canada's vast geography has resulted in a lack of competition among rail service providers.

However, the outcome is that many regions and businesses, particularly in western Canada, are subject to monopoly situations as they are serviced by only one of Canada's two national railways. This leads to high costs and uneven service.

At long last, the federal government appears poised to amend the *Canada Transportation Act* to rebalance market power. It's time to level the playing field.

## 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, and 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 other countries, mining growth has engendered resource nationalism; in some countries, outright expropriation and nationalization of assets. In others, such as Australia, an otherwise mining-friendly jurisdiction, we have seen major royalty increases.

Elsewhere, we have seen major protests of new developments, some with tragic consequences. These actions, which Canada has thus far resisted or avoided, have harmed the investment attractiveness of these countries, but can also cast a shadow on our sector.

Canada is recognized as a global leader in the mining industry. Our stock exchanges list the most mining companies in the world and more than 80 per cent of all global mining equity financings are done on TSX and TSX Venture Exchange. 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.

While there will always be people who oppose the mining industry, we believe most Canadians support mining as a job creator and supplier of the metals needed that allow us to enjoy our high standard of living – including those smart phones and cars we can't live without.

Public opinion research conducted by Angus Reid earlier this year showed that 75 percent of Canadians have a favourable view of mining, better than forestry 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. It's part of the Mining Association of Canada's "Towards Sustainable Mining" program.

TSM was developed by MAC members to improve the mining industry's overall performance by aligning its actions with the priorities and values of Canadians.

TSM performance results over the past 5 years show meaningful improvements by MAC members in all performance areas. We are proud of what the program has helped industry achieve so far and look forward to the advancements of the future.

In fact, the Mining Association of BC was the first to adopt TSM – when I was in the role. Today, through Karina's leadership, the BC association continues to support the industry as it works to balance development and production with minimizing environmental impacts and strengthening community relations.

BC's next generation of mines – including New Afton and others that follow - will have the highest environmental standards and be the most socially progressive mines in the world. This is a reflection of our industry's commitment to responsible stewardship of Canada's mineral resources.

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.

The way I see it: The mining super cycle is not over. China will continue to drive demand for metals well into the future, and is being followed by a number of other emerging nations such as India and Brazil, to name just a couple.

If we keep doing the right things with our wealth of resources here in Canada, Canadians will continue to thrive not just through the development and production of new mines, but the numerous spinoff economic and social benefits, including the strengthening of the supply side and the protection and potential expansion of the downstream side of the business.

BC – with its rich resources, skilled workforce and mining expertise – is on the front line of what is sure to be an exciting and prosperous future.

Thank you.