Presentation before the Senate Banking, Trade and Commerce Committee

On Bill C 48 Regarding the Taxation of Industry and Natural Resources.

November 5, 2003

Presented by MiningWatch Canada and the Green Budget Coalition

I represent MiningWatch Canada, a national coalition of seventeen environmental, social justice, Aboriginal and labour organizations. We are a member of the Green Budget Coalition.

Although we applaud the recommendation to remove the Resource Allowance, we are deeply concerned that the measures will cost the federal government $260 million per year in lost revenues, while ignoring the long-term negative environmental, social and economic impacts of non-renewable resource development. This contradicts recommendations from the Organization for Economic Cooperation and Development and the Ministry of Finance's own advisory committee on business taxation reform.

Bill C-48

- Reduces the mining industry Corporate Tax rate by lowering it to 21% by 2007
- Removes the Resource Allowance
- Introduces a 10% Investment Tax Credit for companies based on their exploration expenses

These changes complement tax breaks and subsidies in the provinces and a planned removal of the Capital Tax in 2008. By 2007, the average effective corporate tax rate (federal and provincial) for mining will be 30.1% and the marginal tax rate will only be 7.6%.

The Organization for Economic Cooperation and Development has recommended that Canada's "preferential tax treatment of conventional resource sectors, such as oil and gas and minerals and metals be eliminated" on both environmental and economic grounds. These recommendation took place in the context of urgent warnings by the OECD that "[a]ll major global ecosystems are in decline"[i] and by academics that the economy has already exceeded many ecological limits.[ii]

Resource extraction and material consumption are central to these stresses on the biosphere. The centrality of issues was recognized in Principle 8 of the 1992 Rio Declaration, committing the Parties to the elimination of unsustainable patterns of production and consumption, and in Chapter 4 of Agenda 21 — Changing Consumption Patterns.[iii] It has been estimated that, to achieve sustainability worldwide, the material intensity of each unit of economic output will need to be reduced by 50% and, in industrial countries like Canada, it will have to fall by factors of between 4 and 10.[iv]

Society's demand for goods and services will have to be met with a significant reduction in new material inputs. This can be achieved through waste prevention and reduction in the design and delivery of goods, and the recycling and reuse of existing materials stocks, rather than disposing of used materials at one end of the materials cycle and inputting newly extracted ones at the other.[v] Although the use of certain metals, such as mercury, should be phased out due to their extremely toxic properties,[vi] other metals are especially good candidates for these approaches. Metals do not lose their mechanical or metallurgical properties when recycled, while retaining their economic value. As a result metals can be re-used and cycled through the economy almost without limit.[vii]

The scale of the environmental and social impacts of mining has been central to arguments regarding the need to reduce the consumption of newly extracted materials. The current rates of materials consumption are considered unsustainable, not so much due to shortages of materials themselves, but rather due to the extent of the environmental and social costs associated with their extraction and processing.[viii]

Mineral and metal extraction leaves an enormously damaging and lasting environmental footprint, and the consequences of mining accidents, such as tailings dam failures, are potentially calamitous.[ix] In addition to major disturbances of the landscape, the destruction of fish, wildlife, and plant habitat, and the disruption of surface and ground water flows, mining, and metal mining in particular, generates enormous quantities of waste.

Mining requires removing from the Earth metal bearing ore together with "overburden," the dirt, rock and biological systems that cover the ore. Only a very small portion of the material removed is actually used. For example, one pair of gold wedding rings leaves behind up to 6 tonnes of waste rock and tailings[x] . The ratios are likely to deteriorate further as existing high-grade reserves are exhausted and lower-grade resources developed.

The Canadian mineral industry generates 1 million tonnes of waste rock and 950,000 tonnes of tailings per day, totalling 650 million tonnes of waste per year.[xi] This is more than twenty times the amount of municipal solid waste generated each year by all of the residences, industries, commercial establishments, and institutions in Canada combined.[xii] Globally, humans now move more earth by mining than is carried to the sea by all the world's rivers.[xiii] In 1993 it was estimated that in Canada there was a cumulative total of 700 million tonnes of waste rock and 1.8 billion tonnes of sulphide tailings with the potential to cause AMD.[xiv] Mine operations are a major source of water pollution. Mine water and waste mill slurry may be extremely acid or alkaline, and may contain suspended solids, residual mine-mill chemicals, heavy metals, ammonia, and, in the case of uranium mines, radioactive substances. Run-off from tailings may be acidic, and contain dissolved solids, heavy metals and other toxic substances due to acid mine drainage (AMD). Even properly closed mines require 'Perpetual Care and Maintenance" the cost of which is estimated – from US sources - at 100s of millions of dollars per operating mine.

While we may hope that mining companies will commit to perpetual care and maintenance of these sites into "perpetuity" – realistically we have to realize that most of these sites will revert to the Crown down the road.

There are currently some 10,000 abandoned mines in Canada[xv]. The Mining Association of Canada has estimated the cost of clean up of these, sometimes toxic sites, at $6 billion dollars[xvi].The federal liability alone in for clean up of these abandoned mines is estimated at $1 billion for 2003.[xvii]

While many Canadian mines provide economic benefits for some 15-20 years, the costs associated with containing and treating the huge amounts of Acid Mine Drainage waste they produce will need to be borne by Canadians for hundreds if not thousands of years after the mine closes.

In addition, ore extraction and concentration operations, refining and smelting, and tailings areas are major sources of air pollution. Over 60,000 tonnes of particulate matter are released into the atmosphere from tailings in Canada each year, while the metal smelting sector is a leading source of a range of heavy metals, including cadmium, mercury, lead, nickel and arsenic, as well as acid rain precursors, such as sulphur dioxide.[xviii]

Data on pollutant releases and transfers from the mining sector in Canada are incomplete, due to the exemption of extraction phase mining from the National Pollutant Release Inventory. The exemptions from reporting pollutant releases and transfers for the coal and metal mining sectors were removed from the United States Toxic Release Inventory (TRI) in 1998. As a result, the metal mining sector emerged as the largest source of total on- and off-site releases to the environment of TRI substances, constituting 51.2% of all pollutant releases reported to the TRI in 1999.[xix]

Mining also results in socio-economic costs including: health impacts; work injuries; boom and bust economic cycles; the destruction of indigenous livelihoods; and dramatic changes in regional cultures.[xx]

Federal subsidies for the exploration and development of new mines in Canada have historically been justified because of the resulting employment and other economic benefits. However, the economic contribution of the metal mining sector, in particular, is in decline.

In 2002, Miningwatch Canada and the Pembina Institute published a report that assesses the value of public support for the metal mining industry in Canada. Data from public (government and industry) sources was compared and trends were established between 1994-95 and 2000-01[xxi] Here are a few of the findings with respect to Subsidies, Jobs and GDP.

With regard to Subsidies - In 2000-01 – Federal tax benefits to the industry amounted to $ 319 million dollars. This is up by 5% from 1994-95

With regard to Jobs – In 2000-01 -- 29,248 people were employed in the metal mining industry, down 12% from 1994-5. In general Canadian industries increased jobs by 15% during this same period. By 2002, there were less than 23,400 jobs.

With respect to GDP – The contribution of the metal mining industry to GDP in 2000-01 was 4.5 billion dollars. This is down by 8% from 4.9 billion in 1994-95.

These numbers and trends demonstrate that increased public investment in the metal mining industry has not lead to a positive return in terms of jobs or contributions to GDP.

We need a tax system that encourages alternative economic development, industrial adjustment and resource efficiency, not the continuing extraction of non-renewable resources at ever higher social, economic and environmental costs. The Department of Finance based its recommendations on a Technical Study released March 3, 2003. No reference to the

environmental or social costs of mineral extraction are to be found in the study or in the background studies for the proposed tax changes.

If we actually respect the enormous environmental and social costs of each ounce of metal we consume, we would find ways to recycle and conserve minerals instead of extracting new ones. Bill C-48 flies in the face of everything the government has been telling Canadians about protecting our environment.

---

[i] The report of the High-Level Advisory Group on the Environment to the Secretary-General of the OECD; November 25, 1997. http://www.oecd.org/subject/sustdev/hlage.htm, p.10.
[ii] Meadows, Donella, Denis Meadows and J. Randers, Beyond the Limits, (Toronto:McClelland and Stewart, 1992).
[iii] See, in particular, Art. 4.18.
[iv] The need for a 90% reduction in material intensity in OECD countries was acknowledged in the October 1994 Carnoules Declaration, endorsed by prominent individuals including the former executive directors of the Business Council for Sustainable Development and the Brundtland Commission (in T. Green, Lasting Benefits from Beneath the Earth, 1998:69). See also G. Gardner and P. Sampat, Mind over Matter: Recasting the Role of Materials in Our Lives, Worldwatch Paper 144, (Washington: Worldwatch Institute, 1998); J.Young and Aaron Sachs, The Next Efficiency Revolution: Creating a Sustainable Materials Economy, Worldwatch Paper 121 (Washington: Worldwatch Institute, 1994). Fresenius Environmental Bulletin (special edition on The Material Intensity Per Unit of Service (MIPS) project of the Wuppertal Institute fur Klima, Umwelt und Energie in Wuppertal, Germany, Vol.2, No.8, 1993.
[v] On these approaches see Strategic Waste Prevention: OECD Reference Manual ENV/EPOC/PPC(2000)5/FINAL (Paris: OECD, August 2000), Chapters 2 and 3. Also G. Gardner and P. Smapat, Mind over Matter: Recasting the Role of Materials in Our Lives, Worldwatch Paper 144, (Washington: Worldwatch Institute, December 1998).
[vi] For a good overview of the toxic properties of mercury see Mercury Study Report to Congress (Washington: US EPA, December 1997). See also http:/www.scorecard.org.
[vii] Natural Resources Canada, Metals and Minerals Policy of Canada, (Ottawa: Government of Canada, 1996), p.12.
[viii] J.E. Young, Mining the Earth, Worldwatch Paper 109, (Washington: Worldwatch Institute, 1992).
[ix] As illustrated by the August 1995 Omai Gold mine tailings dam collapse in Guyana (for a detailed discussion of this incident see http://www.probeinternational.org); the March 1996 Marcopper tailings dam failure in the Philippines (for a detailed discussion of this incident see http://www.miningwatch.ca/publications/Marinduque_backgnd.html), and April 1998 Boliden tailings dam failure in Spain (for a detailed discussion of this incident see http://www.antenna.nl/wise/uranium/mdaflf.html). On the potential for mining tailings dam collapses in Canada, particularly in the context of climate change, see P.E. Perkins, "Climate Change and the Canadian North: Ecological Economic Implications Related to Mining," Paper presented to conference of Canadian Society for Ecological Economics, October 1997.
[x] G. Gardner and P. Smapat, Mind over Matter: Recasting the Role of Materials in Our Lives, Worldwatch Paper 144, (Washington: Worldwatch Institute, December 1998), p.18.
[xi] Government of Canada, The State of Canada's Environment, (Ottawa: Minister of Supply and Services, 1991) p.11–19.
[xii] Total municipal solid waste generation in Canada is estimated to be approximately 30 million tonnes per year.
[xiii] J.E. Young and Sachs, The Next Efficiency Revolution: Creating A Sustainable Materials Economy, Worldwatch Paper 121, (Washington: Worldwatch Institute, 1994).
[xiv] G. Feasby and R.K. Jones, Report on the Results of a Workshop on Mine Reclamation — Toronto, Ontario, March 10–11, 1994, (Ottawa: Natural Resources Canada, 1994) p.10.
[xv] Mackasey, W.O. Abandoned Mines in Canada, MiningWatch Canada, 2001
[xvi] Globe and Mail: September 14, 1994
[xvii] MiningWatch Canada, Minings Toxic Orphans, Ottawa 2000.
[xviii] Ibid., pp.8–10.
[xix] US EPA, Toxic Release Inventory 1999 — Executive Summary (Washington: US EPA, 1999).
[xx] see Mining and Communities : a Literature Review and Annotated bibliography (Ottawa: MiningWatch Canada , 2000)
[xxi] MiningWatch Canada and the Pembina Institute. Looking Beneath the Surface: An assessment of the value of public support for the metal mining industry in Canada . October 2002.