



January 29, 2010

Hon. Dwight Duncan
Minister of Finance
Government of Ontario
c/o Budget Secretariat
Frost Building South
7th Floor
7 Queen's Park Crescent
Toronto, Ontario
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Dear Minister Duncan:

At least part of the answer to solving Ontario's deficit situation and getting the provincial economy back on a path of steady growth lies beneath our feet. Ontario is fortunate to have a bountiful and almost boundless geology.

Mining in Ontario not only has a key role to play in reviving the province's economy but it can be a catalyst to help push us towards a newer and greener society. There is no getting around the fact that without mining, we would neither be able to maintain our current lifestyles, nor make way for the greener ones of the future.

Mining produces the building blocks of everything from your kitchen sink to wind turbines, hybrid cars, nanotechnology and beyond – where human imagination and ingenuity will take us in the future. After all, water purification systems rely on nickel and rare earths elements. Hybrid vehicles draw energy from nickel hydride batteries. Catalytic converters require cerium and palladium. Wind and solar technologies use a range of minerals and metals in the equipment and processes. Efficient lightweight vehicles require aluminum and lighter nickel-alloy composites.

As a society, we must move beyond an old mindset about mining as being obsolete. Just because mining has a long history – there is evidence of mining taking place in Ontario more than 11,000 years ago – doesn't mean that it is not part of the future. What is obsolete is some people's approach to mining, which fails to integrate it into our overall economic and creative potential.

Other global players are ahead of us on this count. China is using its dominance in mining rare earth elements to strengthen its position as a leader in alternative energy technologies. Rising oil prices and changing social values and expectations are making ecological friendly efficiency an essential element of global competitiveness.

Geological potential

Ontario needs to take the long view and act to integrate its geological potential and its mineral wealth into a sustainable industrial and futuristic strategy.

In order to build a strong, innovative and value-added economy, we need a solid base. For geographical and historical reasons, mining has provided part of that base for Ontario since the 1800s. If we are smart, we will continue to use that base to build the Ontario of the future.

Mining's economic contributions

Mining takes place in all areas of the province and it is a strong contributor to regional economic development and Aboriginal employment. The value of goods and services procured within 80 kilometres of mine sites in Ontario is more than \$1.4 billion per year. Approximately 200,000 Ontarians work in the mineral industry cluster.

The mining industry contributes more than \$600 million to governmental tax revenues annually and the industry's direct \$1.2 billion collective payroll results in a further \$350 million in personal income tax payments. While mining represents 1.8% of Ontario's GDP (gross domestic product), it provides 3.4% of Ontario's tax revenue from business.

The total value of mineral production in Ontario last year was in the \$10 billion range. Mining provides Ontario with a trade surplus of about \$3.3 billion annually. Each mining employee accounts for about \$660,000 in output per year and productivity continues to improve. Jobs in the industry are regularly among the highest paid in the province. Total capital investment in Ontario mining, including research, exploration, construction and equipment, is about \$2.7 billion annually.

Natural advantages

Ontario has some major advantages that it can leverage to build sustainable prosperity that is broadly shared. However, the not-so-new reality is that we must succeed in a fiercely competitive and increasingly mobile global market. The static nature of orebodies and mines should not fool us into thinking that mining companies will remain in uncompetitive jurisdictions. Complacency is not an option.

There are steps that government can take to ensure that Ontario is in an optimal position to take advantage of the next upswing in commodity prices to begin constructing its new economy. Government support is needed to keep mining in Ontario competitive and to build upon its advantages.

A basic foundation for mining success in Ontario – what can set us apart and give us an advantage over other jurisdictions with geological potential – is surety of the rule of law and regulatory efficiency and certainty. The government and Ontario Mines Minister Michael Gravelle have done a good job keeping the Mining Act amendments in Bill 173 within their original scope.

Mr. Gravelle and his ministry have invested a great deal of effort to get the legislation right. The government has committed to provide \$40 million to make the proposed legislation work. The details of the new legislation will be in the regulations. The OMA continues to work with its members and the government to refine the goals of this piece

of legislation and the regulations, which will support it. The Ministry of Northern Development and Mines and Forestry is launching a new round of consultations on the province's Modernized Mining Act from January to June 2010. The OMA will be participating in these consultations.

However, the same cannot be said for Bill 191, the Far North Act. Unfortunately, confusion being caused by this bill is raising questions about surety. While the OMA supports the motive behind this legislation, it contains too much ambiguity. Uncertainty over the rule of law and regulatory approval processes act as a reverse magnet in attracting investment to the province.

We suggest that without significant resources from the government both in terms of money and expertise to support capacity building for the communities to develop land use plans, this will not change. Unless hundreds of millions of dollars over many years are committed by the government to support this bill, it will have little chance of success.

Geological mapping

In order to gain an improved understanding of our vast province's geological potential, a greater commitment to geosciences and geological mapping needs to be provided. This is a valuable governmental contribution to support and provide guidance to future mineral exploration activity and mine development.

The government has provided a great deal of support in this area in the past – and it is welcome. The work of the Ontario Geological Survey and the Ministry of Northern Development and Mines is greatly appreciated. Government support in this area is an integral part of the infrastructure necessary to support a vibrant mineral sector heading into the future.

Infrastructure support

Tied in with the government's stimulus package, the OMA is a strong supporter of infrastructure development. Investments in transportation, communications, health care and education help make mining – and all other industries – more competitive.

The OMA would also like to encourage investment in human resources. The mining industry is facing a skills shortage over the next decade, which will provide excellent career development opportunities for thousands of people in Ontario as long as they have the skills to do the job.

Ongoing investment in the infrastructure of Aboriginal communities and First Nations education and training can help prepare people for those jobs. Mining is the largest private sector employer of First Nations residents in Canada. It is estimated that Aboriginal workers now account for 7.5% of the mining workforce, up from 3.6% in 2006.

Twenty-first century infrastructure is needed to ensure the connectivity that will allow for the transfer of knowledge, innovation and wealth to all geographic areas and sectors of the province.

According to a campaign promise, the Northern Ontario Heritage Fund is projected to increase to \$100 million annually. Perhaps it is time to start to think about making more of these funds available for infrastructure support of resource investments.

HST

In the Ontario budget of 2009, plans were announced to introduce a harmonized sales tax (HST) on Canada Day 2010. The HST would be initially set at 13% combining the 5% federal Goods and Services Tax (GST) and the 8% Provincial Sales Tax (PST).

At first blush, the HST looks positive because mining companies will gain tax credits on input costs carrying PST, similar to the GST tax credits. The government has completed a study which indicates the move to a HST could save the Ontario mining industry in aggregate \$105 million per year.

However, with any change, there is confusion and a period of adjustment. At this time, we believe the treatment of energy costs remains unclear and companies will need time to determine if the HST – and to what extent – it can enhance competitiveness and free more dollars for future investment.

The mining industry in Ontario spends more than \$500 million annually on energy, which can represent between 15% and 30% of the operating costs at specific mining operations. Uncertainty over the tax treatment of these input costs has mining companies reserving judgment about the benefits of the HST.

The HST arithmetic may be complicated for individual companies and there will be a lag in receiving the benefits of the tax credits. For mines in Ontario, which purchase 90% of their production inputs in Canada and export 80% of their products, the theory of the HST makes sense. Clarity on the treatment of energy costs will tell if the reality matches that theory.

Energy

The OMA supports the Ontario Power Authority's industrial transmission connected electricity efficiency program. We believe the OPA is in the final stages of unveiling this new program, which will assist transmission connected companies to fast track capital investment in major energy efficiency projects. This is an excellent first step. However, the program should be extended to companies which receive their electricity supply through municipal electrical distribution utilities as well.

This five-year program is to provide financial incentives to encourage investment in innovative process changes and equipment to make the rate of return competitive with other capital projects. Companies will contract to deliver specific conservation targets within a time frame and maintain them over the life of the contract.

The OMA has long advocated that a kilowatt saved should be treated equally to a kilowatt produced. While details are not finalized at this time, this is the type of

program that can boost Ontario's electricity infrastructure, achieve energy conservation goals and help make industry more competitive.

Ontario's electricity rates are high and they are uncompetitive when compared with lower electricity rates in other mining provinces such as Quebec, Manitoba and British Columbia. Programs such as the one noted above are essential to provide companies with tools and opportunities to lessen the electricity rate gap.

Another electricity issue involves the global adjustment fund, which needs to be fixed. Ontario is going in a contrary direction to the rest of the world by not rewarding conservation efforts. We have already seen the impact of the growing specter of high and uncompetitive electricity rates in Ontario. Last year, Xstrata Copper announced the planned closure of the Kidd metallurgical plant in Timmins due to uncompetitive electricity rates, which impair the ability to operate of all companies. This will cost Ontario approximately 700 excellent paying jobs and millions in tax revenues.

Workplace Safety and Insurance Board

Collectively, mining companies in Ontario pay Workplace Safety and Insurance Board (WSIB) premiums of more than \$60 million annually. In the name of fairness, the workers' compensation system in Ontario needs to be reformed. While others, including the Auditor General of Ontario have commented on the financial state of the system, the OMA will in this brief confine its thoughts to the second injury and enhancement fund (SIEF).

Specific actions can be taken in the shorter term such as dealing with the second injury and enhancement fund (SIEF) and claim management improvement. The percentage of claims seeking SIEF has increased 86% over the past eight years. While safety in Ontario workplaces has been steadily improving and incident rates are decreasing, the size of the WSIB and its budget keeps increasing.

At this time mining is paying about \$2.3 million more in premiums while government and related services is receiving \$16 million more in premium relief than it is paying. Industries, which are dealing with high competitive pressures such as mining, forestry and manufacturing, are receiving less than their fair share of SIEF. Conversely, employers such as government, which may be subject to less external competitive pressures, are receiving more than their fair share of SIEF. Ontario is out of sync with other provinces such as Alberta, which allocate SIEF at the rate group level.

Targets

To be truly proactive the government should set a clear development target, which for example could focus on the opening of 10 new mines in the next decade. It should also spearhead the establishment of a research, development and manufacturing base in Ontario that will turn our mineral wealth into green products and technologies that will support our lifestyles of the future. It is time to turn Ontario mineral potential into a modern reality and help build a clear vision for the future.

Industry must seize the opportunity provided to achieve outstanding levels of performance. With the right incentives in place, the Ontario mining industry has every right to aspire to a leadership position by being the cleanest, most productive, technologically advanced and socially responsible in the world. This can create resilience to economic shocks and ensure sustainable prosperity.

Extraordinary economic times require extraordinary actions. Mining can be a big piece in solving the province's current economic puzzle and for the benefit of all Ontarians. The industry deserves the strong support of government. Mining with its long history and its foundation for a prosperous future is part of the solution.

Ontario's mining industry is a productivity powerhouse. It is a modern, high-tech, solution-providing industry that delivers benefits to all parts of Ontario that far outweigh the size of the industry relative to many others. In the world, demand for minerals – and Ontario's minerals – is only going to increase. The global population is estimated at 6.7 billion which pushes demand for future growth and development that cannot take place without mineral and metal products needed for telecommunications, power production and transmission, agriculture, transportation, health care and medicine, consumer goods and environmental improvement.

On behalf of the Ontario Mining Association, which started in 1920, I would be pleased to discuss any of these comments and suggestions further.

Yours truly,



Chris Hodgson
President
Ontario Mining Association

Ontario Mining Association suggestions:

- Greater clarity and certainty in legislation – i.e. Bill 191
- Government support of more geological mapping
- Infrastructure contributions to support for resource development
- HST and treatment of energy costs clarity
- Redesign global adjustment fund to reward conservation and expand industrial transmission connected electricity efficiency program,
- Improve effectiveness and efficiency of WSIB
- Set development targets – 10 new mines in 10 years