

August 14, 2009

Jean-François Pagé  
Clerk of the Committee  
Standing Committee on Finance  
Sixth Floor, 131 Queen Street  
House of Commons  
Ottawa ON K1A 0A6

Via email: [fina@parl.gc.ca](mailto:fina@parl.gc.ca)

Dear Mr. Pagé,

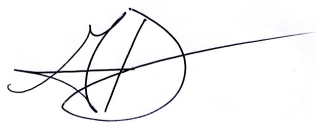
**Re: AME BC Recommendations for 2010 Federal Budget**

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The Association for Mineral Exploration British Columbia (AME BC), on behalf of its members, welcomes the opportunity to provide a submission to the Standing Committee on Finance in its pre-budget consultations.

We have attached our submission and look forward to the opportunity to present our submission at the public hearing in Vancouver on September 28, 2009.

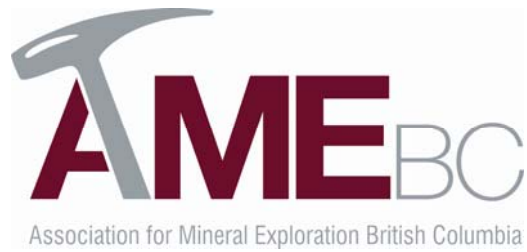
Yours truly,



Gavin C. Dirom, M.Sc., P.Ag.  
President & Chief Executive Officer  
Association for Mineral Exploration British Columbia

Enclosure

cc: Board of Directors, AME BC  
Hon. Lisa Raitt, Minister of Natural Resources Canada  
Hon. Blair Lekstrom, BC Minister of Energy, Mines and Petroleum Resources  
Hon. Randy Hawes, BC Minister of State for Mining  
Cassie Doyle, Deputy Minister, Natural Resources Canada  
Greg Reimer, Deputy Minister, BC Ministry of Energy, Mines and Petroleum Resources



**Submission to the House of Commons Standing Committee on Finance  
Pre-Budget Consultations 2009**

**Submission by the Association for Mineral Exploration British Columbia**

August 14, 2009

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## **Executive Summary**

The Association for Mineral Exploration British Columbia (AME BC), on behalf of its members, welcomes the opportunity to provide a submission to the Standing Committee on Finance in its 2010 pre-budget consultations. Mineral exploration and mining play an essential role in the Canadian economy, and the federal government has great influence on our industry. Accordingly, AME BC respectfully suggests the following recommendations for Budget 2010.

1. The federal government should commit more resources and political will to harmonize and end duplication and overlap of federal and provincial environmental assessment and permitting processes while improving efficiency and meeting timelines.
2. The federal government should end the regular short-term extension of the Mineral Exploration Tax Credit (METC), which is commonly referred to as “super flow through”, and make the tax credit permanent.
3. The federal government should ensure sufficient ongoing funding is made available to assist in building infrastructure, including knowledge infrastructure that facilitates the natural resource sector’s growth and expansion. This means ensuring, on an ongoing basis, that a significant portion of infrastructure spending is “nation building” and not restricted to the needs of local government.

## **Background**

The Association for Mineral Exploration British Columbia (AME BC) is the predominant voice of mineral exploration in British Columbia. AME BC represents over 3,500 individual members and 300 corporate members including geoscientists, prospectors, engineers, entrepreneurs, exploration companies, suppliers, mineral producers, and associations who are engaged in mineral exploration in BC and throughout the world. Through leadership, advocacy, and partnerships, AME BC promotes a healthy environment and business climate for the mineral exploration industry.

British Columbia remains one of the world’s leading centres for mining and mineral exploration. Over 1,200 mining companies are based in the province. Approximately \$6 billion per year in mineral exploration investment capital is raised in Vancouver. Of this approximately \$300-400 million is spent on exploration in BC. The remainder is spent in the rest of Canada or overseas. For example, it is estimated that almost \$2 billion of BC-raised investment money is spent in mine exploration and development in Latin America alone.

BC’s mining industry is an \$8 billion per year industry employing thousands including a disproportionate proportion of First Nations peoples compared to other private sector employers. The success of our sector is based on a number of factors including geology, geography, an educated and professional workforce, access to investment capital, social license, and a number of other factors. Key factors that government can impact are taxation and regulatory regimes, diminishing of political risk, and access to public infrastructure.

The role the federal government plays in influencing mineral exploration and mining cannot be understated.

*While geologic and economic evaluations are always requirements for exploration, in today's globally competitive economy where mining companies may be examining properties located on different continents, a region's policy climate has taken on increased importance in attracting and winning investment. The policy potential index serves as a report card to governments on how attractive their policies are from the point of view of an exploration manager.<sup>1</sup>*

Mineral exploration capital is among the most fluid of investments in the world. Mineral exploration companies and their employees regularly move to different jurisdictions as government policies change and political risk rises and falls.

## **Recommendations**

With specific regard to Budget 2010, AME BC focuses its recommendations on areas where initiatives in the federal budget can make a difference. While many other federal government issues exist, they are beyond the specific purpose of the federal budget.

Essentially, governments have three basic “tools” for economic stimulus. The first, and most common in the current economic environment, is financial expenditure by government in targeted areas—most commonly public infrastructure. The second most common tool to encourage economic growth is lowering the tax burden. Two of these first three tools are deployed regularly by government. The third, which AME BC believes is not deployed enough, but is perhaps the most important to the mining and mineral exploration sector, is reducing regulatory burden or “red tape”. The curious thing about reducing “red tape” as an economic stimulus tool is that while most agree that reducing regulations, but retaining effectiveness and public trust, improves business efficiency and lowers costs, governments seem least able to deploy it as a tool. While its financial cost is lowest, regulatory reduction seems to be the most difficult thing for government to do.

With this editorial comment in mind, AME BC respectfully suggests the following three recommendations to the Standing Committee—recommendations which by coincidence fall into the three basic tools of financial expenditure in targeted areas, tax reduction and improving the regulatory regime, generally outlined as:

1. The federal government should commit more resources and political will to harmonize and end duplication and overlap of federal and provincial environmental assessment and permitting processes while improving efficiency and meeting timelines.
2. The federal government should end the regular short-term extension of the Mineral Exploration Tax Credit (METC), which is commonly referred to as “super flow through”, and make the tax credit permanent.
3. The federal government should ensure sufficient ongoing funding is made available to assist in building infrastructure, including knowledge infrastructure that facilitates the natural resource sector's growth and expansion. This means ensuring, on an ongoing basis, that a significant portion of infrastructure spending is “nation building” and not restricted to the needs of local government.

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<sup>1</sup> McMahan & Cervantes, Fraser Institute Annual Survey of Mining Companies: 2008/2009, 2009, p. 10.

The following section adds significant detail to each of the three general recommendations outlined above:

**1. Harmonize and end duplication and overlap of federal and provincial environmental assessment and permitting processes while improving efficiency and meeting timelines**

While a few coal mines and some very small metal mines have opened or restarted production in British Columbia in recent years, no new major metal mine has opened since 1997 (Kemess). And at present, there are some 52 mine projects in the environmental assessment process in Canada – and almost half of them are in British Columbia. Many of these projects have been attempting to complete development and reach production for years.

Unfortunately, project approvals are being hampered by the federal decision making process, lack of statutory timelines under the Canadian Environmental Assessment Act and Fisheries Act. The primary issue is the mine approval process which has resulted in some \$10 billion in capital investment being stalled in B.C. over the past several years. Arguably, had approvals been more efficient, at least some of these 20-30 mine projects would have succeeded in recent years. These projects represent at least 10,000 well paying, direct jobs for remote, Aboriginal, and economically depressed communities of B.C. Unfortunately, we failed to permit these mines during the good times and now for some, with the economic downturn, the opportunity has passed—at least for the current metal price cycle.

The B.C. mining industry, along with many other interests, is asking for an efficient and effective process for the review of these projects. And while much of the improvement of this process is outside the remit of budget discussions, harmonization to reduce regulatory burdens to incent economic development is clearly a budget issue.

Fundamentally, AME BC would like the federal government to use equivalency tools and more fully delegate assessment work to B.C. authorities while maintaining the statutory decision-making authority and responsibilities of the federal department.

As the mineral resources are owned by Province of British Columbia, efforts must continue with the federal Major Project Management Office (MPMO) to find efficient and effective methods to truly harmonize and delegate the federal approval process (aside from the legislated decision making powers) to the Province or completely devolve the environmental assessment to B.C. for proposed mining projects.

Specifically, it is recommended that the province work with the federal government to amend the Canadian Environmental Assessment Act (CEAA) to allow delegation to provincial EA processes on a province-by-province basis. Often, the CEAA process for determining federal responsible authorities and scoping requires the proponent to provide information out of sequence of when it naturally becomes available in the project design cycle. The result is a federal process that is not properly equipped for reviewing industrial projects due to de-harmonization from the provincial process and duplication of effort. Delegating management of the EA process to the B.C. Environmental Assessment Office (BC EAO) would allow federal agencies to focus their limited resources on technical review related to their permits and authorizations, rather than duplicating steps that are handled well by the BC EAO. The CEAA

is under review in 2010 so there is an upcoming opportunity to remedy some of the structural flaws in the Act.

The potential fiscal stimulus resulting from amending the Canadian Environmental Assessment Act could have an immediate, and potentially more significant, impact on the mineral exploration and mining sector than any direct fiscal stimulus or taxation measure.

## **2. Make the Mineral Exploration Tax Credit permanent**

Canada's Mineral Exploration Tax Credit, formerly known as the Investment Tax Credit for Exploration (ITCE) and familiarly known as the 'super' flow-through program, has been very successful for mineral exploration in Canada. Through Canada's Economic Action Plan, the federal government has extended eligibility for the mineral exploration tax credit for flow-through share investors for another year. The extension applies to flow-through share agreements entered into during the period from April 1, 2009, to March 31, 2010.

According to the federal government, the net cost of this initiative is estimated at \$55 million over the next two fiscal years. This figure is questionable as without the METC a significant amount of mineral exploration in Canada would NOT take place, thereby depriving the federal government of any revenue or the people of Canada of jobs, directly or indirectly. By stating the cost of the program is \$55 million, government is only estimating forgone revenue and assuming the level of exploration activity would remain relatively stable.

According to a federal government official, a Finance Canada study "... concluded that during the period from 1987 to 1991, for each dollar of lost tax revenue (through the program), \$2.60 of new incremental-exploration work was undertaken. The multiplier appears to be of a similar magnitude for the current period."<sup>2</sup>

Extensions such as the one discussed above have taken place almost annually since the program was created in the year 2000. The program has existed in some form for over 50 years. Despite the proven success of the program, on an annual basis industry must lobby for the program's extension—now in its eleventh year. Other than providing income to our lobbyists and providing governments with an annual positive announcement, we can see no logic for this annual renewal exercise.

Another drawback of the regular process of annual renewal of the program is that it skews investment decisions and creates uncertainty in the market. Mineral exploration companies will modify their activities to ensure the greatest benefit from the METC in anticipation of its almost annual end-date. The result is less strategic investment, more short-term projects, and exploration programs designed to maximize the tax-credit as opposed to using METC as a support mechanism for long-term stable investment in Canada.

Given the stimulus benefit of the program, its longevity and the need to provide certainty to investors, AME BC requests that the federal government make the METC permanent.

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<sup>2</sup> Speech by Robert Clark, Natural Resources Canada, 2007. As found at: <http://www.miningweekly.com/article/flowthrough-shares-put-canadian-mining-and-exploration-juniors-ahead-2007-08-03>

### **3. Ensure sufficient ongoing funding is made available to assist in building infrastructure**

AME BC's third recommendation addresses government's approach to infrastructure. Canada was built upon aggressive public sector infrastructure designed to drive development and the opening up of our vast country—the first and most famous example being the transcontinental railway, the CPR. Modern equivalents, such as road and rail access, port and airport facilities, and power generation and transmission, are sufficient incentives to allow the private sector to increase their investments in what otherwise would be difficult or impossible.

While rapid transit, sewage treatment, and sporting facilities are both critical and important, it is important to remember that this sort of infrastructure is based upon serving the citizen or the general public. The benefit is derived by the individual and the stimulus benefit is short-term and based upon benefits rising from the period of construction—after which only operating costs remain as a legacy. Conversely, public infrastructure designed to facilitate the private sector can take a different form. The purpose is to create for the private sector the ability to generate profits over the long-term which will, in turn, provide taxation revenues, jobs, and other benefits to society and government. The legacy of the first form of infrastructure is future operating costs which the legacy of the latter is future government, private sector, and individual revenue.

Therefore, AME BC recommends that a significant portion of current and future infrastructure economic stimulus spending be directed specifically to facilitating industrial development, particularly in the natural resource sector which remains Canada's primary economic generator.

Specifically, infrastructure spending should be directed to commercial rail, road, port, airport, power generation and transmission structures and facilities—infrastructure that facilitates the location, extraction, development and transportation of our natural resources to the benefit of all Canadians.

As we enter a period of possible prolonged deficits it is critical that government infrastructure spending decisions contemplate how particular spending will result in future government operating costs (in some cases necessary) or future job and revenue creation.

#### **Conclusion**

AME BC thanks the House of Commons Standing Committee on Finance for the opportunity to provide a pre-budget submission.

The intent of our recommendations is to increase the benefits of mineral exploration and mining to all Canadians. The federal government can address this goal through providing appropriate resources toward harmonization of the federal and provincial environmental assessment and permitting processes; making the Mineral Exploration Tax Credit permanent; and allocating funding to build infrastructure that facilitates industrial development.