

February 9, 2015

Hon. Diana Whalen
Minister of Finance
financeminister@gov.ns.ca

Dear Minister:

I am writing on behalf of the Mining Association of Nova Scotia to respectfully request that the upcoming budget support job creation and growth in our industry by adopting the following measures:

- Extending to the mining/quarrying industry the fuel tax rebate that other resource industries already receive;
- Making the Mineral Incentive Program a permanent program;
- Reducing claim staking fees to at least the level they were prior to the August 2013 fee hike, if not lower; and
- Adding the mining/quarrying industry to the recently-established Capital Investment Tax Credit program.

Background

While the mining and quarrying industry is a large and important industry in this province – we employ 5500 people and generate \$420 million per year in economic activity – we also face significant challenges:

- The Ivany Commission said traditional industries like mining and quarrying "will provide the essential foundations for Nova Scotia's rural economy."¹
- According to 2013 research commissioned by the Department of Natural Resources, Nova Scotia's mining and quarrying industry lost approximately 800 jobs in the past five years, and its economic output shrank by \$80 million per year.²
- According to PricewaterhouseCoopers, we are the highest cost jurisdiction in Canada in terms of tax/royalty payments to the provincial government.³
- According to the Fraser Institute's global survey of mining executives, Nova Scotia is seen as the least attractive province for mining companies to invest in, and government

¹ <http://onens.ca/>, page 54

² http://novascotia.ca/natr/meb/data/pubs/13ofr03/ofr_me_2013-003.pdf

³ www.pwc.com/ca/canminingtax, see exhibit 6, page 21 of the 2013 edition

policies are a major reason.⁴ 2013 was the fifth year in a row that Nova Scotia ranked last in Canada.

Our industry faces tremendous challenges, both because of the global downturn in the industry and because of Nova Scotia-specific policies that are preventing the industry from growing and creating jobs for Nova Scotians. The upcoming budget is an opportunity help eliminate obstacles for our industry and to help us create jobs for Nova Scotians, particularly in rural areas.

Fuel Tax Rebate

We look forward to the Government fulfilling its commitment to extend the off-highway fuel tax rebate to the mining and quarrying industry. Doing so would help the industry grow and create jobs for Nova Scotians, particularly in the rural areas that are in such desperate need of help, and send a signal to the global mining industry that Nova Scotia is open for business.

As you know, the provincial fuel tax is supposed to help pay for public roads and highways by charging the vehicle owners who use them. The government gives other resource industries a tax rebate for fuel used in vehicles that do not go on public roads, such as fishing boats, farm tractors and forestry harvesters. Nova Scotia gives the rebate to fishing, farming and forestry, but does not give it to mining and quarrying even though most of our vehicles also do not use public roads and highways.

The government should treat all resource industries the same. Forestry, fishing and farming get the fuel tax rebate. The mining and quarrying industry should get it too.

Both in opposition and since forming the government, the Nova Scotia Liberal Party has committed to extending the rebate to our industry and we look forward to the Government following through on this important promise in 2015.

Recommendation: Extend the fuel tax rebate to the mining and quarrying industry.

⁴ <https://www.fraserinstitute.org/research-news/display.aspx?id=20902>

Mineral Incentive Program

Nova Scotia's Mineral Incentive Program (MIP) plays an important role in encouraging the mineral exploration that ultimately leads to new mines and significant job creation.⁵

The MIP, which is scheduled to lapse this year after a three-year run, is designed to "increase and promote mineral exploration, leading to mineral discoveries and new, producing mines in Nova Scotia." We believe strongly that the MIP is fulfilling this mandate and contributing to the preservation of jobs and the future growth potential of the mining industry. If we don't do exploration today, there won't be mines tomorrow.

The majority of prospecting and exploration is carried out by individuals and companies that do not have revenue streams from producing mines and who raise most of the money they require on the equity markets. This, combined with the fact that the global equity markets for mining are arguably the worst they have been since the Great Depression, underscores how important it is for the government to continue to support prospecting and exploration in Nova Scotia.

The Mineral Incentive Program is a strategic and cost-effective investment in the future of Nova Scotia's mining industry. We respectfully request that the government make it a permanent program to support the mining industry's ability to grow and create jobs for Nova Scotians.

More details on the MIP and its benefits to the industry and the province are contained in our November 24, 2014 letter to you, which is available at <http://tmans.ca/images/MANS-Mineral-Incentive-Program-letter-November-2014.pdf>.

Recommendation: Make the Mineral Incentive Program a permanent program

Reduce Staking Fees

Prior to August 2013, Nova Scotia's claim staking fees were already high compared to other provinces. In August 2013, the previous government exacerbated this problem by increasing staking fees by 75%.

These huge fee increases are discouraging exploration and are particularly hard on individual prospectors who simply cannot afford them. Many prospectors are being forced to abandon claims because the fee hike, applied to significant numbers of claims, can increase fees by

⁵ MIP details are at <http://novascotia.ca/natr/meb/nsmip/nsmip.asp>

thousands of dollars. In other words, prospectors are giving up their claims and walking away from potential future mines because they simply cannot afford to keep them. The Ivany Commission said mining is an essential part of Nova Scotia's economic future but the government is choking off the future of our industry with these fees.

To illustrate the impact of the fee hikes:

- A prospector with 50 claims now has to pay \$9500 in fees over ten years instead of \$5,424 prior to the fee hikes, an increase of \$4076.
- A prospector with 300 claims now has to pay \$57,000 in claim renewal fees over ten years instead of \$32,547 prior to the fee hikes, an increase of \$24,453.

These staking fees are in addition to various other fees and work requirements imposed by the Department of Natural Resources.

Because prospectors are at the beginning of the long and difficult mining cycle, their claims usually generate no revenue during this ten-year period and the vast majority never result in an actual mine being developed. They therefore cannot afford such a dramatic increase in costs.

The fee hike also puts Nova Scotia fees dramatically out of step with other Atlantic provinces. The new fees are, on average, 53% higher than New Brunswick's and 621% higher than Newfoundland and Labrador's.

It is also important to note that the incremental revenue the fee hike will generate for the government (i.e. \$75,000-\$85,000) is virtually insignificant in context of the government's \$9.9 billion budget. The harm being caused to the industry by the fee increase is completely disproportional to the small amount of revenue being generated for the government. The fee increase is particularly short-sighted given the millions of dollars in taxes and royalties that a single mine can generate.

In other words, the government can afford to give up the fee hike money. Prospectors cannot.

Additional details on this issue are available in letters we sent the Government in April and May 2014.⁶

Recommendation: Reduce claim staking fees to at least what they were prior to the August 2013 increase, if not lower.

⁶ <http://tmans.ca/images/MANS-exploration-claims-fee-hike-letter-April-2014.pdf> and <http://tmans.ca/images/MANS-letter-May-2014.pdf>

Capital Investment Tax Credit

Nova Scotia's mining and quarrying industry should be made eligible for the recently-established Capital Investment Tax Credit (CITC).

By aligning the new provincial tax credit with the Atlantic Investment Tax Credit (AITC), the Government of Nova Scotia has, inadvertently we assume, made Nova Scotia's mining and quarrying industry ineligible for the CITC because the AITC used to include our industry but no longer does.

There are two main reasons why we believe the Government of Nova Scotia should tweak the eligibility criteria for the CITC to include our industry instead of sticking solely with the current AITC criteria:

Fairness

We have applauded the Government of Nova Scotia's decision to extend the fuel tax rebate to our industry and the Government's acknowledgement that it was unfair to give the rebate to other resource industries while not giving it to mining and quarrying. It is strangely inconsistent for the province to make the same mistake with the CITC that it has committed to fixing with the fuel tax rebate.

Compounding the Federal Government's Mistake

Mining was eligible for the federal Atlantic Investment Tax Credit since the 1970s but was dropped from the program in the Government of Canada's 2012 budget because the federal government mistakenly lumped mining in with the oil and gas industry, which is not surprising given its Western Canadian orientation. However, mining in Nova Scotia has nothing to do with oil and gas, and our industry obviously does not receive the "fossil fuel subsidies" that the federal 2012 budget was trying to eliminate.

In other words, the federal government made a decision at the national level that demonstrated an unfortunate lack of understanding of the unique circumstances of Nova Scotia's mining industry. It is doubly unfortunate that the Government of Nova Scotia has compounded the federal mistake by copying it.

The solution is simply to adopt the AITC criteria as they were prior to 2012 so that mining/quarrying is included in the new Capital Investment Tax Credit. Given that the number

of CITC applications from our industry would be small, an arrangement could easily be made with the Canada Revenue Agency to process applications from our industry, as it will process all other CITC applications. Alternatively, the provincial government could process the small number of applications that would come from our industry, particularly since the provincial government is already playing a role in administering the tax credit through Invest Nova Scotia.

More details on this issue are available in our October 27, 2014 letter to you, which is available at: <http://tmans.ca/images/MANS-Capital-Investment-Tax-Credit-letter-October-2014.pdf>.

Recommendation: Adopt the Atlantic Investment Tax Credit criteria as they were prior to 2012 so that mining/quarrying is included in the province's Capital Investment Tax Credit.

Other Tax System Supports

The Government should also consider giving Nova Scotia's industry the sorts of incentives that other provinces give their mining industries, such as:

- Royalty holidays for new mines and allowing companies to recover full capital costs before paying taxes; and
- Establishing a provincial flow-through share tax credit similar to Quebec's.

Conclusion

Nova Scotia's mining and quarrying industry needs additional support from the Government in order to grow and create jobs for Nova Scotians, particularly in rural areas. We hope you will adopt the recommendations above in the upcoming budget in order to promote job creation and economic growth in our industry.

Thank you for your kind consideration.

Yours truly,



Sean Kirby, Executive Director
Mining Association of Nova Scotia