



**FINAL: Pierre Gratton Speech to the Saskatchewan Mining Supply Chain Forum
Saskatoon, SK
April 10, 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, 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 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, so long as we maintain the right framework to allow for mining to remain a leader.



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 has led to the mining “super cycle,” which presents a huge opportunity, and some pretty big challenges for the industry.

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, 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.

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. Should China reach the same level of urbanizations of western industrialized countries, that 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 and presently slower growth and weaker prices.

Why is this?

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.

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-Sahara 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.

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. You are experiencing the same here in Saskatchewan, with potash investments slower but continuing all the same, doubtless to pick up when prices rebound and a clearer picture emerges for mining investment. This is also an important reminder to our governments that we are competing with others around the world for private sector investment.



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. These factors are now starting to abate with the market downturn, priming us for the next recovery.

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's 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 our Prime Minister's active trade agenda, and his significant accomplishments in Latin America, Africa and Asia. Just this week, Canada concluded an Appropriate Arrangement pursuant to the agreement between Canada and India on the peaceful uses of nuclear energy. This is an important step towards opening up a large market for Canada.

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 really just a return to the previous peak set in 2008.

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.

Saskatchewan has been an important part of this growth, vaulting from the number 4 spot a decade ago to a competition with Ontario for top spot in the country for mining, the province's value of production almost quadrupling over this period. In 2011, the province did hold the top spot for total capital expenditures, surpassing Ontario by over \$200 million.

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



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.

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.



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.

Governments must work with industry, schools, indigenous groups and other community organizations to address the sector's skills training, mobility and immigration needs. The federal government's 2013 Budget has a strong focus on the skills shortage, which is welcome. The proposed Canada Job Grant and more targeted funding towards education in high-demand fields are promising steps towards addressing this serious challenge.

We are also 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.

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. 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.



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. 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 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, including in western Canada, are subject to monopoly situations as they are serviced by only one of Canada's two national railways.

You are fortunate here in Saskatchewan, where you have the advantage of access to two carriers instead of one. Despite this, however, shippers still face high costs and, at times, uneven service, a situation that I fear may worsen if more and more oil moves on rail.

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 to bring some balance between shippers and rail service providers.



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 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 75 percent of Canadians have a favourable view of mining, 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. Finland is considering adopting TSM while I have been invited to go to Istanbul in two weeks 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 and Revenue Watch, to develop a made-in-Canada



approach for the mandatory publication of payments to governments, 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.

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.