

# Mining Investment in Canada- Lessons for the world



By Peter Holle



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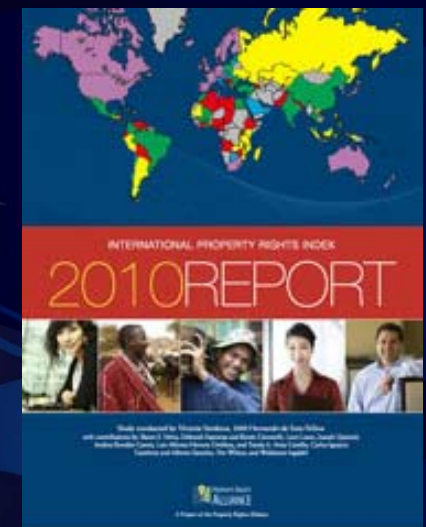
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# Canadian Mining Sector Facts

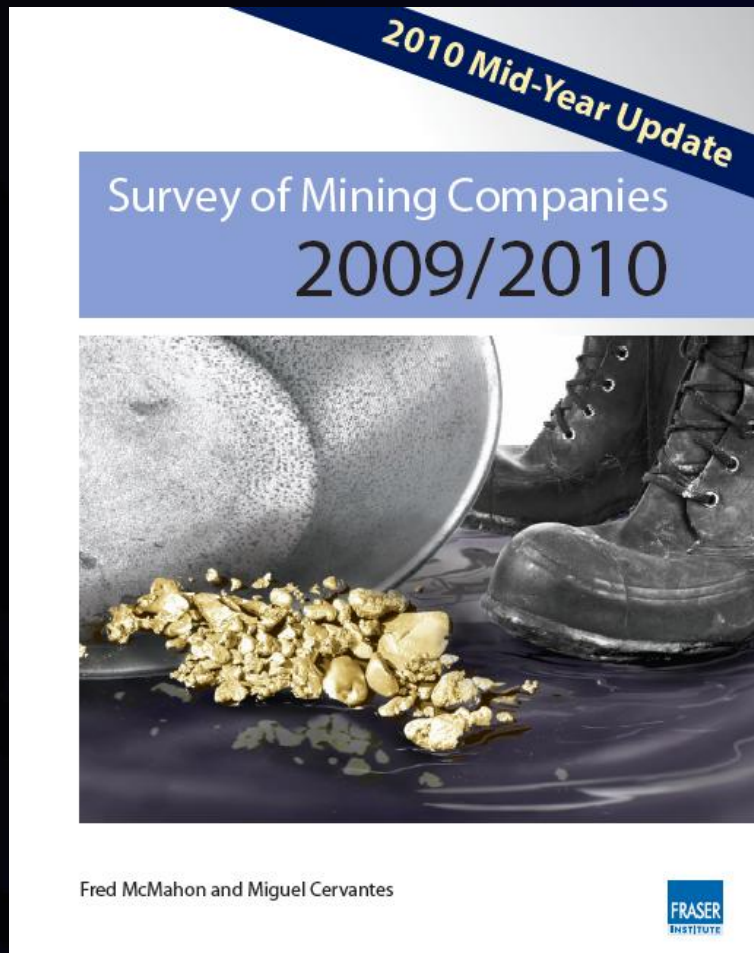
- Mining industry's \$40 billion contribution to Canada's GDP in 2008 (\$9 billion in mineral extraction, \$31 billion in mineral processing & manufacturing)
- Mining & related industries important contributors to government coffers. Industry paid an estimated \$11.5 billion in taxes, royalties to governments (2008)
- Canada leading destination for global exploration spending in 2008 (attracted 19% world spending, Australia 14%, U.S. 7%.)

# Centrality of Property Rights in Mining

- Canada “highest ranking country in western hemisphere” in 2010 Intl Property Rights Index (by Property Rights Alliance).
- Outscores U.S.A. in North America
- Uncertainty around land access, Aboriginal land claims (affects B.C. particularly) affects investment



# Ranking Mining Investment Attractiveness



Since 1997 Canada's Fraser Institute has conducted a global annual survey of mining industry executives to assess the impact of public policy on investment.



“In order to attract mining investment, jurisdictions must uphold the rule of law and respect negotiated contracts and property rights. Jurisdictions that fail to do so can not compete successfully on a global scale.”

- Fred McMahon, Director of Centre for Trade and Globalization Studies, Fraser Institute

# Alberta Tops Updated 2010 Mining Survey

- Alberta overtakes Quebec (three-year reign)
- Quebec, highest ranked in past, slipped due to mining taxes and changes to Mining Act.
- Bottom 10 scores went to Ecuador, Mongolia, Kazakhstan, Bolivia, Venezuela, Zimbabwe, Russia, Colorado, Indonesia, and Tasmania.

# Mining Investment Survey- Lessons

- Updated Fraser survey of international mining executives looked unfavourably on jurisdictions considering new taxes, regulations
- Survey results reflect mining industry's reaction to Australian government's proposed Resources Super Profits Tax (RSPT).
- Governments that change policies mid-stream without consulting industry drive away investment, Nevada major drop after mining tax increased (3<sup>rd</sup> to 10<sup>th</sup>)

# Fraser Institute Rankings - Canada vs. Australia (Policy Potential Index)

Overall Rankings out of 51 – Ranked according to areas such as tax regulations, regulatory burden, uncertainty around land claims or protected areas, political stability, labour regulations, available labour

Alberta (1<sup>st</sup>)

Quebec (3<sup>rd</sup>)

Yukon (4<sup>th</sup>)

Saskatchewan (5<sup>th</sup>)

Newfoundland/Labrador (7<sup>th</sup>)

Manitoba (11<sup>th</sup>)

South Australia (15<sup>th</sup>)

British Columbia (26<sup>th</sup>)

Western Australia (28<sup>th</sup>)

Northern Territory (30<sup>th</sup>)

Northwest Territories (32<sup>nd</sup>)

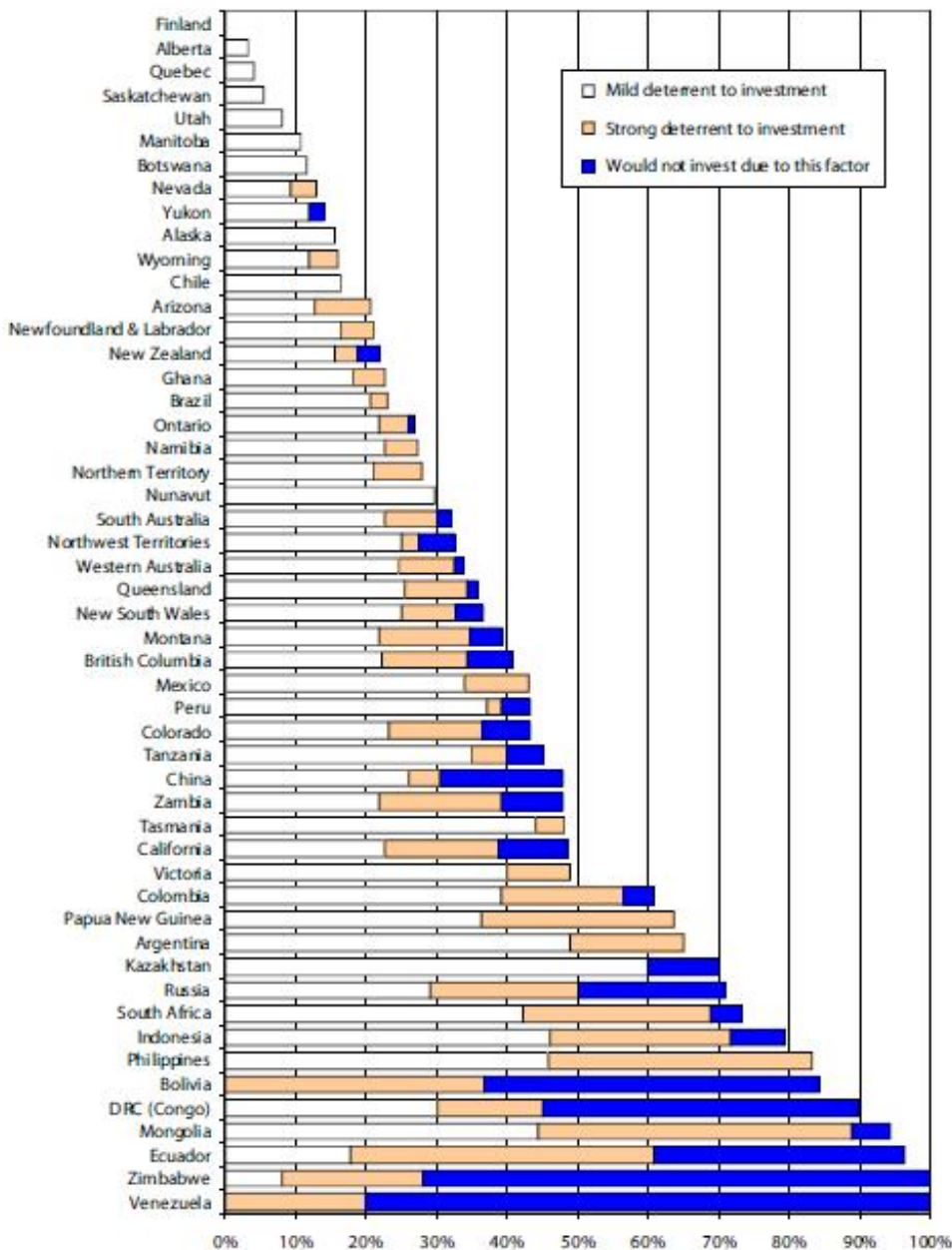
Queensland (33<sup>rd</sup>)

New South Wales (38<sup>th</sup>)

Victoria (41<sup>st</sup>)

Tasmania (42<sup>nd</sup>)

Figure 9: Political Stability

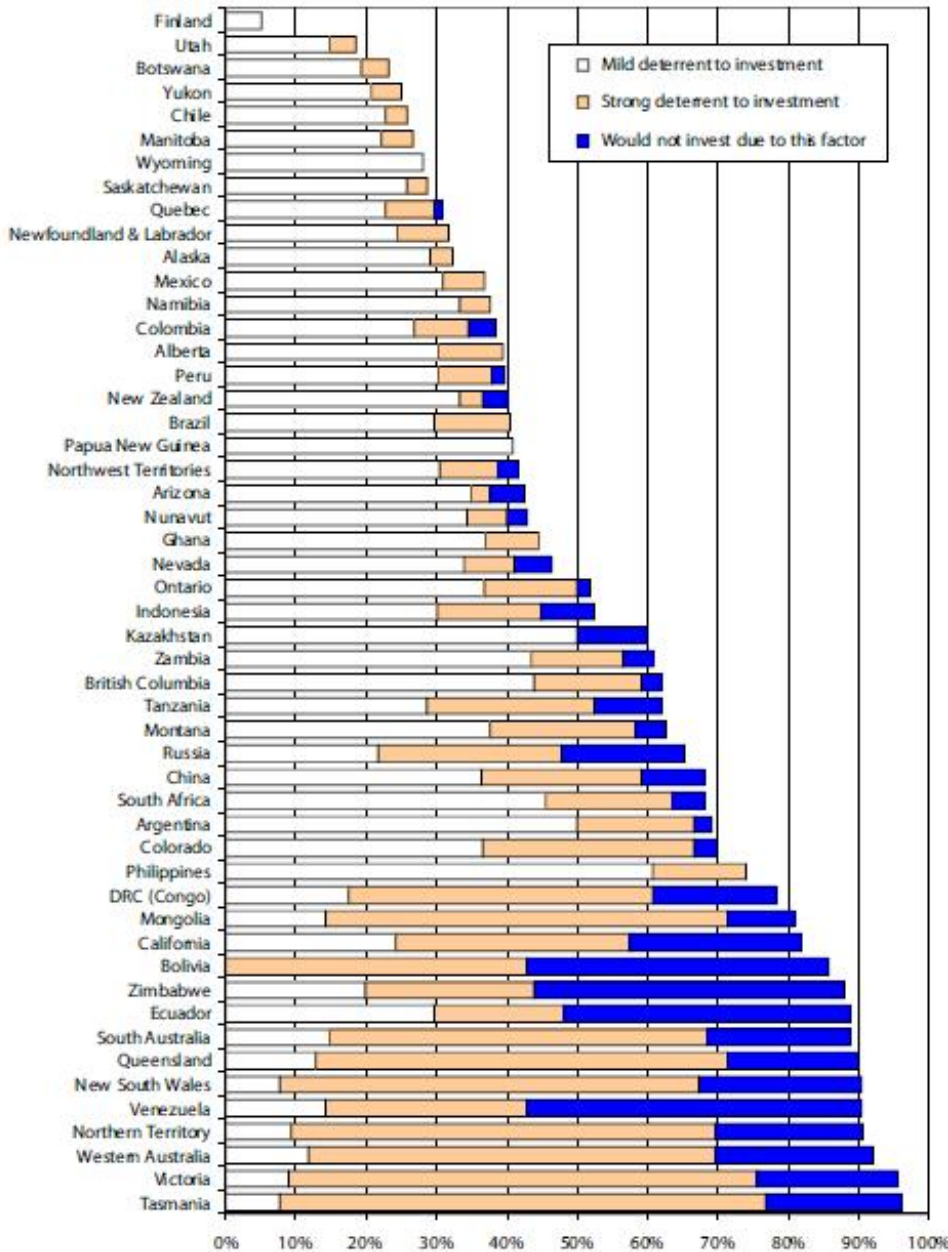


# Political Stability

- Finland tops list
- Canada generally the most stable (9 of top 10 spots)
- Chile, NZ, Ghana, Brazil
- Australia appears a third of the way down the list (Resources Super Profits Tax pushed Australian sharply down from 2009)



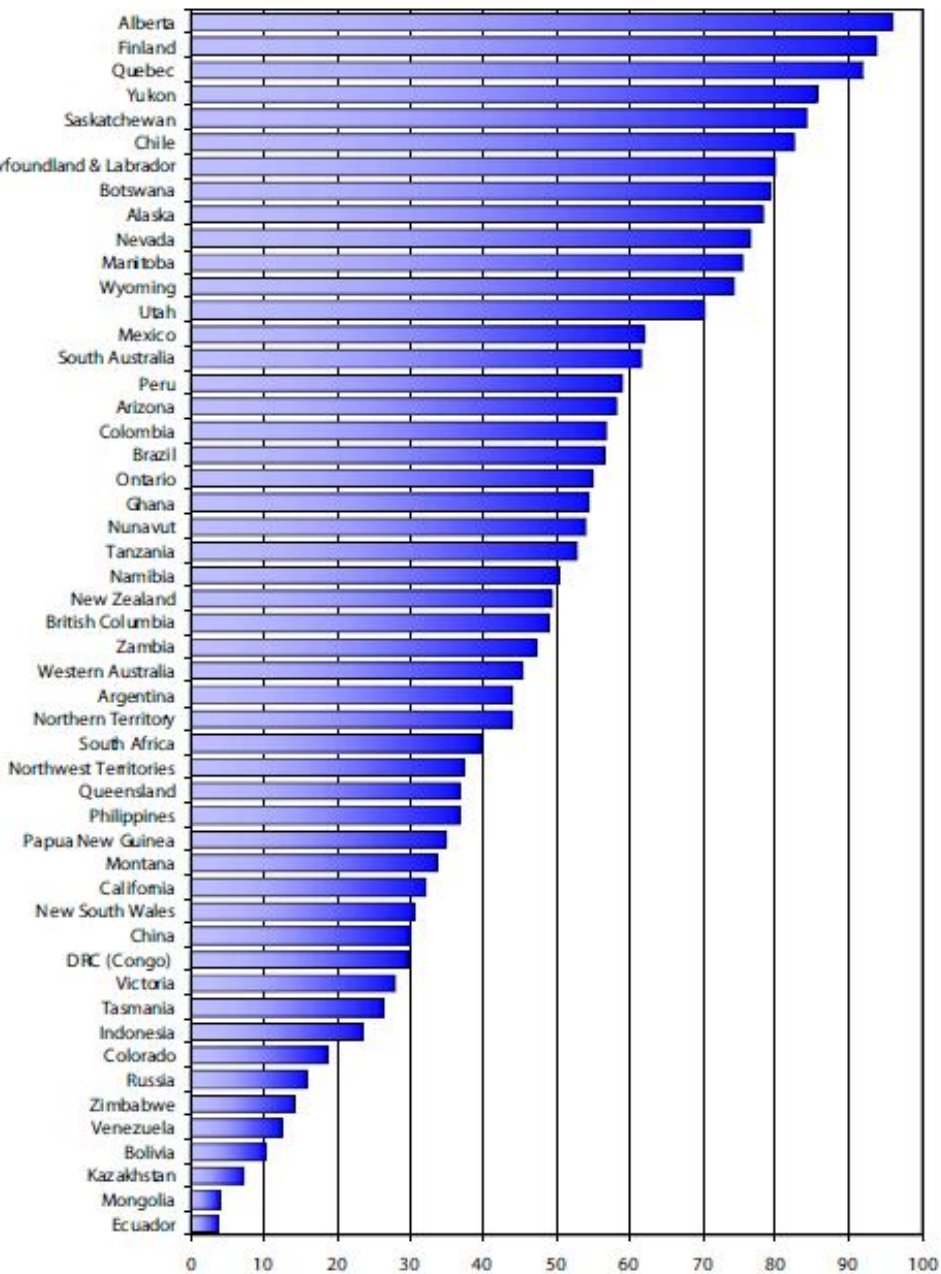
Figure 12: Uncertainty over Taxation Regime and Future Tax Levels



# Taxation Stability

■ Impact of RSPT obvious as Australia moves to bottom of this ranking.

Figure 1: Policy Potential Index



# Investment Attractiveness

- Policy Potential Index is a composite of 11 policy areas tracked in survey.
- A region's policy climate is critical to attracting investment
- RSPT in Australia – average rank of 18 fell to 31: “the economic reaction to the RSPT quite severe”

# Comments by mining executives about current Australian mining climate

“The federal government in Australia is having a strongly adverse effect on mining investment in all areas of Australia.”

- An exploration company, president

“Australia seems to be taking a fiscal lead from Mongolia.”

- An exploration company, president

“Australian federal government interference in the States’ management of minerals exploration will devastate future investment here. i.e. The RSPT- an illogical and unjustified horror tax. Gainers to be Canada and Africa”

- A consulting company, president

# Policy Stability

- Applicable mostly to Oil & Gas as they regularly bid for leases, generating revenue for government
- In mining damage is more subtle - chasing away industry for a long time, but existing mines can't move, so government almost always increases mining tax revenue for a number of years from tax increases, but new activity immediately slows, and it is very hard to get things going again.



# Policy Stability, Cont'd

## ■ Mining long term industry, needs stability

1. If returns are erratic, problematic for investment: Capital asset pricing theory
2. Royalties- if fluctuate, affects industry, pay less for assets. Also, government gets lower take.
3. Does not matter what government, even NDP in Canada, key is stability for industry to invest



# What Mining Industry Wants

- Will accept modestly higher royalty rates if capex payback is faster due to lower initial royalties (because cost of capital for mining companies is much higher than government borrowing rates)
- e.g. low royalties on Alberta oil sands until payback as per Ralph Klein, Alberta Premier
- In Alberta, government didn't just damage industry but in fact very seriously damaged their own revenues with 2009 royalty hike.
- In 2010 Alberta rolled it back admitting tax increase had serious impact on investment and economic growth

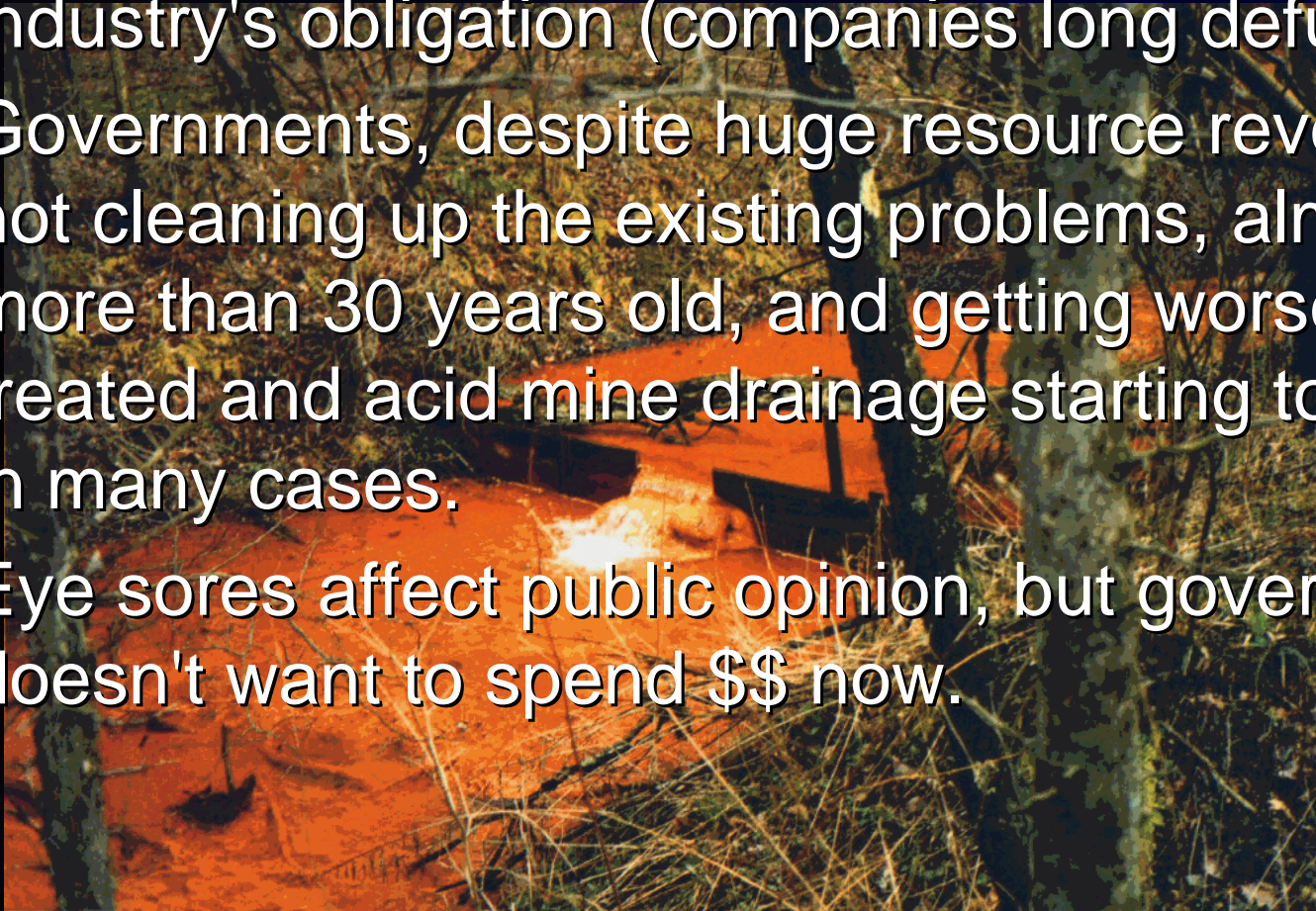


# Environment & Safety

- Strong consistent environmental/safety standards important, DON'T hinder mining as long as reasonable
  - Standards cement public support for mining sector
- Gap between public understanding of mining/ gas sector & reality
  - Function of “old sins” (industry past record bad)
  - Government has role in proactively cleaning up industry problems, ex. reclamations

# Environment, Cont'd

- Problem of "orphaned mine sites" No longer industry's obligation (companies long defunct).
- Governments, despite huge resource revenue, are not cleaning up the existing problems, almost all more than 30 years old, and getting worse as not treated and acid mine drainage starting to spread in many cases.
- Eye sores affect public opinion, but government doesn't want to spend \$\$ now.



# YOUR LAND IS NOT YOUR LAND: THE FORT ELLICE EXPROPRIATION



WATCH ONLINE - 16 min

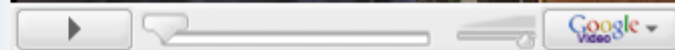
How the RM of Ellice expropriated an 87 year old farmer's property for murky 'tourism development' purposes



*The verdict means a local government can now take anyone's property for virtually any reason as long as the council thinks it is 'necessary or desirable for all of, or part of, the community.'*

- Arthur Fouillard

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