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Teck's Submission to the House of Commons Standing Committee on Finance for the Pre-Budget Consultations in Advance of the 2020 Budget: "Climate Emergency: The Required Transition to a Low Carbon Economy"

Recommendations

Climate action competitiveness

Recommendation 1: Continue advancing carbon pricing policies with further provisions for emissions-intensive, trade-exposed sectors to improve competitiveness and prevent carbon leakage.

Recommendation 2: Ensure the federal Clean Fuel Standard does not impose uncompetitive and duplicative compliance costs.

Recommendation 3: Support initiatives that position Canada as a low-carbon supplier of choice, such as the BC Low Carbon Industrial Strategy.

Innovation competitiveness

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

Recommendation 5: Partner with the mining sector to position Canada as a leader in new clean mining technologies and innovation.

Cost competitiveness

Recommendation 6: Undertake a more comprehensive approach to assessing and decreasing mining sector cost drivers to facilitate the responsible development of Canadian minerals and metals required for a low-carbon future.

Workforce competitiveness

Recommendation 7: Continue to advance reconciliation with Indigenous Peoples in Canada with a more dedicated focus on funding critical initiatives that increase Indigenous workforce and skills training and own-source revenue development.

Overview

Teck is pleased to submit the following comments and recommendations for the development of Budget 2020.

Proudly Canadian, Teck is Canada's largest diversified natural resource company with business units focused on copper, zinc, steelmaking coal and energy. Headquartered in Vancouver, we own, or have interests in, 13 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; an integrated zinc and lead smelting and refining complex; steelmaking coal and copper development projects; 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.

As climate change is one of the world's most pressing challenges, we welcome this year's Budget theme: "Climate Emergency: The Required Transition to a Low Carbon Economy". At Teck, we know that addressing climate change requires decisive global action. We also know our company and industry have an important role to play in contributing solutions towards a low-carbon future. This includes working to reduce our own greenhouse gas (GHG) emissions and advocating for effective climate action policies – including broad-based carbon pricing.

Recognizing that our mining operations generate GHG emissions, Teck has set ambitious targets to reduce our carbon footprint. To date, we have cut our GHG emissions by nearly 300,000 tonnes and we have set a target to reduce GHG emissions by 450,000 tonnes by 2030 – the equivalent of taking 95,000 cars off the road. At the same time, we know that the metals and minerals we produce are essential to creating the technologies and infrastructure necessary for building low-carbon economies. For example, renewable energy systems can require up to 12 times more copper compared to traditional energy systems, and building the average wind turbine requires 180 tonnes of steel, which requires about 100 tonnes of steelmaking coal to produce.

Teck is proud to be one of the lowest GHG emissions-intensity miners in the world. However, maintaining this success requires leadership from the Government of Canada by ensuring that business and regulatory conditions enable emissions-intensive, trade-exposed (EITE) companies like Teck to thrive in a global market that is increasingly more competitive. Mining companies operate in an open global trade environment where business and regulatory conditions differ significantly. Many competing jurisdictions have failed to take similar climate action leadership as Canada and this has resulted in cost competitiveness disadvantages for Canada's mining sector. If left unchecked, these disadvantages increase the potential for "carbon leakage", which is the shifting of production and GHG emissions to higher carbon jurisdictions. This, in turn, can generate higher global emissions and put Canada's mining sector at a significant competitive disadvantage – creating a "lose-lose" scenario for the Canadian economy and climate change mitigation at large.

As addressing climate change requires an all-hands-on-deck approach, Budget 2020 is an opportunity for the Government of Canada to advance meaningful climate action solutions while addressing competitiveness challenges, embracing opportunities and ensuring that companies like Teck can meet its climate change targets and thrive in today's hyper-competitive global markets.

Climate action competitiveness

Recommendation 1: Continue advancing carbon pricing with further provisions for emissions-intensive, trade-exposed sectors to improve competitiveness and prevent carbon leakage.

Teck welcomes the Government of Canada's broad-based carbon pricing policies because we believe they can effectively incentivize GHG emissions reductions. However, because many competing jurisdictions have failed to take similar climate action leadership, 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. 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 result 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 continue to implement provisions for EITE sectors that account for the degree of trade exposure and ability to factor carbon costs into pricing. We support the Government of Canada's output-based pricing system (OBPS) 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. However, while we support the OBPS, we are not currently regulated under this system in light of policies in BC and Alberta being deemed equivalent. Under the federal backstop for carbon pricing, the proposed rebate for EITE sectors is designed to be 80-90 percent for companies with GHG performance better than the benchmark, and would be applicable to the full carbon price. In comparison, the BC EITE proposal will start at 14 percent and reach a maximum of 40 percent when the carbon tax reaches $50/tonne in 2021. For Teck, the continued full exposure to the historical $30/tonne of CO_2e would result in an entrenched $50 million/year carbon tax cost in BC – a cost that our main global competitors currently do not pay. As the Pan-Canadian Framework on Clean Growth and Climate Change moves forward and carbon pricing is implemented by the federal government in provinces that do not have carbon pricing regimes in place, BC will be at a further competitive disadvantage given the misalignment in treatment of EITE sectors that will result.

We are supportive of a more comprehensive approach to addressing the competitiveness challenges of the carbon tax in BC – one that more closely aligns with the federal government but also enables government to utilize non-carbon tax measures to reduce the costs of GHG reducing capital program and thereby improve EITE competitiveness while achieving GHG reductions that would otherwise not be economic.

Recommendation 2: Ensure the federal Clean Fuel Standard does not impose uncompetitive and duplicative compliance costs.

Teck supports climate action policies that can deliver meaningful GHG emissions reductions, as is the intent of the proposed Clean Fuel Standard (CFS). However, in order to fully realize the CFS' intent, we believe it is crucial that its interaction with other climate policies – such carbon pricing and provincial policies on renewable and low-carbon fuels – be considered in order to avoid uncompetitive and duplicative compliance costs.

We recommend that the Government of Canada ensures that the CFS avoids duplication and misalignment on regulated entities for compliance measures already in effect. This would help prevent the CFS from exacerbating competitiveness issues by placing high compliance costs that will do little to reduce GHG emissions on industrial facilities any further. For instance, based on the information provided to date on the design of the CFS,[1] we believe that it will create significant disadvantages for Canada's mining sector when compared to our competitors and other domestic industries. The heavy emphasis on the liquid stream, which accounts for 23 megatonnes of the 30 megatonnes reduction, is particularly detrimental to mining operations due to the sector's reliance on heavy-duty haul trucks. Adding cost burdens to procuring these liquid fuels will create an uneven playing field with international competitors and increase the likelihood of carbon and investment leakage.

Recommendation 3: Support initiatives that position Canada as a low-carbon supplier of choice, such as the BC Low Carbon Industrial Strategy.

To counter the risk of market erosion and carbon leakage, Teck is an active participant and supporter of initiatives that position Canada as a low-carbon supplier of choice. For example, the BC Low Carbon Industrial Strategy (LCIS) and the memorandum of understanding between the BC government and BC Business Council are initiatives aimed at establishing the province as a low-carbon economy leader.[2] The LCIS is in the early stages of development but holds significant promise to establish a more comprehensive approach to resource development in BC as it relates to climate change. As a comparatively low GHG producer of natural resources, BC has an opportunity to be a global supplier of choice from a GHG perspective. Future work in the LCIS will look at competitiveness issues in greater detail.

Teck strongly supports this work, and we recommend the Government of Canada support these types of initiatives that can advance climate action competitiveness in areas including: fiscal, infrastructure, regulatory, innovation and market mechanisms such as offsets.

Innovation competitiveness

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

To continue transitioning towards a low-carbon future, we are focused on continually reducing GHG emissions through innovation and new technologies. New ideas, tools and techniques are improving our sustainability performance – such as the use of zero emission automated haul trucks at one of our sites – and we are embracing the state of transition in mining with all the new disruptive innovative changes happening worldwide. However, to boost Canada's innovation competitiveness in sectors where competing jurisdictions are racing ahead, we believe the Government of Canada should dedicate innovation investments specifically into those sectors, such as investments that enable the testing and commercialization of new mining technologies.

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

[1] Environment and Climate Change Canada: "Clean Fuel Standard: Proposed Regulatory Approach" (June 2019).
[2] BC Government: "Government-business MOU aimed at establishing B.C. as low-carbon economy leader" (November 27, 2018).
[3] Government of Australia, Australian Renewable Energy Agency: "DeGrussa Solar Project".

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. Other examples of Australia's funding for mining innovation can be found in the chapter "Spurring innovation in the critical minerals sector" from their recently released "Critical Minerals Strategy 2019".[4]

To respond to Australia's innovation advantages, we recommend the Government of Canada provide at-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.

Recommendation 5: Partner with the mining sector to position Canada as a leader in new clean mining innovation and technologies.

One of the strategic directions stated in the Canadian Minerals and Metals Plan is "Economic Development and Competitiveness: Canada's business and innovation environment for the minerals sector is the world's most competitive and most attractive for investment". We fully support this strategic direction and we believe closer collaboration with Canada's mining sector is critical to achieving it.

For instance, the Government of Australia and its mining sector collaborate formally as public-private partners on various innovation initiatives, including "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".[5] 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. In a recent METS Ignited report, it is stated that 'Australian METS companies are better-placed to realise new opportunities than competitors in other markets globally, thanks to… the leading global position of the Australian METS and mining industries'.[6]

While encouraged that Canada's Digital Technology Supercluster has potential to address innovation competitiveness challenges for Canada's mining sector, mining is one of the only natural resource sectors that does not receive federal funding opportunities at scale. Therefore, as Australia continues to race ahead in becoming a leader in clean mining innovation and technologies, we recommend the Government of Canada explore opportunities for collaboration specifically with Canada's mining sector in public-private partnership like METS Ignited focused on furthering the testing and commercialization of new mining technologies.

Cost competitiveness

Recommendation 6: Undertake a more comprehensive approach to assessing and decreasing mining sector cost drivers to facilitate the responsible development of Canadian minerals and metals required for a low-carbon future.

Canada has jurisdictional and tax characteristics that have the potential to provide a strong foundation for attracting investment. However, this landscape is changing. Our competitors are addressing structural

[4] Government of Australia, Department of Industry, Innovation and Science: "Australia's Critical Minerals Strategy 2019", page 14 (2019).
[5] METS Ignited (Australia): "Industry-led Growth Centre for METS".
[6] METS Ignited: "Mining Equipment Technology Services: 10 Year Sector Competitiveness Plan" (2018).

investment weaknesses with the result being a sharp decline in business investment in Canada. In a report published by the Canadian Chamber of Commerce in February 2019, it states a consensus within the Canadian business community that "we need a comprehensive review, with everything on the table, to create a modern tax system that can help build a Canada that wins".[7] We support the Canadian Chamber of Commerce's call for a comprehensive tax review as a clear action to address identified weaknesses and maintaining stable tax structures for government revenues that work in conjunction with a strong regulatory system.

We recommend the Government of Canada review the overlay of rising input costs as well as significant tax complexities to decrease what is ultimately a high-cost profile. This includes reinstating the accelerated capital cost allowance for mining (with zero declining balance to match tax conditions in the US), as well as expanding tax deductibility for electric vehicles to include heavy industrial equipment and machinery. These are just a few cost-drivers that, if reversed, could shift the cost of doing business in Canada and facilitate the responsible development of minerals and metals needed for the world's transition to a low-carbon future.

Workforce competitiveness

Recommendation 7: Continue to advance reconciliation with Indigenous Peoples in Canada with a more dedicated focus on funding for critical initiatives that increase Indigenous workforce and skills training and own-source revenue development.

The foundation of Teck's approach to doing business is recognizing and respecting the rights of Indigenous Peoples, which starts with acknowledging these rights and interests as enshrined in regional, national and international laws and commitments, including the United Nations Declaration on the Rights of Indigenous Peoples. Building on this, Teck seeks to create strong, lasting relationships with Indigenous Peoples in the areas where we operate. Through mutual respect and meaningful engagement, we aim to share the economic benefits of mining including hiring, procurement and community investment.

The mining industry is the largest private sector employer of Indigenous Peoples in Canada on a proportional basis, and a major customer of Indigenous-owned businesses. However, a challenge is ensuring that the new cohort of Indigenous Canadians has the opportunity to participate in the mining sector workforce and is provided with training and educational opportunities, especially during commodity-cycle and economic downturns.

As such, we recommend the Government of Canada dedicate funding for critical initiatives that increase Indigenous workforce and skills training and own-source revenue development. Specific funding initiatives could include:

- supporting joint and community-led planning for resource development;
- advancing improved education and training support to build capacity;
- assessing new opportunities to increase capital development and greater business formation at the community level; and
- advancing data-sharing opportunities.

[7] Canadian Chamber of Commerce: "50 Years of Cutting and Pasting: Modernizing Canada's Tax System", page 3 (February 2019).