INVESTIGATION

# Canada’s mining giants pay billions less in taxes in Canada than abroad

Companies pay Canada a tiny fraction of what they pay other countries to extract gold

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Mining companies are extracting billions of dollars worth of gold from Canada every year but are paying only a tiny fraction in taxes and royalties compared to operations in other countries, an analysis by The Narwhal has found.

Experts say Canadian governments are collecting a smaller percentage of mineral value than almost any other jurisdiction on earth, ranging from Burkina Faso to Chile to Finland.

For example, Barrick Gold, the second-largest mining company in Canada, extracted close to $250 million in gold from its Helmo mine in northwest Ontario in 2017, the most recent year for which data is publicly available. In return, the company paid $14.4 million in taxes and fees — or only 5.8 per cent of the gold’s worth.

That same year, Barrick extracted roughly $817 million in gold at its Pueblo Viejo mine in the Dominican Republic. There, the company paid $327 million in taxes, royalties, fees and infrastructure improvements — a full 40 per cent of the gold’s total value.

Meanwhile in Peru, the government received $45.5 million in compensation for the company’s Lagunas Norte mine — or 9.4 per cent of the recovered gold’s worth.

When broken down, the disparity between fees paid is stark: Barrick paid the Dominican Republic roughly $503 per ounce of gold, paid Peru $117 per ounce of gold and paid Canada $73 per ounce.

The Narwhal analyzed the second round of public data released by mining companies operating in Canada under the Extractive Sector Transparency Measures Act, a new mandatory reporting framework. All amounts listed are in U.S. dollars.

“Generally speaking, the royalty and corporate tax revenues — which we would argue are the two main potential fiscal benefits for states from mining — are a disaster in Canada,” said Ugo Lapointe, program coordinator for MiningWatch Canada.

Andrew Bauer, a natural resource governance consultant formerly with the Natural Resource Governance Institute, told The Narwhal governments need to work hard to find symmetry when weighing taxation against attractiveness to industry.

“We need to find a better balance: a fiscal regime that encourages investment while allowing governments to collect a larger share of these economic rents,” Bauer said.

“The question is, ‘are we, as Canadians, getting fair value for our underground wealth?” he continued. “Are Canadian governments transforming our minerals into better social services and infrastructure for all? Or are we allowing the private sector to capture the vast majority of that wealth, ultimately benefitting shareholders?”

## Companies forced to report payments to governments

Starting in mid-2015, extractive companies listed on a Canadian stock exchange or operating in the country with at least $20 million in assets, $40 million in revenue or employing at least 250 employees had to start reporting payments of at least

$100,000, whether in taxes, royalties, fees, bonuses, dividends or infrastructure improvement.

Companies were granted a two-year deferral to report payments to Indigenous governments, so this analysis could not account for these unreported figures.

The 2017 numbers reveal some astoundingly low payments to municipalities, provinces, territories and federal coffers in exchange for the right to extract gold, especially when compared to payments made in other jurisdictions around the world.

While there are more than 60 types of metals and minerals mined in Canada, gold is by far the most valuable.

In 2017, an estimated $8.7 billion worth of gold was extracted from Canadian mines.

No other mined resource came close to matching that total value — not coal ($6.2 billion), copper ($4.7 billion), potash ($4.6 billion) or diamonds ($2.6 billion).

But while gold mining operations are notably profitable for companies, much of that wealth does not extend to surrounding communities and municipal governments.

Take Detour Gold Corporation’s operation in northeastern Ontario, one of the largest gold mines in the country.

In 2017, it produced 571,000 ounces of gold. While the price of gold fluctuates greatly from month to month, the average price in 2017 was $1,257 per ounce, meaning Detour extracted upwards of $718 million in gold that year.

Detour paid $6.4 million in fees and bonuses, according to the company’s disclosure report — 0.9 per cent of the gold’s value. According to the company’s report, no taxes or royalties were paid in 2017.

Or consider Alamos Gold’s Young-Davidson mine in northern Ontario. It extracted 200,000 ounces of gold in 2017 — worth around $250 million — but only paid out $1.6 million in taxes and fees. That’s 0.6 per cent.

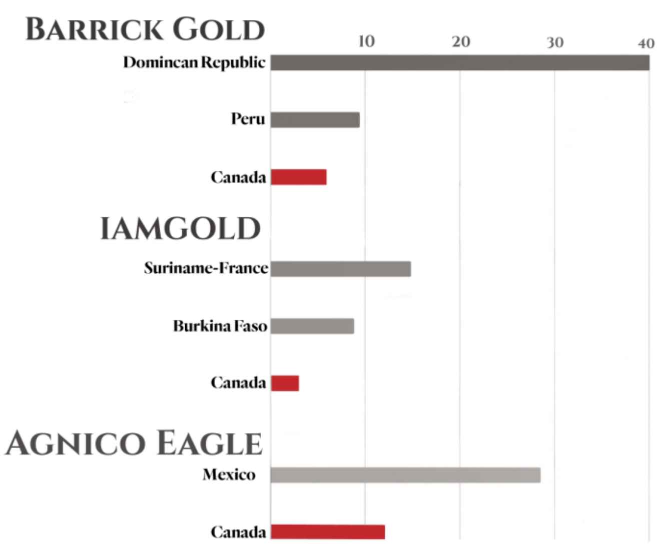
For its two similarly sized gold operations in Mexico, with the Mulatos and El Chanate mines producing 220,000 ounces of gold in 2017, Alamos Gold paid the government 1.8 per cent of the gold's value in taxes and fees — three times the percentage Ontario received, although still a very small percentage.

The issue isn't by any means restricted to Ontario.

IAMGOLD's Westwood mine in southwestern Québec produced 125,000 ounces of gold (or around $157 million in gold) but only contributed $4.6 million in taxes and fees — or three per cent of the gold's value.

That same year, IAMGOLD's Rosebel mine produced 302,000 ounces and paid $56.2 million to Suriname (about 14.8 per cent of the gold's value) while its Essakane mine in Burkina Faso produced 389,000 ounces and paid $42.9 million, or 8.7 per cent of its worth.

When The Narwhal requested clarification from the Government of Ontario about revenues from the Hemlo and Detour mines, senior media advisor for the provincial ministry of mines replied: "The Government of Ontario cannot release any data that could breach the confidentiality of taxpayer information."




Percentage of fees paid by three major producers per ounce of gold extracted. Source: Extractive Sector Transparency Measures Act Report 2017. Graphic by The Narwhal

# ‘They don’t want you to know’

Because taxation in Canada is not consistent across the spectrum, it can be difficult to understand exactly why projects pay what they do.

As accounting firm PriceWaterhouseCoopers Canada put it in a recent report: “Mining taxation in Canada is not easy to understand, partly because each province and territory imposes its own mining tax, under systems that vary significantly.”

Lapointe, from MiningWatch Canada has a different take: “The industry loves to bring you down that rabbit hole by saying it’s too complex and you can’t really compare. They don’t want you to know.”

To put all these numbers in perspective, MiningWatch Canada currently estimates that total unsecured liabilities for mine site clean-up — that is, the amount that will be needed for remediation but isn’t currently held as financial securities — totals $15 billion, and is potentially as high as $20 billion. That excludes liabilities for oilsands mining operations, which could easily double the figure.

# Deferred fees means you mine for free

Every mine is different. In addition to mineral prices and the cost of production, one of the most important factors in determining payments to governments is the phase of production the mine is in.

For the first few years of production, taxes and royalties are usually quite low because this is what is called the “cost recovery” phase during which companies don’t pay certain fees until they recover a portion of their costs.

It’s not usually until this phase of the lifecycle of the mine is completed that it starts to churn out major contributions to governments.

In addition, most governments around the world calculate royalties based on production volume and the cost of the mineral. However, royalties in Canada are generally calculated after costs have been subtracted, a practice which is exceedingly rare globally.

This could help explain the low royalty payments in Canada relative to other parts of the world.

In recent years, much of the mining sector has used a metric called “all-in sustaining costs” to report the amount of money it requires to remove and process an ounce of gold. It includes costs like labour, energy, royalties, administration, exploration, capital expenditure and reclamation.

In 2017, the all-in sustaining cost at Barrick’s Hemlo mine was $1,092 per ounce. That was on the high side for the company. In the Dominican Republic, for example, Barrick boasted an all-in sustaining cost of only $525 per ounce.

Such costs can vary from year to year, and depend heavily on factors like local labour costs, finding efficiencies in mining processes and whether a company is making a short-term investment in a capital project like a tailings pond. By only charging royalties on revenue above those costs, governments are only receiving a fraction of the gold’s worth.

“Most Canadian jurisdictions do not charge a real royalty,” Bauer said.

“When you can deduct costs from your royalty payments, you are not fully compensating the owners of the resource — Canadian citizens — for the use of their assets, which is what a royalty is intended to do.”

Bauer said that if a company stops production before the “cost recovery” phase is completed, a government could conceivably receive no compensation at all.

Royalties under this scheme become another net revenue stream, Bauer said, “somewhere in between a profit’s tax and a royalty.”

“This is what companies want since they don’t need to pay much to governments until shareholders get paid out of profits.”

Lapointe added: “These are non-renewables. Whatever you extract from the ground, which is never going to come back to future generations, needs to be fairly compensated. We should not allow those tactics to bring it down to zero. There should always be a minimum floor contribution for extracted resources.”

# Gold-rush era laws

There are more ways that companies can get around paying taxes, even if a mine has been in production and has recovered some costs.

Financial tools can include tax credits, cost allowances, development expenses, loss carryovers and flow-through shares.

One of the most common means of lowering tax payments is shifting profits from higher-tax jurisdictions to lower-tax jurisdictions, a process known as “base erosion and profit shifting.”

Or, in some provinces or territories, companies can open a mine near existing operations and call it an “expansion” even though it’s a sizable distance away — meaning a company can continue in the initial “cost allowance” phase.

That allows a mine that has been open for many years to continue paying very little in revenue to governments.

Bauer said that this regime made sense from a 19th century perspective in which Canada wanted to encourage investment and get projects underway. But now, millions of ounces of gold are being extracted by companies without any clear benefit for governments or the average citizen.

“The fiscal regime does do that,” he said. “It creates massive incentives to explore, develop new mines and populate rural areas. But we’re no longer in the 19th century when the government’s goal was colonization.”