



House of Commons Standing Committee on Finance – Pre-budget Consultations 2013

This brief is submitted by:

an organization

Organization name: Prospectors & Developers Association of Canada

or

an individual

Name: _____


Topic: Forestry and mining



***Recommendation 1: Please provide a short summary of your recommendation.**

- 1) Continue commitment to an effective investment incentive by renewing the Mineral Exploration Tax Credit (METC);
- 2) Temporarily increase the METC to 25% for flow-through mining expenditures incurred in remote and northern regions before 2016;
- 3) Creating a \$500 million venture capital fund focused on grassroots exploration;
- 4) Allowing junior exploration companies to claim an operator allowance of up to 5% of direct exploration costs as eligible Canadian Exploration Expenses (CEE).

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

\$500 million-\$999.9 million 

2 years 

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

The costs of providing these financial supports to the exploration industry could be funded through federal oil, gas and mining tax and royalty revenues.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

Mineral exploration industry: Federal government studies (1994, 2002) indicate that every dollar of tax expenditure generates \$2.6 in new exploration spending;
Government of Canada: Sustaining a sector that is critical for the discovery of new mines; increasing probability of benefits from future mines;
Remote regions, Aboriginal communities: Generating economic activity in northern and remote regions where few alternatives exist;
Labour market: Creates jobs across the country (drilling, geoscience, financial, legal, environmental, etc.).

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

As funds for exploration become scarce, deposit discovery rates will drop, leading to fewer new mine openings and diminished economic benefits derived from the mining sector. In the short-run, supporting exploration financing will generate economic activity across the country through direct employment and expenditures, plus indirect benefits to related industries. In the long-run, investments in exploration will generate significant economic returns from the employment, business development and revenue benefits that new mines bring (\$9 billion in taxes and royalties in 2011).

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Recommendation 2: Please provide a short summary of your recommendation.

The PDAC recommends that the federal government renew the Geo-mapping for Energy and Materials (GEM) Program, currently housed within the Earth Sciences Sector of Natural Resources Canada. We propose that the funding level be maintained at \$100 million over five years.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

\$100 million -\$499.9 million



5 or more years



Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

The renewal of the GEM Program should be funded through federal oil, gas and mining tax and royalty revenues. Given the well-established rate of return associated with geoscience investment (see General Impacts section), this funding mechanism is appropriate, both from a cost effectiveness and economic efficiency standpoint.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

Mineral exploration industry: Improves understanding of resource potential, enhancing exploration effectiveness and efficiency;
Government of Canada: Maintains Canada's competitive advantage as a destination for mineral exploration investment and activities; contributes to tax and royalty revenues;
The public: Supports informed resource management and land use decision-making;
Remote regions, Aboriginal communities: Increases the potential for mineral discoveries and production, supporting communities with limited economic options;
Labour market: Creates jobs for highly qualified personnel.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

Research shows that every dollar invested in geoscience triggers five dollars in exploration spending and that each dollar spent by government on pre-competitive geoscience leads to the discovery of in-ground resources worth between \$100 and \$150. From 2008 to 2012, eight GEM mineral projects had already generated considerable staking activity and \$16.7 million in mineral exploration expenditures. It is estimated that, over the long run, GEM has the potential to generate over \$500 million in exploration expenditures, with eventual mineral discoveries valued at \$12 billion.

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Recommendation 3: Please provide a short summary of your recommendation.

The PDAC recommends that the Government of Canada establish a 10-year Northern Infrastructure Fund, with an initial endowment of \$1 billion, which can help to finance the transportation, energy and community infrastructure necessary to support responsible resource development in Canada's northern and remote regions.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

\$1 billion or more



5 or more years



Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

We propose that the initial endowment of \$1 billion come from the General Reserve Fund. Subsequently, we recommend that 10 per cent of annual tax and royalty revenues derived from resource development in northern Canada be contributed to the Northern Infrastructure Fund. Funded projects would be cost-shared with provincial, territorial and municipal governments. Additional financing can be leveraged through public-private partnerships.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

Mineral, energy and forestry sectors: Infrastructure improves access to resources and reduces the cost of resource development, making projects economically viable;
Government of Canada: Increases income tax revenue and resource rents;
Northern and remote regions, Aboriginal communities: Infrastructure will reduce the costs of goods (particularly food) and stimulate employment, business development and GDP growth;
Labour market: The mineral exploration and mining sector currently employs 300,000 Canadians.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

There is a direct relationship between public infrastructure and economic growth. Research (2010 and 2013) has shown that a \$1 billion investment in public infrastructure has the potential to create 17,000 new direct and indirect jobs and to increase GDP by \$1.35 billion. Economic growth generated by infrastructure improvements in the territories will enhance the self-sufficiency of these jurisdictions and support their devolution aspirations.

Please use this page if you wish to provide more explanation about your recommendation(s).

The sustainability of Canada's mineral exploration sector is currently threatened by a severe capital crisis that is only expected to worsen. Uncertainty in the global economy has led to significant capital-raising challenges that are most acutely felt in the junior mineral exploration sector. Almost 50% of companies listed on the TSX Venture possess less than \$200,000 in working capital - barely enough to cover costs of being a public company - and 60% were trading at less than \$0.10, the highest percentage in more than a decade. Natural Resources Canada reports that exploration expenditures dropped to \$2.2 billion in 2012 and are projected to decline further to \$1.8 billion in 2013, a 40% drop from 2011 levels.

1. Renew the METC

Since its inception, the METC has played a critical role in helping Canada remain the number one destination for global exploration over the last 15 years. For a cost of between \$60 and \$80 million, it helps to catalyze an average of \$400 million in exploration expenditures.

2. Enhance the METC for northern and remote exploration

Exploration costs incurred in northern and remote regions can be up to ten times higher than for projects that are located near transportation infrastructure.

3. Venture capital fund for grassroots exploration

To help alleviate capital pressures and maintain exploration activity in Canada, PDAC proposes \$500 million be allocated to establish a stand alone venture capital fund (akin to Sustainable Development Technology Canada) to provide capital to grassroots exploration projects with strong fundamentals. Quebec's SIDEX fund is similar to this proposal.

4. Exploration company operator allowance

Establishing an operator allowance to allow flow through funds to be used for non-salary operational costs would allow junior exploration companies to better weather the current storm.

Public Geosciences Investments

There are large expanses in the North with insufficient geosciences knowledge to guide mineral investment decisions. In a survey on the GEM program, 80% of industry respondents agreed that it was enhancing the geological understanding of northern Canada. In recent years, other countries (USA, Mexico, Australia) have invested in enhancing geosciences knowledge and infrastructure. Renewal of GEM will help maintain Canada's competitive advantage and ensure it remains the number one destination for global exploration expenditures.

Northern Infrastructure Fund

Reports by the Canadian Chamber of Commerce and Ernst and Young have identified inadequate public infrastructure as a key obstacle to economic growth especially in the resource sector. This challenge is particularly pronounced in Canada's northern and remote regions which lack in basic infrastructure and the tax base to support large infrastructure investments without federal supports. Exploration in areas that are distant from transportation infrastructure face significantly higher costs than projects near infrastructure.

*Please note that at least one recommendation must be provided

