

FINAL: Pierre Gratton speech to the Kamloops Exploration Group Feb. 21, 2013

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 in Canada, 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.

As a 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 represented about \$20 billion in capital investment annually.

Canada is a top five world producer of uranium, potash, nickel, platinum, aluminum, diamonds, zinc, and met 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 US. 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. It is why we believe the mining super cycle, as it has been called, is so promising for our industry and our 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 grown 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 has led to 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 workforce - 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.

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

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.

That vision 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.

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. Commodity prices have fallen from their peaks in 2011 and just last fall some skeptics were predicting the end of the supercycle. I thought they were wrong then and said so. Today, as prices have begun to rebound, I'd like to say *I told you so*.

Sure, 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.

Sub-Saharan and Africa has 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 Kyrgystan are all growing in the order of 7%.

Hence, even the most pessimistic economist can't deny that growth will 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 market volatility and 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. This project is still proceeding, albeit at a slower pace.

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.

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

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.

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

But since then, we have seen MMG 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.

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, 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 in Canada; Chinese are not. Although, 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 – and gives it an advantage.

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, as it has in some countries.

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

We support our Prime Minister's active trade agenda, and his significant accomplishments in Latin America and, most recently, with the Trans Pacific Partnership.

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 Canada's federal government is right to advocate for this.

But we urge that they do this with a view to advancing free trade, not as a smokescreen for protectionism.

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 Canada's GDP in 2011 – a 4.5% increase from 2010.

The industry's trade levels also increased significantly with exports growing 20% to \$101.7 billion, or 23% of Canada's overall total.

BC is 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 tripled, worth almost \$8.6 billion in 2011, while mining's contribution to government revenues has increased 7-fold.

BC had the fourth spot in 2011 for new mine development spending, at almost \$2.5 billion – a good part of it going into New Afton – while mineral exploration broke new records in 2012.

Within BC, Kamloops is a key part of the mining story. I've spoken before of the opportunity for Kamloops to position itself as a major mining hub not just because of the potential for new mines in the region, but as a centre of supply of mining equipment and services for the province.

Kamloops should take a hard look at Sudbury and how it has begun to transform itself into a major mining centre with an increasingly global reach. Sure, it's still a mining town with a lot of mining, but around the mining operations has grown a network of mining supply and technology firms that, together, contributed almost \$4 billion to the local economy and employed 13,800 people—around eight per cent of the population of Greater Sudbury. The city is also home to a concentration of mining education and research.

I suggest Kamloops should also think big. With three mining operations and the potential to add Ajax in the next couple of years, Kamloops will have a very strong base to build from. Already, the Mining Suppliers Association of BC reports 12 members in Kamloops, all big company names like Fountain Tire, SMS Equipment, AMEC Engineering and Finning, and there's doubtless many other companies in this city that may not be MSABC members (though they should be) serving the mining industry.

These companies are not just serving Highland Valley, New Afton or Absorbent Products (let's not forget an important industrial minerals operation based here and supplying cat litter to cat lovers across North America). Fountain Tire, for example, has well over a hundred employees based out of Kamloops but contracted to work at mines across and even beyond BC. Finning has the same, an office that has grown considerably in size in the last few years. This is what a growing mining industry is all about – and the opportunity Kamloops has looking ahead as you grow your local industry.

Across Canada, we have new major investments totaling some \$140 billion over the next 5-10 years. About \$30 billion of this is slated for BC.

How do we maintain this momentum? The answer lies in keeping Canada competitive. To do this, we need to:

- 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.

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.

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” across the country.

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, and 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.

And while BC has also taken steps to streamline its permitting system and to reduce the backlog, this province continues to do things that can baffle our industry and create uncertainty for investment.

We all remember Windy Craggy and how that decision contributed to a significant decline in investor confidence in BC mining that took years to recover. Well, this sort of behaviour has continued.

An impromptu ban on uranium exploration in 2008 left taxpayers with a \$30 million court settlement and sent a new chill across the exploration community. A ban on exploration in the Flat Head Valley followed, arbitrarily setting aside a community-based land use plan.

Most troubling of all, however, was the recent rejection by the province of the Morrison project. According to the report, the project was rejected based on the fact that “the potential long-term risks of the project outweighed the potential benefits to the province”.

Sounds reasonable, except the report also found that proposed mitigation measures by the company satisfied the province that there would be no remaining significant adverse effects.

Never before has a project been rejected when it has met this test. Essentially, the province has introduced a new arbitrary net benefit test that has not previously been a part of project evaluation.

The assessment report states that “EAO considered that major design proposals...would result in no significant residual adverse effects to environmental or health resources.”

It further states that “the assessment process has adequately identified and addressed the potential adverse environmental, economic, social, heritage and health effects of the proposed project...” and that “the Crown has fulfilled its obligations for consultation and accommodations to (the first nations)”.

Based on the fact that all concerns were addressed by mitigation measures, how did the government come to the conclusion that the risks outweighed the benefits? Frankly, we don't know. What we do know is this uncertainty is not good for investment.

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 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.

I was so pleased when the federal government renewed funding for the BC Aboriginal Mine Training Association, run here in Kamloops. BC AMTA is an excellent example of government, industry, First Nations and educational collaboration and I was proud to have served on the BC AMTA Board.

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.

I'd be remiss coming to BC at this time without commenting on the issue of Temporary Foreign Workers. Let me say this. Until recently, the mining industry rarely used this program. It is always our preference to hire locally, train locally and keep our people over the long term.

Given the HR crisis we are in, however, companies have begun to turn to the program as a last resort. It is a necessary tool in the toolbox to ensure that our mines can continue to operate

effectively and efficiently. Meanwhile, we need to focus on longer term, more sustainable solutions, such as continuing to increase Aboriginal participation in mining, attracting youth and working hard to increase the presence of women in our sector.

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. An accident recently reminded us just how important Vancouver's ports are to its export economy.

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 a 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.

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.

The federal government recently tabled amendments to the *Canada Transportation Act* to attempt to rebalance market power. We do not believe the legislation goes far enough and are working with a broad coalition of shippers to try to amend the bill.

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 some countries, mining growth has engendered resource nationalism, and in some cases, 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.

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.

While there will 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 can't live without.

Public opinion research we conducted last 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" (TSM) 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 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.

In fact, the Mining Association of BC was the first provincial association 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 – like New Afton and others that follow including, I hope, Ajax - will have the highest environmental standards and be the most socially progressive mines in the world.

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 not just through the development and production of new mines, but the numerous spinoff economic and social benefits.

This includes 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.