

Creating a Competitive Climate for the Mining Industry in Ontario

(Submitted by the Timmins Chamber of Commerce)

Issue:

Investor confidence has been shaken by the Ontario Government's 2007 Budget announcement of a sudden change to the tax structure for diamond mines so close to the start of production for the De Beers Victor Project.

With a \$7 billion economic footprint by the De Beers Victor Project alone, the future of diamond exploration and mine development in Ontario is an important element in the prosperity of Northern Ontario communities, and in the provincial economy as a whole. The construction and development phase of this project has already had a positive economic impact on Northern Ontario with job training and other economic opportunities such as extra revenue for suppliers in the surrounding communities. A predictable, stable and non-discriminatory tax regime that is applied equally across the mining sector is required to sustain this and future economic growth in the north.

Background:

In April 2007, as part of the Ontario budget, the Ontario Government proposed to introduce a diamond royalty system under the *Mining Act*. The proposed diamond royalty, which works like income tax, would range from 5% to 13% depending on annual production values. Currently, the Mining Tax Act rate is fixed at 10% for mines south of the 50th parallel, and 5% for mines north of the 50th. Within the 2007 Ontario Budget, the Government explained that "Diamonds are a new commodity in Ontario and many aspects of diamond mining differ from those of more traditional mining in the province. Unlike other commodities whose value is set by world trade markets, rough diamonds are not traded on the open market and require a unique and separate system for determining their value."¹ The Ministry of Finance based this recommendation on the comparison with the Nunavut project in the Northwest Territories. However, they failed to reflect that there are also complicated land claim issues in Nunavut, including some royalty sharing agreements whereby each Inuit community impacted receives 50% of the taxes up to \$2 million and 5% thereafter. The proposed tax in Ontario will only apply to diamonds and not all mining activities like in Nunavut.

At the time of the budget announcement, De Beers Canada had already invested approximately one billion dollars in the construction of the Victor Project, Ontario's first diamond mine that is scheduled to start production in 2008. The De Beers Board and shareholders approved the Victor Project budget based on the current government policies and tax regimes including the fixed 5% Mining Tax Act rate for developments in the far north.

¹ '2007 Ontario Budget: Budget Papers', Ministry of Finance Information Centre (2007), www.ontariobudget.ca, page 191.

Currently, approximately 600 people are employed by De Beers Canada for the construction of the Victor Project site near Attawapiskat in Northern Ontario. Once the production commences, it is expected that 400 employees will be hired for the daily operations. As an avid supporter of community development initiatives, De Beers Canada built an \$800,000 training centre in Attawapiskat to provide training to the people of this community to prepare them for the employment opportunities that will be offered. The First Nations people of this community are receiving education and training and are being given financial opportunities that would not be available to them without the investment of industries such as this.

Canada is one of the largest mining nations in the world, producing more than 70 minerals and metals. The mining industry provides some of the highest weekly earnings in the economy and exports of minerals and mineral-based products contribute close to 13% of Canada's total domestic exports. Mineral exploration and development is key to the prosperity of many Northern Ontario communities, and favourable tax regimes are needed to maintain and increase investment in the northern regions. Unpredictable tax regimes will be a disincentive to investment firms, and potential investors in projects of this magnitude, if the tax structure can potentially change midstream, thereby negatively impacting potential profits on that investment. It is imperative that the Provincial Government not view the exploration and development of the diamond industry only as a source of revenue for the province as a whole, but take into consideration the long term effects on the many communities, including our First Nations people, who are positioned to benefit from such mineral exploration and mine development.

On July 12, 2007 Minister Sorbara met with the Timmins Chamber of Commerce at the Minister's request to discuss the diamond tax. At that meeting, he committed to keeping the diamond tax in the range of 3 to 7%.

RECOMMENDATIONS

The Ontario Chamber of Commerce urges the Government of Ontario to:

1. Restore investor confidence in Ontario's mining industry by adjusting the diamond tax to a range of 3 to 7%.
2. Set up a taskforce by March 31, 2008 to study comparative revenue sharing models, both in Canada and globally in order to implement a revenue-sharing process for returning a share of diamond taxes to the communities affected by diamond extraction. Membership of this committee should include people from communities in Ontario that are and will be impacted by diamond mines.