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Teck's Submission for the Pre-Budget Consultations in Advance of the 2019 Budget

List of recommendations

Recommendation 1 – Tax Competitiveness: Adopt an indefinite non-capital loss carry forward period and maintain or expand the three year non-capital loss carry back period.

Recommendation 2 – Cost Competitiveness: Enshrine an output-based allocation system for carbon pricing that ensures a 75-80 percent rebate determined by factors including carbon performance and the risk of carbon leakage.

Recommendation 3 – Trade Competitiveness: Advance trade diversification with China and other key markets in Asia through more active free trade negotiations and by reducing tariff and non-tariff barriers.

Recommendation 4 – Innovation Competitiveness: Dedicate large-scale innovation funding to mining-specific projects and the testing and commercialization of new mining technologies.

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Overview

The theme of Budget 2019, "Ensuring Canada's Competitiveness", is timely for key sectors of Canada's economy, particularly Canada's mining sector – a significant driver of the Canadian economy that annually contributes over $50 billion to Canada's GDP; accounts for nearly 20 percent of the total value of Canadian exports; directly employs around 400,000 workers across the country; and is the largest private sector employer of Indigenous Peoples on a proportional basis.[1] Unfortunately, Canada's mining sector continues to see an erosion of market share driven primarily by a series of competitiveness challenges when compared to other jurisdictions, Australia and the United States in particular. While Canada has many appealing elements for mining, an overlay of competitiveness factors has caused Canada's position as a global mining leader to diminish materially. To illustrate this:

- Capital investment in Canada's mining sector has declined each year since 2012.
- Only four new mining projects were submitted for federal environmental assessments in 2017, representing a near historic low.
- Canada has lost ground in mining production over the past five years, losing its ranking for seven out of 13 commodities for which it had been a top five global producer.
- Mining innovation dollars are steadily following out of Canada to competing jurisdictions such as Australia and South Africa.[2]

With these points in mind, it is critical that the Government of Canada focus on addressing the spectrum of competitiveness challenges facing the mining sector or else risk it falling further behind for investment. As such, Teck submits the following comments and recommendations that we believe can help restore Canada as a leading mining jurisdiction and ensure mining continues to support a modern, prosperous and competitive Canada.

About Teck

Proudly Canadian, Teck is a diversified natural resource company and global sustainability leader with business units focused on steelmaking coal, copper, zinc and energy. Headquartered in Vancouver, we own, or have interests in, 12 mines in Canada, the United States, Chile and Peru. In Canada, we own six steelmaking coal operations; the country's largest open-pit copper mine; integrated zinc and lead smelting and refining complexes; steelmaking coal and copper development projects; metallurgical, technology and innovation complexes; and interests in a port and several oil sands projects. Teck directly employs over 10,000 people around the world, including 8,000 people across Canada.

Tax Competitiveness Recommendation

Recommendation 1: Adopt an indefinite non-capital loss carry forward period and maintain or expand the three year non-capital loss carry back period.

The mining sector is characterized by large upfront capital investment costs, projects that take years to build, fluctuations in the prices of major inputs (e.g. energy) and wide variation in realized product price. As a result, start-up and operating losses are commonly realized in the ordinary course of business.

[1] Mining Association of Canada: "Mining Facts".

[2] Mining Association of Canada: "Facts & Figures 2017", page 7.

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Canada’s system of non-capital loss carry forward and carry back is important in ensuring that economic losses realized in the business are available to offset profits (and reduce taxes) when they are realized.

U.S. tax reform extended their non-capital loss carry forward to an indefinite period. This loss carry forward period is a common feature of major tax systems in mining jurisdictions (e.g. Australia, Brazil, Chile, Peru, South Africa and now the U.S.) and, accordingly, we recommend it should be adopted by Canada as well. However, we do not believe Canada should follow the U.S. in restricting the full deductibility of non-capital losses. When a company has a profitable year following losses, it is typically in a tight financial situation. We believe it is unreasonable to ask a company to defer the recognition in its tax computation of the economic losses that incurred in the past.

U.S. tax reform also disallowed loss carry backs. We note that U.S. tax reform was in part motivated by the need to balance revenue reductions with revenue increases on a formalized statutory basis. Canada has more flexibility in this regard. Eliminating the loss carry back, in a mining context, could be very harmful. As noted, a loss year is not unusual in mining and can represent genuine financial distress for a company. If a loss follows several profitable years, we believe the loss should be recognized against those recent profits for tax purposes. Eliminating that carry back would change the economics of the mining business in a negative way.

Cost Competitiveness Recommendation

Recommendation 2: Enshrine an output-based allocation system for carbon pricing that ensures a 75-80 percent rebate determined by factors including carbon performance and the risk of carbon leakage.

Teck welcomes the Government of Canada’s broad-based carbon pricing policies because we believe they can effectively incentivize greenhouse gas (GHG) emissions reductions. Unfortunately, many competing jurisdictions have failed to take similar climate action leadership and this has resulted in cost competitiveness disadvantages for Canada’s mining sector, where a company like Teck pays more than $50 million per year in carbon costs – in one province. As a specific example, because there is no comparable carbon pricing system in Australia – where our biggest steelmaking coal competitors operate – Teck’s cost competitiveness is not only eroded, but this difference has potential to shift production and GHG emissions to higher carbon jurisdictions, thus resulting in carbon leakage.

In light of this difference, carbon pricing policies must be designed to address, not imperil, the competitiveness challenges that come from a global trade environment that has uneven carbon pricing. We recommend the Government of Canada implement provisions for emissions-intensive and trade-exposed (EITE) sectors that accounts for the degree of trade exposure and ability to factor carbon costs into pricing. As indicated in Teck’s previous submissions on carbon pricing, we support an output-based allocation system, whereby the amount of carbon pricing paid is influenced by the risks of carbon leakage to a specific sector and the carbon performance of a facility relative to its peers.

Within the Pan-Canadian Framework on Clean Growth and Climate Change, we support the creation of a national ‘minimum standard’ for trade-exposed sectors in all provincial EITE provisions, reviewable on a regular basis to reduce EITE rates as other competitors introduce carbon pricing and thereby eliminating cost competitiveness challenges. As such, we welcome the Government of Canada’s recent announcement to change the benchmark for emissions output from 70 percent to 80 percent (or 90 percent for specific industries), and we encourage the Government to ensure that there are provisions for regular reviews to account for changes in global carbon pricing policies.

Trade Competitiveness Recommendation

Recommendation 3: Advance trade diversification with China and other key markets in Asia through more active free trade negotiations and by reducing tariff and non-tariff barriers.

As a major Canadian exporter, Teck has significant interests in advancing Canada's trade relations with key markets in Asia, particularly China, Japan and India.

For instance, China has represented Teck's single largest export market since 2009, accounting for $2.1 billion of our total $12 billion in revenues in 2017. Likewise, Japan has been Teck's second largest export destination in recent years with $1.9 billion in total revenue last year. Finally, India has become an increasingly important export market for Teck with more than $2.2 billion in total sales over the last five years. However, in the absence of Canadian free trade with these countries, Teck is required to pay a 3 percent tariff on steelmaking coal exports to China and a 3.2 percent tariff to Japan. Meanwhile, Australia has free trade agreements (FTA) in place with China and Japan and therefore enjoys preferential access while holding a significant cost competitiveness advantage over Canadian exporters. Australia is also in the process of negotiating a FTA with India.

We recommend the Government of Canada accelerate the exploratory dialogue with China towards initiating formal FTA negotiations in 2019 in order to improve our trade competitiveness and increase exports. Simultaneously, we recommend the Government of Canada immediately address trade barriers with China (e.g. secure tariff exemptions on Canadian steelmaking coal imports and non-tariff 'customs' assessments) so that Canadian companies can compete more effectively in this large and growing market. Lastly for increasing trade competitiveness with China, we recommend the Government of Canada explore opportunities with China to introduce a Chinese border tax on carbon, which would place levies on imports from jurisdictions without carbon pricing (e.g. Australia and the U.S.) and ultimately help level the playing field for Canadian exporters.

We also recommend the Government of Canada ratify and implement the Comprehensive and Progressive Agreement on Trans-Pacific Partnership in a timely and efficient manner. The sooner that trade agreement enters into force, the sooner Canadian exporters will enjoy preferential access into Japan, which remains the world's third largest economy.

Finally, as India has become the world's fast growing major economy since 2015 and with considerable commercial prospects for Canadian exporters as it undergoes mass urbanization, we recommend the Government of Canada focus on completing and implementing the Canada-India Economic Partnership Agreement as quickly as possible.

Innovation Competitiveness Recommendation

Recommendation 4: Dedicate large-scale innovation funding to mining-specific projects and the testing and commercialization of new mining technologies.

Teck supports the Government of Canada's Innovation Agenda designed to foster a more dynamic innovation culture in Canada – including the Innovation Supercluster Initiative of which Teck is a founding member of Canada's Digital Technology Supercluster. However, to further this agenda, the Government of Canada should dedicate investment specifically into mining sector innovation, including the creation of funds that enable the testing and commercialization of new mining technologies. Other natural resource sectors in Canada, such as forestry, have received significant dedicated federal funding and the Mining Innovation Supercluster proposal was unfortunately not selected.

In general, competing jurisdictions assign more innovation funding for mining-specific projects than Canada. For instance, the Government of Australia provided over $20 million (AUS) in project funding to develop more than 34,000 solar panels at a copper-gold mine as a cost-effective and low-carbon energy alternative over the use of diesel fuel.[3] The project is intended to be a world-leading example that advances the use of renewable energy specifically at mine sites. While the Canadian approach through smaller R&D and specific programming present opportunities, there is a lack of 'at-scale' funding available to backstop major projects that may have marginal business cases in the short-term, but can offer significant competitiveness improvements over the medium- and long-term.

Another Australian example to note is "METS Ignited": an industry-led, government-funded growth centre for the mining equipment, technologies and services (METS) sector. Its mission is to "strengthen Australia's position as a global hub for mining innovation, and, enhance the global competitive advantage of the Australia METS industry".[4] This approach brings together METS Ignited with local mining suppliers, research organizations and capital providers to ultimately generate commercial opportunities for its domestic mining innovation sector.

To respond to Australia's innovation advantages, we recommend the Government of Canada provide large-scale innovation funding opportunities for projects at Canadian mine sites for driving innovation competitiveness while enhancing environmental performance, similar to the Australian renewable energy project referenced above. We also recommend the Government of Canada boost innovation competitiveness by collaborating with the mining sector to develop a public-private partnership similar to Australia's METS Ignited focused on funding and enabling the testing and commercialization of new mining technologies.

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[3] Government of Australia, Australian Renewable Energy Agency: "DeGrussa solar project".

[4] METS Ignited (Australia): "Industry-led Growth Centre for METS"