

CANADA'S MINING INDUSTRY -
WHERE DO WE GO FROM HERE?

REMARKS BY ALFRED POWIS
TO THE CANADIAN CLUB, TORONTO
FEBRUARY 3, 1975

MR. CHAIRMAN, LADIES AND GENTLEMEN:

IT'S A GREAT HONOUR TO HAVE BEEN INVITED TO SPEAK TO YOU TODAY. I WON'T SAY IT'S A GREAT PLEASURE - AS YOUR CHAIRMAN KNOWS, I APPROACH THIS SORT OF ASSIGNMENT WITH SOMETHING APPROACHING ABJECT TERROR, AND THE FACT THAT I'M STANDING UP HERE TODAY IS A TRIBUTE TO HIS POWERS OF PERSUASION.

THIS TALK HAD ITS ORIGINS LAST NOVEMBER WHEN JERRY McAFEE SPOKE SO EFFECTIVELY TO THIS CLUB ON THE STATUS OF THE PETROLEUM INDUSTRY. YOUR CHAIRMAN FELT THAT SOMEONE SHOULD DO A SIMILAR JOB ON MINING, AND SINCE WE BOTH BELONG TO THE SAME INVESTMENT CLUB I WAS ELECTED. (PERHAPS THIS IS HIS WAY OF GETTING BACK AT ME FOR THE CONTRIBUTION NORANDA STOCK HAS MADE TO THE CLUB'S DISMAL RECENT INVESTMENT PERFORMANCE.) IN ANY EVENT, IN THE HOPE THAT SOME OF JERRY'S SUCCESS MIGHT RUB OFF ON ME, I'VE TAKEN HIS TITLE OF LAST NOVEMBER - WITH, OF COURSE, MINING SUBSTITUTED FOR PETROLEUM.

MINING AND PETROLEUM

THE REAL REASON I FINALLY AGREED TO GIVE THIS TALK IS THAT THE SERIOUS PLIGHT OF THE MINING INDUSTRY HAS BEEN OBSCURED BY THE EXCITEMENT AND CONTROVERSY SURROUNDING PETROLEUM. OUR ATTENTION IS FOCUSED ON THE ENERGY CRISIS, SINCE IT'S EASY FOR PEOPLE TO UNDERSTAND THE IMPLICATIONS OF A SHORTAGE OF GAS FOR THEIR CARS OR HEATING OIL FOR THEIR HOUSES. MINE PRODUCTS ARE TAKEN FOR GRANTED, ALTHOUGH MODERN SOCIETY COULDN'T EXIST WITHOUT THEM, AND THE INDUSTRY'S OPERATIONS TAKE PLACE IN REGIONS REMOTE FROM THE LARGE CENTRES OF CANADIAN POPULATION. THUS, WITH SO MANY OTHER PROBLEMS CLAMOURING FOR PUBLIC ATTENTION, IT'S NOT SURPRISING THAT THE PROBLEMS OF MINING ARE ONLY DIMLY UNDERSTOOD BY MOST CANADIANS.

THERE ARE SUPERFICIAL SIMILARITIES BETWEEN THE MINING AND PETROLEUM INDUSTRIES, IN THAT EACH EXTRACTS SO-CALLED NON-RENEWABLE

RESOURCES WHICH ARE DISCOVERED AS THE RESULT OF HIGH-RISK EXPLORATION. NEVERTHELESS, THERE ARE PROFOUND DIFFERENCES BETWEEN THE TWO, AND THE TENDENCY TO LUMP THEM TOGETHER IS ONE OF THE CURSES OF MINING.

ONE OF THE DIFFERENCES, OF COURSE, IS THAT MINE PRODUCTS UNLIKE PETROLEUM ARE GENERALLY NOT CONSUMED, MERELY TRANSFORMED. ONCE A GALLON OF GAS IS BURNED IN YOUR CAR IT'S GONE FOREVER, BUT MOST OF THE COPPER MINED THROUGHOUT MANKIND'S HISTORY IS STILL AVAILABLE. IN FACT, A SIGNIFICANT PORTION OF THE ANNUAL SUPPLY OF MOST MINE PRODUCTS IS FROM RECYCLED MATERIAL.

THERE ARE A GREAT MANY OTHER DIFFERENCES, BUT TWO OF THEM ARE CENTRAL TO THE PROBLEMS FACED BY MINING TODAY. THE FIRST IS THAT THE LIFTING COST OF A BARREL OF OIL IS A SMALL PERCENTAGE OF ITS WELLHEAD VALUE, WHILE THE COST OF MINING AND CONCENTRATING IS GENERALLY A HIGH PERCENTAGE OF THE VALUE OF A TON OF ORE. THE SECOND IS THAT THERE IS NO EFFECTIVE CARTEL CONTROLLING THE SUPPLY AND PRICE OF MINE PRODUCTS, NOR IS THERE ANY PROSPECT OF PERMANENT SHORTAGES. THE DEMAND FOR, AND PRICES OF, MINE PRODUCTS HAVE ALWAYS BEEN CYCLICAL AND REMAIN SO. THUS, POLICIES DEEMED APPROPRIATE FOR PETROLEUM MAY PROVE DISASTROUS IF THEY'RE ALSO APPLIED TO MINING.

THESE DIFFERENCES MAY SEEM OBVIOUS, BUT THEY DON'T SEEM TO BE UNDERSTOOD BY MOST CANADIANS, INCLUDING THOSE WHO ESTABLISH TAX POLICY. FOR EXAMPLE, THE TREASURER OF ONTARIO IN LAST APRIL'S BUDGET MADE THE FOLLOWING STATEMENT. "DURING THE PAST TWO YEARS A WORLDWIDE SHORTAGE OF RAW MATERIALS HAS DEVELOPED ON AN UNPRECEDENTED SCALE. INCREASED DEMAND BY MAJOR INDUSTRIALIZED COUNTRIES HAS RESULTED IN SHARPLY HIGHER METALS PRICES AND SUBSTANTIAL WINDFALL GAINS FOR THE MINING INDUSTRY IN ONTARIO. WITH THE PROSPECTIVE DEMAND FOR MINERALS LIKELY TO SUSTAIN CURRENT PRICE TRENDS INTO THE FUTURE, IT IS ONLY FAIR THAT WE SECURE FOR THE PEOPLE A HIGHER RETURN FROM OUR NATURAL RESOURCES."

THE FALLACY OF THIS IS INDICATED BY THE FACT THAT LAST APRIL, WHEN THIS STATEMENT WAS MADE, THE PRICE OF COPPER IN WORLD MARKETS REACHED OVER \$1.50 PER POUND WHILE TODAY IT IS LESS THAN 55¢. IN POINTING THIS OUT, I'M NOT TRYING TO RIDICULE THE TREASURER'S ABILITIES AS A METAL PRICE FORECASTER - THOSE OF US WHO ARE SUPPOSED TO BE EXPERTS IN THIS AREA HAVE DREADFUL RECORDS TOO. BUT WE CAN NEVER LOSE SIGHT OF THE FACT THAT WE DEAL IN HIGHLY CYCLICAL AND VOLATILE COMMODITIES, AND PUBLIC POLICIES WHICH FAIL TO TAKE THIS INTO ACCOUNT WILL PROVE TO BE RUINOUS FOR THE INDUSTRY.

FOLLOWING LAST MAY'S ABORTED BUDGET, A FEDERAL GOVERNMENT OFFICIAL REMARKED THAT THE MINING INDUSTRY HAD BEEN RUN OVER BY A TRUCK HEADED FOR PETER LOUGHEED. HOWEVER, FOR PETROLEUM THERE'S AN APPARENT SOLUTION TO THE PROBLEM OF CONFLICTING FEDERAL, PROVINCIAL AND INDUSTRY DEMANDS - WHICH IS TO INCREASE THE SIZE OF THE PIE BY RAISING THE CANADIAN PRICE OF CRUDE OIL. THIS SOLUTION IS SIMPLY NOT AVAILABLE TO THE MINING INDUSTRY. AND WHEN WE HEAR OPTIMISTIC TALK ABOUT POSSIBLE SOLUTIONS TO RESOURCE TAXATION PROBLEMS - AS WE DID LAST WEEK FROM THE MINISTER OF FINANCE - WE'RE REALLY HEARING ABOUT OIL. FOR MINING, THERE SEEMS TO BE NO LIGHT AT THE END OF THE TUNNEL.

IN AN ATTEMPT TO CALL ATTENTION TO THESE PROBLEMS, THE MINING ASSOCIATION LAST SUMMER PUBLISHED A NEWSPAPER ADVERTISEMENT WITH THE HEADLINE "DOES ANYBODY OUT THERE GIVE A DAMN IF THE MINING INDUSTRY IS TAXED TO DEATH". THE REACTION IN CERTAIN QUARTERS WAS PREDICTIBLE. VARIOUS CRITICS RUSHED TO PRINT WITH CAUSTIC COMMENTS CONTRASTING RECORD REPORTED EARNINGS WITH THE INDUSTRY'S CRIES OF DOOM. GOVERNMENT REACTION SEEMED TO BE THAT THE INDUSTRY WAS OVER-REACTING AND EXAGGERATING. LET ME ASSURE YOU WE WERE NOT. RATHER, THE ADVERTISEMENT IN QUESTION REPRESENTED A FRUSTRATED AND ANGUISHED, BUT NEVERTHELESS ACCURATE, APPRAISAL OF THE SITUATION AS WE SEE IT.

I WANT TO RETURN LATER TO THE PROBLEMS OF TAXATION, BUT PERHAPS IT WOULD BE APPROPRIATE FIRST TO SAY A FEW WORDS ABOUT THE INDUSTRY'S POSITION IN THE CANADIAN ECONOMY.

THE IMPORTANCE OF MINING TO CANADA

IT SEEMS NECESSARY TO STRESS THIS BECAUSE THE IMPORTANCE OF MINING TO CANADA HAS BEEN OBSCURED BY OUR PREOCCUPATION WITH ENERGY PROBLEMS. TODAY, NOBODY NEEDS TO BE REMINDED OF THE CRITICAL IMPORTANCE OF OUR PETROLEUM INDUSTRY, IN SPITE OF THE FACT THAT PUBLIC POLICY TOWARD IT HAS, AT BEST, BEEN SOMEWHAT PERVERSE. THE FACT IS THAT MINING IS OF EQUAL IMPORTANCE TO THIS COUNTRY.

TODAY, CANADA IS THE WORLD'S THIRD LARGEST PRODUCER OF MINE PRODUCTS, RANKING AFTER THE UNITED STATES AND RUSSIA. THE INDUSTRY ACCOUNTS FOR ABOUT THE SAME PROPORTION OF OUR GROSS NATIONAL PRODUCT AS OIL AND GAS - SOMETHING OVER 4% - AND A FURTHER 8% OF OUR GNP IS DEPENDENT ON ITS ACTIVITIES DUE TO ITS HEAVY EXPENDITURES FOR GOODS AND SERVICES. IT DIRECTLY EMPLOYS SOME 3% OF OUR LABOUR FORCE, BUT BECAUSE OF ITS LINKAGES WITH OTHER SECTORS OF THE ECONOMY IT PROVIDES THE BASIS FOR EMPLOYMENT OF A FURTHER 12% OF OUR WORKING POPULATION. ABOUT 80% OF ITS OUTPUT IS EXPORTED, PROVIDING ABOUT A QUARTER OF CANADA'S TOTAL EXPORT EARNINGS.

MOREOVER, THE CONTRIBUTION OF MINING TO THE CANADIAN ECONOMY IN THE POST-WAR PERIOD HAS BEEN DYNAMIC. SINCE THE 1940'S ITS SHARE OF THE GNP HAS INCREASED DURING A PERIOD WHEN THE RELATIVE SHARE OF THE GOODS-PRODUCING SECTOR HAS DECLINED DUE TO THE GROWTH OF GOVERNMENT AND SERVICE SECTORS. IT NOW ACCOUNTS FOR OVER 10% OF THE GOODS-PRODUCING SECTOR OF OUR ECONOMY.

THERE ARE, IN ADDITION, IMPORTANT QUALITATIVE CONTRIBUTIONS MADE BY MINING TO OUR ECONOMY. IT HAS MADE A UNIQUE AND PERVASIVE CONTRIBUTION TO THE SETTLEMENT AND DEVELOPMENT OF CANADA OUTSIDE THE

NORMAL INDUSTRIAL AREAS. REAL OUTPUT PER EMPLOYEE IS ABOUT THREE TIMES THAT FOR THE ECONOMY AS A WHOLE, AND IT'S ONE OF THE FEW SECTORS WHERE PRODUCTIVITY EXCEEDS THAT OF THE UNITED STATES. AS A RESULT, WHILE EMPLOYEE EARNINGS IN MINING ARE WELL ABOVE THE NATIONAL AVERAGE, THE INDUSTRY IS INTERNATIONALLY COMPETITIVE, WITHOUT ANY NEED FOR SUBSIDIES OR PROTECTION. CANADIAN EXPERTISE AND TECHNOLOGY IN MINING AND RELATED FIELDS IS INTERNATIONALLY RESPECTED AND WIDELY SOUGHT-AFTER, AND THIS IS A NATIONAL ASSET EQUALLY AS IMPORTANT AS OUR MINERAL ENDOWMENT. AND, DESPITE THE IMAGE, THIS HAS BEEN ACHIEVED BY AN INDUSTRY WHICH IS OVER 50% CANADIAN-OWNED AND OVERWHELMINGLY CANADIAN-MANAGED.

THIS RECORD HAS BEEN ACCOMPLISHED IN THE CONTEXT OF A MINERAL ENDOWMENT WHICH, WHILE EXTENSIVE AND DIVERSIFIED, IS NOT UNIQUELY LARGE OR RICH. IN FACT, OUR SHARE OF WORLD MINE PRODUCTION IS GREATER THAN OUR SHARE OF PROVEN RESERVES OR GEOLOGICAL POTENTIAL. THE MAIN REASON FOR THE RAPID GROWTH OF MINING IS SIMPLY THAT CANADA HAS BENEFITED FROM A SUBSTANTIAL SHARE OF THE WORLD'S EXPLORATION AND DEVELOPMENT EFFORT. WE RECEIVED A FAVOURABLE SHARE OF EXPLORATION ACTIVITY BECAUSE OF THE EXISTENCE OF A STRONG INDUSTRY IN THIS COUNTRY AND A HOSPITABLE POLITICAL CLIMATE TOWARD MINING. IN TURN, THIS LED TO MORE RAPID DEVELOPMENT OF NEW DISCOVERIES THAN HAS BEEN THE CASE IN MANY OTHER PARTS OF THE WORLD, WHERE MUCH HIGHER RATES OF RETURN HAVE TRADITIONALLY BEEN REQUIRED ON NEW MINE PROJECTS. FOR EXAMPLE, AVERAGE ANNUAL EARNINGS ON U.S. INVESTMENTS IN MINING IN CANADA RETURNED LESS THAN 10% FROM 1954-67 COMPARED WITH 25% IN LATIN AMERICA.

BASIC PROBLEMS

SO MUCH FOR WHERE WE'VE COME FROM AND WHERE WE ARE TODAY. TO DEAL WITH THE QUESTION "WHERE DO WE GO FROM HERE?" IT'S NECESSARY TO COME TO GRIPS WITH THE VARIOUS PROBLEMS FACED BY THE INDUSTRY. THERE ARE A NUMBER OF THEM, MANY OF WHICH ARE NOT UNIQUE EITHER TO THE

INDUSTRY OR TO CANADA. THEY INCLUDE SUCH THINGS AS LABOUR SHORTAGES, UNSTABLE INTERNATIONAL TRADE AND CURRENCY RELATIONSHIPS, ECONOMIC RECESSION OR WORSE, WIDELY FLUCTUATING PRICES FOR OUR PRODUCTS, AND SO FORTH.

THERE ARE, HOWEVER, TWO INTERRELATED FUNDAMENTAL PROBLEMS WHICH AFFECT MINING IN A PARTICULARLY DEBILITATING WAY - INFLATION, AND THE PUBLIC AND POLITICAL PERCEPTIONS OF THE INDUSTRY.

THE PROBLEM OF INFLATION

INFLATION CREATES A NUMBER OF SERIOUS PROBLEMS FOR MINING, AS IT DOES FOR ANY INDUSTRY. THE MOST SERIOUS STEMS FROM THE FACT THAT MINING IS CAPITAL INTENSIVE, AND THE COST OF NEW CONSTRUCTION AND EQUIPMENT HAS BEEN ESCALATING AT A RATE WHICH BEARS NO RELATIONSHIP - AT LEAST NOT YET - TO THE INCREASE IN THE CONSUMER PRICE INDEX. OUR BEST ESTIMATE IS THAT THE COST OF DEVELOPING A NEW MINE IN FEBRUARY, 1975 DOLLARS IS MORE THAN DOUBLE WHAT IT WAS THREE YEARS AGO AND FIVE TIMES WHAT IT WAS TEN YEARS AGO. MOREOVER, IF WE STARTED A NEW PROJECT TODAY WITH A MULTI-YEAR CONSTRUCTION PERIOD, OUR ESTIMATE OF ITS ULTIMATE COST WOULD ONLY BE A GUESS AND, BASED ON RECENT EXPERIENCE, PROBABLY A BAD ONE AT THAT.

THIS, OF COURSE, MAKES PREPARATION OF THE CREDIBLE FEASIBILITY STUDY REQUIRED TO ATTRACT THE CAPITAL NEEDED TO DEVELOP A NEW OREBODY ALMOST IMPOSSIBLE. WHEN THIS IS COMBINED WITH THE DESTRUCTIVE EFFECT OF INFLATION ON CAPITAL MARKETS, THE IMPACT ON THE INDUSTRY'S ABILITY TO FINANCE NEW MINE PROJECTS BECOMES EXTREMELY SERIOUS.

A RELATED PROBLEM IS THE FACT THAT FINANCIAL STATEMENTS PREPARED IN THE TRADITIONAL WAY BECOME MEANINGLESS IN THIS SORT OF ENVIRONMENT. ASSETS ARE CARRIED AT HISTORICAL COSTS WHILE EARNINGS ARE STATED IN CURRENT DOLLARS, AND THE TWO ARE SIMPLY NOT THE SAME THING. IT WOULD MAKE JUST AS MUCH SENSE TO STATE ASSETS IN POUNDS STERLING AND

EARNINGS IN JAPANESE YEN. A CORPORATION OR INDUSTRY MAY APPEAR TO BE EARNING A LUCRATIVE RATE OF RETURN ON ASSETS CARRIED AT HISTORICAL VALUES, BUT THE LEVEL OF PRICES FOR ITS PRODUCTS MAY STILL BE INADEQUATE TO JUSTIFY NEW CAPACITY AT PRESENT CONSTRUCTION COSTS. CLEARLY, INFLATION REQUIRES US TO ADOPT NEW ACCOUNTING METHODS TO AVOID MISLEADING NOT ONLY OUR SHAREHOLDERS AND EMPLOYEES BUT ALSO THE PUBLIC AT LARGE.

IN THE MEANWHILE, WE'VE ALL BEEN SUBJECTED TO A BARRAGE OF POLITICAL PROPAGANDA REGARDING ENORMOUS INCREASES IN CORPORATE PROFITS, CHARACTERIZED AS A "RIP-OFF" WHICH IS THE MAJOR CAUSE OF RISING CONSUMER PRICES. IT'S TEMPTING TO ADOPT A CYNICAL ATTITUDE TOWARD SUCH RHETORIC, BUT UNFORTUNATELY IT'S BELIEVED BY A SUBSTANTIAL NUMBER OF CANADIANS. ONE GROUP WHICH DOESN'T BELIEVE IT OF COURSE IS THE INVESTORS, AGAINST WHOM THE REAL RIP-OFF IS BEING PERPETRATED, AND THIS CREATES ANOTHER SET OF PROBLEMS. MOREOVER, THE FACT THAT MOST OF US ARE NOT GOING TO BE FACED WITH CRITICISM OF ENORMOUS PROFIT INCREASES IN 1975 IS PRETTY COLD COMFORT.

DESPITE APPEARANCES, THE SIMPLE TRUTH IS THAT 1974 PRICES FOR MOST MINE PRODUCTS WERE NOT ADEQUATE TO JUSTIFY NEW CAPACITY AT TODAY'S CONSTRUCTION COSTS. IN FACT, THERE ARE NUMEROUS EXAMPLES OF SUCCESSFUL EXISTING OPERATIONS WHICH COULD NOT BE ECONOMICALLY DEVELOPED UNDER RECENT CONDITIONS. BESIDES, WITH CAPITAL MARKETS IN DISARRAY, NEW DEVELOPMENTS MUST BE FINANCED MORE THAN EVER BEFORE FROM PROFITS, AND 1974 PROFIT LEVELS WERE INADEQUATE TO DO THIS.

THE PROBLEM OF PUBLIC AND POLITICAL PERCEPTIONS

THIS LEADS TO THE SECOND BASIC PROBLEM OF MINING, THE ADVERSE PUBLIC AND POLITICAL PERCEPTIONS OF THE INDUSTRY. AT THE ROOT OF THIS IS THE REPEATED ASSERTION THAT THE INDUSTRY EARNS EXCESSIVE PROFITS - OR ECONOMIC RENTS - FROM THE EXTRACTION OF NON-RENEWABLE RESOURCES BELONGING TO THE PEOPLE, AND THAT AN INADEQUATE PROPORTION OF THESE

PROFITS ARE RETURNED TO THE PEOPLE IN THE FORM OF TAXES. THE FACT THAT THIS PERCEPTION BEARS NO RESEMBLANCE TO REALITY MAKES NO DIFFERENCE. IT HAS BECOME PART OF CANADIAN CONVENTIONAL WISDOM.

WHAT SEEMED AT THE TIME TO BE AN EXTREME EXAMPLE OF THIS POINT OF VIEW WAS A REPORT PREPARED TWO YEARS AGO FOR THE GOVERNMENT OF MANITOBA. AFTER DEALING AT GREAT LENGTH WITH THE SO-CALLED SUPER PROFITS OF THE INDUSTRY, THIS REPORT RECOMMENDED THAT EXISTING MINES BE CONFISCATED WITHOUT COMPENSATION THROUGH USE OF THE TAX SYSTEM. FOR THE FUTURE, IT PROPOSED THAT ALL EXPLORATION BE CONDUCTED BY THE STATE AND THAT ALL NEW MINES SO DISCOVERED BE DEVELOPED BY CROWN CORPORATIONS. WHILE THESE RECOMMENDATIONS WERE REPUDIATED BY THE PROVINCE, SUBSEQUENT EVENTS INDICATE THAT THEIR UNDERLYING PHILOSOPHY HAS HAD AN INSIDIOUS IMPACT ON PUBLIC POLICY THROUGHOUT CANADA.

THE RESULT HAS BEEN A COMPLETE REVERSAL OF PAST CANADIAN POLICIES, WHICH WORKED SO WELL, OF INCENTIVES FOR THE EXPLORATION AND DEVELOPMENT OF NEW MINES. THE FEDERAL TAX REFORM LEGISLATION, WHICH ELIMINATED MOST OF THESE INCENTIVES IN THE NAME OF SO-CALLED EQUITY, WAS SERIOUS ENOUGH. BUT OVER THE PAST YEAR, THE INDUSTRY HAS COME TO BE REGARDED AS A SOURCE OF GOVERNMENT REVENUES TO BE SQUEEZED DRY REGARDLESS OF THE LONG TERM CONSEQUENCES. IN THE PROCESS, IT HAS BEEN CAUGHT IN THE MIDDLE OF A FEDERAL-PROVINCIAL WAR OVER TAXING POWERS.

IN QUICK SUCCESSION, BRITISH COLUMBIA IMPOSED A GROSS ROYALTY ON PRODUCTION AND A "SUPER ROYALTY" ON PRICE INCREASES. SASKATCHEWAN CAME UP WITH A TAX ON ORE RESERVES IN THE GROUND. MANITOBA SUBSTANTIALLY INCREASED CONVENTIONAL MINING TAXES PENDING A NEW, AND PRESUMABLY MORE ONEROUS, SYSTEM. ONTARIO AND QUEBEC WEIGHED IN WITH SAVAGE NEW GRADUATED TAXES. AND THE FEDERAL GOVERNMENT, CONCERNED THAT THIS BEWILDERING ARRAY OF MEASURES WAS UNREASONABLY ERODING ITS CORPORATION TAX BASE, PROCEEDED TO DISALLOW THEM AS EXPENSES IN CALCULATING INCOME TAXES.

WHILE I HAVE CONSIDERABLE SYMPATHY FOR THE FEDERAL GOVERNMENT'S POSITION, THIS WAS A FINAL AND DEVASTATING BLOW.

THE END RESULT OF THESE RAPACIOUS AND UNCOORDINATED TAX CHANGES, IS AN ABRUPT AND PROFOUND CHANGE IN THE INDUSTRY'S CIRCUMSTANCES. ALONG WITH OIL AND GAS, MINING HAS BECOME THE MOST HEAVILY TAXED SECTOR OF THE CANADIAN ECONOMY. TAKING NORANDA AS AN EXAMPLE, OUR AVERAGE EFFECTIVE RATE OF TAX ON MINING OPERATIONS IN 1973 WAS AROUND 40% INCLUDING FEDERAL AND PROVINCIAL LEVIES. THIS, I SHOULD POINT OUT, IS ABOUT THE SAME LEVEL PRESENTLY DEEMED TO BE APPROPRIATE FOR MANUFACTURING AND PROCESSING. IN 1975, OUR EFFECTIVE RATE OF TAX WILL VARY FROM AROUND 60% IN ONTARIO AND QUEBEC TO MORE THAN 100% IN WESTERN CANADA. ONLY IN THE MARITIMES AND THE TERRITORIES DOES THE TAX RATE REMAIN, SO FAR AT LEAST, AT TOLERABLE LEVELS.

DOES MINING EARN ECONOMIC RENT?

OF COURSE, IF THE MINING INDUSTRY DOES EARN AN ECONOMIC RENT - WHICH HAS BEEN DEFINED AS A RETURN BEYOND THE LEVEL NEEDED FOR A PRODUCER TO CONTINUE AND EXPAND ITS PRODUCTION - THEN A CASE CAN BE MADE FOR SOME INCREASE IN TAXES, ALTHOUGH NOT TO THE PREPOSTEROUS LEVELS NOW IN PLACE IN MUCH OF CANADA. IN FACT, IT'S THE ASSUMPTION THAT SUCH ECONOMIC RENTS EXIST THAT UNDERLIES MANY OF THE RECENT TAXATION CHANGES.

DUE TO THE LONG ODDS AGAINST EXPLORATION SUCCESS, HIGH CAPITAL INTENSITY, FLUCTUATING AND UNCERTAIN MARKETS, TECHNICAL AND ENVIRONMENTAL PROBLEMS AND SO FORTH, MINING IS AN INDUSTRY INVOLVING GREATER THAN NORMAL BUSINESS RISKS. FOR THIS REASON, VIRTUALLY ALL STUDIES OF THE TAX SYSTEM HAVE CONCLUDED THAT MINING REQUIRES A SUBSTANTIALLY HIGHER RATE OF RETURN THAN MOST OTHER BUSINESSES. AMONG OTHERS, THIS CONCLUSION WAS REACHED BY THE REPORT OF THE CARTER COMMISSION, THE WHITE PAPER ON TAX REFORM AND A RECENT STUDY BY THE WORLD BANK. IT WAS EVEN STATED BY THE LEADER OF THE N.D.P. DURING THE RECENT FEDERAL ELECTION

CAMPAIGN, WHICH CERTAINLY CONSTITUTED SUPPORT FROM AN UNEXPECTED SOURCE.

IN ASSESSING THE RETURNS EARNED BY MINING, IT'S MISLEADING TO LOOK AT ONE YEAR IN ISOLATION DUE TO THE CYCLICAL NATURE OF THE INDUSTRY. VIEWED OVER A COMPLETE CYCLE, STATISTICS CANADA DATA INDICATE THAT FROM 1969-73 THE MINING INDUSTRY'S RATE OF RETURN ON CAPITAL EMPLOYED FLUCTUATED BETWEEN 3.6% AND 10.2% AND AVERAGED 7.6%. IN THE SAME PERIOD, THE RATE OF RETURN IN MANUFACTURING FLUCTUATED BETWEEN 5% AND 10% AND AVERAGED 7.1%. THUS, MINING'S OSTENSIBLE RATE OF RETURN HAS BEEN MORE VOLATILE, BUT ON AVERAGE NOT MUCH BETTER, THAN THAT OF MANUFACTURING. AND BECAUSE OF THE IMPACT OF INFLATION ON CAPITAL INTENSIVE INDUSTRIES SUCH AS MINING, THE SMALL GAP WHICH APPEARED TO EXIST WAS AN ILLUSION. MOREOVER, THESE RETURNS WERE EARNED UNDER A TAX SYSTEM WHICH HAS SINCE BEEN PROFOUNDLY ALTERED - TO THE DETRIMENT OF MINING AND TO THE BENEFIT OF MANUFACTURING.

IF THIS IS TRUE, HOW DOES THIS IMAGE OF ECONOMIC RENT OR SUPER PROFITS ARISE? THE ANSWER SEEMS TO BE TWOFOLD. THERE ARE, OF COURSE, INDIVIDUAL EXAMPLES OF ECONOMIC RENT IN MINING RESULTING FROM DEPOSITS WHICH ARE UNUSUALLY RICH AND LARGE. SUCH BONANZAS, WHILE SPECTACULAR, ARE RARE BUT IT'S THE HOPE OF EARNING AN ECONOMIC RENT THROUGH DISCOVERY OF ONE OF THEM WHICH KEEPS MOST OF US IN THE HIGH-RISK EXPLORATION BUSINESS. HOWEVER, THERE SEEMS TO BE A TENDENCY TO GENERALIZE FROM THE PARTICULAR, AND TO ASSUME THAT SUCH BONANZAS ARE TYPICAL. IF NO INDIVIDUAL PRODUCER IS TO BE PERMITTED AN ECONOMIC RENT, THEN THE MOST IMPORTANT INCENTIVE TO EXPLORATION IS DESTROYED. BESIDES, A TAX SYSTEM DESIGNED TO CONFISCATE THE ECONOMIC RENTS EARNED BY A FEW PRODUCERS RESULTS IN SERIOUS OVERTAXATION OF THE INDUSTRY IN AGGREGATE.

ASIDE FROM THE PROBLEM OF GENERALIZING FROM PARTICULAR CIRCUMSTANCES, THE TAX SYSTEMS NOW IN PLACE SEEM TO ASSUME THAT THE INDUSTRY'S FAVOURABLE ECONOMIC CIRCUMSTANCES IN 1973 AND EARLY 1974 WERE

PERMANENT. THEY AREN'T, AS WILL BE PAINFULLY DEMONSTRATED IN 1975. IN FACT, A RECENT ARTICLE IN THE ECONOMIST FORECAST THAT THE TERMS OF TRADE FOR MOST RAW MATERIALS WILL BE BELOW EARLY 1974 LEVELS THROUGH MOST OF THE NEXT 20 YEARS.

WHERE DO WE GO FROM HERE?

IN ANY EVENT, WHAT WE NOW HAVE IN PLACE IS AN ARRAY OF TAX STRUCTURES IN MUCH OF CANADA WHICH MAKE IT IMPOSSIBLE FOR THE PRIVATE SECTOR TO EARN A REASONABLE RETURN ON MOST NEW MINE DEVELOPMENT. WHEN COMBINED WITH THE PROBLEMS OF INFLATION REFERRED TO EARLIER, THIS CREATES AN OUTLOOK FOR MINING WHICH IS PROFOUNDLY DISCOURAGING. IF NEW MINES CAN'T BE PROFITABLY DEVELOPED, THERE'S NO POINT IN LOOKING FOR THEM AND THE DECLINING TREND IN EXPLORATION OF THE PAST FEW YEARS WILL ACCELERATE. INVESTMENT BY THE INDUSTRY IN NEW PROJECTS HAS ALSO BEEN DECLINING, DESPITE THE IMAGE OF PROSPERITY, AND THIS WILL CONTINUE.

THE FUTURE LEVEL OF ACTIVITY IN MINING IS, OF COURSE, A FUNCTION OF SUCCESS IN FINDING NEW OREBODIES WHICH, IN TURN, DEPENDS ON THE LEVEL OF EXPLORATION ACTIVITY. LEAD TIMES IN THE INDUSTRY ARE LONG, AND OVER THE RECENT PAST WE HAVE CONTINUED TO BENEFIT FROM THE MOMENTUM BUILT UP IN THE 1960'S. FOR THE SAME REASON, TODAY'S PROBLEMS WILL NOT HAVE AN OBVIOUS IMPACT FOR SEVERAL YEARS. IN THE PERIOD AHEAD, HOWEVER, STAGNATION AND DECLINE IN THE INDUSTRY ARE INEVITABLE UNLESS THE RULES ARE CHANGED.

IT MUST BE ADDED HERE THAT, EVEN IF WE WERE TO REVERT TOMORROW TO THE TAX RATES OF THE 1960'S, CONFIDENCE IN THE STABILITY OF THE SYSTEM HAS BEEN SHATTERED AND WON'T BE QUICKLY REBUILT. THIS MEANS THAT A NEW PERCEIVED RISK HAS BEEN ADDED TO THE MANY OTHERS INHERENT IN MINING, INCREASING THE RATE OF RETURN REQUIRED ON NEW VENTURES. WHEN THIS FACTOR IS ADDED TO THE PROBLEMS OF INFLATION, THE RESULT IS THAT MANY NEW OPERATIONS STARTED OVER THE PAST DECADE WOULD NOT BE CONSIDERED

ECONOMICALLY VIABLE FOR DEVELOPMENT TODAY, EVEN UNDER A REASONABLE TAX SYSTEM. IN OTHER WORDS, WE'VE REVERSED THE OLD ALCHEMIST'S DREAM BY CONVERTING ORE INTO WASTE ROCK.

NORANDA'S SITUATION MAY BE FAIRLY TYPICAL OF WHAT IS HAPPENING. LOOKING AT 1975, WE FOUND OURSELVES FACING A SORT OF BAD NEWS/GOOD NEWS SITUATION. THE BAD NEWS WAS THAT IN THE FACE OF DECLINING CASH FLOW, THE INADEQUACY OF DEPRECIATION CHARGES TO COVER NEEDED REPLACEMENTS AND THE DEPRESSED STATE OF THE CAPITAL MARKETS, WE FOUND IT NECESSARY TO ELIMINATE \$100 MILLION FROM THE CAPITAL SPENDING PREVIOUSLY PLANNED FOR 1975. THE GOOD NEWS WAS THAT, WITH THE IMPACT OF TAXES AND INFLATION ON THE ECONOMICS OF NEW DEVELOPMENT, WE HAD LITTLE DIFFICULTY IN FINDING PROJECTS WHICH WERE WORTHY CANDIDATES FOR ELIMINATION.

WHY ARE WE IN THIS MESS?

WHY ARE WE IN THIS MESS? IN THE MINDS OF SOME, A DECLINE IN THE MINING INDUSTRY WOULD BE A GOOD THING. IT'S ARGUED THAT PAST NATIONAL POLICIES DESIGNED TO STIMULATE INVESTMENT HAVE FOSTERED CAPITAL INTENSIVE PRIMARY INDUSTRIES SUCH AS MINING AT THE EXPENSE OF OTHER SECTORS OF THE ECONOMY. IT'S ALLEGED THAT SUCH INDUSTRIES HAVE PAID VERY LITTLE IN TAXES, HAVE CREATED LITTLE EMPLOYMENT, HAVE EXPORTED MOST OF THEIR PRODUCTION IN RAW FORM, AND HAVE CONTRIBUTED TO FOREIGN DOMINATION OF OUR ECONOMY. THE CONCLUSION IS THAT WE NEED AN INDUSTRIAL STRATEGY WHICH WILL DIVERT CAPITAL FROM PRIMARY INDUSTRY TO THE SECONDARY MANUFACTURING AND SERVICE SECTORS, WHERE MANY MORE JOBS WILL BE CREATED PER UNIT OF INVESTMENT.

OF COURSE, THIS IS UTTER NONSENSE. IT IGNORES THE INTERNATIONAL CHARACTER OF MINING CAPITAL, THE REAL EMPLOYMENT EFFECTS OF THE INDUSTRY, AND THE FACT THAT CAPITAL INTENSIVE INDUSTRIES ARE MOST LIKELY TO BE THE ONES WHICH CAN PROVIDE THE QUALITY OF EMPLOYMENT AND LEVEL OF INCOMES CANADIANS DEMAND. IT MISSTATES THE EXTENT OF FURTHER PROCESSING, THE

LEVEL OF TAXATION AND THE EXTENT OF FOREIGN OWNERSHIP. IT RELIES ON CANADIAN CONVENTIONAL WISDOM THAT A ROLE AS A PRODUCER OF BASIC RAW MATERIALS IS A SOURCE OF WEAKNESS, WHILE RECENT EVENTS HAVE DEMONSTRATED THAT INSTEAD IT IS A SOURCE OF STRENGTH. AND IT FAILS TO COME TO GRIPS WITH WHAT OTHER VIABLE INDUSTRIES WE CAN CREATE TO TAKE MINING'S PLACE. AND YET THIS POINT OF VIEW HAS UNDENIABLY HAD AN IMPACT ON CANADIAN PUBLIC POLICY.

IN THIS CONNECTION, THE CHAIRMAN OF THE ECONOMIC COUNCIL RECENTLY ARGUED THAT EMPLOYMENT CREATION SHOULD NOT BE THE MAJOR OBJECTIVE OF NATIONAL POLICY, SINCE POPULATION GROWTH IN CANADA WILL BE SLOWING DOWN IN FUTURE AND OUR BASIC PROBLEM WILL BECOME A SHORTAGE OF LABOUR. HE POINTED OUT THAT THE RELENTLESS TENDENCY OF MANUFACTURING INDUSTRIES TO LOCATE IN SOUTHERN ONTARIO CREATES PROBLEMS IN TERMS OF NATIONAL UNITY AND MASSIVE METROPOLITAN CONCENTRATION. HE SUGGESTED THAT WE SHOULD STOP TRYING TO DO EVERYTHING AND SPECIALIZE IN FIELDS WHERE WE HAVE A COMPARATIVE ADVANTAGE. HE FORECAST THAT WE WILL SEE A RENEWED EMPHASIS ON PRIMARY INDUSTRY IN FUTURE, ACCOMPANIED BY ACCELERATED DEVELOPMENT OF THOSE REGIONS OUTSIDE OUR EXISTING MAJOR URBAN AGGLOMERATIONS. IF HE IS RIGHT, OUR PRESENT NATIONAL POLICIES ARE CLEARLY PERVERSE.

MINING'S PROBLEMS ALSO STEM FROM A LACK OF UNDERSTANDING OF THE INDUSTRY COMBINED WITH OUR LACK OF CREDIBILITY. SOME GOVERNMENTS IN CANADA DON'T WISH TO DAMAGE THE INDUSTRY BUT SIMPLY WON'T BELIEVE US WHEN WE SAY THEY ARE DOING JUST THAT. IT SEEMS THAT CREDIBILITY WILL ONLY BE ESTABLISHED WHEN THE EXPECTED STAGNATION BECOMES OBVIOUS TO ALL, BUT THIS WILL BE A LONG AND PAINFUL PROCESS. AND BY THE TIME IT HAPPENS, OUR MOMENTUM WILL HAVE BEEN LOST AND WILL BE EXTREMELY DIFFICULT TO REGAIN.

A THIRD SOURCE OF OUR PROBLEMS IS DOCTRINAIRE. THERE ARE MANY WHO SIMPLY BELIEVE THAT MINES SHOULD BE OPERATED ENTIRELY BY THE STATE, AND TO THEM NO DOUBT THE UNIVERSE IS UNFOLDING AS IT SHOULD. IN A

REMARKABLE TURNAROUND ONE OF THE INDUSTRY'S MOST VOCAL CRITICS, WHO ONLY A FEW MONTHS AGO WAS ATTACKING THE EXCESSIVE LEVEL OF MINING PROFITS, WAS QUOTED RECENTLY AS SAYING THAT THE COMBINED FEDERAL AND PROVINCIAL TAX MOVES HAD LEFT NO ROOM FOR THE PRIVATE SECTOR IN MINING.

IF GOVERNMENTS COULD EFFECTIVELY AND EFFICIENTLY STEP INTO THE ROLE PREVIOUSLY PLAYED BY THE PRIVATE SECTOR IN MINING, PRESUMABLY ONLY THE SHAREHOLDERS WILL CARE IF PRIVATELY-OWNED CORPORATIONS ARE DISPLACED. HOWEVER, WHILE MINERALS MAY BELONG TO THE PEOPLE, THEY MUST BE FOUND AND DEVELOPED BEFORE THEY BECOME ASSETS, WHICH REQUIRES A GREAT DEAL OF SKILL AND HIGH-RISK CAPITAL. CANADIANS SHOULD NOT ACCEPT UNCRITICALLY THE ASSUMPTION THAT OUR GOVERNMENTS CAN EFFECTIVELY REPLACE THE PRIVATE SECTOR IN THIS ACTIVITY. IF THEY WERE REALLY ABLE TO PULL THIS OFF, IT WOULD BE AN ACHIEVEMENT WITHOUT PRECEDENT IN THE WESTERN WORLD. THIS IS NOT MEANT TO DENIGRATE POLITICIANS AND CIVIL SERVANTS. IT'S SIMPLY THAT THE FUNCTIONS ARE DIFFERENT, AND THEY'RE NO BETTER EQUIPPED TO FIND AND DEVELOP MINES THAN I AM TO RUN THE GOVERNMENT.

SO THE ANSWER TO THE QUESTION, "WHERE DO WE GO FROM HERE?" IS "NOWHERE". THE INDUSTRY'S MOOD IS ONE OF FRUSTRATION AND DESPAIR. WHAT WE FACE IS A SIGNIFICANT DECLINE IN THE LEVEL OF MINING'S CONTRIBUTION TO THE CANADIAN ECONOMY. PRESENT CIRCUMSTANCES WON'T FORCE THE SHUTDOWN OF MANY EXISTING OPERATIONS, BUT FEW NEW PROJECTS WHICH AREN'T GOVERNMENT SPONSORED OR ARTIFICIALLY INDUCED WILL BE UNDERTAKEN IN MOST OF CANADA IN FUTURE. THE LEVEL OF EXPLORATION WILL BE INADEQUATE TO REPLACE, MUCH LESS ENLARGE, THE RESERVES BEING EXTRACTED. NOR CAN THIS STAGNATION AND DECLINE BE READILY REVERSED.

MINING MAKES AN IRREPLACABLE CONTRIBUTION TO CANADA IN TERMS OF OUR LIVING STANDARDS, REGIONAL DEVELOPMENT AND BALANCE OF PAYMENTS. IT'S HIGHLY PRODUCTIVE AND INTERNATIONALLY COMPETITIVE. THE EROSION OF THE VITALITY OF AN INDUSTRY IN WHICH CANADA HAS BEEN A WORLD LEADER,

FOR THE SAKE OF A TRANSITORY INCREASE IN TAX REVENUES, IS A NATIONAL TRAGEDY.

CONCLUSIONS

WHILE THE MINING INDUSTRY'S PROBLEMS ARE SERIOUS ENOUGH IN THEMSELVES, IN MY MIND THEY RAISE A NUMBER OF QUESTIONS OF A VERY MUCH MORE FUNDAMENTAL NATURE:

- EXCEPT IN TERMS OF DEGREE, ARE THE PROBLEMS OF PUBLIC AND POLITICAL PERCEPTIONS REFERRED TO EARLIER UNIQUE TO THE RESOURCE INDUSTRIES?
- ARE THE PROBLEMS WHICH COMPELLED CURTAILMENT OF OUR 1975 CAPITAL PROGRAM UNIQUE TO NORANDA OR, FOR THAT MATTER, TO THE RESOURCE INDUSTRIES?
- WITH PROFITS IN DISREPUTE AND INVESTOR CONFIDENCE SHATTERED, HOW CAN THE PRIVATE SECTOR FINANCE THE VERY LARGE EXPENDITURES NEEDED IN THE YEARS AHEAD?
- IN FACT, DOES IT MAKE ANY SENSE FOR CORPORATIONS TO EMBARK ON RISKY NEW PROJECTS WHEN COMPARABLE ASSETS ARE SELLING AT A FRACTION OF REPLACEMENT COST ON THE STOCK MARKETS?
- UNDER THE CONDITIONS WE FACE IN CANADA TODAY, WILL THE PRIVATE SECTOR BE ABLE TO DO THE JOB EXPECTED OF IT IN THE YEARS AHEAD?
- IF THE PRIVATE SECTOR IS TO BE CRIPPLED, WHAT IS GOING TO TAKE ITS PLACE AND IS THIS REALLY WHAT CANADIANS WANT?
- IF THE VITALITY OF OUR ECONOMIC INSTITUTIONS IS BEING ERODED, ARE OUR SOCIAL AND POLITICAL INSTITUTIONS SECURE?

IN THE SHORT RUN, BUSINESS CAPITAL SPENDING IS SUPPOSED TO BE THE MAIN SOURCE OF STRENGTH IN THE CANADIAN ECONOMY IN 1975. IF NORANDA'S CURRENT EXPERIENCE IS BEING WIDELY DUPLICATED, THIS IS GOING TO BE A YEAR MOST OF US WILL WISH NEVER HAPPENED. ABOUT THE ONLY BENEFIT WHICH COULD FLOW FROM THIS MIGHT BE A RENEWED PUBLIC APPRECIATION OF THE VALUE OF PROFITS.

LOOKING FURTHER AHEAD, I BELIEVE THAT THE CURRENT PROBLEMS OF THE RESOURCE INDUSTRIES ARE REALLY MANIFESTATIONS OF AN ATTACK ON THE PRIVATE SECTOR AS A WHOLE. AND IN THE PROCESS, ITS VITALITY IS STEADILY AND INSIDIOSLY BEING SAPPED. AT A TIME WHEN WE SHOULD BE STRENGTHENING OUR INDUSTRIES TO WITHSTAND THE INCREASINGLY DIFFICULT EXTERNAL CONDITIONS WHICH FACE US, WE'RE PREOCCUPIED WITH INTERNAL SQUABBLES. THE PRIVATE SECTOR IS INCREASINGLY SUBJECT TO UNINFORMED, BUT STRIDENT AND WIDELY PUBLICIZED, ATTACKS WHICH SEEM TO HAVE A PERVASIVE IMPACT ON GOVERNMENT POLICIES. AND FEW PEOPLE OUTSIDE THE PRIVATE SECTOR (WHICH IS NOT NOTABLY ARTICULATE) SEEM PREPARED TO DEFEND A SYSTEM WHICH, FOR ALL ITS FAULTS, HAS GIVEN CANADIANS ONE OF THE WORLD'S BEST LIVING STANDARDS IN TERMS OF BOTH QUANTITY AND QUALITY.

THE ECONOMIC SYSTEM UNDER WHICH WE OPERATE IS AS STRONG AND FLEXIBLE AS ANYTHING YET DEvised, BUT THERE'S A LIMIT TO THE AMOUNT OF ABUSE IT CAN ABSORB AND NON-PRODUCTIVE ACTIVITY IT CAN SUPPORT. THAT LIMIT MAY WELL HAVE BEEN PASSED.

WE'RE MOVING INTO A VERY DIFFERENT WORLD THAN THE ONE TO WHICH WE'VE ALL BECOME ACCUSTOMED. CANADA'S POSITION IS RELATIVELY STRONG, BUT WE DON'T SEEM TO UNDERSTAND THE REASONS FOR OUR SUCCESS. MORE THAN MOST COUNTRIES, WE HAVE THE OPPORTUNITY TO WEATHER THIS PERIOD WITHOUT EXTREMELY SERIOUS AND PAINFUL CONSEQUENCES, IF WE CAN ONLY BUILD ON OUR STRENGTHS AND MINIMIZE OUR WEAKNESSES. IF WE CAN FIND A BETTER WAY FOR THE VARIOUS SECTORS OF SOCIETY AND LEVELS OF GOVERNMENT TO WORK TOGETHER, WE'LL SUCCEED. IF WE DON'T, WE'LL BLOW IT.