

The Honourable Dwight Duncan
Minister of Finance
c/o Budget Secretariat
Frost Building North, 3rd floor
95 Grosvenor Street
Toronto, Ontario
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RE: Ontario Mining Association Pre-Budget submission

Dear Minister Duncan

The Ontario mining industry has enjoyed -- until recently -- one of the most prosperous and lengthiest periods of its history of making contributions to the society and economy of this province. However, the current economic circumstances which are dominating the news are providing challenges for individuals, companies, entire industries and governments alike.

Mining operates in the real world of global markets. When commodity prices fall, companies must reduce spending to be in line with existing market realities. That is why we have seen companies trimming budgets and capital expenditures and in some cases shutting down production. Junior mining exploration companies are finding it difficult -- if not impossible -- to raise capital as are mineral producers.

The mining industry in Ontario has gone from full speed ahead to produce and sell mineral products around the world to a moving forward by navigating more cautiously through changing economics and shifting markets. The precipitous fall in the prices of Ontario's main mineral products illustrates this point.

Nickel is selling for about \$4.21 (U.S.) per pound today, down from \$15 per pound in March 2008 and a high of more than \$22 per pound in April 2007. The world selling price for Ontario's major mineral commodity has fallen 71% from the second quarter of this year and 80% from one and one half years ago.

In response to this price slide, major nickel producers Vale Inco and Xstrata Nickel have announced production curtailments and postponements in new developments. Also, First Nickel and FNX Mining have announced mine closures in the Sudbury Basin.

The fate of copper prices is similar. While copper is selling for about \$1.48 (U.S.) per pound today, as recently as June 2008, it was selling for more than \$4.00 (U.S.) per pound -- a decline of 63% in six months. Zinc tells a sorrier tale. With the zinc price about \$0.49 (U.S.) today, it is more than 52% lower than a year ago and 75% less than two years ago.

On the precious metals side, gold, which is selling for about \$806 (U.S.) per ounce, is off more than 22% from its high in 2008. Silver, which is trading for about \$10.17 (U.S.) per ounce, is down 52% from its price of almost \$21 (U.S.) per ounce in March 2008. Diamond producers have announced plans to trim production.

Earlier this year, North American Palladium announced that its Lac des Iles mine north of Thunder Bay was closing and going on a care-and-maintenance basis. The company was responding to global economic forces which have seen the price of palladium tumble 69% from \$582 (U.S.) per ounce in February of this year to \$179 (U.S.) per ounce in December 2008.

Mining benefits all regions of Ontario and given this outlook of difficult economic times and harsh business climates, it is increasingly important for the industry to work with government to ensure that programs, regulation and legislation sustain mining investment and employment in the province.

At this time, the Ontario Mining Association would like to encourage the government to make strategic investments in the mining sector to promote future economic development and take action to improve the competitive position of the industry in the world.

The return from even one new mine in the future is huge for the province. A study completed by the University of Toronto – *Ontario Mining: A Partner in Prosperity Building* – shows that one representative mine in Ontario directly employs 480 people, indirectly employs more than 1,800 people, contributes about \$280 million to the Gross Domestic Product and provides \$84 million in tax revenue annually.

The strategic investments the industry would like to see would include more investment in geological mapping. Ontario's mineral business was about \$10.8 billion in 2007, representing approximately one-third of the industry in Canada. The province clearly has a favourable geology for mining and because of the size of the province and the remoteness of many areas, its geological potential is largely untapped.

The Ministry of Northern Development and Mines has carried out geoscience work in the past, which has provided a springboard for future development. The OMA would encourage the government to continue that funding to expand the knowledge of the mineral potential of Ontario.

If you analyze a road map of Ontario, you will see that much of the province's infrastructure --- roads, air service, telecommunications, electricity systems – end in mining communities. Strategic investments in infrastructure in the province and especially in the North will pay dividends in the future. Land use planning for the Boreal Region, which is being undertaken now, will require infrastructure dollars.

The government should also be looking at making strategic investments in the province's human resources. Many young people, who may find themselves out of work or unable to gain that first full time job, have never experienced a recession. Support and training

needs to be offered for skills training, apprenticeships and development to build a workforce that is ready to take on the required jobs when more prosperous times return.

Also, strategic investments need to be made in the skills development and training of Aboriginals in Ontario. Mining provides one of the main economic opportunities for First Nation residents in Ontario. Mining is the largest employer of Aboriginals in Canada. It is estimated that Aboriginals account for 5.3% of the mining workforce, which is twice the national average.

The government can also make strategic investments in providing mineral exploration incentives to provide a foundation for mineral exploration activity to better understand the province's geological potential. Quebec has an effective exploration incentive program, which can in some circumstances cover up to 45% of exploration costs. Newfoundland is investing in its mining future with exploration incentives to exploration companies. In November, the Saskatchewan government reintroduced the Saskatchewan Mineral Exploration Tax Credit program. Ontario needs to ensure it doesn't miss the boat on these programs.

Regulatory and monetary incentives to promote research and innovation are investments in a greener future. In tough economic times, Research & Development should not be sacrificed, but supported and encouraged. In recent years, mining companies in Ontario have invested more than \$100 million annually in R & D.

The Ministry of Northern Development and Mines deserves praise for its efforts to modernize the Ontario Mining Act in an expeditious fashion. The Ministry has focused on the aspects of the Act which are its priorities at this time and it is striving to have the amendments made relatively quickly to minimize uncertainty for people making investment decisions.

The need for certainty in the rules cannot be overemphasized.

The Government is also involved in a land use planning exercise for the Far North of the province. Its goal is to preserve half, or more, of this region from economic development and strike a balance between conservation of land masses and habitats with economic development including mining. While the Government appears willing to set targets on the conservation side, we would like to see it – in the name of balance – set targets on the responsible economic development side, such as 10 new mines in the next 10 years. The OMA representative mine study, which is referenced above, shows what this could do for Ontario.

Electricity rates in Ontario have gone from being a competitive advantage to a disadvantage relative to other mining jurisdictions within Canada and around the world. From the year 2000 and onward, the gap between electricity prices in Ontario and the national average has grown.

The fact that Ontario Power Generation asked the Ontario Energy Board to approve a 14% rate hike in November leads one to suspect that OPG is out of touch with business realities in Ontario. The government-owned power utility often appears as an ally of recessionary forces. The Ontario Energy Board challenged OPG's numbers and ruled that an 8.5% increase in rates was more reasonable. While it is more reasonable, it is not a level that is going to help mining and other businesses in Ontario become more competitive.

Mining companies in Ontario spend \$500 million annually on energy. Any increase in energy rates only harms operations during especially during times of low commodity prices. The OMA believes that the principle of a megawatt of electricity saved should be as valuable as a megawatt of electricity generated would strengthen conservation programs.

Another area where government can assist in improving the competitiveness of mining -- and all businesses in Ontario -- is the compensation system. Mining employers in Ontario pay about \$65 million in premiums to the Workplace Safety and Insurance Board annually. The mining industry continues to work long and hard to improve its safety performance and it ranks as the third safest sector in the province. The mining sector in Ontario invests almost \$2,300 in safety training per employee annually.

At this time, employers in Ontario pay the highest average annual workers' compensation rates in Canada and Ontario has the largest unfunded liability in the country. The unfunded liability of the system which is now estimated at \$12 billion is higher than it has ever been in the history of the WSIB and its predecessor the Worker's Compensation Board.

The government can also go a long way to promote regulatory and process certainty and streamline permitting processes. We support the Ontario government's efforts to introduce smart regulations that employ a risk-based approach to permitting and approvals. In particular, we feel that Ontario needs to accelerate its current efforts to improve the Certificate of Approval process and to provide legislative authority to tailor approvals processes to match the level of concern regarding low to medium risk activities.

Modernizing regulatory processes within the province is one part of the solution. In addition, we encourage the government to seek out inter-provincial and federal regulatory and process alignment whenever possible. Finding policy alignment with the United States and other key jurisdictions is another component of an effective strategy to keep Ontario industry competitive.

Last, but not least, we recommend that the government institute a process, whereby new policy, standards and regulations are assessed for competitiveness before government makes its decisions. This will prevent any unintended consequences that may cause new policy directions to place Ontario at a disadvantage in comparison to rival jurisdictions. It

will also assist with measures to ensure consistency and alignment of policy and processes across jurisdictions.

There is much to do in these troubled economic times and we need to work together to get through them. Mining is one of the core industries of Ontario's economy and it needs to be conserved as part of Ontario's economic base. Factories may be able to pack up and move to new locations in other jurisdictions. Ore bodies can't be put on the back of a truck and reposition in a new site. Mines are developed where the geology has placed the ore bodies and exploration work has identified them.

The mines and minerals cluster in Ontario employs close to 200,000 people. More than 80% of Ontario's mineral products are exported boosting Ontario's balance of trade substantially. Mining is largely a made in Ontario industry that contributes disproportionately to reduce the province's international trade deficit. Corporate taxes alone paid by the industry have been more than \$425 million annually.

All in all, 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. As of today, the global population is estimated at 6.72 billion. That makes for a lot of demand for future growth and development which 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.

When that demand picks up, we need to ensure that Ontario's mining sector is able to respond competitively to meet the demand. Strategic investments by government and attention to improving relative competitiveness will help to position all Ontarians to benefit from the next upswing in global commodity markets through a strong mining industry.

Yours truly

Chris Hodgson
President
Ontario Mining Association