MiningWatch Canada

Presentation on Socio-Economic Technical Issues
For the Proposed Prosperity Mine

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Order of Presentation

- The ability of this company to deliver on its promises
- Taxation considerations
- GDP as a measure of economic well-being
- Economic alternatives to the mine
- Vulnerability and inequality
- Closure
- "Justified under the circumstances".

Can Taseko deliver on its promises?

- Low grade mine, dependent on currency exchange rates, commodity prices and affordable financing. Subject to boom and bust cycles.
- Most socio-economic commitments to BCEAO are only “monitoring”, agreements to discuss. No actual commitments

First Nations history with Gibraltar so far:

- The BC. Environmental Protection Permit - renewed in 2001 - only allowed effluent discharge to the tailings impoundment and not to the environment. The public did not know that the company - from the beginning - "recognized that excess water discharge will eventually be required" (Roscoe Postle 2005).
- The request for a permit to discharge to the Fraser River was opposed by the Xats'ull First Nation, who said it would affect the salmon and sturgeon. The Environmental Appeal Board agreed it would affect the sturgeon, but (by majority vote) allowed the discharge. They said the Xats'ull had been adequately consulted. The company now has permits allowing it to discharge 3.5 million cubic meters a year to the river.
- There are no impact benefit agreements with any First Nations in the mine footprint that share benefits or commit the company to employment quotas

- This is a low grade mine. Mineral resources are gold at 0.41 g/t and copper at 0.24%; mineral reserves only differ slightly with gold at 0.43 g/t and copper at 0.22%.

- The gold is dispersed throughout the mine and cannot be retrieved without mining the copper, and

- There will be considerable smelter penalties for antimony (0.3-0.4%), arsenic (0.2%) and mercury (80-150 ppm) in the concentrate. “*Mercury will incur the penalties and not all smelters, even if they blend, will be prepared to take such quality.”* (Jones p. 126)

Copper and gold ore grades for some mines (2009)

Underground mines:			
Xstrata	Mt. Isa Mine	copper: 2.2%	
	Enterprise Mine	copper: 3.6%	
Teck-Cominco	Duck Pond	copper: 3.11%	
	Williams Mine (UG)		gold: 4.82 gpt
	David Bell		gold: 10.72 gpt
Goldcorp	Musselwhite		gold: 5.56 gpt
	Red Lake (2006)		gold: 26 gpt
Open Pit:			
Xstrata	Ernest Henry	copper: 1.0%	gold: 0.5 gpt
	Alumbrera	copper: 0.46%	gold: 0.43 gpt
Teck-Cominco:	Highland Valley	copper: 0.39%	
	Williams (open pit)		gold: 1.82 gpt
Goldcorp	Marlin		gold: 4.54 gpt
	Porcupine		gold: 2.61 gpt
Taseko: (proposed)	Prosperity	copper: 0.24%	gold: 0.41 gpt

- *"This low copper means there will probably be some limit on the quantity that any one smelter will take as the grade is below the average smelter blend and reduces the metal output from the furnaces."* (Jones, page 126)

To what extent can we rely on the Feasibility Studies?

There are a number of problems with the feasibility studies for Prosperity:

- It should be noted that, although the resource estimates were undertaken previously by independent consultants, **the updated economic evaluation for the mine was directed by Scott Jones,** who is Vice-President of Engineering for Taseko, and **not an "independent qualified person"** as required by National Instrument 43-101.

- National Instrument 43-101 reads: "**5.3 Independent Technical Report** (1) Subject to subsection (2), a technical report required under any of the following provisions of this Instrument **must** be prepared by or under the supervision of a qualified person that is, at the date of the technical report, **independent of the issuer**..."

- The Return on Investment has been calculated on a “before tax basis”, and is only 10% in the December 2009 version. The Taseko website now touts 30% based on today’s copper and gold prices.

- Even according to the December 2009 Technical Report, the ROI is most sensitive to the exchange rate, followed by the operating costs and metal prices. Taseko has said that a difference of 10% in the exchange rate CAD/US can affect their bottom line by over $13 million annually.

- The December 2009 Technical Report capital and operating costs are based on pre-tax calculations (as were all earlier Technical Reports for both Gibraltar and Prosperity).

- Although commodity prices are higher currently much than the numbers in the studies, they are very volatile.

Some costs not included in the cost estimates

- Environmental, archaeological and ecological considerations (other than those in the current design)
- Costs for acquisition of rights of way
- Compensation to affected First Nations
- The cost of producing the environmental impact statement and the costs of obtaining environmental approvals and permits from local, provincial or national authorities

Other limitations:

• No financing charges or interest (assumes full financing)

•No allowance for currency exchange fluctuations after September 3, 2009 (based on exchange rate of $1.00US to 0.82 CAD)

•No contingency for sustaining capital or operating costs

• Power costs (over ¼ of costs) depend on subsidized price of $38/Mwh (Jones 2009) – much lower than cost to BCHydro

•Consumables – grinding balls, reagents- are 46% of operating costs, and depend on stable prices for steel, etc.

• No allowance for costs associated with weather interruption of construction operations

Reclamation costs:

Only $0.01/lb of copper is allocated for reclamation and closure

With a potential copper resource of 3.6 billion lbs, $36.5 million would eventually be accumulated, but only as the mine grew in size and impact.

At least half the costs of reclamation of the Gibraltar Mine are only protected by giving the Province first right to seize mine equipment and machinery if the company defaults on reclamation obligations at closure.

The other half is in a "Qualifying Environmental Trust", the investment of which is not controlled by the Province.

Changes in any of these variables, from contingency, to weather, to adequate reclamation bonds, to the exchange rate, could result in interruptions in mine operations or premature closure.

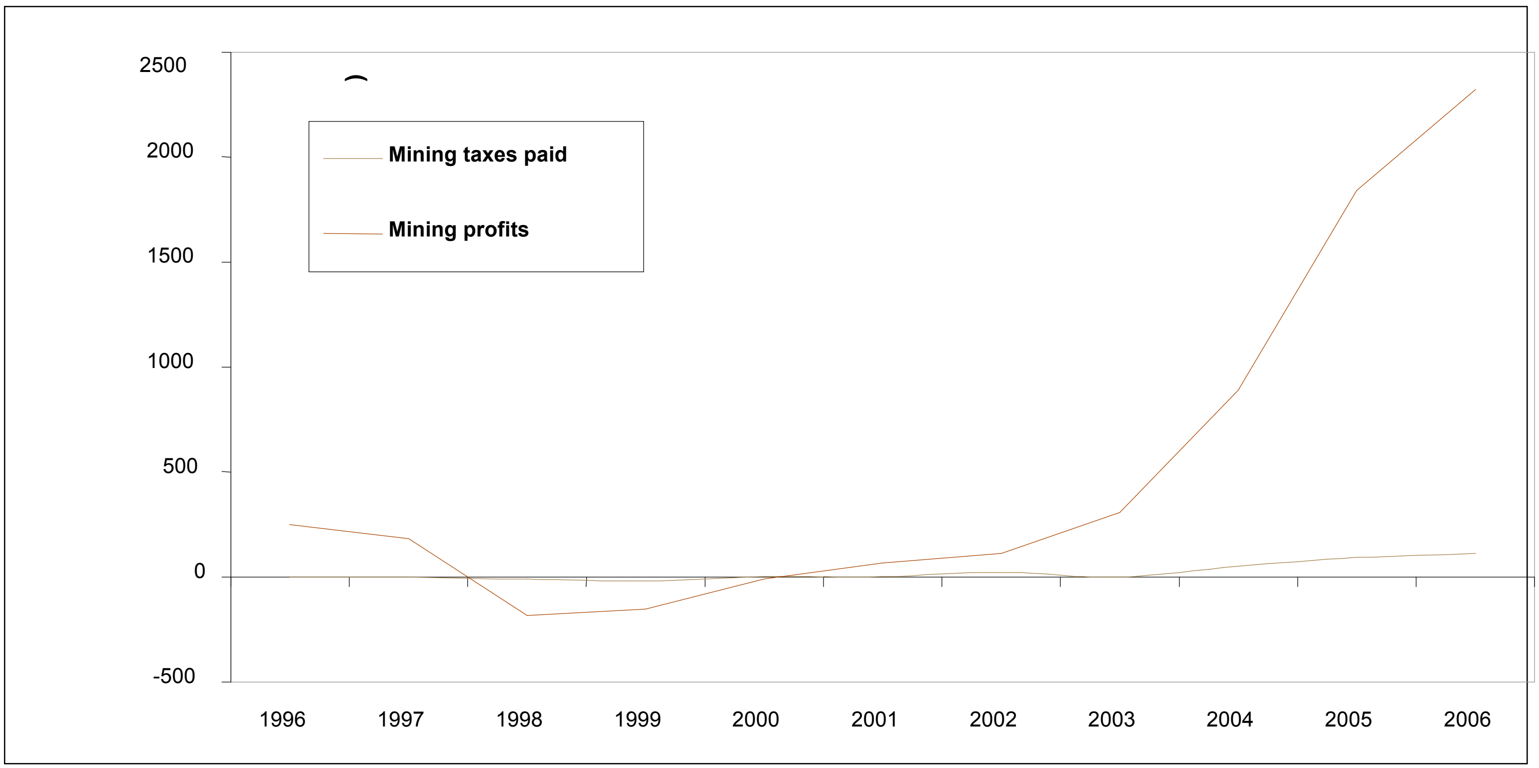
Taxation considerations

- Taxes from metal mines are less than 1% of all revenues in the Province of BC
- Actual taxes paid – both income taxes and mineral taxes - are considerably less than statutory rates, and are based on profits.
- Taseko does not expect to pay income taxes on the Prosperity Mine.
- Neither did they expect any on Gibraltar

  (Hendry/Wallis, 2005 – Table 3)

The province's mining industry pays an METR (Marginal Effective Tax Rate)of just 10.1%, compared to an overall average for other industries of 31.6%. In other words, mining companies pay an METR that is less than one third the rates paid by other industries in the province. *(Pembina Institute, 2007)*

Figure 1: Mining taxes paid and industry profit earned for mining companies in British Columbia, 1996–2006 ($2005, millions)
Source: PricewaterhouseCoopers, *the Mining Industry in British Columbia, 2006* (Vancouver, BC: Price Waterhouse Coopers 2007



What the Taseko technical reports says about taxation

" 18.10 Taxes

The economic model was run on a before tax basis. BC mining taxes were estimated and included in the cash flow model. The project will also be subject to Federal and Provincial income taxes but these rates are not fixed and it is believed that tax planning methods will be available to minimize the effect on project economics". (Jones, page 132)

"Taxes.

No allowance has been made for Federal and Provincial income tax. The only taxes calculated in this analysis are with respect to B.C. Mineral Taxes. No allowance has been made for GST or provincial sales tax". (Jones, page 153)

The BC Mineral Tax

- A royalty is a fiscal instrument designed to compensate the public for the loss of a non-renewable resource, such as minerals, gems, oil and gas. Royalties are often described as “resource rent”. They may be payable to government or to a private lease-holder.
- The BC royalty is called the “Mineral Tax” or “the mining tax”.

- “Revenue Sharing” contemplated by BC and the Company would be a percentage of the Mineral Tax.

British Columbia

- The Mineral Tax in BC is calculated under the Mineral Land Tax Act and the Mineral Tax Act.
- The Mineral Tax is in two stages:
  - A 2% tax on “net current proceeds”, (sales, grants and subsidies) less operating expenses and reclamation costs
  - A 13% tax on net revenue (based on profit)

Taseko mineral tax payments

Taseko Mineral tax paid for Gibraltar Mine:

- 2008- $606,000   Operating profit $28.1 million
- 2009- $981,000   Operating profit $48.3 million

- The Mineral Tax paid in 2008 and 2009 corresponds to approximately 2% of the operating profit.

Taseko income tax paid (federal and provincial)

- 2005- $(4,099,000)
- 2006- $4,397,000
- 2007- $3,959,000
- 2008 – $(2,151,000)
- 2009- $669, 000

Total income taxes paid over five years: $2,775,000

Average annual income taxes paid: $555,000.

From Taseko Audited Financial Statements ("Current Tax Payable')

Taseko income tax rates

- Taseko 2009 gross sales were $188,902,000
- The Taseko 2009 operating profit was $48,318, 000
- The company estimated tax at statutory rates as $3,376,009, but only had to pay $669,000 for the current year. This was only 20% of the statutory tax rate.
- Income tax paid was slightly over 1% of operating profit in that year.

Costs to the public/government of this project

- $35 million annually in BC hydro subsidies ($88/Mwh vs $37.4/Mwh) (M. Shaffer, 2010)
- GHG emissions costs to BC annually ($2.6-2.8 million)
- (M. Shaffer, 2010)
- Increased use of roads, emergency services, health and social services, housing permits, services
- For example, the Taseko Road upgrades and increased maintenance will be covered by MTO
- Costs for negotiation, accounting, environmental assessment
- Free water and access to Crown Land.

Economic alternatives and GDP

- Gross Domestic Product (GDP) was a system of accounting created by the Americans and the British during World War II War effort, to quantify the monetary value of work during the war effort.
- The GDP became the foundation of the United Nations System of National Accounts: the way work throughout the world is evaluated.
- The GDP has no debit column, so that wars and the Exxon Valdez spill are shown only as contributing to the GDP. (Waring, Daly, Constanza, Boulding, etc.)

GDP continued

- In the GDP, most cultural and caring activities , subsistence fisheries and farming have no value;
- Neither do services provided by the environment: water, waste disposal, provision of oxygen, and so on.
- Worldwide ecosystem services were valued at $33 trillion in 1997 (more than twice GNP). (Costanza, 1997)
- For the purposes of evaluating an environmentally and culturally destructive project like a mine, the GDP is a useless measure.

Community Economic Development

- Already many initiatives in the Cariboo-Chilcotin provide opportunities for Community Economic Development – sustainable development that meets the needs of the present while building opportunities and well-being for future generations.

- With government investment, a much more diverse and healthy economy can be built by the citizens of the Cariboo-Chilcotin Region working together.

•With encouragement to the existing wide variety of renewable energy projects, tourism, horse logging, wood fibre initiatives, sustainable agriculture, specialty ranching and food activities, and the arts and heritage sector, the required jobs and livelihoods can be created.

•Their realization is made difficult when local and provincial attention and incentives are focused on getting a single high-wage employer to solve the region's problems.

•The Mayor and other decision-makers in the Region are aware of the need to diversify the economy and believe that this project would only be for a relatively short-term benefit.

•The Panel has a responsibility to support Sustainable Development.

The “Intrusive Rentier syndrome”

- “Peripheral regions” face serious problems when a highly capitalized employer moves in
- Hard to find people to fill lower-waged jobs
- Hard to attract investment for unrelated enterprises and for start-ups
- Heightened income disparity and social tensions
- Increased domestic and societal violence
- Increased hard drug use and alcoholism
- Face a “boom and bust” economy because of dependency on single employer

(Polese and Shearmur)

Vulnerability and Inequality

- The mine will worsen social and economic problems for vulnerable populations, especially women and Aboriginal peoples.

- There has been no proper identification of socio-economic impacts

- The World Health Organization Determinants of Health require
  – an analysis of effects on vulnerable populations (women, youth, First Nations and the services on which they depend)
  – an analysis of informal supports and of the social fabric in the communities that enable vulnerable people to survive (kinship and friendship, country foods, agencies, barter, informal sector employment)

Gender divisions

- The need for specific gender analysis for the Prosperity Mine can be seen in the great discrepancy between the incomes and earnings of women and men in the Cariboo Region in the 2006 census:
- Median earnings: men: $35,624; women $16,684;
- Median earnings for full-time employment men: $53,499; women $32, 279;
- Median income from all sources: men $31,594, women $17,279.
- Women are less likely to qualify for employment at Prosperity Mine, and if they do, they will get the lower paying jobs.

Housing crisis for low income people

- Low income renters in the region will be faced with a vacancy rate of less than zero, escalating rents and over-crowding.

- Most of these will be single parent women and Aboriginal people, but the pressure will extend to low wage earners across the region.
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- Eventually more accommodation will be built, but that may take years.

Effects on First Nations

- The EIS provides some very disturbing information about the health of the most vulnerable population in the RSA, and about the capacity of the social fabric in the affected First Nation communities to be able to absorb the changes caused by the mine.

- *"The Interior Health Authority has stated that Aboriginal people in the Interior do not enjoy the same level of health as the surrounding, non-Aboriginal population (Interior Health Authority, ND)... However, Registered Indians continued to have shorter life expectancy, and gaps continued to be seen between males and females as well as between on and off reserve populations ."*

Aboriginal employment in mining

- Taseko says that 8-12 % of the Gibraltar workforce is Aboriginal, but has no data about their occupations, wages, or First Nation of origin.
- In 2006, there were 620 Aboriginal people in the BC mining workforce. As well, AMEBC estimated that in 2007 about 10% of the 7071 seasonal employees in mineral exploration were Aboriginal.
- Unemployment rates in the industry were 10.7% for Aboriginals - twice the rate for non-Aboriginals.
- The income gap between Aboriginal and non-Aboriginal mining workers was $18,000 in 2006, up from $12,200 in 2001.
- Women were only 14% of Aboriginal employees, and earned $15,000 less than men.

Socio-economic concerns at closure

- When a major mine closes, the mine/mill infrastructure and the other over-sized buildings become a liability instead of an asset
- The regional governments and close-by communities are faced with a loss of population and revenue from taxes
- The costs of providing services either remain the same as they were during the mine life or actually increase.
- The only answer in the crisis appears to be finding another ore body and enlarging the mine footprint.
- Political and social tensions rise over the community future
- Sustainable long-term projects to rebuild the community economy are crowded out

- Mt. Polley's impending closure is an opportunity to re-think the future of the Cariboo-Chilcotin, not to increase dependency on unsustainable mining.

Closure

<u>The Elliot Lake Tracking Study,</u> the most extensive of its kind, found that

"The efforts at finding new directions that did occur were often beset by political division and a lack of openness and community solidarity... In boom times at Elliot Lake the dominant values fitted easily with an increasingly high level of consumerism and an individualization of social and environmental problems. But with the mass layoffs of the 1990s and the acute crisis facing Elliot Lake's development, it became increasingly apparent that neither these dominant economic and social values nor the legacy of top-down, company-town democracy could hold the community together under stress." (Leadbeater, 1998)

"Justifiable under the Circumstances"

- The information required to determine "justifiability" will be almost entirely political and socio-economic.
- Any beneficiaries of this mine are those who will not have to live with its environmental effects.
- The net economic impacts of the mine are grossly over-stated by the proponent (government revenues, employment and indirect benefits), and should be disregarded.
- The Tsilhqot'in and the Secwepemc and some other rural peoples living among them will suffer enormous social, cultural and economic impacts directly related to the mine's environmental footprint. They will live with these impacts forever.
- To permit this mine will have serious political repercussions across the region, the province and the country. It would be environmental racism.