Ensuring Canada's Competitiveness

Recommendation 1: Take multi-faceted action to address Canada's waning mining tax competitiveness:

- Reduce the corporate income tax (CIT) rate to achieve equivalency with the US rate for exporters or reinstate a 33% resource allowance.
- Reverse, reinstate and enhance mining tax reforms from Federal Budgets 2012/13, including augmenting the Accelerated Capital Cost Allowance (ACCA) to match the US with zero declining balance.
- Phase out dividend withholding tax to align Canada with multiple countries that have augmented their competitiveness in this respect.
- Introduce a substantial shareholder exemption for corporate reorganization for Canadian or foreign groups to be tax free.
- Modernize the tax treatment of qualifying environmental trusts (QET) by extending the carryback period from 3 to 7 years, allowing the reclamation to be deducted at the consolidated level when incurred regardless of which mine is being reclaimed, and by making QETs tax-exempt until the distribution of funds.

Recommendation 2: Address Northern infrastructure needs, and transportation and trade priorities:

- Renew the National Trade Corridor Initiative (including the $400 million allocation to Northern Canada), and create a dedicated northern fund in the Canada Infrastructure Bank (CIB).
- Allocate capacity to Natural Resources Canada to support the collection, organization, and dissemination of resource sector rail freight data to facilitate evidence-based decision making.
- Continue efforts to diversify market access while advancing a workable conclusion of NAFTA 2.0.

Recommendation 3: Support the reduction of GHG emissions, and the enhancement of international development and Canadian competitiveness:

- Develop or modify funding programs (e.g. EDC) to support the deployment of mutually beneficial "company-community" renewable power solutions to help reduce diesel reliance and lower global GHG emissions.

- Ensure robust EITE protections (including recognition of EITE sectors in the proposed Clean Fuel Standard) in line with the stringency of existing sub-national regimes, recognizing sensitivity to remote and northern regions, and consistency and compatibility across federal and provincial policies and regulations.

Recommendation 4: Strengthen and enhance Indigenous participation in mining:

- Increase funds for skills training and entrepreneurship to assist Indigenous Peoples in securing opportunities generated by the industry.
- Establish/improve mechanisms through which governments share a portion of the revenues generated from royalties, mining taxes and/or fees in their jurisdiction.
- Strategically deploy government procurement as a tool to drive Indigenous economic reconciliation.

Investment uncertainty has increased. Domestically, legislative and regulatory processes with implications for project permitting and costs persist, while recent supply chain failures have damaged Canada's reputation as a reliable trade partner. Internationally, these challenges are amplified by an increasingly unpredictable trade relationship with the US, whose comprehensive tax reform has significantly enhanced that jurisdiction's investment competitiveness over Canada's.

Industry Contributions:
Mining contributes 3.4% to Canada's GDP annually ($57.6 billion in 2016), employs 596,000 workers, and accounted for 19% (>$88 billion) of Canada's exports in 2016. Proportionally, mining is the leading heavy industry employer of Indigenous peoples. Canada leads global mining finance, with the majority of the world's public mining companies listed on the TSX.

Economic Trends and Outlook:
Canada's growth trajectory was revised down by the IMF with "real GDP projected to slow to 2.1% in 2018 and to 2.0% in 2019," a 1/3 drop over 2 years. Concerns over "weak external competitiveness, sluggish labor productivity growth, and population aging are expected to limit potential growth [over the medium term] to about 1.75%, significantly lower than [Canada's] historical average." Finally, "long-run Canadian real GDP could be reduced by [a further] 0.4%" should NAFTA negotiations fail and Canada-US trade revert to WTO rules – a cumulative reduction in GDP growth exceeding 50% compared to 2017.

Underscoring the above are worrisome economic trends:

- Canada's share of non-energy exports to the US are in a 16-year decline, averaging 0.5% pa.
- Foreign direct investment (FDI) to Canada is down 26% since 2010, now at 1/3 peak levels of 2007.
- Canadian capital investment is now under 10% of GDP, its lowest level since the global financial crisis.
- Investment per Canadian worker is only 70% of the OECD average, and 59% of that in the US.

Immediate action is needed by government to quell increasing investment leakage and minimize the impacts of projected low-growth scenarios.

1. ENHANCE CANADIAN MINERAL TAXATION COMPETITIVENESS
Canada's mining tax regime has been falling behind international competitors for years. Budgets 2012 and 2013 reduced or eliminated several direct and indirect mining related tax credits. In areas such as dividend withholding tax and corporate restructuring rules, other jurisdictions have amended their fiscal regimes to better attract FDI while Canada has not. Most recently, the *Tax Cuts and Jobs Act* reforms have significantly reduced Canada's mining tax competitiveness vis-à-vis the US:

		Canada	USA
Tax rate	Federal	15,0%	21,0%
	Province / State (deductible)	11,5%	6,0%
	Total	26,5%	25,7%
Tax rate on export (FDII - high margin goods or services)		26,5%	16,1%
Depreciation rate		25% DB	100%
Resource Allowance / Percentage Depletion		N/A	up to 50%
R&D Credits		all	incremental
Interest deduction		Thin cap rules	30% EBITDA
Loss carry forward			
	pre-2018 losses	100% income	100% income
	post-2017 losses	100% income	80% income

Essential to understanding the impact of recent US tax changes is appreciating the broader package of reforms, and not focusing exclusively on changes to the headline CIT rate. The above table provides an overview of several measures that enhance the competitiveness of the US mining tax regime over that of Canada, including:

- a lower aggregate CIT rate;
- a 100% immediate depreciation rate for eligible capital investment;
- favorable treatment for high margin exports (amounting to ~8% tax reduction); and,
- a resource allowance of up to 50%.

The cumulative competitiveness increase of these measures is significant. The below table models the implications of the new US tax regime against the status quo tax system in Canada on the same copper mine. It illustrates an approximate 40% to 50% reduction in the effective tax rate for the same mine in the United States compared to Canada:

Simplified comparative tax computation (copper mine)
USA vs. Canada

		USA	Canada		USA	Canada
Revenue		1 000 $	1 000 $		2 000 $	2 000 $
Deductible costs		(800)$	(800)$		(800)$	(800)$
Taxable income before percentage depletion		200 $	200 $		1 200 $	1 200 $
Percentage depletion						
Lesser of						
50% of mining profit	100 $			600 $		
15% of gross mining revenue [1]	150 $	(100)$	N/A	300 $	(300)$	N/A
		100 $	200 $		900 $	1 200 $
Taxable income						
Federal Tax		21,0%	15,0%		21,0%	15,0%
State (deductible) / Provincial tax		6,0%	11,5%		6,0%	11,5%
		25,7%	26,5%		25,7%	26,5%
Income tax payable		26$	53$		232 $	318 $
Effective tax rate		12,9%	26,5%		19,3%	26,5%

1) Percentage of gross mining revenue varies with the ore mined.
2) Taxpayers can deduct the highest between depletion and the percentage depletion. Depletion is computed on capitalized development costs.

Government action is required to reduce Canada's waning international mining tax competitiveness. For example, to be competitive with the new US tax rate for exporters (16.06%), federal and provincial governments would need to reduce their corporate income tax rate to 8% respectively or reinstate a resource allowance of 33%.

Specifically, governments should:

- **Reduce the headline CIT rate to achieve equivalency with the US rate for exporters or reinstate a 33% resource allowance.**

- **Reverse, reinstate and enhance mining tax reforms from Federal Budgets 2012 and 2013, including augmenting the ACCA to include zero declining balance to match the US.**

- **Phase out Dividend Withholding Tax to align Canada with multiple countries that have augmented their competitiveness in this respect.**

- **Introduce a substantial shareholder exemption for corporate reorganization performed by Canadian or foreign groups to be tax free.**

- **Modernize the tax treatment of QETs by extending the carryback period from 3 to 7 years, allowing reclamation to be deducted at the consolidated level when incurred regardless of which mine is being reclaimed, and by making QETs tax-exempt until the distribution of funds.**

2. NORTHERN INFRASTRUCTURE, TRANSPORTATION, AND TRADE

Infrastructure investment decisions that recognize northern challenges and opportunities through the Trade and Transportation Corridors Initiative (TTCI) and the Investing in Canada Plan have been welcome, though the need is greater than the funds allocated. MAC is aware the Northern allocation ($400m) under the TTCI was oversubscribed by >5 times. Also concerning is the CIB may not recognize remote and Northern challenges, potentially limiting the utility of this institution to address Northern priorities.

As the largest industrial customer group of Canada's freight railways, an efficient logistics supply chain is essential to moving products to market and bolstering overall business competitiveness. Natural resources sectors account for the vast majority of traffic on Canada's rail freight network. While the *Transportation Modernization Act* includes some provisions for rail data disclosure, ensuring shippers have timely access to information is essential to developing evidence-based transportation policy going forward.

Finally, 19% of the total value of Canada's exports (>$88 billion in 2016) is accounted for by the mining industry, and approximately half of this is destined for US markets. The uncertainty associated with NAFTA 2.0, and concerns over recent tariffs, has underscored the need to diversify market access for key exports to global centres of demand (e.g. China), and conclude NAFTA negotiations as expediently as possible.

To advance policy objectives related to: 1) Canada's remote and Northern regions; 2) the effectiveness and reliability of the logistics supply chain; and, 3) Canada's trade and investment competitiveness, government should:

- **Renew the TTCI (including the $400 million allocation to Northern Canada), and recognize the unique challenges of remote and northern regions through a dedicated northern fund in the CIB.**
- **Allocate capacity to Natural Resources Canada to support the collection, organization, interpretation and dissemination of resource sector rail freight data to facilitate evidence-based decision making.**
- **Continue efforts to diversify market access while advancing a conclusion of NAFTA 2.0.**

3. REDUCING GHG EMISSIONS, AND ENCHANCING INTERNATIONAL DEVELOPMENT AND CANADIAN COMPETITIVENESS

Operating in more than 100 countries, Canadian mining assets abroad exceeded $170 billion in 2015. Acknowledging that companies engage in fierce international competition, have considerable energy requirements, and invest substantially in host countries on procurement, there is an opportunity to align Canada's climate change, and international development and competitiveness priorities to reduce global GHG emissions.

The government should support Canadian resource companies in the deployment of mutually beneficial "company-community" renewable power solutions to help off-set diesel reliance, lower global GHG emissions, and leave a positive clean energy legacy for local communities in developing countries during and after mining operations conclude. The reduction of a company's international emissions should count toward that company's domestic carbon compliance within Canada (if applicable), and Canada's attainment of its Paris targets.

We have persistently underscored the need for climate change policy to ensure the competitiveness of EITE sectors, to be sensitive to changing economic and geographical realities, and to minimize compliance burden. Approaches that fail to address these concerns risk creating carbon leakage that will diminish Canadian competitiveness with no global net gain in GHG reductions – a "lose-lose" scenario.

To support the global effort on climate change, and advance international development while augmenting business competitiveness, government should:

- **Develop or modify existing funding programs (e.g. Export Development Canada) to support the deployment of mutually beneficial "company-community" renewable power solutions to help off-set diesel reliance and lower global GHG emissions.**
- **Ensure robust EITE protections (including recognition of EITE sectors in the proposed Clean Fuel Standard) in line with the stringency of existing sub-national regimes, recognizing sensitivity to remote and northern regions, and consistency and compatibility across federal and provincial policies and regulations.**

4. ACCELERATE INDIGENOUS INCLUSION IN MINING

Mining leadership to facilitate full participation of Indigenous Peoples in our sector remains an ongoing priority. Our members are committed to developing and maintaining strong and trusting relationships with Indigenous communities near, or with an interest in, mining activities.

A key mechanism through which economic opportunities have been created is company-community agreements. There have been a significant number of agreements signed since 1974; the majority (>375) have been signed within the last decade. These voluntary agreements are progressive in their collaborative scope, particularly for production-stage projects, and are increasingly recognized internationally as a leading practice.

Resulting from these efforts, the mining industry has become the largest private sector employer of Indigenous Peoples in Canada on a proportional basis, and a major partner to Indigenous businesses. For example, oil sands spend with 399 Indigenous businesses exceeded $3.33 billion in 2016.

To strengthen and enhance Indigenous participation in mining, governments should:

- **Increase funding for skills training and entrepreneurship to assist Indigenous Peoples in securing opportunities generated by the industry.**
- **Establish/improve mechanisms through which governments share a portion of the revenues generated from royalties, mining taxes and/or fees in their jurisdiction.**
- **Strategically deploy government procurement as a tool to drive Indigenous economic reconciliation.**