

## ERRATUM

Due to a typographical error page 102 is missing from this thesis.

CORPORATE POWER AND ECONOMIC  
POLICY MAKING IN BRITISH COLUMBIA, 1972-75:  
THE CASE OF THE MINING INDUSTRY

by

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Corporate Power and Economic Policy Making in British Columbia, 1972-75:

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## ABSTRACT

When the New Democratic Party assumed power in British Columbia for the first time in 1972, one of its priorities was to make major changes in the province's economic system. With reference to the N.D.P.'s 1972 party platform, this thesis identifies three principal aspects of these proposed changes; ① to effect a wide-ranging redistribution of the wealth generated by the provincial economy, ② to encourage economic growth through diversification of the economy away from its reliance on the export of primary products, and ③ to increase the role of government regulation over the productive process, especially in the area of environmental control. The fact that much of British Columbia's economy, especially in the resource field, is owned by a small number of large, privately owned corporations meant that one of the major problems faced by the new government would be the opposition posed by these groups.

After exploring briefly the general approach of the N.D.P. government toward economic policy, this thesis turns its attention to mining, the province's second largest industry. Chapter 2 outlines the recent growth of mining in British Columbia and gives a basic overview of its economic position in the province, while chapter 3 provides an examination of government involvement in the mining industry prior to 1972, both in British Columbia and at the federal level. Chapters

4,5, and 6 are concerned with a detailed account of how the New Democratic Party transformed the basic elements of its party platform into concrete policies, and the way in which the mining industry was able to use its strategic economic position to exercise power in the political arena. These chapters use a wide variety of sources including newspaper accounts, government documents and personal interviews in order to trace these two processes as accurately as possible. After a brief account of the impact of the 1975 Social Credit victory on provincial mineral policy in chapter 7, the thesis concludes with a detailed analysis of the N.D.P.'s mineral policies from three broad perspectives. These are the success of the large mining companies in pursuing their goals in a variety of different political situations, the limitations facing the government in implementing its policies and the inherent drawbacks of the N.D.P.'s mineral policies themselves. The overriding theme is that economic policy making has a political element, which in the process of actual policy making, is just as important as the economic.

to Brigitte

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## PREFACE

Studies of economic policy making on the provincial level are rare, and those undertaken from a political perspective, rarer still. This paucity of literature is regrettable since many writers have pointed to a fundamental shift in the center of economic decision making in Canada from the federal to the provincial level, especially since the Second World War. This shift has accompanied the rapid growth of the natural resource industries during this period. Petroleum, minerals, hydro-electricity and forestry are now crucial to Canada's economic future, and much of the responsibility for their development resides at the provincial level.

The following work is an attempt to throw some light on the economic policy making process in British Columbia. Because of the complexity of the subject matter and the wide scope of the material that must be dealt with, this study adopts a fairly narrow focus. The area dealt with is mining, but it should be noted that even within this area, the subject matter is limited. A detailed consideration of the petroleum industry and the recently revived coal industry is not attempted. Although these industries both come under the jurisdiction of the Department of Mines and Petroleum Resources, they are covered by different sets of legislation, and an adequate treatment of them would have required an even more lengthy work than the one that follows.

The limited focus adopted here has both advantages and disadvantages. The major advantage is that the numerous forces, both economic and political, that combined to shape British Columbia's mineral policies in the 1970s can be analyzed in some detail. The attempt to cover too broad an area, especially in the complex field of resource policy can lead to superficial results. On the other hand, the ability to generalize from a fairly narrow case study is limited. This is particularly true when the small amount of secondary literature available makes both regional and inter-industry comparisons extremely difficult. Hopefully, this lack of published material will soon be rectified and political scientists can begin the task of analyzing resource politics in Canada from a broader geographical and theoretical perspective.

I would like to thank a number of individuals and institutions whose aid was invaluable. Dr. Martin Robin and Dr. Audrey Doerr's advice and encouragement were much appreciated, as was the support provided by the Political Science Department of Simon Fraser University in many areas. Without the financial support of the Simon Fraser Open Graduate Scholarship a work of this magnitude and scope would have been impossible. I would also like to thank Monty Alton, Hart Horn, Gary Lauk and Leo Nimsick for their kind assistance in the course of my research. Finally, I am greatly indebted to

Brigitte Leonhardt whose encouragement and dedication to this project made it all possible. The responsibility for the results is, of course, entirely my own.

## CHAPTER 1

## INTRODUCTION

In August, 1972, an upset victory brought the New Democratic Party to power in British Columbia. The victory marked the first time that the N.D.P. had formed the government in a wealthier or 'have' province of Canada,\* and thus marked something of a milestone in Canadian politics. At least that was how it was perceived at the time. The ascension of the New Democratic Party to power in Canada's westernmost province was also viewed as something of a test;\* one that could conceivably make or break the party's future prospects as a serious contender for power in Canada as a whole.\* Could the new government make fundamental changes to the province's economic system and the prevailing distribution of wealth without causing serious disruptions in the largely privately owned productive system?

The challenge was one that the new Premier, David Barrett, explicitly accepted for his new government. In an interview with the Financial Post, the journalistic mainstay of the Canadian economic establishment, he asserted that " I recognize this is our biggest challenge in the larger sense of the N.D.P. party. "There is," he continued, "a myth about socialism which we hope we can dispel in British Columbia. We want to demonstrate that reason, common sense and planning

have a place in the economic structure of our society." <sup>1</sup>

For the new government, achieving success in its self-confessed aim meant achieving an effective combination of three broad policy objectives. The first was to effect a wide-ranging redistribution of the province's income through increased taxation of the largely resource based corporations operating in British Columbia.\* These revenues would be used to increase the level of social services, as well as to shift the overall tax burden from the individual to the corporate taxpayer.\* In the words of the N.D.P.'s 1972 party platform:

We believe there is sufficient money lying untapped in the resources to finance the New Deal for the people. The government of British Columbia could increase its revenues merely by demanding its fair share of British Columbia's huge resource supply. What we need is a government that will state clearly and openly " The citizens of British Columbia demand their fair share." <sup>2</sup>

The second major economic objective was growth based on the diversification away from an economy characterized by the export of primary products.\* Such a program would be aimed at reducing British Columbia's chronic unemployment problem through the creation of new permanent skilled jobs, and the promotion of industrial growth away from the already heavily urbanized Vancouver-Lower Mainland area. The means by which this would be accomplished were also outlined in the 1972 party program:

Secondary industry can be encouraged to develop in British Columbia in two ways. First an economic development corporation which should be set up immediately,\* could

encourage companies to set up secondary industries here by offering direct financial participation on the basis of shared stock ownership by the private investor, citizens and the government. Secondly, the government could make it economically undesirable for companies to export resources and jobs to other countries.<sup>3\*</sup>

Finally, the N.D.P.'s economic strategy envisioned a broad regulatory structure designed to protect the public interest against the detrimental effects of unrestrained economic growth. Unlike the previous Social Credit government, which tended to equate the ever increasing growth and expansion of large corporations with the economic interests of society as a whole, the N.D.P. laid much greater stress on controlling the activities of these corporations in the public interest. This position sprang directly from the realization that many of these corporate activities had effects whose costs tended to be borne by society as a whole. In the 1972 election campaign, this approach was stated mainly in terms of the controversial issue of environmental quality, with the party platform calling for "...the creation of a department of environmental quality and planning that would have power to rule over all other departments."<sup>4</sup>

The means by which this broad three-part economic strategy would be implemented remained ambiguous during the 1972 election campaign. This ambiguity was especially marked in relation to the role that state ownership of the means of



production would play in meeting the new government's objectives. Although one of the central policies of the N.D.P.'s predecessor, the C.C.F., had been the socialization of the major means of production, the party's stand in this particular area had become progressively less clear cut since the Second World War. The Winnipeg Declaration of 1956, which replaced the original Regina Manifesto as a statement of party principles, referred to the subordination of private profit and corporate power to social planning, but reduced public ownership to the status of one of several possible means by which this could be accomplished.<sup>5</sup> The trends in British Columbia during the 1950s and 1960s generally followed those of the federal level.<sup>6</sup> The N.D.P.'s position could perhaps be characterized as public ownership if necessary but not necessarily public ownership.

This post-war shift in policy was the result of the C.C.F.-N.D.P.'s attempt to broaden its base to include significant labour union and middle class support. Such a move became increasingly necessary in order to obtain the funds, organization and votes needed to gain power from the established parties. However, this diversification of the party base meant that the issue of public ownership was never really settled, and remained a serious area of contention within the party itself. Thus, the late 1960s and early 1970s saw a resurgence of the commitment to public ownership in the federal party's

'Waffle' movement. The Waffle gained considerable support before being ousted by more moderate elements of the N.D.P. The signatories to the original Waffle Manifesto included Ed Broadbent, the present federal leader, Dave Barrett, the B.C. leader, and five B.C. members who were to serve in the province's first N.D.P. cabinet.

Thus, it is not surprising that the precise role that public ownership would play in the New Democratic Party's economic policies was not really spelled out during the 1972 campaign. ~~X~~ The question was simply played down, with equity participation being mentioned mainly in the context of the proposed B.C. Development Corporation. Even here the aspect of public ownership was conceived of in terms of "direct financial participation" and "shared stock ownership" rather than outright ownership. A government auto insurance plan and the takeover of the American owned B.C. Telephone Company, were concerned more with the provision of public services at a reasonable cost than gaining control over the means of production. ~~\*\*~~

Its lack of prominence in the election campaign, however, did not mean that the issue of public ownership was relegated to the background. The Premier himself, as well as some cabinet members such as Robert Williams, the influential new Minister of Lands, Forests and Water Resources, were known to be favourable to increased government equity participation in

the province's economy. On October 12, 1972, David Barrett, when pressed by reporters, stated that the government would be considering the nationalization of Westcoast Transmission and Inland Natural Gas as well as the takeover of B.C. Telephone.<sup>7</sup> The annual N.D.P. convention of November 1972, endorsed Barrett's proposal to takeover the telephone utility but stopped short of endorsing resolutions calling for a wide-ranging program of nationalization including the giant MacMillan Bloedel forest complex.<sup>8</sup> Thus, the N.D.P. approached its first term in office in British Columbia with an economic policy that laid stress on the use of the traditional taxation and regulation powers of government, and left undefined the position that public ownership would play in the attainment of a new economic order.\*

The success of this approach in achieving the New Democratic Party's overall goals as set out in its party platform was mixed. The three years of N.D.P. power from 1972 to 1975 saw a wide range of initiatives, and it soon became clear that the party viewed its campaign promises as more than mere rhetoric.\* In attempting to make fundamental changes in the operation of the province's economy, however, the new government came up against the inherent difficulties of fulfilling its policy commitments in the face of strongly organized groups with a clear interest in the preservation of the economic status quo.\* The three years of N.D.P. economic

management clearly illustrated the difficulties involved in the implementation of economic change in a society characterized by the existence of a number of centres of institutionally based economic power. For it revealed, above all, that economic policy formulation is to a large degree a political process. In other words, the process of economic policy formulation is not one where there is a theoretical optimum solution capable of satisfying all the interests of the various contending groups. ~~X~~ Any change in the functions of an economy involves not only the redistribution of monetary resources, but also shifts in the distribution of decision ~~A~~ making power among elites. ~~X~~ The N.D.P. government's three major economic goals involved by their very nature, a shift of both resources and power from private corporations to government. ~~X~~

The 'simple changes' in resource industry taxation that were envisioned as a quick route to the redistribution of economic wealth turned out to be far from simple in practice. Although a wide-ranging series of such taxation measures were implemented in B.C., the results that followed many of these changes seriously undermined the image of the new government and contributed to its early defeat at the polls. The ability of corporate interests to mobilize a wide range of interest groups as well as a large part of the province's mass media against the N.D.P. government was impressive. ✓

In addition, the N.D.P. government often ran into serious difficulties in coordinating its two goals of economic redistribution and economic development. Although the party managed to obtain somewhat higher returns from the province's resource economy through its taxation policies, its attempts to transform the nature of that economy in any significant way were much less successful. Projects such as a new steel industry, a major oil refinery, a copper smelter, and an ambitious program for northern development never really got past the planning stage. When the New Democratic Party lost power in 1975, it left an economy that was substantially the same as the one that it inherited.

Although the relatively short term in office is a simple and appealing explanation for this lack of success two more fundamental reasons can be suggested. The first is that, for a variety of reasons, public ownership was never developed as a major tool of economic development. Although the government did use direct ownership in areas like forestry, insurance and housing, its scope was severely limited. The aims of the new crown corporations were concerned almost exclusively with either providing public services or increasing government returns from the economy. In the case of insurance and housing, the aim of government involvement was purely one of providing public services whereas public ownership in the forest industry seems to have been motivated by a desire to prevent the destruction of communities where these industries

9

were vital. The fact that corporations like Canadian Cellulose became fairly profitable operations meant that the revenue aspect of public ownership was of some importance. Minority investments by the N.D.P. government in such industries as Westcoast Transmission seem to have been motivated solely by the desire to obtain more revenue for the public purse, since such ownership gave the government no control over these operations. In any event public ownership did not become the center of a broad coordinated plan of economic development.

The relatively insignificant role played by public ownership in economic development meant that any changes in the economic system had to be carried through by the private corporations themselves. The effectiveness of the government's taxation and regulatory powers in inducing privately owned companies to undertake the desired developments were dependent, in the final analysis, on the cooperation of these companies. The business community, of course, recognized this fact right from the outset. Writing after the N.D.P. election victory, William Hamilton, an industrial consultant, former Diefenbaker Cabinet Minister and president of the influential Employers' Council of B.C., observed that:

...the new Premier, Dave Barrett, enthusiastically supported the need for more secondary industry and seems committed to reducing British Columbia's high rate of unemployment. Barrett knows that to accomplish both these things, he will require a high degree of business confidence: he also knows what would happen to that confidence if heavy additional taxes were imposed on primary industries .... Barrett will have to perform a balancing act between traditional socialist distrust of the profit motive and a pragmatic realization that profitable business operations

can solve many of B.C.'s problems.<sup>9</sup>

It was a message that would be repeated constantly during the next three years.

Two related factors combined to assure that the 'balancing act' was bound to fail. In the first place, the N.D.P., at least initially, firmly rejected the traditional Canadian notion that the way to induce corporations to fulfill the public purpose is to offer them large amounts of public money in the form of tax incentives or outright grants. It is hard to employ a 'carrot and stick' policy when one has a distinct aversion to providing the carrot. The use of the stick alone is almost certain to cause the beast to rebel. This general dilemma was intensified by the dedication of the N.D.P. government to higher taxation for the corporate sector. A determined policy of taxation in the face of industry opposition proved to be incompatible with another set of policy initiatives whose success demanded the cooperation of the large corporations.

In retrospect, it is fair to conclude that the New Democratic Party in British Columbia approached the problems of economic management with a fair degree of naiveté. Most striking was its failure to recognize the political elements involved in their attempts at economic innovation. There seemed to be an assumption that the government could change the basic relationship between the state and the corporate

sector and that these changes could be followed by a renewal of an essentially cooperative relationship between the two parties. This optimism was based on two assumptions. The first was that once the new relationship between business and government was implemented through legislation, the former would eventually recognize the permanence of these changes and find it to their economic advantage to cooperate. Surely, the corporations would find it preferable to accept something less than the status quo in return for the continued opportunity of earning profits in British Columbia. The second assumption was stated much more explicitly. In the words of the 1972 party platform;

British Columbia has such a wealth of resources and other parts of the world have such a demand, that British Columbia is in a position to bargain for secondary industry.<sup>10</sup>

In other words, the government's position as owner of the province's resources gave it a decisive lever with which to induce the large corporations to cooperate, at least tacitly, within a new economic framework laid down by the N.D.P.

Together these two assumptions failed to recognize that the privately owned productive system is more than a series of purely economic relationships. The behaviour of the corporate sector is not confined purely to the sphere of economics alone, but carries over directly into the area of political discourse. Unilateral moves by government to legislate a new relationship between the state and the capitalist productive system are



never final and can be fought effectively by a wide variety of means. This is especially true in the North American liberal democracies where a government can be defeated by electoral means and where the privately owned productive system has enjoyed a high degree of legitimacy in political as well as an economic sense.

The essentially political nature of the New Democratic Party's attempt to introduce fundamental economic change was nowhere more evident than in its confrontation with the mining industry. Thus, it is within the context of this particular industry that the more general observations concerning the N.D.P.'s economic policy will be developed in a more concrete and detailed fashion. There are a number of features which make the mining industry an ideal focus for this type of enquiry. In the first place there was no other economic sector in which the status quo differed so much from the stated goals of the N.D.P. government. The industry was one which exported the natural resources of the province in a relatively unprocessed form, and thus, where the need for major initiatives in the area of economic diversification was sharply perceived. An overview of the mining industry is provided in chapter 2. The industry was also one in which the returns paid to the government by the corporations were quite low. This state of affairs was one that had evolved in Canada on both the federal and provincial level and will be examined in much more detail

in chapter 3. Finally, the substantial environmental impact of mineral extraction and processing meant that there was a clear need for government regulation of the industry in the general public interest. Put another way, the mining industry was one where the public costs of privately owned operations in the form of environmental damage and public health were potentially quite large.

If the need for a change in the status quo was perceived by the new N.D.P. government as essential, the potential obstacles in the way of implementing this change were large. As we shall see in chapter 2, the control of the mining industry in British Columbia, like that of Canada as a whole was, and continues to be, highly concentrated in the hands of a small number of large corporations. Furthermore, the history of previous attempts to alter various aspects of the industry by legislation had, as we shall see in chapter 3, met with vociferous and sustained opposition from the corporations and other interests adversely affected.

The policy of the New Democratic Party government in British Columbia toward the mining industry is also interesting from the standpoint of the means used by the party to implement its general policy objectives. The use of public ownership, through either the development of new crown corporations or the nationalization of existing ones, was conspicuously absent from the N.D.P.'s mineral policy. This meant that the

constraints involved in using the more traditional tools of taxation and regulation became particularly pronounced in this context. The implications of the party's experience in the area of mineral policy will be highly significant in the formulation of its policies and platform for the future.

Finally, the confrontation that developed between the N.D.P. government and the mineral industry brought into sharp focus the intimate relationship between politics and economic policy formation. The campaign that the mining industry waged against the N.D.P.'s mineral policies was one of the most powerful, sustained and effective efforts waged by an organized interest group in the recent political history of the province. Its major features were a very effective mobilization of a wide range of economic interest groups, a close working alliance with all three opposition political parties and a highly organized propaganda effort conducted through the province's mass media. An analysis of this campaign provides a striking illustration of the way in which economic power can be translated into political power.

However, before turning directly to an account of this confrontation between industry and government, it will be useful to look at the structure of the mining industry in British Columbia as well as the major thrust of government policy toward that industry on both a federal and provincial level.

## NOTES: CHAPTER 1

1. Financial Post, March 17, 1973, p.37.
2. As reprinted in the Vancouver Province, November 4, 1975, p. 5.
3. Ibid.
4. Ibid.
5. Gad Horowitz, Canadian Labour in Politics (Toronto: University of Toronto Press, 1968), pp. 173-4.
6. Philip Resnick, "Social Democracy in Power: The Case of British Columbia," B.C.Studies 34 (Summer 1977):6-7.
7. Neil A. Swainson, "British Columbia," Canadian Annual Review of Politics and Public Affairs, 1972 (Toronto: University of Toronto Press, 1974), p. 208.
8. Financial Post, December 2, 1972, p. 9.
9. William Hamilton, "Welcoming the Socialist Hordes," Macleans 85 (November 1972):9.
10. As reprinted in the Vancouver Province, November 4, 1975, p. 5.

## CHAPTER 2

## METAL MINING IN BRITISH COLUMBIA

## THE ANATOMY OF AN INDUSTRY

It is difficult to appreciate the different issues and interests involved in the debate over mining legislation in British Columbia without some understanding of the mining industry itself. Although a detailed economic analysis of the industry is well beyond the scope of this work, a basic account of its structure and recent history is indispensable for two reasons. The first is that the issues surfacing during the 1974-75 fight over the N.D.P.'s mining legislation trace their origin directly to the sphere of economic relations. The development of the British Columbia mining industry involved the allocation of wealth and decision-making power among the different institutions and groups of society. These patterns of allocation, in turn, created opposing interests which eventually had to be resolved in the political arena.

Secondly, the allocation of wealth and power, which the growth of the industry created, had a decisive effect on the bargaining resources available to the contending groups. In other words, the relative strengths of the contending parties were due in large part to relationships within the mining industry itself. After providing a brief account of the recent history of the mining industry in British Columbia, the following discussion will deal with four related aspects of its structure:

- 1) The patterns of ownership and control

- 2) The sources of capital employed in the industry
- 3) The amount of economic surplus generated by the industry and its allocation
- 4) Some of the economic links between mining and the rest of British Columbia's economy

## I

Although mining has always been an important part of British Columbia's economy, much of the industry's growth has been relatively recent. At the beginning of the twentieth century, mining was the province's largest industry, and British Columbia became Canada's foremost mineral producer. However, the growth of the industry during most of this century has lagged behind that of Canada as a whole, and B.C. has relied primarily on forestry for its economic growth.

The period following the First World War saw the collapse of two major segments of the mining industry, copper and coal. Low copper prices and an exhaustion of the more easily mined ore bodies led to a drastic decline in copper mining and smelting after 1919. The growth of coal mining was gradually curtailed as petroleum displaced coal for heating, industrial production, and transportation needs. Although gold has been an important product at various stages of B.C.'s mining history, its capacity to provide an ongoing basis for the growth of the industry has been limited. Most of the easily accessible sources were mined out during the gold rush days, and the viability of gold

mining has tended to fluctuate with world prices. Increased gold prices in the 1930's provided a brief stimulus, but by 1965, gold accounted for only one percent of the value of British Columbia's mineral production.<sup>1</sup> The mainstay of the industry throughout most of the twentieth century has been lead and zinc, which are found together in the south-east corner of the province. By far the largest proportion of these two minerals has been mined by the Consolidated Mining and Smelting Company (now simply called Cominco), a subsidiary of the Canadian Pacific Railway. The company also has smelters to process both lead and zinc ore.

The period following the Second World War and extending through the 1950s saw a rapid increase in mineral development in Canada. A consumer spending boom and the massive rearmament of the United States in the face of the cold war resulted in the value of metallic minerals produced in Canada soaring from \$230 million in 1945 to \$700 million in 1955.<sup>2</sup> However, this boom was not felt to such a great extent in British Columbia's mining industry, and thus mining tended to lag rather than lead the province's growth during the 1950s. Indeed, between 1945 and 1960, the overall growth rate of B.C.'s mining industry was the lowest of any mineral producing province in Canada.<sup>3</sup>

The value of lead and zinc, the province's major minerals, tended to fluctuate during this period with an overall

declining trend. The value of copper produced was relatively small, and underwent a major collapse during the late 1950s following a sharp decline in world prices.<sup>4</sup> Two major new minerals were produced during the 1950s, asbestos and iron. An asbestos mine came into production in the very northern part of the province, with its production being shipped through Alaska to the United States and Europe. Several iron mines were established on the Queen Charlotte's, Texada, and Vancouver Islands. These two products provided some growth in the industry, but their percentage of total mineral production remained relatively small. The approximate values of these minerals in 1960 is listed in table 1.

TABLE 1

VALUE OF BRITISH COLUMBIA'S MAJOR  
NON-FUEL MINERALS, 1960  
(Millions of Dollars)

Product	Value	Percentage of Total
Zinc	50.9	35
Lead	38.7	26
Asbestos	11.8	8
Iron	10.3	7
Copper	9.6	6.5
Gold	7.1	5
Silver	6.6	4.5
All Others	11.6	8
Total	146.6	100

SOURCE: B.C. Department of Mines and Petroleum Resources, Report, 1960 (Victoria: Queen's Printer, 1961), table 1, p.A17



TABLE 1A  
 THE GROWTH OF THE COPPER INDUSTRY  
 IN BRITISH COLUMBIA  
 1960-1974

Year	Production (Millions of Lbs.)	Value (Millions of \$)	Direct Employment (Number of Men)
1960	33.06	9.6	7,423
1965	85.2	32.7	8,265
1970	212.4	124.6	10,396
1972	467.01	209.4	10,383
1974	633.9	541.6	10,867

SOURCE: B.C., Department of Mines and Petroleum Resources, Report 1974, table 3, pp. A96-7; 1976, table 3-10, p. A100.

NOTE: The employment totals used above refer to the entire metal mining industry in B.C. since figures for copper alone are not available. They include direct production employment in mines and smelters but not in exploration and development activities. The fact that such a large expansion in production had a rather marginal impact of employment clearly illustrates the capital intensive nature of the industry.

The growth of British Columbia's mining industry during the 1960s and early 1970s was substantial and was well above that for Canada as a whole.<sup>5</sup> By far the most important element of this growth was a substantial increase in the production and value of copper. As illustrated by table 1A, increasing prices during the 1960s led to very large increases in production during the early 1970s so that by 1973 copper accounted for about half the province's total mineral production.<sup>6</sup> This growth meant that entirely new industrial structure was created during this period.

The effects of this trend on the trade position of Canada as a whole were also quite significant. The increase in

British Columbia's production had, by 1973, propelled Canada into second place among the world's copper producers. Copper became Canada's largest single export to Japan, and accounted for 38 percent of that country's imports of this vital industrial mineral.<sup>7</sup>

In fact, it involves very little exaggeration to say that British Columbia's copper industry, as it developed after 1960, was created almost entirely by Japanese initiatives. During the 1950s, Japan's rapid industrial growth led to an enormous increase in that country's demand for copper. Japan's limited copper deposits were virtually exhausted by the end of the decade, so that its economy became increasingly dependent upon imports. Thus Japan's large mining and manufacturing conglomerates; Sumitomo, Nippon, Mitsui, and Mitsubishi, with the backing of the country's powerful Ministry of International Trade and Industry (M.I.T.I.), began an active search for secure sources of supply. British Columbia, with its relative proximity and large, undeveloped low grade copper deposits, attracted immediate attention.<sup>8</sup>

The major factor inhibiting the growth of the copper industry in British Columbia was the relatively low grade of its copper ore--well under one percent copper content. This did not mean that the province's deposits were uneconomic in any absolute sense; but only that, with the major consuming areas of Europe, the United States, and even the rest of

Canada having their own established sources of supply, interest in the development of B.C. copper was lacking. It was Japanese demand, rather than any dramatic new breakthrough in mining methods, that made these deposits feasible.

The methods by which the large Japanese corporations stimulated copper production in British Columbia differed quite radically from those used by the United States corporations during the post-war mining boom. In the latter case, the favoured tool was direct investment in productive capacity by the large American resource corporations.

Writing during the resource boom of the 1950s Hugh Aitken observed that:

... Canada has borrowed more than capital....Direct investments typically involve the extension into Canada of organizations based in other countries; these organizations establish themselves in Canada for purposes of their own and bring with them their own methods of production, their own skilled personnel, and very often their own market outlets. If all Canadian borrowings from other countries were to cease tomorrow, these direct investment organizations would continue to exist and function. Many of them, indeed, would continue to expand, financing their growth from retained earnings.<sup>9</sup>

By 1957 these investment trends had already made themselves felt, with 52 percent of Canada's mining and smelting industries being controlled by American corporations. The self perpetuating nature of this investment is illustrated by the fact that this control increased to 56 percent in 1967, despite a levelling off of the resource investment boom of the 1950s.<sup>10</sup> By the mid 1960s, an increasing use of Canadian

sources and retained earnings to generate new capital was clearly evident among foreign controlled corporations.<sup>11</sup>

Another significant result of the post-war resource boom was to increase Canada's reliance on the export of minerals in a relatively unprocessed form. This process of 'de-industrialization' was noted in a 1955 study:

As a proportion of the total value of all mineral exports, ores and concentrates fell more or less persistently from 1926 to 1945. Since then, however, the proportion leaving the country in unmanufactured form has increased. From 36 percent in 1926 it fell to 15 percent in 1945. The latest figures [1955] show ores and concentrates accounting for 33 percent of all mineral exports.<sup>12</sup>

There were a number of reasons for this trend. In the first place, a large proportion of Canada's mineral production went directly to fuel an industrial machine located in the United States. That country had greatly expanded its mineral processing plants during the Second World War, and the large American corporations controlling much of Canada's mineral production preferred to utilize, or further expand, these facilities rather than build new ones in Canada. The sensitive military nature of many of the post-war mineral based industries was an added reason to keep industrial capacity within the borders of the United States. All this was in addition to the natural desire on the part of the investing country to maximize the employment benefits from these new industries. Thus, in summary, we can identify

several major effects of the post-war boom. Canada increased its dependence on American markets, U.S. firms were able to gain majority control of Canada's mineral producing industries and thus appropriate much of the economic surplus generated, and the nature of the mineral industry underwent a decisive shift toward the export of relatively unprocessed products.

The Japanese-induced mining boom in British Columbia differed substantially from the pattern outlined above while producing some of the same results. The crucial difference was the lack of any substantial direct investment in productive capacity. Instead, the devices used by the Japanese were long-term contracts, loan capital, and, only occasionally, small amounts of equity participation. The major reason for the small amounts of direct ownership lay in Japan's concern with its balance of payments, and thus the restrictions placed by the Japanese government on investment abroad.<sup>13</sup> Japan's aim was to ensure that it had a secure supply of certain minerals (iron, copper and later coal) rather than to gain ownership of foreign producing facilities.

The principal method used to stimulate production was the long-term contract. Of the ten major low-grade, open-pit copper mines established in British Columbia between 1959 and 1972, nine had obtained long-term contracts from Japanese buyers in advance of any investment in productive capacity.<sup>14</sup> The primary effect of these contracts was to substantially

reduce, if not eliminate, the risks involved in committing large sums of capital to copper mining operations. With a market for the product assured in advance, much of the needed capital could be raised in the form of bank loans. Banks, especially Canadian ones, have historically been quite reticent in providing any sort of risk capital at all.<sup>15</sup>

Of the eight copper producers for which information is available, 60 percent of the roughly \$360 million capital costs were provided by loans. If we eliminate the Bell Copper Division of Noranda Mines, which does not sell any of its output to Japan, this proportion rises to almost 70 percent. About 60 percent of the \$218 million provided by these loans came from Canadian banks.<sup>16</sup>

The fact that all of the long-term commitments entered into by the large Japanese metal corporations were in terms of world prices (based on the London Metal Exchange) further encouraged the growth of copper production in British Columbia. These prices, although subject to rather violent and sudden fluctuations, climbed steadily throughout the 1960s providing an added incentive to investment. Prices based on the London Metal Exchange were substantially higher during this period than the producer prices prevailing in the North American market.<sup>17</sup> As we shall see, the large fluctuations in world copper prices during the 1970s played a major role in the debate over the N.D.P.'s mining legislation in British Columbia.

The second major form of Japanese involvement was the provision of loan capital to the copper industry. Although Japanese sources provided only 24 percent of the loan capital to the eight mines considered above (compared to the 60 percent provided by Canadian banks), the timing and the distribution of this capital were both crucial. The first major new open-pit mine, Granby, was financed entirely by a loan from the Japanese Sumitomo Corporation. Of the four producing mines opening between 1959 and 1966, three were financed almost entirely by Japanese loan capital. Besides Granby, Japanese loans provided 91 percent of the initial capital for Bethlehem Copper, and over half the costs of Granisle Copper. The involvement of Japanese capital in the 'second wave' of copper mines opening between 1970 and 1972 was less pronounced. Only two of the six mines opening during this period utilized Japanese loan capital. In both cases the proportion provided was under 20 percent of total capital costs.<sup>18</sup>

Thus, the use of loan capital by the Japanese provided an initial stimulus to the industry. After the success of the initial copper mining ventures, capital from Canadian banks and established mining companies was more readily forthcoming. In addition, Japanese lenders stimulated loans from other sources by subordinating their claims on the borrowing enterprise to those of other lenders. For instance, a Japanese

loan to Granisle Copper was made on security of a second mortgage while the three million dollars lent by a Canadian bank was secured by a first mortgage on the property.<sup>19</sup> The Japanese, it appears, were willing to accommodate to the conservative tendencies of Canadian bankers.

One feature of the Canadian mining industry that was not altered in any way by Japanese involvement was the reliance on the export of minerals in an unprocessed form. All of the mines which opened in British Columbia to supply the Japanese market exported their production in the form of unsmelted concentrates. The smelting, refining, and fabricating stages of the industry were all carried out in Japan. The reasons for this trend are similar to those that existed in the case of United States resource investment. The major metal corporations already had substantial plant capacity in all stages of the copper industry, and it was clearly in their economic self-interest to utilize and expand these facilities rather than to encourage extensive processing capacity abroad. In other words, the sole aim of Japanese investment in British Columbia mining was to ensure supplies of raw materials for its own integrated industrial system. The result was a further increase in the proportion of Canadian minerals exported in unprocessed form from around 30 percent in the late 1950s to 40 percent in the early 1970s.<sup>20</sup>

Although Japanese involvement in the copper industry is the most important aspect of British Columbia's mineral



development preceding the controversy over the N.D.P.'s mining legislation, two other areas of Japanese presence should be mentioned. The first is the Japanese role in the iron ore industry. The rapid growth of Japan's industrial complex during the 1950s generated a large demand for iron ore to feed that country's new steel mills. British Columbia's mineral deposits, because of their relative proximity, were a favored source of supply, and thus iron ore production became the first major British Columbia industry to be encouraged by Japanese initiatives. Although the value of production was relatively small compared to copper, the export of iron ore to Japan became a significant political issue in British Columbia during the late 1950s.<sup>21</sup>

Japanese demand was also extremely significant in the coal mining industry. As in the case of iron ore, Japan's demand for this raw material was a direct result of the growth in its domestic steel capacity. Thus during the late 1960s Japanese involvement led directly to a major resurgence of coal mining in British Columbia, and with the sharp decline of copper prices in 1975, the value of coal production in the province even surpassed that of copper.<sup>22</sup> In the case of both iron and coal, the use of long term contracts, the lack of substantial amounts of Japanese equity, and the export of unprocessed minerals were also important result of the Japanese presence.

## II

Although the trend of Japanese involvement described in the previous section precluded the direct export of foreign control and increased corporate concentration into the British Columbia mining industry, it did not prevent the eventual emergence of these two features. Before the Japanese induced mining boom had gathered momentum in the late 1960s, the foreign presence in British Columbia's mining industry was the lowest in Canada. Between 1965 and 1968 foreign owned corporations generated only 26.5 percent of the industry's taxable income in British Columbia compared to 55 percent for Canada as a whole.<sup>23</sup> There were two major reasons for this situation. In the first place, a large proportion of the province's leading minerals, lead and zinc, was under the control of the Canadian owned Consolidated Mining and Smelting Company. This subsidiary of the Canadian Pacific Railway had consolidated most of the major B.C. producing mines just after the turn of the century, thus neutralizing an earlier American mining thrust into British Columbia and maintaining a strong corporate presence in the field. The second major contributing factor was the relatively minor role of British Columbia in the post-World War II mining boom. This prolonged boom drastically increased American ownership of the mining industry in most of the rest of Canada but largely bypassed British Columbia.

However, despite the low levels of Japanese equity

investment, the mining boom of the 1960s and early 1970s substantially increased the level of direct foreign investment. By 1974, 51 percent of the mining industry's taxable income was generated by foreign controlled corporations.<sup>24</sup> In terms of share ownership, the presence of non-residents has been roughly stable from 1967 to 1975 at about 45 percent.<sup>25</sup> This difference would seem to indicate that foreign ownership has been directed to the larger mining firms.

A more precise picture can be gained if the pattern of ownership is looked at on an industry by industry basis. In the case of lead and zinc, the traditional mainstays of the mining industry, foreign ownership has been negligible. Cominco has accounted for the great majority of production, with smaller amounts being produced by other Canadian firms. A recent exception was the American owned Reeves-Macdonald mine which accounted for about 10 percent of lead-zinc production in 1967 but closed down in 1975.<sup>26</sup>

Foreign, especially American, investment has always been a significant feature of the province's copper industry. Most of the copper mines existing before World War I were American owned, and the major producer during the 1950s, Britannia Mine, was acquired by the U.S. copper giant, Anaconda. This traditional presence in the copper industry meant that American firms were among the primary beneficiaries of the Japanese copper boom. The first copper producer to open with Japanese financing was the Granby Mining Company, 66 percent owned by

by Zapata Corporation of Houston, Texas. Granby had been active in B.C. copper mining during the early years of the twentieth century, and its new open-pit mine was opened on the same site as its earlier underground mine and townsite. In 1966, the same Zapata-Granby interests opened the much larger Granisle Copper Co., also financed with Japanese loan capital. Thus two out of the four new copper mines opened in the early 1960s were controlled by the same American firm.<sup>27</sup>

The involvement of foreign controlled firms was also significant in the group of six much larger low grade copper mines which opened in the early 1970s. Two of these operations, Utah mines and the Similkameen Mining Company, were both wholly owned subsidiaries of American corporations, the former being held by Utah International of San Francisco, and the latter by the Newmont Mining Corporation of New York. In addition, the largest of these copper producers, the Lornex Mining Corporation was 55 percent owned by Rio Algam Mines, a Canadian subsidiary of the British giant, Rio-Tinto Zinc. Rio Algam also manages Lornex under a long-term contract. Altogether, foreign controlled firms in 1974 controlled almost 60 percent of British Columbia's copper production.<sup>28</sup>

The coal industry, which became the province's most valuable mineral producer in 1975, shows an even greater degree of foreign involvement. The initial contracts with the Japanese were signed by the American-owned Kaiser Resources,

which had a virtual monopoly of coal production for several years. In 1975, Kaiser accounted for about 64 percent of B.C. coal production, with the Canadian Pacific-Cominco subsidiary, Fording Coal, producing almost all the remainder.<sup>29</sup>

For iron and asbestos, the only two remaining minerals of major significance, foreign ownership has also been substantial. In 1975, one of the two producing iron mines accounting for about 30 percent of production was wholly owned in the United States. The province's only asbestos mine, Cassiar Asbestos, was 82 percent foreign owned in 1974 with two large asbestos corporations, Turner and Newall of Great Britain, and Raybestos Manhattan, each owning a substantial equity.<sup>30</sup>

Some writers have postulated a relationship between foreign ownership and corporate concentration.<sup>31</sup> Much of the corporate concentration in Canada is seen as having been imported from the United States as large foreign corporations established a dominant presence in the Canadian economy. Industries such as chemicals, automobiles and petroleum are striking examples of this tendency. However, in the case of British Columbia, concentration seems to be most pronounced in the Canadian owned sectors of the industry. In 1975, three large Canadian firms, Canadian Pacific-Cominco, Noranda Mines and Placer Development accounted for almost all of British Columbia's domestically owned production capacity. Canadian Pacific, Canada's second largest company in terms of assets, owns a majority of Cominco, by far the largest producer of

lead and zinc in the province. Cominco's control over lead-zinc production increased from 65 percent of production in 1967 to 98 percent in 1975 with the gradual closure of most of the smaller lead-zinc mines.<sup>32</sup>

As noted earlier, the reason for this domination goes back to the turn of the century when the Canadian Pacific Railway was successful in acquiring and consolidating the most productive orebodies in south-eastern B.C., as well as developing methods of smelting these ores. Especially important was the acquisition of the Sullivan Mine, an enormously rich orebody which has produced most of the province's lead and zinc during this century. In 1975, after more than eighty years of operation, this orebody still produced over four-fifths of the province's lead and zinc. Cominco's smelters also process significant amounts of ore mined outside British Columbia.<sup>33</sup>

Canadian Pacific and Cominco, through their joint ownership of Fording Coal, have also acquired a large share of the recently revived coal mining industry and account for all of the Canadian owned production of this mineral. Cominco, through Valley Copper, also owns rights to a substantial copper orebody but has yet to develop it to the stage of production. Canadian Pacific, through both Cominco and Fording Coal, is the single largest corporate entity involved in British Columbia mining. Together, these two subsidiaries represented

almost 40 percent of the total issued share capital in B.C.'s mining industry.<sup>34</sup>

Noranda Mines and Placer Development control almost all of the Canadian owned portion of the copper mining industry. Noranda is based in Toronto and Placer in Vancouver, but extensive ownership and directorship links make it deceptive to consider them as two unrelated corporate entities. Noranda is Canada's eighth largest corporation and, along with Inco, Falconbridge, and Cominco, is one of the largest mining complexes in Canada. It owns substantial copper deposits in Ontario and Quebec, and is vertically integrated through the smelting, refining, and fabricating stage of the industry. Noranda Mines owns about 30 percent of Placer Development and is the largest single shareholder in that company.<sup>35</sup> Four of Noranda's twelve directors, including the president and chairman Alfred Powis and executive vice-president William James, sit on Placer's board of directors, while Placer chairman Thomas McClelland has a seat on the Noranda Board.<sup>36</sup>

Placer Development is a mining and resource development company with diverse holdings in many parts of the world. Its major activity consists of acquiring mineral deposits and developing them to the production stage. The company was founded in 1926 by a New Zealander living in Vancouver and a visiting Australian business man. The company was based in Vancouver but its initial venture was the exploitation of a rich but remote gold mine in New Guinea. Placer then diversified successfully into the oil business in the United States

before acquiring a substantial share of British Columbia's new copper and molybdenum mining ventures. The company is truly multinational in origin, and its activities now include mining interests in Quebec, Montana, the Phillipines and Australia; mining exploration in New Zealand, Fiji, Mexico and South Africa; as well as a plywood plant in New Guinea and ranches in Australia.<sup>37</sup> Among Canada's two hundred largest corporations, Placer Development ranked eighty first in terms of assets in 1975.<sup>38</sup>

Four major copper producers, Craigmont Mines, Brenda Mines, Gibraltar Mines, and the Bell Copper Division of Noranda are controlled by the Noranda-Placer complex. Together they represent almost all of the Canadian owned segment of the industry and produce about 40 percent of the province's copper.<sup>39</sup> Craigmont mines was the second major copper operation brought into production to supply the Japanese market. In this case, however, Japanese participation was limited to an advance long term contract with about half the capital coming from Canadian banks and most of the rest representing Placer and Noranda equity. Placer Development is presently the largest single shareholder with a 45 percent interest, while Noranda Mines holds an additional 20 percent.<sup>40</sup> Four of the six Craigmont board members are executive officers of either Placer Development or Noranda Mines.<sup>41</sup>

Brenda Mines was the first of the 'second wave' of



larger B.C. copper mines and was opened in April 1970. Two Japanese metal corporations, Nippon and Mitsui, provided some financing but most came from Noranda Mines.<sup>42</sup> Noranda thus acquired a 51 percent interest in the mine, and today accounts for four of the company's nine directors.<sup>43</sup> There is no direct relationship between Brenda and Placer Development.

Gibraltar Mines was opened in April 1972. Its large initial capital costs were provided entirely through loans from the Bank of Nova Scotia and the Canadian Imperial Bank of Commerce, and it is 71 percent owned by Placer Development.<sup>44</sup> The president and vice-president of Gibraltar are also the president and vice-president of Placer; the latter company accounting for four of the seven Gibraltar directorships.<sup>45</sup>

The last major Canadian owned producer, Bell Copper, is wholly owned by Noranda Mines and is operated as a division of that company rather than as a separate corporate entity. It is unique in that it was, until recently, the only British Columbia copper producer whose output was not shipped to Japan. Its ore is shipped east to supply Noranda's smelters and refineries in Quebec.

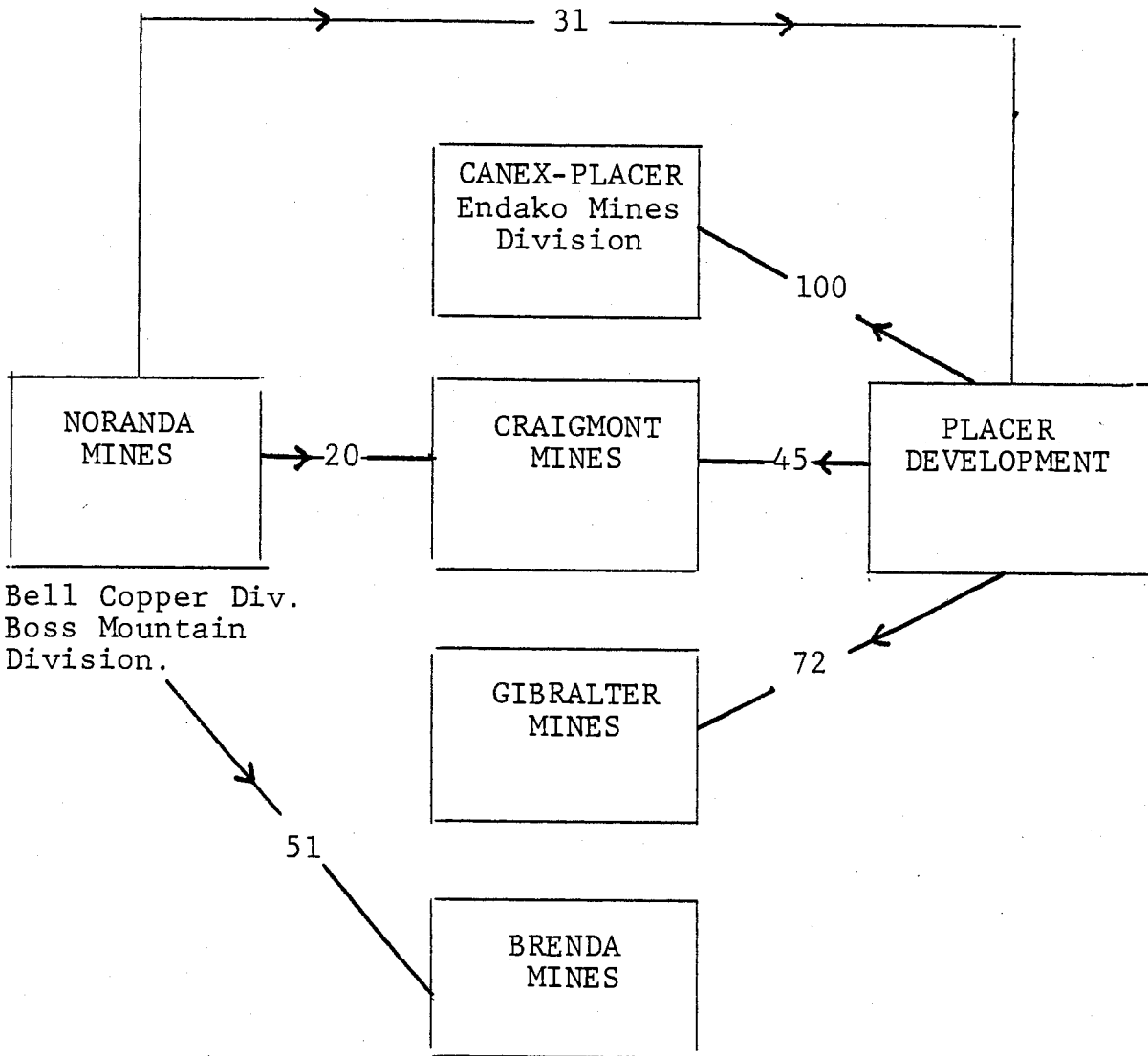
Finally, in 1975, Noranda and Placer accounted for all of the province's output of molybdenum, a mineral which is found in close proximity to copper. The two major producers were the Placer owned Endako Mine and the Boss Mountain Division of Noranda Mines. Noranda's Brenda Mines also

produced significant quantities of this mineral. For the sake of clarity the relationships outlined above are presented in diagrammatic form in figures 1 and 2.

The evidence presented above indicates that the level of foreign ownership and corporate concentration are both substantial in the British Columbia mining industry. The ownership and control of the industry rests in relatively few hands, and this is especially true of the Canadian owned segment where two distinct corporate groupings, Canadian Pacific-Cominco and Noranda-Placer, account for the vast majority of production. Locally based entrepreneurs have thus failed to gain a substantial foot-hold in the mining industry.

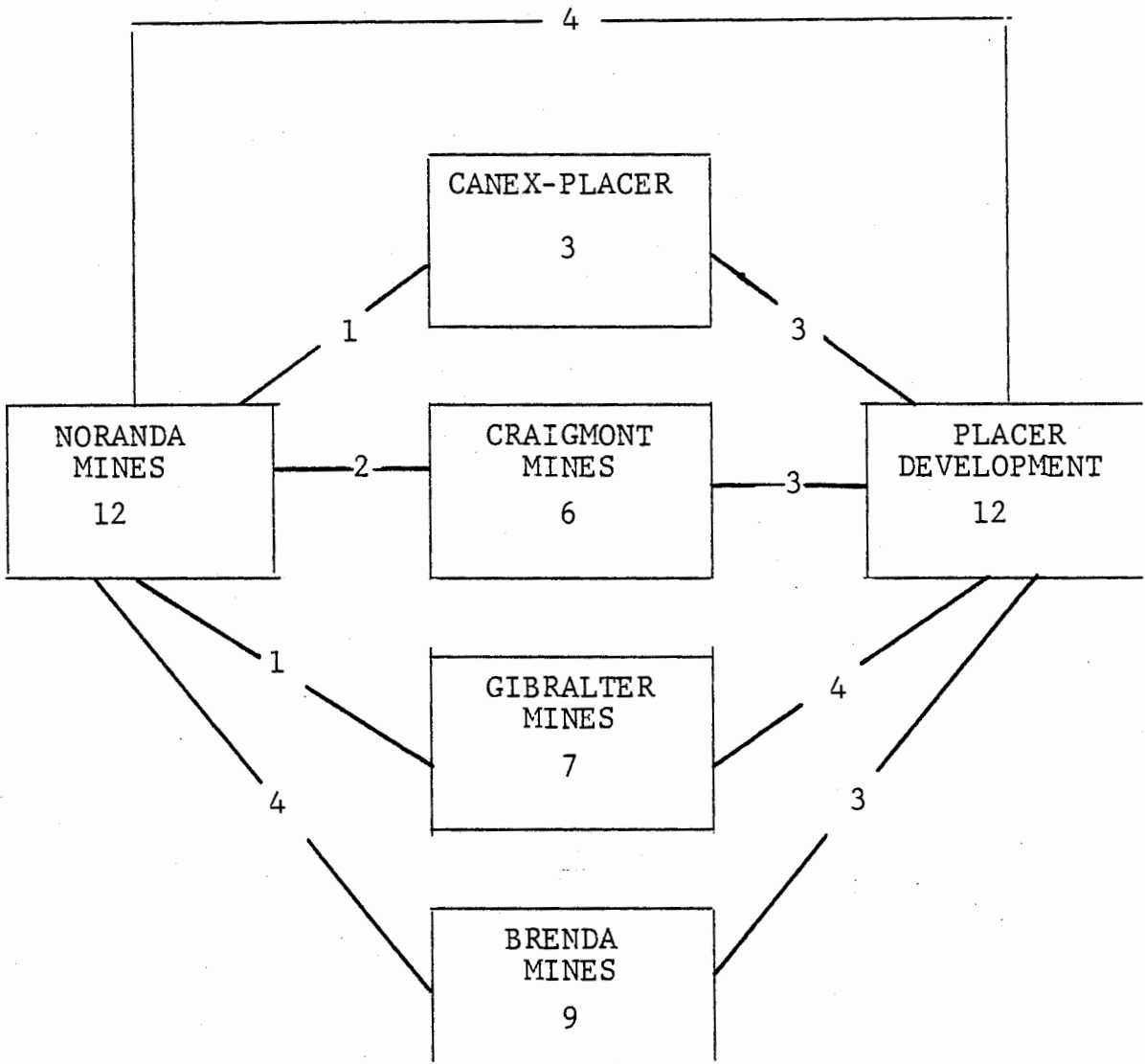
The question that immediately arises is why these features developed, given the pattern of Japanese involvement outlined above. Two of the major explanations for both concentration and foreign ownership are the direct export of monopoly control from developed consuming nations and the inherent risks involved in the mining industry. The former explanation is often used by third world critics while the latter usually serves as a standard justification of the industry itself. It is clear from the above account that neither of them is adequate in this case. The Japanese use of loan capital and long-term contracts to stimulate production did not, in itself, presuppose any particular pattern of owner-

FIGURE 1  
 OWNERSHIP LINKS  
 NORANDA-PLACER COMPLEX  
 (Percentage ownership)



SOURCE: Financial Post Corporation Service, Corporation Service Reports, "Noranda Mines", "Placer Development", "Craigmont Mines", "Gibraltar Mines" and "Brenda Mines".

FIGURE 2  
 INTERLOCKING DIRECTORSHIPS  
 NORANDA-PLACER COMPLEX  
 (Number of shared directorships)



SOURCE: Financial Post, Directory of Directors, 1977.

ship. It is quite conceivable that these offers could have been taken up by independent local firms, thus providing the foundation for a locally based industry. The risk theory provides only a partial explanation. The fact that the mining industry as a whole is dependent upon the discovery of mineral deposits that are highly scattered and often well hidden means that the larger company, which can diversify its risk, has a much greater chance of success in the long run. However, the use of advance long-term contracts by the Japanese substantially reduced, if not eliminated, the risks involved in establishing the large, capital intensive projects typical of the B.C. industry during the 1960s and 1970s. There is also some evidence that much of the most risky aspect of mining, exploration for new deposits, was not even undertaken by the large producing firms. All of these companies are represented in the Mining Association of British Columbia, but the members of this association accounted for only 28 percent of 'outside' exploration in 1967 and 36 percent in 1969.<sup>46</sup> It is evident that a great deal of the real exploration risks are sustained either by smaller, locally based companies, or the exploration branches of multinationals with no productive capacity in the province.

One fundamental reason for the large degree of concentration and foreign ownership in the British Columbia mining industry is that the ability to raise large amounts of

capital is limited to the larger firms. Not only can a large company often provide substantial capital from its own retained earnings, but it can also successfully borrow from the normally conservative Canadian chartered banks. For instance, of the five open-pit copper mines in which Canadian bank financing was involved, three were foreign owned and the other two were owned by Placer Development.<sup>47</sup> In all cases the companies involved were both very large and internationally based. These corporations acquired orebodies which had been discovered locally, and were able to acquire the financing necessary to bring them into production.

### III

British Columbia as an economic community has not utilized its financial infrastructure to finance mining production as opposed to exploration and speculation. Of all the loan capital raised by the mining industry during the decade 1966 to 1975, 57 percent originated in Canada, 34 percent in the United States, and 8 percent in Japan. Only about 7 percent of loan capital was generated within British Columbia itself.<sup>48</sup> Although the rapid growth of the mining industry after 1960 had a dramatic effect on the value of trading on the Vancouver Stock Exchange, the exchange itself has been a relatively minor source of financing. From 1966 to 1975 about \$140 million or 6 percent of the total capital inflow to the industry was provided through this channel.<sup>49</sup> Most of this mining activity has been confined to smaller firms, and much of it is purely

speculative in nature. The Vancouver Exchange has gained a fair degree of notoriety over the years for the speculative and often shady nature of much of its trading activity. Many an investor has discovered to his chagrin that it bears more resemblance to Las Vegas than New York.<sup>50</sup>

Thus, access to outside sources of capital has been critical in bringing mining projects from the discovery to the production stage. The large Canadian and foreign multi-nationals are the only organizations that have had this sort of access. In the case of the large Canadian firms their links to the chartered banks are direct and intimate. Placer Development is represented on the board of directors of the Canadian Imperial Bank of Commerce while Placer's major shareholder, Noranda Mines is represented at the Bank of Commerce as well as on the boards of the the Royal Bank and the Bank of Nova Scotia.<sup>51</sup> These connections were probably decisive in allowing Placer to finance its \$64 million Gibraltar Mine entirely through loans from the Commerce and the Bank of Nova Scotia.

The bank connection is also present in the other large British Columbia Mining firms. Cominco has a directorship link with the Toronto Dominion Bank and the Bank of Nova Scotia, while its parent, Canadian Pacific, has links with the Royal Bank of Canada and the Bank of Montreal. Falconbridge Nickel, the owner of the province's major iron mine, has a link

with the Bank of Commerce, while Rio Tinto Zinc, the major owner of the large Lornex Copper mine, has a seat on the Toronto Dominion's board of directors.<sup>52</sup>

Since loans of the size needed to finance mining projects must be approved by a bank's board of directors, these large companies are in a position to assure that their projects will receive the necessary financing. It also makes it much more likely that attempts by potential competitors to obtain financing would be blocked by inside lobbying. Only foreign based firms like Newmont, Granby, and Utah have the resources and financial connections necessary to compete on the capital market.

Through their access to large amounts of loan capital, the major mining companies have been able to expand their output enormously while keeping equity in relatively few hands. In this way continued control over individual mines can be assured and the need to pay out large amounts of profit in dividends to individual investors avoided. Loan capital, as opposed to equity capital, is self-liquidating. Thus, the mining boom of the 1960s and early 1970s was characterized by a move away from equity participation by the general public. Although capital inflow to the mining industry doubled between 1966 and 1975, the amount provided by the general public actually declined.<sup>53</sup> The shift in the basis of industry financing in British Columbia is most striking when the periods



1966 to 1975, and 1958 to 1967 are compared. The results are summarized in table 2.

TABLE 2  
SOURCES OF FINANCING  
BRITISH COLUMBIA MINING INDUSTRY  
(expressed as a percentage of total capital inflow)

Time Period	Equity	Loan	Internal
1958 - 1967	23	24	53
1966 - 1975	16	39	45

SOURCE: Price Waterhouse and Co., The Growth and Impact of the of the Mining Industry in British Columbia (Vancouver: Mining Association of British Columbia, 1968), table 1, p.8; and Price Waterhouse and Co., The British Columbia Mining Industry in 1975 (Vancouver: Mining Association of British Columbia, 1976), table, 12, p.87.

NOTE: The 1975 report contains a new category, 'Advances from Parent and Associate Companies'. For the sake of comparability this category has been re-integrated with 'Loans'.

The end result of this overall investment pattern was a decline in the assets of the mining industry held in the form of investment shares. Although figures for the B.C. mining industry as a whole are only available from 1973 on, they show share capital investment declining from 18 to 13 percent of the industry's net assets between 1973 and 1975.<sup>54</sup> When the equity of outside shareholders is relatively low, a large portion of the industry's profit is available to management to finance its own growth and expansion.

## IV

How large have mining profits been? Profits accruing to the mining industry in Canada have generally been among the highest of any industrial sector. This is certainly true for the period from 1962 to 1975, which shall be examined in some detail. Since data covering a systematic cross section of industries is not available for British Columbia alone, we will begin with a consideration of Canada as a whole. The percentage of industry revenue accruing to mining companies as profit was, on average, three times that for Canadian industry as a whole during the period 1962 to 1975. Table 3 provides a detailed picture of industry profit as a percentage of total revenue for four industrial groupings; Canadian industry as a whole, mining, metal mining, and manufacturing. Besides the much higher return on sales generated by mining as opposed to manufacturing, it is interesting to note the relative stability of the profit to sales ratio before the world recession of 1971. Even the drastically lower profits earned by the industry in 1971 and 1972 were twice as high as those in manufacturing.

Another measure of profitability that is often used is the actual return on the equity capital invested in an enterprise. One industry may make a higher profit on sales, but that industry could require a substantially higher initial investment or generate those sales. In this case the higher

TABLE 3

'BASE PROFIT' AS A PERCENTAGE OF INDUSTRY REVENUE  
SELECTED INDUSTRIAL SECTORS

Year	All Industries	Mining	Metal Mines	Manufacturing
1962	9.75	35.0	35.0	10.5
1963	10.1	34.5	33.4	11.2
1964	10.6	36.2	36.0	11.3
1965	10.6	36.0	35.0	11.1
1966	10.1	34.8	32.6	10.4
1967	9.5	33.9	31.9	9.5
1968	9.6	32.8	31.0	9.7
1969	9.5	31.5	30.1	9.7
1970	9.0	30.4	31.6	10.1
1971	9.2	27.1	23.2	8.9
1972	9.6	28.9	24.9	9.6
1973	10.5	34.3	34.1	10.6
1974	10.8	35.2	34.8	11.0
1975	9.5	31.8	25.3	9.6
Average	9.9	32.3	31.2	10.2
1962-9	10.0	33.1	33.1	10.4
1970-5	9.8	31.2	28.8	10.0

SOURCE: Canada, Dominion Bureau of Statistics, Industrial Corporations--Quarterly Financial Statistics, First Quarter 1962 to Fourth Quarter 1969 Inclusive, pp. 24-27, 32-35, 40-43, 64-67; Statistics Canada, Industrial Corporations--Financial Statistics, Fourth Quarter 1973, pp.38-39, 46-47, 52-53 and 66-67; Ibid., Fourth Quarter 1975, pp.26-27, 34-35, 40-41, and 54-55.

NOTE: 'Base Profit' is a standardized measure of company profits developed by Statistics Canada. In the words of that organization, "Base profit reflects net income of a corporation before recording transactions which to a greater or lesser extent, can be altered at the discretion of corporate management." Thus, although base profit is substantially higher than the profit that shows up on company books, it is a good basis for sectoral and temporal comparisons since it removes any bias caused by differing accounting practices.

TABLE 4

## 'BASE PROFIT' AS A PERCENTAGE OF SHAREHOLDERS EQUITY

Year	All Industries	Mining	Metal Mines	Manufacturing
1962	20.8	21.9	20.4	21.2
1963	22.1	21.5	19.0	22.8
1964	25.4	24.9	23.8	23.8
1965	25.1	26.5	24.1	24.9
1966	24.3	24.9	21.5	24.2
1967	23.2	25.1	22.1	22.6
1968	23.5	25.8	22.6	23.6
1969	23.0	22.4	20.8	23.6
1970	21.1	21.0	25.5	19.8
1971	22.1	17.2	16.0	22.7
1972	22.6	18.6	16.9	23.2
1973	26.6	28.8	32.8	30.1
1974	32.1	35.7	38.2	33.9
1975	28.7	32.0	24.5	28.9
Average	24.3	24.7	23.37	24.6
1962-9	23.4	24.1	21.6	23.3
1970-75	25.5	25.5	25.6	26.5

SOURCE: Canada, Dominion Bureau of Statistics, Industrial Corporations--Quarterly Financial Statistics, First Quarter 1962 to Fourth Quarter 1969 Inclusive, pp.20-43 and 60-67; Statistics Canada, Industrial Corporations--Financial Statistics, Fourth Quarter 1973, pp.36-39, 44-47, 50-53, and 64-67; Ibid., Fourth Quarter 1975, pp.24-27, 32-35, 38-41 and 52-55.

profit margin would simply represent a return to the much greater amounts of capital employed in the industry. Table 4 illustrates the before tax returns to shareholders' equity for the same four industrial sectors used above. The striking feature of this table is the almost identical average return to equity across the four industrial sectors from 1962 to 1975. If we take the period from 1962 to 1969, the average return to equity in metal mining is the lowest of any sector, despite the very high percentage of revenues accruing as corporate profit.

At first glance these figures would seem to suggest that the high profits made in the mining sector simply reflect returns to the much greater amount of capital investment required in mining. However, although modern mining is highly capital intensive, the amount of equity invested is not necessarily synonymous with the amount of capital actually employed in productive capacity. The high return on sales in mining would tend, over time, to increase the amount of capital invested in the industry until the return to equity begins to approximate that from the economy as a whole. This process was likely stimulated by government tax policies which, until the various reforms of the 1970s, made actual after tax returns to mining equity substantially higher than those of the other three industrial sectors.<sup>55</sup>

A more fundamental reason for the high level of shareholders' equity in mining is the large part that retained

earnings play in that equity. For metal mining, an average of 76 per cent of equity was accounted for by retained earnings from 1970 to 1975, compared to 66 percent for Canadian industry as a whole.<sup>56</sup> Thus, the very high earnings in metal mining progressively enlarge the equity of mining corporations, so that the earnings to equity ratio will remain roughly constant over time. The fact that these retained earnings are in excess of the actual needs of the mining industry itself is suggested by the relatively high level of investment by mining companies in bonds, mortgages, and shares of other corporations. Such outside investments accounted for an average of 26 percent of the retained earnings of mining companies during the period 1970-75, compared with a corresponding figure of 11.5 percent for the manufacturing sector.<sup>57</sup> Thus, although the measure of returns to capital invested may be of some interest to the prospective purchaser of individual mining stocks, or to the corporate executive in gauging his yearly performance, it is not really a measure of the economic surplus generated by the industry as a whole. Returns to capital hides the extent of this surplus because much of the equity of mining corporations is a result of profits earned in previous years.

With the above comparisons in mind, let us return to an examination of mining profits in the context of British Columbia. The only sources of information on the financial performance of the mining industry in the province are the

annual Price Waterhouse and Co. review of the industry done for the Mining Association of B.C. and the financial reports of individual companies. Since the Price Waterhouse report does not provide any information concerning industry profits before 1973, we are forced to rely on the latter source in estimating the profitability of mining during the rapid growth of the late 1960s and early 1970s.

To obtain an overall picture of the copper industry, which has played such a large part in the development of British Columbia mining in recent years, we will consider the performance of six major producers; Bethlehem Copper, Craigmont Mines, Granisle Copper, Brenda Mines, Gibraltar Mines and Lornex Mining. Together these firms accounted for over 60 percent of the province's copper production in 1973, and so should be fairly representative of the industry as a whole.<sup>58</sup> The financial performance of the Granduc, Similkameen, Utah, and Bell Copper mines cannot be evaluated because they are wholly owned subsidiaries of larger corporations.

The first three of our major producers, Bethlehem, Craigmont, and Granisle, were among the earlier major open-pit mines established in the province, and their financial performance during the 1960s and early 1970s can only be described as spectacular. Between 1964 and 1975 Bethlehem Copper Corporation's book profit before taxes totalled an incredible 49 percent of its production revenue. Craigmont's



book profit between 1966 and 1975 was 47 percent while Granisle earned a profit of 42 percent during the same period.<sup>59</sup> Considering the fact that the total book profit for all Canadian metal mines during the same period was a mere 23 percent of revenue, and that the total revenue from Canadian manufacturing produced a paltry 7 percent, it is not surprising that enormous sums were invested in B.C. copper during the early 1970s.<sup>60</sup>

The large Brenda, Gibraltar, and Lornex mines which opened between 1970 and 1972 were somewhat less profitable than their predecessors. Although Gibraltar managed to generate a book profit of 41 percent between 1972 and 1975, early losses kept Lornex's profit down to 37 percent and Brenda's to a relatively poor 20 percent. The corresponding figure for metal mining in Canada as a whole was 33 percent for the same period.<sup>61</sup>

The profits earned by these copper mines allowed them to repay their production costs quickly, pay dividends, and accumulate large amounts of capital in the form of retained earnings. The outstanding bank loans were paid off and the net worth\* of these copper producers increased dramatically, as retained earnings replaced debt due in the companies' balance sheets. The original value of the issued share capital then increased to reflect this new net worth and the owners thus realized enormous capital gains. In addition,

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\* Net worth is the excess of assets over short term liabilities and long term liabilities due to third parties.

they could begin to collect dividends which far surpassed the value of their initial investment.

Bethlehem Copper, in 1965, fully paid off its production loans, and in 1968, paid off a debenture issue of \$4 million which had been used to expand its capacity. Between 1964 and 1975, the par value of its issued capital stock increased from \$2.1 million to just under \$3.2 million. However, the company's contributed surplus and retained earnings skyrocketed from 3.9 million in 1964 to just under \$82 million in 1975.<sup>62</sup> Bethlehem Copper is a revealing example of the surplus generated by the British Columbia copper industry because, until quite recently, it was run as an independent entity by local management rather than as a subsidiary or associate of a larger corporation. In 1975, Bethlehem's net worth was just under \$83 million, of which \$60.4 million was held in the form of cash and marketable securities.<sup>63</sup>

Noranda Mines and Placer Development invested about \$9 million in Craigmont Mines between 1958 and 1961. A bank loan of 7.5 million provided a good proportion of the capital cost and this loan was repaid in full in 1963, only one year after the start of full-scale production. In return for their initial investment, Noranda and Placer acquired majority ownership of an operation which yielded \$85.5 million in after tax book profits between 1962 and 1975. Between 1971 and 1975 alone, the company's capital stock with a book value of \$2.2 million paid dividends of \$20.5 million.<sup>64</sup>

Gibraltar Mines was an expensive project requiring an initial capital outlay of almost \$64 million. However, the bank loans which provided these costs were also repaid only a year after the start of production. Between 1971 and 1975, the company's retained earnings jumped from a deficit of \$173,739 to just over \$66 million. After 1975, a combination of increased dividends and much lower profits resulted in a decline in this level to \$59.5 million. Although Gibraltar paid no dividends at all in 1972, 1973, and 1975, the total of its dividend payments for 1974, 1976, and 1977 was \$18.8 million, over three times the issued capital stock of \$5.6 million.<sup>65</sup>

There is no doubt that the later major copper projects were, initially, less profitable than the earlier ventures. We have seen that both the Brenda and Lornex mines earned a significantly lower profit ratio in their first years than the other major projects examined. Brenda took until 1975 to liquidate its long term debt of \$77 million while Lornex, in 1977, still carried a substantial long term debt.<sup>66</sup> This relatively poor performance was due to a combination of factors. For one thing, the capital costs of the later mines were much greater than the earlier operations. Whereas Craigmont was brought into production for \$16 million in 1961, Gibraltar cost over \$68 million and Lornex, \$143 million.<sup>67</sup> As we shall see, fluctuating copper prices and increased taxes have also meant that the spectacular performance of mines like

Bethlehem, Craigmont, and Granisle has not yet been matched. However, it does not follow that these later operations will not also turn out to be extremely profitable operations in the long run.

From the standpoint of the mines examined above, the drawbacks of measuring profitability in terms of return to shareholders equity become striking. We have seen that for metal mining as a whole in Canada actual share capital was only 24 percent of total shareholders equity between 1970 and 1975. In 1975 share capital was only 13 percent of total shareholders equity in British Columbia Mines.<sup>68</sup> For the copper mines discussed above the ratio of share capital to total equity is as follows:

Bethlehem Copper	3.8 percent
Craigmont Mines	10.0 percent
Granisle Copper	8.0 percent
Gibraltar Mines	7.8 percent
Brenda Mines	22.0 percent
Lornex Mining	8.0 percent <sup>69</sup>

Thus, the original capital invested in the form of equity ownership is only a small proportion of the present value of these operations. In all cases except Lornex, the repayment of bank loans has meant the quick recovery of the original capital costs plus interest on the money. With all the long term debt liquidated, the capital stock appreciated enormously

in value because the companies now represent substantial assets for which there were very few, if any, long term liabilities. This is quite apart from any dividends paid to the original investors. Thus, return to equity does not really measure the actual return to the original investors in these copper mines, the banks and the shareholders. The banks gained a quick return on their money at the market rate of interest, while the original shareholders realized an enormous capital gain and the dividends that flow from it.

Despite the fact that the shares in most of British Columbia mines examined above are publicly traded and are probably held by a variety of institutions and individual investors, the major benefits from these mines accrue primarily to the multinational companies who own majority control. If the copper mines that are wholly owned by American firms like Newmont Mining and Utah International have been as profitable as the operations examined above ( and there is no reason to believe that they have not), the amount of capital extracted from British Columbia's copper resource has been substantial. Even when these mines are owned by Canadian based companies like Bethlehem, Noranda, or Placer, this surplus does not necessarily stay in British Columbia. In corporate hands, this capital will tend to stay in the mining or resource field, and if it can be most profitably employed in other countries, that is where it will go. Given the much higher rates of return on sales in the resource field, the reason for this

' sector-specificity' is self-evident; and it is undoubtedly reinforced by the tendency of a company to direct its new investment into an area where it has a high degree of experience and expertise. In the absence of government interference, investment decisions will be made in the interests of the profitability and long term growth of resource corporations rather than those of any particular geographic region like British Columbia, or even Canada as a whole.

V

Although a comprehensive economic 'linkage' or 'cost benefit' analysis of the British Columbia mining industry is well beyond the scope of this work, a few general observations can be made. Writing from the standpoint of the third world, Norman Girvan has observed that the mining industry, in countries which depend upon the export unprocessed minerals, has relatively few links with the domestic economy:

...the mineral industries remain economic enclaves within the host countries and do not catalyze balanced, self-sustaining growth. The specific manifestations of this have been the following: (1) few purchases of local agricultural and manufactured goods are made by the industry (2) the capital labor ratio in the industry is high relative to that in the rest of the national economy, and, as a result, labor productivity and wage rates are relatively high, but the total labor force and the total wage bill are low... (3) profits and depreciation form a high proportion of the value of the industry's output... but this surplus is either repatriated to the foreign owners or reinvested within the mineral export industry itself. [emphasis original] <sup>70</sup>

Thus, Girvan concludes, the 'value returned' to the host economy is well below the total value of mineral production.

Despite the fact that Girvan was writing from the perspective of countries like Chile, Jamaica, and Guyana, whose minerals are under the control of one or two large vertically integrated multinational corporations, his three general observations fit the case of British Columbia quite closely. As we have already seen, his third point concerning profits and their appropriation can be applied without any serious modifications. The British Columbia Mining industry is also, like its third world counterparts, characterized by a very high capital-labour ratio. Between 1966 and 1975 just under \$3 billion dollars was invested in British Columbia's mining industry. During the same period, direct employment in the industry increased from 11,280 to 15,540, for a gain of 4260 jobs.<sup>71</sup> Thus, to create one job in mining required an investment of over \$700,000! Despite the fact that, in terms of revenue, mining is British Columbia's second largest industry, it employed only 1.4 percent of the province's labour force during 1974 and 1975. This proportion was slightly less than the 1.5 percent employed in 1966. While industry revenues almost tripled between 1966 and 1975, employment grew by only 38 percent.<sup>72</sup> These small numbers of workers are, however, quite highly paid and their wage rates have kept pace with the dramatic rise in industry revenues. Thus, wages and salaries accounted for roughly the same proportion of total industry

revenue from 1965 to 1976 as they did from 1946 to 1956.<sup>73</sup>

It would be difficult to estimate, without a rather extensive study, the precise extent to which the mining industry in British Columbia provides a market for the goods and services that are produced by other industries. Figures provided by the Mining Association show total purchases of supplies and services as listed in table 5.

TABLE 5  
PURCHASES OF SUPPLIES AND SERVICES BY  
THE BRITISH COLUMBIA MINING  
INDUSTRY  
(millions of dollars)

Year	Total Purchases	Percentage of Industry Revenue
1973	395	65
1974	490.5	52
1975	564.3	60
1976	575.7	59

SOURCE: Price Waterhouse and Company, The British Columbia Mining Industry in 1975, table 19, p.94; and The British Columbia Mining Industry in 1976, table 16, p.29.

The quantity of goods and services supplied by British Columbia itself is likely substantially less than the amounts shown in this table, since large quantities of specialized manufactured parts and equipment are included. It is unlikely that over half of the production materials and supplies used



by the mining industry are actually produced in the province. However, substantial amounts are spent on things like construction, consulting, and the service industries in general. Since the production of the mining industry is exported in relatively unprocessed form it does not provide the input for any refining, fabricating, or manufacturing industries within the province. In the case of copper, British Columbia is worse off than most third world countries, who have at least substantial smelting capacity in their mineral industries.<sup>74</sup>

Although the 'value returned' to the province would undoubtedly be greater if more manufacturing activity based on mining occurred in British Columbia, it would be a mistake to underestimate the links between mining and the economic and political life of the province. For instance, the Mining Association of B.C. claims that mining supports a total of 5 percent of the population, and the B.C. Yukon Chamber of Mines goes as far as to say that each job in mining generates seven additional jobs in supporting industries. Although, in the words of one economist, "there is no respectable analytical foundation for such a claim",<sup>75</sup> the distribution of mining dependent industries is highly significant. Mining activity is extremely important in supporting the economic life of many of the smaller regional centers in British Columbia. Towns like Trail, Prince George, Merritt, Stewart, Williams Lake and Kamloops depend mainly, or even entirely, upon mining to

support many of their sales and service industries. In Vancouver, the province's metropolitan center, mining supports much of the activity of the local stock exchange as well as a small but significant business and professional community. A perusal of the Vancouver Yellow Page listings will reveal a total of ninety mining and one hundred and six exploration companies, ranging from the giant multinational to the fly-by-night speculator. Fifty-four Vancouver mining equipment and supply companies, as well as twenty-five mining engineers derive their livelihood from the industry.<sup>76</sup>

While the importance of these industries may be debated by economists, the political importance of these spin-off effects is undeniable. Because of its regional distribution, the mining industry is an important factor in at least ten of the province's fifty-five ridings. In addition, the small segment of the population which derives its livelihood from the industry includes a high proportion of professional and business people. These people are far more likely to be politically active than the population as a whole, and their opinions are often given prominence in the local media. Members of these professional and business groups also tend to share a common political outlook with their counterparts in other industries, and are elected to political office with a frequency which is out of all proportion to their actual numbers. The political impact of the mining community will be analyzed in much more detail when we consider the industry's campaign against the

N.D.P. reforms of the province's mining legislation. First, however, we will explore in some detail the trend of government activity in the mining field before the N.D.P.'s accession to power in 1972.

## NOTES: CHAPTER 2

1. Price Waterhouse and Co., The Growth and Impact of the Mining Industry in British Columbia, 1968 (Vancouver: Mining Association of British Columbia, 1968), app. III, table 10.
2. John Davis, Mining and Mineral Processing in Canada, Studies for the Royal Commission of Canada's Economic Prospects, no.29 (Ottawa: Queen's Printer, 1957), p.30.
3. Canada, Energy, Mines and Resources Canada, Mineral Industry Trends and Economic Opportunities, Mineral Policy Series, no. MR158 (Ottawa: Minister of Supply and Services Canada, 1976), table 2, p.6. The only province experiencing a lower rate of growth during this period was Prince Edward Island, which has no mineral industry to speak of.
4. Price Waterhouse and Co., The Growth and Impact of the Mining Industry in B.C., 1968, charts 15 and 16.
5. Ibid., Chart 13; Price Waterhouse and Co., The British Columbia Mining Industry in 1975, table 8, p.83; Canada, Energy Mines and Resources Canada, Mineral Industry Trends and Economic Opportunities, p.6.
6. Price Waterhouse and Co., The Growth and Impact of the Mining Industry in B.C., 1968, Chart 15; The B.C. Mining Industry in 1975, table 8, p.83; B.C., Department of Mines and Petroleum Resources, Report, 1960, table 1, p.A17; and 1973, table 1, p.A27.
7. M.A. Galway, Japanese Involvement in British Columbia Copper, Energy, Mines and Resources Canada, Mineral Bulletin no. MR145 (Ottawa: Information Canada, 1975) p.18.
8. See Ibid., pp. 8-15, for a more detailed account of these developments.
9. Hugh D.J. Aitken, American Capital and Canadian Resources (Cambridge, Mass.: Harvard University Press, 1961), pp.66-67.
10. Canada, Government of Canada, Foreign Direct Investment in Canada (Ottawa: Information Canada, 1972), table 4, p.20.

11. Ibid., tables 9 and 10, p.25.
12. John Davis, Mining and Mineral Processing in Canada, p.33.
13. M.A. Galway, Japanese Involvement in B.C. Copper, p.10
14. Ibid., Appendix, pp.40-41.
15. This observation has been made so often that it has become somewhat of a cliché. For a theoretical interpretation of Canadian economic and political history which develops the idea of the conservative nature of finance capital, see R.T. Naylor, "The Rise and Fall of the Third Commercial Empire of the St. Lawrence," Gary Teeple, ed., Capitalism and the National Question in Canada (Toronto: University of Toronto Press, 1972). His thesis is elaborated in much more detail in Naylor, The History of Canadian Business, 1867-1914 (Toronto: James Lorimer, 1975) 2 volumes.
16. These percentages have been calculated from the figures for "Initial capital cost" and "Production financing..." in Galway, Japanese Involvement in B.C. Copper, Appendix, pp.40-41. Two wholly owned American subsidiaries, Utah Mines and Similkameen Mines, were omitted because no precise information on their financing is available. However, both companies made substantial use of loan capital, and Similkameen's loans came primarily from Canadian banks. Thus, it is unlikely that the inclusion of the two companies would significantly alter the percentages estimated.
17. Canada, Energy, Mines and Resources Canada, Copper, Mineral Policy Series no. MR149 (Ottawa: Minister of Supply and Services Canada, 1967) p.12; and Price Waterhouse and Co., The B.C. Mining Industry in 1975, p.18.
18. All the figures in this paragraph are from Galway, Japanese Involvement in B.C. Copper, Appendix, pp.40-41.
19. Ibid., p.27.
20. Canada, Energy Mines and Resources Canada, Mineral Industry Trends and Economic Opportunities, p.21.
21. See below, pp.81-82, 91-95.
22. Price Waterhouse and Co., The B.C. Mining Industry in 1975, table 8, p.83.

23. Canada, Government of Canada, Foreign Direct Investment in Canada, table 7, p.23.
24. Canada, Statistics Canada, Annual Report of the Minister of Industry, Trade and Commerce Under the Corporations and Labour Unions Returns Act, Part 1, Corporations, 1974 (Ottawa: Minister of Industry, Trade and Commerce, 1975), statement 4, p.22.
25. Price Waterhouse and Co., The Growth and Impact of the Mining Industry in B.C., 1968, table 5, p.18; and The B.C. Mining Industry in 1975, table 43, p.118.
26. Ibid., 1968, appendix II; and 1975, p.121
27. Galway, Japanese Involvement in B.C. Copper, Appendix, pp.40-41.
28. Ibid.
29. Price Waterhouse and Co., The B.C. Mining Industry in 1975, table 2, p.74.
30. Canada, Statistics Canada, Intercorporate Ownership, 1972 (Ottawa: Information Canada, 1974) p.474.
31. For a good account of the impact of large multinational corporations on Canada's economic and political life, see Kari Levitt, Silent Surrender (Toronto: Macmillan, 1970). Neither Levitt nor most of the other numerous writers in this field would attribute the high incidence of corporate concentration in Canada solely to direct foreign investment.
32. Price Waterhouse and Company, The Growth and Impact of the Mining Industry in B.C., appendix II; and The B.C. Mining Industry in 1975, table 2, p.74.
33. Ibid., 1975, table 8, p.83, note 1.
34. Ibid., table 43, p.118.
35. Financial Post Corporation Service, Corporation Service Report, "Placer Development."
36. Financial Post, Directory of Directors, 1977 (Toronto, Montreal: Maclean-Hunter Publishing Co., 1978 ), passim.

- \* 37. A short history of Placer Development is provided by the Vancouver Province, September 24, 1975, pp.9-10. See also the company's annual reports, the Financial Post, Corporation Service Reports, and Financial Post Survey of Mines (Toronto, Montreal: Maclean-Hunter Publishing Co., Annual)
38. Pamela Hughes, "The Top 200" Canadian Business 48 (July 1975)
39. Price Waterhouse and Co., The B.C. Mining Industry in 1975, table 2, p.74 and table 43, p.118.
40. Canada, Statistics Canada, Intercorporate Ownership, 1972 pp. 438-39.
41. Financial Post, Directory of Directors, 1977, passim.
42. Galway, Japanese Involvement in B.C. Copper, Appendix, pp.40-41.
43. Financial Post, Corporation Service Report, "Brenda Mines" Idem., Directory of Directors, 1977, passim.
44. Galway, Japanese Involvement in B.C. Copper, Appendix, pp.40-41.
45. Financial Post, Directory of Directors, 1977, passim.
46. Price Waterhouse and Co., The Growth and Impact of the Mining Industry in B.C., p.22; and The B.C. Mining Industry in 1969, p.10.
47. Galway, Japanese Involvement in B.C. Copper, Appendix pp.40-41.
48. Price Waterhouse and Co., The B.C. Mining Industry in 1975, table 15, p.90.
49. Ibid., table 12, p.87 and table 13, p.88.
- \* 50. For an interpretive account of mining promotions in Vancouver and elsewhere in Canada, see Herschel Hardin, A Nation Unaware: The Canadian Economic Culture (Vancouver: J.J. Douglas Ltd., 1974) Chapter 7. According to Hardin, British Columbia's former Premier, W.A.C. Bennett once remarked that if 10 percent of the money going through the Vancouver Stock Exchange "...found its way into the ground, B.C. would have a mining industry that would stun the world." According to the Royal Commission on

Banking and Finance (the Porter Commission), only 18 percent of the money invested in speculative mining stock from 1953 to 1960 in Canada actually went into mining exploration and development. Ibid., pp.146-47 and 143.

51. Peter C. Newman, The Canadian Establishment (Toronto: McClelland and Stewart, 1975) p.94.
52. Ibid.
53. Price Waterhouse and Co., The Growth and Impact of the Mining Industry in B.C., table 1, p.8; and The B.C. Mining Industry in 1975, table 12, p.87.
54. Ibid., 1975, p.77, table 4.
55. See below table 7, p.115
56. Calculated from Canada, Statistics Canada, Business Finance Division, Industrial Corporation--Financial Statistics, Fourth Quarter 1973, catalogue #61-003 (Ottawa: Information Canada, April 1974) pp.50-51 and 36-37. Ibid., Fourth Quarter 1975 (April 1976), pp. 24-25 and 38-39. The overall average was arrived at by dividing "Retained earnings" by "Total shareholders equity" for the last quarter of each year and averaging the percentages over the period 1970-1975.
57. Calculated from Ibid., Fourth Quarter 1973, pp. 10,46 and 68; and Fourth Quarter 1975, pp.28, 36 and 56, by dividing total investments by retained earnings for the fourth quarter of each year and averaging the percentages over the period 1970-1975.
58. This estimate was arrived at by dividing the production revenue of these companies, as provided by their financial statements, by the total B.C. copper revenues of \$488 million for 1973. Price Waterhouse and Co., The B.C. Mining Industry in 1975, table 8, p.83. The estimate of 60 percent is an approximation because several of the companies considered extract significant proportions of other metals such as zinc and molybdenum from their copper orebodies.
59. Calculated from the financial statements of the companies concerned by dividing their net, before tax profit, by their production revenues. This data is summarized in



the annual Financial Post, Financial Post Survey of Mines, 1968, pp. 76, 78 and 94; 1971, pp. 201, 214 and 240; 1974, pp. 180, 187 and 192; and 1976, pp. 66, 84 and 98.

Corporation financial data is summarized in somewhat more detail in the information brochures for most major Canadian corporations compiled by The Financial Post Corporation Service, Corporation Service Reports (Toronto, Montreal: Maclean-Hunter Ltd.). The data in these reports (which are periodically renewed) cover the present year and the preceding six years.

These profit to revenue ratios include income from other investments in calculating company profits. Although this income is not directly derived from B.C. mines, it does represent earnings from profits extracted in previous years and not reinvested in the business or distributed to shareholders.

60. The average for metal mining was calculated from Canada, Statistics Canada, Business Finance Division, Corporation Financial Statistics, 1971, catalogue #61-207 (Ottawa: Information Canada, 1972) pp. 134-35; Ibid., 1972-73 pp.50-51; and Ibid., 1975, pp.112-13. Figures for the period 1965-1969 were compiled by Eric Kierans, Report on Natural Resources Policy in Manitoba (prepared for the Secretariat for the Planning and Priorities Committee of Cabinet, Government of Manitoba, February, 1973), table 8, p.23. The percentages were arrived at by simply dividing "Net profit before direct taxes" by "Total income" for the period 1966-1975.

The average for manufacturing was calculated from Dominion Bureau of Statistics, Business Finance Division, Industrial Corporations--Quarterly Financial Statistics, First Quarter 1962 to Fourth Quarter 1969 Inclusive Catalogue #61-003 (Ottawa: Queens Printer, June 1970) pp. 64-67; Statistics Canada, Industrial Corporations--Financial Statistics, Fourth Quarter 1973, pp.66-67; and Ibid., Fourth Quarter 1975, pp.54-55.

It should also be noted that the percentages used here are based on 'book profit' as reported by the companies themselves, and thus differ from those in tables 3 and 4 which used the Statistics Canada concept of "base profit."

61. Calculated from company financial data compiled by the Financial Post Corporation Service, Corporation Service Report, "Brenda Mines", "Gibraltar Mines" and "Lornex Mining" by dividing income before taxes by revenue for

the years 1972-1975 inclusive. The Canadian metal mining average was calculated from Statistics Canada, Corporation Financial Statistics, 1972-73, pp.50-51; and Ibid., 1975, pp.112-13, by the method outlined in note 60.

62. Financial Post Corporation Service, Corporation Service Report, "Bethlehem Copper."
63. Ibid.
64. Ibid., "Craigmont Mines."
65. Ibid., "Gibraltar Mines."
66. Ibid., "Brenda Mines."
67. Galway, Japanese Involvement in B.C. Copper, Appendix pp.40-41.
68. Price Waterhouse and Co., The B.C. Mining Industry in 1976, table 4, p.15.
69. Calculated from the Financial Post Corporation Service, Corporation Service Report for the companies listed. The percentages were arrived at by dividing capital stock by total shareholders' investment as listed in the companies' balance sheets.
70. Norman Girvan, Corporate Imperialism, Conflict and Expropriation: Transnational Corporations and Economic Nationalism in the Third World (White Plains, N.Y.: M.E. Sharpe Inc., 1976) p.32.
71. Price Waterhouse and Co., The B.C. Mining Industry in 1975, p.24, table 27, p.102 and table 28, p.103; idem, The Growth and Impact of the Mining Industry in B.C. 1968, table 11, p.36.
72. Ibid., 1969, table 19; and 1975, table 8, p.83.
73. Calculated from Ibid., 1969 table ; 1971, tables 18 and 23; and 1976, table 9, p.22 and table 20, p.33, by dividing total wages, salaries and benefits by industry revenue. The figure for the years 1946-1956 was obtained by averaging the figures provided by J.J. Deutsch et. al., Economics of Primary Production in British Columbia, volume II, The Mineral Industries (Vancouver: University of British Columbia, 1959) table 7, p.55. The percentages were 30 and 32 respectively.

74. Canada, Energy, Mines and Resources Canada, Copper, pp. 22-23.
75. Arlon Tussig, "The Role of Public Enterprise," M. Crommelin and A.R. Thompson, ed., Mineral Leasing as an Instrument of Public Policy, British Columbia Institute for Economic Policy Analysis series;5 (Vancouver: University of British Columbia Press, 1977), p.166.
76. British Columbia Telephone Co., Yellow Pages (Vancouver: N.P., 1978), pp.567-69. When counting the number of entries under "Mining Companies", those companies also listed under "Mining Development and Exploration" were deleted to avoid double counting.

## CHAPTER 3

## GOVERNMENT AND THE MINING INDUSTRY

On its most fundamental level, the legal relationship between the state and Canada's natural resources was defined by the country's roots in both British and French political experience. The traditional ownership of the public domain by the Crown was transferred intact to North America, where both British and French colonial authorities exercised active control over their new territories' resources. In the case of mining, R.V. Nelles writes that:

In both the French seigneurial and British freehold systems the distinction between possession of surface rights and ownership of the minerals underground was transmitted to the North American continent. Even though the New England yeoman and the seigneur on the St. Lawrence held certain rights over the use of the surface of their lands neither could claim in their entirety the precious minerals underground. These remained the property of their respective monarchs. 1

A combination of geography and historical evolution resulted in this legal approach to Canada's natural resources surviving into the industrial age of the late nineteenth and early twentieth centuries. Politically, Canada evolved gradually from a monarchy to a liberal democracy while keeping many institutions and practices of earlier colonial times.

In the United States, a revolutionary upheaval involved a decisive rejection of these monarchical elements, along with an almost universal recognition of the rights of private

property in all areas of society. In Canada, geography reinforced this difference. Vast areas of land in Canada were unsuitable for agrarian settlement so that, unlike the United States, the alienation of the public domain for freehold tenure did not become the universal practice. Again, Nelles, in writing from the standpoint of Ontario, provides a good summary of these trends:

The principles of reservation, crown ownership and leasehold tenure which characterized Ontario resource policy stood in bold contrast to their nineteenth century American counterparts. Americans placed a premium upon the rapid transfer of the public domain, either by outright sale or pre-emption, into unrestricted private ownership, and the retention of property rights by the state for the welfare of the community became an increasingly un-American notion with the passage of time. The public lands were public only insofar as they were waiting to become private.<sup>2</sup>

The British North America Act, which provided the constitutional basis for Canada as a nation, both recognized government ownership of the public domain and vested it unambiguously with the provinces which came together to form the new confederation. In the words of section 109 of the B.N.A. Act:

All Lands, Mines, Minerals, and Royalties belonging to the several Provinces of Canada, Nova Scotia, and New Brunswick at the Union, and all Sums due or Payable for such Lands, Mines, Minerals or Royalties, shall belong to the several Provinces of Ontario, Quebec, Nova Scotia, and New Brunswick in which the same are situate or arise, subject to any trusts existing in respect thereof, and to any interest other than that of the Province in the same.<sup>3</sup>

This retention of crown lands is again reinforced in section 117:

The several Provinces shall retain all their respective Public Property not otherwise disposed of in this Act, subject to the Right of Canada to assume any Lands or Public Property required for Fortifications or for the Defence of the Country.<sup>4</sup>

and again in section 92(5) where " The Management and Sale of the Public Lands belonging to the Province"<sup>5</sup> is listed under the grants of exclusive provincial jurisdiction.

The provinces which joined Canada after Confederation did so under different conditions. The ownership and control of crown lands was specifically denied to Manitoba, Saskatchewan, and Alberta, but British Columbia was successful in retaining all of its crown lands except for certain railway belt lands and the Peace River block. In 1930, all lands which had not already been alienated by the federal government in pursuit of its national commercial policies were returned to the provinces, and thus came under sections 109 and 117.

Provincial ownership of crown lands did not mean, of course, that the provinces came to exercise sole jurisdiction over all aspects of mining policy. In matters of commercial regulation, the provinces' powers over "Property and Civil Rights in the Province" have coexisted with the federal government's role in the "Regulation of Trade and Commerce."<sup>6</sup> Judicial interpretation has generally recognized the provinces' jurisdiction only over trade and commerce within the limits of a single province, and mining generally does not fall within

this restriction.<sup>7</sup> Similarly, in the case of taxation, jurisdiction resides at both the federal and provincial levels of government. The provinces' ownership of crown lands gives them explicit power to extract royalties for the use of unalienated crown lands. In addition the provinces have the power under section 92(2) to levy "Direct Taxation within the Province" ('Direct Taxation' refers to a tax which is born by the assessee rather than passed on to a third party). The federal government has unlimited powers of taxation using any mode or system.

Thus, jurisdiction over mineral resources in Canada is vested primarily although not exclusively in the provinces. Provincial governments directly control the terms on which a provinces's mineral resources are exploited and the level of the direct charges, levied in terms of royalties, for their use. The federal government, on the other hand, must rely on general taxation as a policy tool. Thus, federal policy toward the mineral industries has generally taken the form of changes to the rules governing the corporate income tax.

I

Although public ownership of the country's natural resources is firmly grounded in the constitution, the historical failure of both provincial and federal governments to exercise their rights vigorously in practice has been most striking in the case of mining. In Ontario, the slow progress

of mining after Confederation led to a gradual relaxation of both regulation and the level of taxation. Royalties were abolished and property rights in minerals were alienated rather than leased to private interests. This alienation of large areas of mineral-rich lands, as well as a growing realization of the strategic importance of new minerals like nickel, caused a reversal of provincial government policy by the 1890s. The exploitation of mineral resources was returned to a leasehold basis and royalties were re-imposed. Political pressure from the industry, however, soon led to an easing of these royalties. Toward the turn of the century, politicians, numerous businessmen, and a significant body of public opinion became committed to the idea of an Ontario economy based on the growth of manufacturing as opposed to mere resource development. This new mood led to an attempt by the Ontario government to force the refining of nickel ore in Ontario by imposing heavy duties on the export of unrefined nickel to plants in the United States. Concerted opposition on the part of the American monopoly owners of Ontario's nickel deposits, abetted by the hostility of the federal government, doomed the effort to failure. It was not until the national emergency created by World War I that nickel refining was finally brought to Canada. The American neutrality during most of that conflict made it intolerable that Canada's vast strategic deposits of nickel should be refined in the United States. The



International Nickel Company, realizing that the writing was on the wall, finally established substantial smelting and refining capacity in Ontario.<sup>8</sup>

The growing wealth of Ontario's mining industry between 1905 and the First World War spurred demands for a greater return to the public treasury. Royalties were imposed on gold and silver production, and, in 1907, a 3 percent profits tax was imposed on the industry despite its strenuous opposition to the measure. The tax was meant to cover only profits from the extraction of the raw ore from the ground, and thus was offset by a substantial deduction for processing. Rampant speculation and profiteering in the newly discovered Cobalt silver deposits led to the first public ownership of a mining development in North America during this period. However, the unwillingness of Ontario's Conservative government to follow through on its political initiative led to the previously popular idea of public ownership in mineral production falling into general discredit.<sup>9</sup>

After the First World War, Ontario began to take a much less activist role in the management of its mineral resources:

Gradually, the provincial government removed itself to a more conventional regulatory role on the sidelines of the mining industry. The duties of the Department of Mines ...were simply administrative and educational. It maintained a small bureaucracy to record mining claims, settle disputes, inspect the health and safety of miners, compile statistics and collect the mining tax...In short the province merely disposed of its mineral domain to private developers in as orderly a manner as possible, maintained some basic promotion and inspection services, and gathered in its 3 percent tithes from profitable ventures.<sup>10</sup>

The orientation of the state on the provincial level gravitated increasingly toward a role as representative of the interests of the private corporations. During the 1930s, the Hepburn government in Ontario had very close relations with the mining industry, and acted as an ally of the industry in its opposition to the federal Bullion Tax. In its presentations to the Rowell-Sirois Royal Commission, Ontario called for the complete withdrawal of the federal government from the field of resource taxation. This position was taken not only to obtain more provincial revenue but also to lower the tax burden on mining. Thus, there was at the time "... a great deal of public speculation that Hepburn's presentation to the Rowell-Sirois Commission resembled a brief for the Ontario Mining industry more than a submission from the people of the province." <sup>11</sup> Whereas mining had originally been considered an industry whose use of the public domain for private gain called for exceptional tax measures, it gradually came to be seen as an industry which should be taxed no more stringently than any other. If anything, the provincial attitude seemed to be that the difficulties involved in mining entitled it to a more generous tax treatment than that accorded to business generally.

## II

When mining first became important in British Columbia during the Fraser Gold rush of the 1850s, the province was

still a colony of Great Britain. Thus, the Governor, James Douglas, according to British practice, reserved "by law all mines of gold" to the Crown. When the province joined the Canadian Confederation this control remained with the provincial government, and in 1889 a land-mark Privy Council decision gave the province control over the mineral rights of the federally owned Railway Belt lands.<sup>12</sup>

In disposing of these crown owned lands the policies pursued by the provincial government showed both similarities to and differences from the experience of Ontario. However, the similarities were more fundamental since, by the Second World War, the attitude and policies of the British Columbia provincial government did not differ in any significant way from those of Ontario. Except in some exceptional cases, the involvement of the provincial government was confined to presiding over the orderly disposal of mineral lands into private hands, providing encouragement and assistance to the mining industry, and collecting a modest return in the form of taxation. The overall approach to government policy is neatly summarized by the following paragraph, which formed the introduction for various departmental mineral publications between 1900 and 1942:

The mining laws of British Columbia are very liberal in their nature and compare favourably with those in other parts of the world. The terms under which both lode and placer claims are held are such that a prospector is greatly encouraged in his work, and the titles, especially for mineral claims and hydraulic leases, are perfect. The

fees required to be paid are as small as possible, consistent with a proper administration of the mining industry, and are generally lower than those of the other provinces of Canada. Provision is also made for the formation of mining partnerships practically without expense and a party of miners is enabled to take advantage of these sections of the acts and work their claims together, without the trouble or expense of forming a joint stock company.<sup>13</sup>

The access to crown owned mineral lands was initially provided for by the Gold Mining Ordinance of 1867, and most of these provisions were incorporated in the 'Mineral Act' which was developed during the 1880s and 1890s.<sup>14</sup> The basic features outlined in this latter act remained largely unchanged until 1957. The central figure of the Mineral Act was, and remains to this day, the 'free miner'. Upon payment of a fee of \$5.00 any individual could obtain a free miner's certificate allowing him to prospect upon any crown lands, or private lands where the mineral rights remained with the Crown. Corporations were entitled to exactly the same privileges for a yearly fee of \$50.00, or \$100.00 if their capitalization exceeded \$100,000.00.<sup>15</sup> If the individual or corporation found a mineral deposit, he could then stake a claim of 1,500 square feet (51.56 acres) and hold it by lease as long as he either performed \$100.00 worth of work on it every year, or paid the government an equivalent sum. As soon as \$500.00 had been expended in this way, the holder of such a lease was entitled to a grant of the land from the Crown for an additional fee of \$25.00.<sup>16</sup> In other words, the government automatically forfeited its ownership of all mineral producing deposits as they were discovered and developed.

An overriding desire in the province to promote economic growth resulted in a general propensity to dispose of the public domain, and this practice became established well before the turn of the century. Since the provincial government had no fiscal resources to speak of, but owned enormous amounts of land, the alienation of this land became the sole means of encouraging rapid economic growth. In the case of mining, it is possible that these general conditions were reinforced by the early predominance of American miners in the south-east part of the province and thus the adoption of American practices. In any case, the rules governing access to the public domain remained remarkably stable right up to 1957. Even the fee structure outlined above was included in the Mineral Act, and remained in its original form until the various reforms that occurred after 1957.

*W. B. ...*

The major changes in the administration of the mineral industry during the first half of the twentieth century were confined mainly to increasing the ability of government to service the needs of prospectors and developers. The Mineral Survey and Development Act of 1929 provided for the appointment of resident mining engineers for each of the province's five mining districts. These engineers were to provide geological information to prospectors and test mineral samples supplied to them.<sup>17</sup> In 1937, a new Department of Mines Act provided for the conducting of courses in applied geology and mineralogy as well as for the expenditure of public money on

*role of gov't in development*

mineral roads and trails.<sup>18</sup>

The one major departure of the provincial government from this predominantly laissez-faire approach was the preoccupation of successive administrations with founding a provincial iron and steel industry. As Nelles has pointed out in relation to Ontario, an iron and steel industry has always been considered as an essential foundation of modern industrial society.<sup>19</sup> This has meant that, in Canada, politicians have been much more prone to take an interventionist stance when private corporations show indifference to establishing these industries. In British Columbia the desire for an iron and steel industry was evident in the early years of this century. The First World War raised this desire to a fever pitch as provincial politicians and business lobbyists joined in a concerted campaign to secure an industry based upon the provinces substantial iron ore deposits.

Although these attempts were unsuccessful, they did spur a series of legislative moves designed to increase the attractiveness of iron and steel investment to private capitalists. A succession of bounties on the production of iron and steel culminated in the Iron and Steel Bounties Act of 1929 which authorized the government to pay out \$3 per ton of iron smelted from provincial ore and \$1.50 per ton of steel manufactured in the province.<sup>20</sup> However, a policy which merely offered incentives was eventually seen as insufficient, especially since mining companies could conceivably make higher profits

with less capital investment by exporting ore to other countries for processing. Therefore, in 1942, an amendment to the province's Taxation Act provided for a tax of 37.5 cents per ton of iron ore mined, but not smelted, in the province.<sup>21</sup>

Apart from the question of iron ore, the level of taxation in the province of British Columbia was quite minimal. However, it was recognized that the province should obtain some sort of direct return from the depletion of its ore deposits. In 1900, the Dunsmuir ministry imposed a tax of 2 percent on the gross output of mines, less the cost of treatment and transportation to a smelter. Where the gross output of a mine was less than \$5,000 in a year, half of the tax was refunded.<sup>22</sup> The new tax, which was in effect a royalty, was bitterly attacked by the mining industry, which lost no time in blaming a slump in mining activity after 1900 on "unwise legislation." These attacks prompted the Mines Minister of the day, James McBride, to accuse the industry of "a political move against the provincial government."<sup>23</sup>

Despite these protests, the 2 percent output tax remained in effect until 1948, although several moves were made to soften its impact. The tax was made explicitly deductible from the provincial income tax so that a mining company would, in effect, only pay that portion of the income tax that was in excess of the output tax. The rate of the income tax varied from 1 percent to a maximum of 10 percent on income of \$19,000 and over, and mines were allowed to deduct their development,

depreciation, and depletion expenses from their taxable income. The partial refund granted to mines producing under \$5,000 worth of output was increased to a full refund and, in 1928, depletion also became a deduction from the 2 percent output tax.<sup>24</sup>

The foundation of this provincial taxation system, based on a royalty and an income tax, was undermined in 1942, when the federal government took over the administration of all income and corporation taxes. In return, Ottawa paid the provinces a grant equal to a specified percentage of these taxes. British Columbia continued to collect its 2 percent output tax on minerals, but it was no longer deductible from the corporate income tax. This state of affairs caused a general protest on the part of the British Columbia mining industry, but these complaints did not produce any substantial change until after the second federal provincial tax sharing agreements of 1947.<sup>25</sup>

It is difficult to piece together a clear picture of the events surrounding the end of the 2 percent output tax in 1948 from the publicly available sources. Deutsch, in his 1959 study of the B.C. mining industry asserts that, in 1948, certain mines simply refused to pay the tax on the grounds that it was indirect and thus ultra vires of the the province. Since all mining lands were granted outright, the province could not collect the tax as a royalty under sections 109 and 117 of the B.N.A. Act. Royalties could be collected from



forest lands, the argument went, because payment of these royalties was included as a condition of their sale when the province first alienated the land.<sup>26</sup>

Even though this legal challenge was never heard in any court of law, the mining industry apparently persuaded the federal government to accept it at face value, since Ottawa insisted upon the point during the federal provincial meetings held in 1947 to negotiate a new set of tax sharing agreements. During these meetings an agreement was supposedly reached whereby the federal government allowed British Columbia to collect an income tax on mining profits of up to 10 percent, based upon the earlier Ontario tax.<sup>27</sup> In any event, the provincial government, in 1948, introduced the Mining Tax Act which replaced the 2 percent output tax with a 4 percent tax on profits. The coalition government's Finance Minister, Herbert Anscomb, claimed that the new tax would merely enable the province to collect the same amount of revenue (about \$700,000 ) from mining in a different form.<sup>28</sup> But, unless mining profits exceeded 50 percent of revenue, it is difficult to see how a 4 percent profit tax could produce the same revenue as a 2 percent output tax. The lack of opposition from the mining industry would tend to indicate a lowering of the tax burden on mining and, in any event, the mining tax was once again allowed as a deduction for federal income tax purposes.

Although the mining industry seemed happy with the new

arrangement, it did not fail to produce a fair amount of controversy. Harold Winch, the province's C.C.F. leader pointed to the high profits being made by the Consolidated Mining and Smelting Company, and expressed the opinion that "The people are entitled to more than a 4 percent share of these profits." <sup>29</sup> The C.C.F. opposition then introduced a series of amendments calling successively for a 10, 8, and 6 percent profits tax. All of these amendments were defeated after a heated debate, but during the vote on a 6 percent tax level, four coalition members, including the future Premier, W.A.C. Bennett, bolted to vote with the opposition. <sup>30</sup>

The strains that the mining tax question produced within the Liberal-Conservative coalition went beyond this defection in the lower ranks. During the debate, Harold Winch of the C.C.F. charged that the coalition had misled the House by recommending the Dominion-Provincial tax sharing agreement while the question of the mineral tax was under discussion. This charge led to a public argument between Finance Minister Anscomb and John Hart, the former Premier; with the latter denying that the question of mineral taxes had ever come up during the negotiations with the federal government! Hart also questioned whether the provision for the province to collect a mining tax on profits was actually a formal part of the new agreement. <sup>31</sup>

Regardless of the details surrounding the tax change of 1948, there seems little doubt that a significant group of coalition politicians wished to reduce the tax burden on mining in the hope that this move would stimulate the growth of the industry. Mines Minister McDonald, during the coalition's term in office, called repeatedly for a federal taxation policy more favourable to mining. In an October 1948 C.B.C. Radio speech, he accused the federal government of not recognizing the difference between the mining industry and other kinds of enterprise, and called for a federal taxation policy which:

Would definitely encourage capital investment by giving income tax exemption, or some other effectual taxation relief to mining enterprises until such time at least as they have regained their capital investment from production.<sup>32</sup>

In a radio address a year later, the Minister reiterated his message to the populace, accusing the C.C.F. of driving away mining by advocating higher taxation.<sup>33</sup> By not occupying fully the 'tax room' given by the federal government in 1948, the coalition government was giving a clear demonstration, to both the C.C.F. and the federal government, of its belief in the fragility of the mining industry and the need for a particularly beneficial climate if it was to survive at all. Or in the words of a widely used metaphor, one must be careful not to kill the goose that lays the golden egg.

Despite its attempts to placate the province's mining

industry, the Liberal-Conservative coalition was not at all anxious to renounce the right of the province to collect mineral royalties for all time. Therefore, it passed an amendment to the Mineral Act giving the Cabinet the right to set royalties on the production from all provincial mineral lands alienated after 1948. In the words of the new section 160:

Royalties as fixed by regulations made by the Lieutenant-Governor in Council from time to time shall be payable to His Majesty in respect of all minerals won from lands covered by records or crown grants of minerals issued after the first day of May, 1948 under this or any other Act; and such records or Crown grants shall be liable to forfeiture on default of payment of royalties in the maner provided by the regulations.<sup>34</sup>

Section 169 of the Mineral Act was also revised to give the Lieutenant-Governor in Council (or Provincial Cabinet) the specific authority to set the level of royalties, times and methods of collection, as well as regulations for the assessment of mineral production and the forfeiture of defaulting producers.<sup>35</sup>

When introducing these amendments, the government even went as far as to announce its intention of establishing a scale of royalties under the new legislation like that applying to timber. Officials of the Mines Department explained to news reporters, that, over a period of years, the new royalties would replace the 4 percent mining income tax, as existing mines became exhausted and new ones were established on post-1948 crown grants.<sup>36</sup> However, no royalties were imposed by

coalition government.

When the new Social Credit government gained power in 1952, one of its first legislative actions was to increase the level of taxation on both the forest and mining industries. The 1953 provincial budget raised the tax on mining income from 4 to 10 percent, the maximum then allowed by the federal government for income tax purposes. This meant that the tax increase was softened somewhat in that it could be deducted from a company's taxable income when calculating its federal tax. The burden on smaller companies was further reduced by raising the income exempt from the tax from \$5,000 to \$25,000. No new royalties on mineral production were announced in the budget. In justifying these new increases, the Finance Minister, Einar Gunderson, asserted that "The direct return from mining operations is far too small particularly when it is derived from a natural resource which is a completely wasting asset." The increases, said Gunderson, were aimed "at large operators with large profits who can well afford them."<sup>37</sup>

The large operators in both mining and lumber may have been able to afford the new taxes, but they were unanimous in their aversion to contributing anything more to the public purse. Both of the province's major mining interest groups, the British Columbia and Yukon Chamber of Mines and the Mining Association of B.C., denounced the new tax. The latter group asserted that it was "punitive" and that it would drive

away venture capital.<sup>38</sup> These sentiments were echoed by the Vancouver Board of Trade as well as the province's major newspapers. Elmore Philpott, the Sun's perennial editorial page columnist expressed the opinion that the tax increase was "...so disastrous for all British Columbia that it should be defeated at all costs. If passed," he predicated, it "...could put the skids under B.C. mining for a long time to come."<sup>39</sup>

The proposed tax increases were derailed when the minority Social Credit government was defeated in the legislature on another bill, but the voters failed to heed Mr. Philpott's exhortations and returned the Social Credit Party to power with a solid majority. The government then proceeded to pass the measures into law over renewed criticism from the industry, the provincial Liberals, and the media. The Social Credit Mines Minister, Robert Sommers, answered this storm of complaints with the assertion that it was federal, not provincial taxes, that were too high. The C.C.F. supported the government, but predicted that the various allowable deductions under the legislation and the three year tax holiday for new mines would render it an ineffectual tool for giving the province a fair share of its mineral resources.<sup>40</sup>

The next major attempt by the Social Credit government of British Columbia to alter the relationship between the

government and the mining industry came in the spring session of 1957. Two bills were introduced in the legislature which involved far-reaching changes to the status quo. Bill 87 was named the Mineral Property Taxation Act, and it gave the government the power to impose a property tax of up to 10 percent on the assessed value of the ore on all crown granted mineral lands. The reasons for this bill's introduction go back to the province's perennial preoccupation with the establishment of a steel industry. Despite renewed lobbying by local businessmen and politicians during the Second World War, a provincial steel industry was no closer to realization after 1945 than it had been after 1918. In its 1950 brief to the third B.C. Natural Resources Conference, the mining industry simply denied that there was a high enough potential consumption to warrant a steel industry in the province.<sup>41</sup> The industry thus felt no compunction about signing long-term contracts with Japanese steel interests for the export of iron ore to feed Japanese mills.

The new Social Credit government was not, however, so sanguine, and began to lobby Ottawa in an attempt to halt the depletion of the province's vital iron ore reserves. When these attempts proved futile, the government turned to direct action. Since the 1942 measures applying a tax on exported iron ore were included in Part III of the Taxation Act, which had been discredited after the events of 1948, the government

decided to repeal Part III in its entirety and substitute its own law. This new law, the 'Mineral Property Taxation Act', gave the government the authority to levy a tax on the assessed value of any privately owned mineral deposit up to a level of 10 percent. The act gave full power to the Cabinet to designate areas that would be subject to the new tax, and an assessor was appointed to determine the fair market value of the minerals assessed for tax purposes. However, the law allowed for a far reaching right to appeal these assessments; first to a special 'Court of Assessment' set up for this purpose and then, if a company still was not satisfied, to the Supreme Court of British Columbia.<sup>42</sup> In bringing down the new measure, the Social Credit Mines Minister, Kenneth Kiernan, stressed that the measure was only aimed at discouraging the export of iron ore and would not be applied to any other mineral.<sup>43</sup> In late 1957, the government reiterated its motive and set the new iron ore tax at 50¢ per mined ton of ore. At the same time it brought down a new Iron Bounty Act that would, in effect, negate this new tax on any ore smelted or refined within the province.<sup>44</sup>

The second major piece of legislation brought down in the spring of 1957 was a bill abolishing the province's system of granting mineral lands outright to private developers. Instead, Bill 91 introduced a leasing system which forced the holder of a mineral claim, after a period of five years, to



apply for either a 'retention lease' or a 'production lease'. The former was, in effect, a permit to enable the holder of a claim to retain it for another five years without developing it, whereas the 'production lease' was a 21 year renewable permit allowing production to take place.<sup>45</sup> The aim of the government was to exercise more control over the production of minerals in the province, and especially to prevent private interests from gaining control over mineral deposits without developing them. Under this new leasing system, the government could, by refusing to grant a retention lease, force a company to either apply for a lease to develop its holdings or else forfeit them to the Crown.

The mining industry lost little time in raising an outcry which made its earlier opposition to the mining tax increase seem pale in comparison. The rhetorical attack was led by a local mining lawyer, James C. Rolston, who, in a widely publicized letter to the Premier, charged that the government's new legislation "...was secretly prepared and rushed through without notice to those interested in mining and without regard to the effect such legislation will have respecting prospecting and exploration and the financing of mining ventures. No prospector or mining company," continued Rolston, "can afford the risk and expense of locating and partially proving-up mineral claims in the mountainous terrain of British Columbia when the only title they can get

is a lease which may be cancelled unless developed in accordance with the requirement of a government official who has no practical knowledge or experience with respect to ...mining." Rolston closed his attack by admonishing the Premier to respect the first tenet of the Social Credit gospel, as laid down by national leader Solon Low, that "The government should keep out of business and let private enterprise prevail."<sup>46</sup>

The attacks of the industry, however, went further than mere rhetoric. Karl J. Springer of Highland Mines and Helicopter announced shortly after the government's new legislation was introduced that his company had shelved a \$200,000 exploration plan. "We have," he announced, "an alternative exploration program for the Yukon and North-West Territories drawn up and ready to go."<sup>47</sup> Mining men blamed the new legislation for the collapse of several (unspecified) mining and exploration projects, and loudly expressed a preference for the sunny climate of Mexico over the chill winds of doubt and uncertainty blowing in British Columbia. At the same time they applied themselves to throwing up more concrete roadblocks in the path of the government, and in this effort they were almost entirely successful.

In their fight against the new property tax, the iron ore exporters utilized to the full the recourse provided to them under the Taxation Act. They challenged the decisions of the

government assessor and, when they were successful in this effort they went on to the British Columbia Supreme Court where a sympathetic judiciary rolled back these assessments yet again. For example, Texada Mines' original assessment of \$1,543,663 was cut back by 30 percent by the Court of Revision, and was reduced further by Mr. Justice Norris of the B.C. Supreme Court to a mere \$79,250. Empire Development fared even better when its original assessment of \$1,630,654 was progressively cut back, and finally reduced by Justice Norris to nil.<sup>48</sup>

Despite these concrete successes, the iron ore producers were determined to overthrow the new legislation altogether. In this aim they were encouraged by the Japanese government who lodged a complaint with the federal government. The Conservative Justice Minister, E. Davie Fulton, subsequently announced that his department was investigating the legality of the B.C. law.<sup>49</sup> However, the industry's success in overturning the Mineral Property Taxation Act was due entirely to its own efforts. Utah and Texada Mines, both American companies, filed suit in the B.C. Supreme Court challenging the constitutionality of the law. Their suit was upheld by Mr. Justice Sullivan, who ruled that, while the act professed to impose a property tax, its real aim was to place an embargo on the export of iron ore. Since it therefore invaded the federal power to regulate trade and commerce, it was ultra vires of the provincial government.<sup>50</sup> The province then

appealed the ruling, and was upheld when the B.C. Court of Appeal unanimously overturned the Sullivan decision. Nevertheless, the Supreme Court of Canada had the final say in the matter, and in 1960, it unanimously declared the Mineral Property Taxation Act ultra vires of the provincial government. In supporting its judgement the court repeated Justice Sullivan's original argument, and pointed to both government statements and the new Iron Bounty Act as evidence that the legislation's real goal was to prevent the export of iron ore. In the words of Mr. Justice Locke the iron ore industry had been "...singled out from other mining activities and subjected to a tax at an extraordinary rate." <sup>51</sup> The Social Credit government later used its authority under the Mineral Act to negotiate iron royalty agreements with producers on post 1948 crown grants, but these royalties were only about 1.5 percent of total provincial iron production and hardly constituted a real deterrent to ore exports. <sup>52</sup>

The fight waged by the mining industry against Bill 91, the amendments to the Mineral Act, was only slightly less successful. Immediately after the government introduced the new leasing system, the Mining Association of British Columbia met to start work on drafting regulations to cover the new legislation; an effort that was apparently endorsed by Mines Minister, Kenneth Kiernan. "It would," commented one unidentified industry spokesman, "have been much more to the point if the government had called us in before they

drafted Bills 87 and 91, but this way we may be able to salvage something from a very grim situation." <sup>53</sup> The province's leading mining companies evidently took their new found regulatory responsibilities very seriously and appointed their top legal talent to help with the drafting of new rules to govern the industry.

It is unlikely that the mining companies got their way in every respect. Nevertheless, they signified their cautious approval when, after a series of industry government meetings, Kiernan finally announced the regulations governing the new leasing system. Although the basic structure of the act remained the same, the Mines Minister made a major concession, when he promised that if a retention lease was denied, an 'independent' professional mining engineer would have to certify that the property could indeed be developed profitably.<sup>54</sup> In more general terms, Kiernan pledged to the industry that the administration of the new law would be "flexible". The mining industry's satisfaction, however, was only partial and it let it be known that it would prefer a single lease to the present double lease system.<sup>55</sup> The government obliged, and during the spring session of 1958, amendments were brought down which abolished retention lease and made the granting of a twenty-one year production lease virtually automatic. These amendments also extended the period during which crown grants could be applied for, to May 1959.<sup>56</sup>

As we have seen, the 1960s saw an enormous increase in the amount of copper produced in British Columbia for export to Japan, and a corresponding increase in the profits generated by the mining industry in the province. In reacting to this latter trend the Social Credit government, in 1968, raised the income tax on mining from 10 to 15 percent. The industry was also hit by a number of very significant changes to the administration of the tax. The new amendments proposed that:

1. The tax would henceforth apply to the profits from the processing of minerals as well as their extraction
2. The exemption granted to new mines during their first three years of operation would be eliminated
3. The income exempt from the tax would be reduced from \$25,000 to \$10,000<sup>57</sup>

These changes, as might expected, provoked anguished cries from the mining industry. Keith Steeves of Bethlehem Copper Corporation ventured the opinion that the legislation was poorly drafted and drawn up in the utmost secrecy, while the president of Falconbridge Nickel accused the Social Credit government of reverting to "the same philosophy which drove mining out of the province before." The Premier himself felt it necessary to specifically deny this latter charge, and he reminded the mining companies that "Our resources belong to the people and I expect development to continue and expand. Our people are entitled to a fair revenue from our resources...." 58

On this occasion, the protests from the mining industry were unsuccessful in deterring the Bennett government from its course. However, the mine owners did manage to have the proposal to tax processing profits deleted from the bill. They pointed out that the deductibility of the B.C. tax from the federal income tax was dependent upon the formula which deducted processing expenses from the provincial mining tax. The government accepted the argument but changed the basis of this deduction somewhat, to the detriment of the industry.<sup>59</sup> Evidently, the Social Credit administration felt that the mining industry was sufficiently profitable that it would not seriously resist the new measures despite the occasional protest. The evidence presented in chapter 2 would tend to confirm that this assessment was perfectly correct.

The export of copper ore in vast quantities to Japan during the 1960s did not provoke the widespread emotional reaction that was generated by the export of the province's iron ore reserves. On the other hand, the government was not content to sit back and let the invisible hand of the market take its inexorable course. In 1961, the Copper Bounty Act was passed providing for the payment of one cent for each pound of blister or refined copper produced in the province. The bill put a time limit of ten years on the payment, and a ceiling of \$2.5 million on the total payable under the scheme. 60

This incentive, however, was completely ignored by the mining industry during the 1960s as unprocessed copper exports to Japan increased by leaps and bounds. Thus, in 1970, the government felt that stronger measures were necessary. Although the Bennett administration obviously did not relish the thought of a confrontation like that generated over iron ore exports, the least it could do was to ensure that, if anybody did come forward to claim the bounty, there would be sufficient quantities of ore available for smelting and refining. The Mineral Processing Act of 1970, therefore, gave the government the power to direct the owner or manager of any mine to deliver a maximum of 50 percent of his minerals to a smelter or refinery within the province. The authority of the Minister under this act was extremely wide-ranging since it also authorized him to order any smelter or refinery to:

Process, smelt or refine such quantity of minerals from such producing mines to be carried out within such period of time and at such cost to the producing mine as the minister may determine and direct; and he may make orders respecting the efficiency of operation of the producing plant, smelter or refinery. 61

The objection of the mining industry was immediate and forceful. The concrete pressure on the government was applied by Rio Tinto Zinc of Great Britain who stated that the measure, if passed unchanged, could kill the giant Lornex copper project. Then, on April 23, 1970, Sir Val Duncan of Rio Tinto, said in England that he was sure that Lornex's worries would be eased and, the very next day, the provincial government



announced that the law would be amended to require only 12.5 percent of a mine's output to be sent to any new smelter.<sup>62</sup> Despite negotiations with several of the province's mining companies, the province was still without a copper smelter or refinery when the N.D.P. came to power in 1972.

### III

In summing up the history of mineral policy in British Columbia prior to the N.D.P. government's 1972 election victory, several overall points can be made. In the first place, a broad shift in policy is discernible toward greater liberality toward the mining industry in regard to both taxation and regulation between the first World War and the mid-1950s. Mining executives continually urged a lighter tax load during this period, and the cry was largely echoed by provincial politicians, who joined the corporations in calling for lower federal taxation of the industry. At the same time, provincial taxes were kept fairly low, and probably declined as expenses such as exploration, depletion and depreciation gradually became deductible from taxable income. This liberality was also reflected in the area of regulation, where the basic regulatory structure governing mining retained its nineteenth century form intact. Innovation in this area was directed entirely toward facilitating the ability of the industry to exploit British Columbia's mineral deposits.

The fundamental reason for this general policy direction

was the desire to promote rapid economic growth in a region which was vast in area and largely uninhabited. The ability of the province to support its major metropolitan center, Vancouver, as well as expand urbanization into the interior, depended entirely upon the exploitation of this large hinterland to produce an adequate level of commercial activity. In many ways mining was ideally suited to perform this task quickly. The sale of mineral products brought new wealth into the community as a whole, and much of this wealth went to support related professional and business activity in the metropolitan center. New mining ventures had the ability to give the community a sharp economic boost, at least in the short term, as they stimulated demand for construction and mining labour, provided traffic for the province's railway network, and encouraged new power developments. Mining was also capable of opening up remote areas of the the province to human settlement. This function became particularly important, since so much of British Columbia was unfit for agriculture and thus could not be settled through agrarian expansion. Mining and the myth of the receding frontier thus became closely intertwined. Finally, mining was seen as the first step in a process which would lead eventually to the creation of a modern industrial society. The development of extensive productive capacity in minerals such as iron and copper would result in a steady increase in the processing of

these minerals in British Columbia, and would culminate eventually in heavy manufacturing.

From the point of view of provincial politicians, mining was a particularly useful industry upon which to rely because it required relatively little investment in either money or direct involvement. Private interests provided both the capital as well as much of the expertise, and asked for little more than free access and a minimum of government interference. The major demand of the industry upon government was for land, which was available in large quantities; even much of the necessary infrastructure in the form of roads and townsites was provided by the industry itself.

The major sacrifice made by the provincial government was to forego any major revenue from the industry in the form of taxation or royalties. However, such a sacrifice was viewed as more than compensated for by the economic growth resulting from mining. Through a beneficent tax policy, Liberal and Conservative politicians could espouse their laissez-faire tendencies and, at the same time, actively promote growth and development. Increasing levels of federal taxation during and after World War I were viewed with alarm, not only because they eroded the province's fiscal base, but because they were seen as undermining the process of provincial economic development itself. A more activist provincial role in regulating mining development would not only have been costly in terms of money and expertise. It would have undermined the very nature of

the industry-government relationship, under which the mining industry operated very much as it pleased within the broad framework provided by the Mineral Act. The provincial government provided the encouragement, and the mining companies provided the economic growth which the politicians could then use as evidence of their wise political stewardship.<sup>63</sup>

These general industry-government relationships were reinforced by two major events, the great depression and the Second World War. After a slump following the 1929 crash, mining activity picked up during the 1930s until it became one of the few economic sectors which continued to thrive in the midst of economic gloom. Thus, as in the case of Ontario, the interests of the mining industry in British Columbia came to be viewed by politicians as identical to those of the province itself. The Second World War produced a demand for increased mineral production and thus the need for increased sensitivity to the demands of those companies who could meet that need. The general insecurity about a return to depression, which followed the end of the war, meant that the policies which evolved during the 1930s and 1940s continued to provide the basis for government legislation well into the 1950s.

The trend away from the laissez-faire policies toward mining began with the Social Credit victory in 1952 and culminated eventually with the N.D.P. term in office from 1972 to 1975. As we have seen, this period began with a relatively minor tax increase and gathered momentum with the reforms of

the late 1950s. The Social Credit's policy initiatives seemed to stem from two basic observations. The first was that mining was an extremely profitable business, and that a significant increase in taxation was not about to drive the industry out of the province. The Bennett government thus felt fairly confident about occupying all the available tax room allowed by the federal government and then demanding more. At the same time, the Social Credit government followed the lead set by its predecessors by demanding that the federal government lower its taxes on the mining industry.

Secondly, there seemed to be a growing realization that lasting economic growth demanded more than the simple laissez-faire policies of earlier years. The failure of mining to result in the establishment of a provincial iron and steel industry, despite the stimulus provided by two world wars, was felt particularly keenly by a party whose sole raison d'etre was to promote rapid growth. The increasing tendency after World War II for British Columbia to become a supplier of raw materials for a newly resurgent Japan brought this message home with particular force. In addition, the growing predominance of the large multinational corporations in B.C. after the war meant that the only sure outcome of the type of regulation contained in the Mineral Act was the steady alienation of the province's mineral bearing land into relatively few private hands. Once discovered and claimed, these deposits

could be developed only by decisions taken by the multi-nationals, so that the ability of the province even to control the pace of its own mining development was steadily undermined.

In terms of producing any significant departure from the status quo, and even in terms of its own objectives, the Social Credit mining policy must be judged a failure. An initial drive toward reform during the 1950s was largely blunted so that, by the 1960s, the government's approach reverted to a more traditional non-interventionist stance. The remarkable success of the mining industry in blunting the edge of reform was due to a number of factors. The most obvious one was the divided jurisdiction between the federal and provincial levels of government which allowed a successful industry challenge to what was in effect a provincial attempt to regulate trade and commerce. In addition, a decline in the mining industry's growth occurred in the late 1950s and the mining interests lost no time in laying the blame at the feet of the provincial government. When the increasing Japanese demand for British Columbia's copper revived mining again in the 1960s, the provincial government was more reluctant to interfere with the industry. Experience had shown that the that the road to mining reform was fraught with political hazards.

As a political party, Social Credit was particularly unsuited for its role as a public crusader against the mining

interests. It is certainly true that the Social Credit Party came to Victoria as a political outsider, and it was these origins which made possible the reform legislation of the 1950s in the first place.

The fact that the major opposition was provided by the C.C.F.-N.D.P., meant that there would be no significant resistance provided through the party system. However, the overall philosophical approach to the party made it particularly vulnerable to the attacks made by the industry through the news media. Social Credit, although certainly not non-interventionist, was committed to economic growth led by the efforts of private capital. This tenet was fundamental to the party's very existence, and, by tying its fortunes to those of the province's rapidly expanding economy during the 1950s and 1960s, Social Credit maintained a solid hold on the reigns of power. The one thing that it could not afford to become associated with was economic decline or even the appearance of it, and it was primarily this image which the mining companies were capable of portraying. In its efforts, the industry was aided immensely by a willing and generally uncritical news media who passed the message on virtually without comment or modification.

The vulnerability of Social Credit was increased by its close links with the business interests of the small regional centers in British Columbia. As Martin Robin has

pointed out, part of the Social Credit's success was due to the fact that it was able to channel the dissatisfaction of these regional elements with the traditional political system based in Vancouver and Victoria.<sup>64</sup> However, in many cases the prosperity of these regional businessmen was due in large part to the economic activity generated by mining, so that any move against the position of the industry automatically undermined a significant segment of the party's financial and organizational support.

The position that the Social Credit politicians found themselves in was highly paradoxical. Apart from their desire to increase returns from taxation, the major thrust of their policy initiatives was to increase economic activity by generating secondary industry and preventing corporations from holding undeveloped mineral reserves for extended periods. The hostility of the industry to the unaccustomed hand of government regulation meant that the end result of these policies was, if not economic stagnation, then certainly the appearance of it. The only route open thus became that of retreat. This capitulation was then justified, in time honoured fashion, by the government taking credit for the economic activity generated by the Japanese copper boom, an event with which it really had precious little to do.

The major concrete achievement of the Social Credit government was to raise the mining tax from 4 to 15 percent but, as we shall see, the many exemptions under that tax



meant that it was not a very effective means of obtaining a direct return from the province's mineral resources. // cut

Although the significance of the change from a grant to a leasing system was negated by the almost complete lack of conditions imposed on the industry, the principle involved in the change was important and set the stage for the much more far reaching changes attempted by the New Democratic Party government after 1972. | done

#### IV

Government involvement in British Columbia's mining industry was not limited to the provincial level. The First World War and its aftermath resulted in a much greater reliance by the federal government on corporate taxation. This trend, in turn, led to increasing conflict between Ottawa and the major mineral producing provinces regarding their concurrent jurisdiction over mining. As we have seen, these provincial protests were motivated not only by the important fiscal implications of an increasing federal role in taxing natural resources through the corporate income tax; there was also an underlying fear that excessive taxation could seriously inhibit the growth of industries based on these resources. |

The predominant provincial attitude during the 1920s and 1930s was thus one of resistance to Ottawa's growing role in the resource field. The provinces' solution, as it was finally articulated to the Rowell-Sirois Royal Commission by mineral | X

producers such as Ontario and British Columbia, was for the federal government to get out of the natural resource field altogether.

The final report of the Royal Commission, however, rejected this solution and called instead for the centralization of all major taxing power with Ottawa. In recognition of the provinces' right to collect natural resource revenues, the federal government would pay them the equivalent of a 10 percent tax on the net income of mining and oil companies.<sup>65</sup> The provinces, not surprisingly, rejected this arrangement, but a very similar situation evolved anyway during the Second World War. Under a series of wartime tax agreements with the provinces, the federal government took over the collection of all individual and corporate income taxes. However, instead of paying the provinces a sum equivalent to natural resources income tax of 10 percent, it allowed this tax as a deduction against corporate taxable income. This meant that the provinces themselves could continue to collect and administer taxes on natural resources.

The new arrangements, however, had the effect of severely limiting the provinces freedom to tax the natural resource industries. This situation arose because it was federal guidelines which now decided whether provincial taxes would be deductible from the corporate income tax. In the absence of this deductibility, the effective tax rate could conceivably be very high. Since a high tax rate on mineral industries

would likely inhibit their rapid growth, and one of the prime provincial policy objectives had been the promotion of this growth, the result was a strong deterrent against raising mineral taxation. Our account of British Columbia's mineral policy after the Second World War illustrated clearly the strength of this deterrent. As well as limiting the rate of provincial mining taxes, the federal rules also meant that the calculation of the taxable income of mining companies had to fulfill certain conditions. The most important one was that the provincial taxes on mining income resemble the original 1906 Ontario Mining Tax in providing for a substantial 'processing allowance.'<sup>66</sup> Thus the developments of the 1940s meant that it was the federal government who gained the predominant position in the formulation of mining tax policy in Canada.

During and after the Second World War, the policy thrust of the federal government paralleled that of the major mineral producing provinces. The trend was toward an encouragement of the mineral industries through various types of tax incentives. In pursuing these policies Ottawa was both reacting to provincial pressure and following its own post-war inclinations, which saw a vigorous mineral industry as essential to Canada's continued economic growth. The American centered post-war mineral boom had been encouraged by favourable legislation on the part of the United States government, and the Canadian government obviously felt that this boom would pass Canada by

if its legislation were not at least as favourable.

Thus, in 1955, the federal budget gave permanent status to a number of ad hoc tax measures whose purpose had been to encourage mining during the depression and the Second World War. During his budget address the Finance Minister, Walter Harris stated that "these special tax provisions have clearly established their value in promoting expansion and I now propose to make them a permanent part of our law."<sup>67</sup> The budget measures had four major features, and together they resulted in the mining industry enjoying a far lower tax rate than any other industrial sector in Canada:

1. All corporations whose principal business was mining could write off as current expenses in determining taxable income all costs of Canadian mineral exploration and development. Most other industrial corporations could only deduct their capital expenses gradually on a 'reducing balance' schedule. When expenses in mining were not immediately deductible, they could be depreciated at a faster rate than allowed to other corporations for tax purposes.
2. Mining companies were granted a complete exemption from income taxes during their first three years of operation. This exemption had first been granted by the federal government in 1936 to ensure that new mines could completely recover their production costs before having

to pay any taxes. It was continued through the post-war period on a year by year basis before being enshrined in the 1955 budget legislation.

3. After taking all other allowable deductions, mining companies could further reduce their taxable income by a 'depletion allowance' of 33 1/3 percent. 'Non-operating' companies with an interest in mineral profits were allowed a 25 percent deduction from gross mineral income and mining shareholders could reduce their income from 10 to 20 percent. The origin of this depletion allowance went back to the introduction of the income tax itself, and was based on American precedents.
4. Prospectors and their financial backers were completely exempt from tax on the sale of their mineral properties to developers.<sup>68</sup>

The result of these measures was that, although mining companies were subjected to the same nominal tax rate as other corporations and had to bear the burden of additional provincial mining taxes, the income actually subject to tax was extremely low. For example, in 1969, the metal mining industry's taxable income was actually only 19 percent of its book profits. The comparable percentages for other economic sectors are given in table 6. In 1973, the last year of the 1955 federal tax system, these percentages were roughly the same, with the taxable income of metal mines being 23 percent

of book profits compared with 76 percent for manufacturing and 96 percent for wholesale trade.<sup>69</sup>

TABLE 6

## TAXABLE INCOME AS A PERCENTAGE OF BOOK PROFIT--1969

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Metal Mining	19
Mineral Fuels	6
Agriculture, Fishing and Forestry	57
Manufacturing	79
Services	84
Wholesale Trade	88
Retail Trade	90

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SOURCE: Corporation Taxation Statistics, 1969 (Statistics Canada 61-2081, March 1972); cited by Eric Kierans, Report on Natural Resources Policy in Manitoba, table 1, p.8.

Thus, it is not surprising that the effective tax rate on mining profits was the lowest in Canada, while these profits were the highest of any other industrial sector. Table 8 gives a detailed picture of the taxes actually paid as a percentage of 'base profit' for the same industrial sectors considered in chapter 2 table 2. The average tax rate for the period 1962 to 1973 clearly shows the effects of the preferential treatment accorded to mining income. During this period, the effective tax rate on metal mines averaged 17

percent of 'base profit' compared to 28 percent for manufacturing and 24 percent for Canadian industry as a whole. This preferential treatment was also reflected in the after tax returns to equity in mining compared to those of other sectors. In Chapter 2 we observed that, before tax return to equity was no higher than any other major industrial sector. When we take after tax return to equity, however, the advantages enjoyed by the mining industry were substantial. Table 7 summarizes the situation for the period of 1962 to 1973. There can thus be little doubt that the tax system that was formalized in the 1955 budget served to encourage mining by making it far more attractive to capital investment than any other endeavor. "By comparison," observed Eric Kierans in 1972, "all other sectors have been discriminated against and discouraged."<sup>70</sup>

TABLE 7

RETURNS TO EQUITY 1962-73  
(based on 'base profit')

	Metal Mining	Mining	Manufacturing	All Industries
Before Tax	22	23	23	23
After Tax	14	12	10	10

SOURCE: See table 4, p. 48.

NOTE: Calculated by dividing total shareholders equity by 'base profit' and 'base profit' minus taxes. These percentages were then averaged for the period 1962 to 1973. For a definition of 'base profit', see note, table 3, p. 47.

TABLE 8

## TAXES PAID AS A PERCENTAGE OF 'BASE PROFIT'

Year	All Industries	Mining	Metal Mines	Manufacturing
1962	24.5	11.2	12.7	29.0
1963	24.7	11.2	13.5	28.8
1964	24.8	12.1	14.5	29.0
1965	24.2	12.2	15.8	28.4
1966	23.6	11.7	14.8	27.3
1967	22.9	11.5	15.6	26.2
1968	23.9	13.6	17.9	27.1
1969	25.0	13.9	17.1	28.4
1970	24.7	20.2	24.5	26.1
1971	24.0	14.0	17.5	26.6
1972	24.4	13.8	17.9	27.8
1973	26.0	19.2	24.4	29.1
1974	30.5	31.4	35.0	32.0
1975	30.2	33.5	29.7	31.1
Average	25.2	16.4	19.4	28.3
1962-73	24	14	17	28

SOURCE; See table 3, p. 46.

NOTE: Taxes paid includes both current and deferred taxes. For a definition of 'base profit' see note, table 3, p. 47. The period 1962-73 reflects the effects of the federal tax system before the implementation of some of the reforms of the Carter Commission report and subsequent white paper.



There is also ample evidence that it was the large multinational mining companies that benefited most from the tax benefits offered by the federal government. The Royal Commission on Taxation, for example, calculated that, in 1964, four major mining companies accounted for over three quarters of the income exempted under the three year tax holiday. Figures contained in a brief by the International Nickel Company to the same commission revealed that, between 1960 and 1970, that company spent a total of about \$210 million on exploration and development and enjoyed a total tax exemption on \$225 million of profits. The company also claimed depletion of \$450 million during the same period. These figures meant that the government paid for virtually all of Inco's exploration and development during the 1960s through these tax concessions.<sup>71</sup>

In 1967, the prevailing relationship between the federal government and the mining industry was fundamentally shaken by the report of the Carter Royal Commission on Taxation. The mandate of this commission had been to provide the basis for a thorough rationalization of a tax system which had evolved in a piecemeal fashion since the turn of the century. The general thrust of its final report was toward equity between corporate and personal tax contributions, as well as an elimination of the anomalies in the system as a whole. In regard to mining, the commission made the following

recommendations;

1. That the immediate write-off of exploration costs be continued and broadened in order to provide some relief from the inherent risks involved in mineral exploration. These write-off privileges would henceforth apply to all taxpayers and not just mining corporations.
2. That the immediate write-off of development costs should be phased out in five to ten years and replaced by a timetable depreciation system like that applying to other industries.
3. That the three year tax exemption period be phased out completely within five years.
4. That the percentage depletion allowance be ended immediately.
5. That a special tax write-off be permitted for individuals purchasing newly issued shares of mining and petroleum companies to the extent that the proceeds were used for exploration and development.<sup>72</sup>

Thus, the major thrust of the Carter Commission's report was that mining companies per se should enjoy no special tax privileges, but that mining exploration and development were activities that could be encouraged through more specific incentives. The Commission's revenue estimates showed that the tax liability of mining firms would be doubled under the new system, and that over 80 percent of these increases would

be borne by fifteen large mining and petroleum corporations.<sup>73</sup>

The recommendations of the Carter Commission on mining and petroleum taxation proved to be by far the most controversial of any of its numerous tax reform proposals. The mining industry lost little time in mobilizing an extensive opposition campaign involving the business community, politicians, provincial governments, and the mass media. In the words of M.W. Bucovetsky:

What appears to have been an orchestrated campaign of alarm took shape about a month after the report came out. Portents of economic enervation resulting from the report's mineral tax proposals were sounded in increasing number at annual shareholders meetings and in newspaper accounts. The Globe and Mail of Toronto, whose masthead "Canada's National Newspaper" is not entirely hyperbole, published a sequence of news stories, reports of addresses and signed comments whose message was that uncertainty engendered by the Report was already responsible for the loss of millions of dollars in capital spending by the mineral industries with much more to come if the government did not disavow the Report.<sup>74</sup>

This acrimonious response and the threatened 'capital strike' that went with it prompted the federal Finance Minister to assure the mining industry that if the three year tax exemption were ended, it would not take effect until 1974.<sup>75</sup> On June 22, the Carter proposals became a major federal-provincial issue when the three prairie Premiers jointly sent a telegram to Prime Minister Pearson expressing "grave concern at federal government haste in implementing parts of the Carter Royal Commission Report on Taxation."<sup>76</sup> The mining industry also received ample parliamentary support from M.P.'s of both

the Liberal and Conservative parties. During the October 1967 budget debate, for example, a Vancouver Liberal member undertook an impassioned defense of the mining companies, and warned Finance Minister Sharp that the industry must receive firm guarantees that its privileges would not be seriously altered.<sup>77</sup> It is thus not surprising that Sharp virtually disclaimed any government intention to act on the Carter recommendations in his 'mini-budget' of November 1967.

By 1969, after a major electoral victory, the Liberal government had regained the confidence to proceed with the thorny question of tax reform. On November 7th of that year, Finance Minister Edgar Benson tabled a 'White Paper' outlining a comprehensive series of tax reforms. In regard to the mining industry, this document recommended the following changes:

1. The three year tax exemption for new mines would end on December 31, 1973 and be replaced by an accelerated write-off of the costs of the depreciable assets of the new mines. Companies would also be able to transfer tax losses on the capital costs of unsuccessful mines to the earnings of other mines and other taxation years.
2. The operators depletion allowance of 33 1/3 percent would be converted to a system of 'earned depletion'. Under this new system, mining companies would have to earn their depletion deduction on the basis of \$1.00 for every \$3.00

spent on allowable exploration, development, and capital expansion. Depletion allowances for non-operators and shareholders would be eliminated.

3. The exemption for prospectors and their backers on proceeds from the sale of mineral properties would be ended.
4. The immediate write-off for exploration and development expenses would be retained and broadened somewhat.<sup>78</sup>

The reaction of the mineral industry to the Benson White Paper was as vehement as that aroused by the original report of the Carter Commission. Various industry groups took full advantage of the opportunity provided by full scale parliamentary committee hearings, and one fifth of all briefs presented to the commons committee were aimed specifically at defeating the mineral proposals.<sup>79</sup> The opposition mounted by the provinces was both more widespread and more organized than that which followed the Carter Report. The western provinces were joined by Ontario and Quebec, with the former publishing its own design for federal tax reform. In Quebec, the renewal of the threat of a 'capital strike' by the mining industry spurred Premier Robert Bourassa, who had recently been elected on the promise of 100,000 new jobs, to protest with particular urgency.<sup>80</sup>

In the face of this renewed protest, the federal Liberal government remained firm on the principle of the changes while moving to soften their impact through a series of changes. In

August, 1970, Finance Minister Benson sought to defuse provincial opposition by announcing a number of significant revisions in a letter to provincial Treasurers and Finance Ministers. The major thrust of these changes was to extend expenditures qualifying for 'earned depletion' to include processing facilities and major mine expansions. Another major concession was aimed specifically at the provinces, and it proposed that the deductibility of provincial mining taxes be replaced by an increase of 15 percentage points in the tax abatement granted to the provinces for mining income only. This new system would take effect in 1977 at the same time as 'earned depletion', and would decrease from 40 to 25 percent the federal tax rate on mining income.<sup>81</sup>

Both the form and substance of the federal revisions illustrated that the main effective opposition to tax reform was now perceived to be the provincial governments. The increase in the income tax abatement meant not only a substantial increase in the share of mining taxes going to the provinces; it was also a clear signal to these governments that the initiative in mineral tax policy had passed largely into their hands. In the first place, the basis of the various provincial mineral taxes need no longer conform to federal guidelines, since deductibility had been replaced by an automatic abatement. Secondly, the federal move meant that it would be up to the provinces to decide whether they would

occupy the new tax room created by the abatement, or pass it on to the mining companies in the form of lower taxation. In purely political terms the federal compromise was a masterful one in that it put to the test the sincerity of the provinces as advocates of the mining interests. It also meant that, henceforth, the embarrassing and highly visible opposition mounted by the mining industry would be directed more toward the provincial governments.

The final legislative form that mining tax reform took in the budget of June, 1971 went even further toward placating the mining industry. Provisions were included permitting:

1. Further rapid write-offs of most capital expenditures from taxable income.
2. An extension of expenditures qualifying for earned depletion even beyond those granted in the 1970 revisions, and an increase in the income against which depletion could be written off. The implementation of the earned depletion was also postponed until 1977 and accompanied by a generous transitional arrangement.
3. The implementation date for provincial abatement was also set for 1977.
4. The deduction of exploration and development in foreign countries against taxable income.

In the 1972 federal budget, both the expenditures that would

qualify for 'earned depletion', and the income against which it could be written off were expanded yet again. All processing equipment expenditures could now earn depletion and the income from all processing operations could now be reduced by depletion.<sup>82</sup>

Although the federal tax legislation represented a complete retreat from the tax equity envisioned by the Carter Commission, it did manage to enact into legislation the end of the three year tax holiday, the prospectors exemption, and the automatic depletion allowance. The fact that the taxable income of metal mining corporations jumped from 23 percent of book profits in 1973 to 52 percent in 1974 would seem to indicate that the end of the tax free period alone significantly increased the tax burden on mining.<sup>83</sup> The data contained in table 7 also show an increase in taxes paid as a percentage of 'book profit' during 1974 and 1975 to a level equal to or exceeding other industrial sectors. A great part of these increases however were due to the actions of the provinces, some of whom moved to increase their taxes on mining, despite their earlier opposition to similar federal actions.

There is also little doubt that the prime beneficiaries of the new tax system based on 'earned depletion' were the large intergrated multinationals whose opposition had been so effective in derailing the Carter recommendations. In the words of M.W. Bucovetsky:



...the Carter Commission had demonstrated that the old tax aids were of disproportionate benefit to the major companies. The advantages conferred by the new act are biased even more heavily in favour of large vertically integrated and growing companies.<sup>84</sup>

Only these large companies have the wide range of income and expenditures necessary to take full advantage of the new earned depletion provisions. Eric Kierans noted the irony of the fact that the only measure that was not inherently biased toward larger companies, the three year tax holiday, was withdrawn in the name of tax reform.<sup>85</sup>

Although, as one sympathetic observer noted at the time, "there seems no question that mining as a whole has survived the worst of Carter and the White Paper",<sup>86</sup> the industry did not face the 1970s with a great deal of equanimity. The beneficial tax structure that it had enjoyed since before the Second World War had finally been questioned in a fundamental way, and the companies were forced into direct political action in order to try to maintain the status quo. This was especially true in the area of public relations and propaganda. The fact that the politicians of the established parties could no longer be absolutely relied on prompted the mining industry to turn to mass advertising in a big way. Again, in the words of Bucovetsky:

Until the appearance of the Carter Report, the mining industry apparently felt its position to be sufficiently secure as not to require the exercise of the more obvious arts of public persuasion. In rising to the Carter and Benson challenge that omission has been rectified. The

tax reform proposals impelled an accelerating flow of printed and broadcast institutional advertising from individual firms and from the industry, a flow that has not yet abated. 87

The reason that it did not abate was that nothing fundamental had really been settled. The major effect of the federal budget measures of 1971 had been not to decide the mineral taxation issue once and for all, but to give the initiative to the provinces. The fact that provinces like Manitoba, Saskatchewan, and British Columbia now had governments that were much less sympathetic to the mining interest than the the federal Liberals did not bode well for these companies. It became increasingly clear that the next round would be fought at the provincial level.

## NOTES: CHAPTER 3

1. H.V. Nelles, The Politics of Development: Forests, Mines and Hydro-Electric Power in Ontario, 1849-1914 (Toronto: Macmillan, 1974), p.3.
2. Ibid., p.39.
3. The British North America Act, Section 109, cited in W.R. Lederman, "The Constitution: A Basis for Bargaining," A. Scott, ed., Natural Resource Revenues: A Test of Federalism (Vancouver: University of British Columbia Press, 1976), p.60.
4. Ibid., Section 117.
5. Ibid., Section 92, p.59.
6. Ibid., Section 91.
7. W.R. Lederman, "The Constitution: A Basis for Bargaining," p.54.
8. This account is based on Nelles, The Politics of Development, pp.87-107.
9. Ibid., pp. 164-66.
10. Ibid., p.431.
11. Ibid., p.442.
12. ~~Robert E. Cail, Land Man and the Law: The Disposal of Crown Lands in British Columbia, 1871-1913 (Vancouver: University of British Columbia Press, 1974) pp. 71 and 87.~~
13. B.C., Department of Mines, British Columbia, the Mineral Province of Canada, 1900 (Victoria: King's Printer, 1900) p.9. The passage was reprinted yearly in that publication until it ceased in 1935. It was also printed in the Department of Mines, Report, annually until 1943.
14. R.E. Cail, Land, Man and the Law, pp. 73-79.
15. B.C., Department of Mines, British Columbia, the Mineral Province of Canada, 1900, p.9. X
16. Ibid., p.11.
17. B.C., Department of Mines, British Columbia, the Mining Industry, 1935, p.20

18. B.C., Department of Mines, Report 1937, p.A49.
19. H.V. Nelles, The Politics of Development, pp.125-26.
20. B.C., Department of Mines, British Columbia, the Mining Industry, 1935, p.21.
21. B.C., Revised Statutes of British Columbia, 1948 (Victoria: King's Printer, 1948) Chapter 332, "Taxation Act," section 47.
22. B.C., Department of Mines, British Columbia, the Mineral Province of Canada, 1900, p.13.
23. Martin Robin, The Rush For Spoils: The Company Province, 1871-1933 (Toronto: McClelland and Stewart Ltd., 1972), p.76.
24. B.C., Department of Mines, British Columbia, the Mining Industry, 1935, p.49.
25. Vancouver Province, June 16, 1942, p. 20.
26. J.J. Deutsch et. al., The Economics of Primary Production in British Columbia, Vol. 2, The Mineral Industries, p.70.
27. The word "supposedly" is used here because the actual nature of this agreement, or even if one existed, was the subject of a public controversy between cabinet members of the Liberal-Conservative coalition government. Victoria Times, April 19, 1948, p.15; and April 20, 1948, p.2. See below, p.85.
28. Vancouver Province, April 6, 1948, p.2.
29. Vancouver Sun, April 19, 1948, p.2.
30. Victoria Times, April 19, 1948, p.15; and April 20, 1948, p.2.
31. Ibid., April 20, 1948, p.2.
32. Ibid., October 5, 1948, p.7.
33. Vancouver News Herald, February 22, 1949, p.2.
34. B.C., Revised Statutes of British Columbia, 1948, Chapter 213, "Mineral Act," section 160. The same provision occurs in R.S.B.C. 1960, Chapter 244, section 117.

35. Ibid., 1948, Chapter 213, section 169(f,g); and 1960, chapter 244, section 124(f,g).
36. Vancouver Sun, April 21, 1948, p.1.
37. Ibid., February 18, 1953, p.1.
38. Vancouver Province, February 19, 1953, p.1.
39. Vancouver Sun, February 21, 1953, p.4.
40. Vancouver Province, August 19, 1953, p.21; September 15, 1953, p.6; and October 8, 1953, p.4.
41. Ibid., February 16, 1950, p.25.
42. B.C., Revised Statutes of British Columbia, 1960, Chapter 376, "Mineral Property Taxation Act."
43. Vancouver Sun, April 6, 1957, p.14.
44. Vancouver Province, November 2, 1957, p.23; The tax was pro-rated so that ore with less than 50 percent iron content would be taxed at a progressively lower rate.
- ~~45.~~ B.C., Statutes, 1957, Chapter 37, "An Act to Amend the Mineral Act," section 2.
46. Vancouver Sun, April 6, 1957, p.14.
47. Ibid.
48. Vancouver Province, April 12, 1960, p.19.
49. Ibid., January 28, 1958, p.12.
50. Ibid., July 26, 1958, p.23.
51. Vancouver Sun, June 13, 1960, p.25.
52. Calculated by summing the total iron ore royalties collected by the provincial government from 1969 to 1973, and dividing by total production revenue for the same period. B.C., Department of Mines and Petroleum Resources, Report, 1969, p.A12; 1970, p.A7; 1971, p.A27; 1972, p.A8; and 1973, p.A6. Price Waterhouse and Co., The British Columbia Mining Industry in 1971, table 18; and 1975 table 8, p.83. The exact figure arrived at was 1.57 percent.

53. Vancouver Sun, April 6, 1957. p.14.
54. Ibid., July 31, 1957, p.13.
55. Vancouver Province, August 3, 1957, p.14.
56. B.C., Statutes 1958, Chapter 30, "An Act to Amend the Mineral Act," section 2.
57. Vancouver Province, February 10, 1968, p.8; and Price Waterhouse and Company, The Growth and Impact of the Mining Industry in British Columbia, 1968, pp.39-40.
58. Vancouver Province, April 26, 1968, p.10.
59. Price Waterhouse and Co., The Growth and Impact of the Mining Industry in B.C., 1968, p.40.
60. B.C., Statutes, 1961, Chapter 11, "An Act With Respect to Bounty on Copper,"
61. Ibid., 1970, Chapter 26, "Mineral Processing Act," section 4(2).
62. Vancouver Province, May 15, 1970, (supplement) p.1.
63. It may well have been that social and business ties between key politicians and mining executives reinforced this arrangement, but, in the absence of much more detailed historical research, we can only speculate. Nelles' research does show that these links existed between Ontario provincial politicians and mining executives throughout the 1930s. Nelles, The Politics of Development, pp. 438-39.
64. Martin Robin, Pillars of Profit: The Company Province, 1934-1972 (Toronto: McClelland and Stewart, 1973), Chapter VI passim.
65. J.H. Lynn, Federal Provincial Fiscal Relations, Studies of the Royal Commission on Taxation #23 (Ottawa: Queen's Printer, 1964), p.62. This study provides a good overview of federal-provincial fiscal relations up to 1964.
66. R.D. Brown, "The Fight Over Resource Profits," Canadian Tax Journal XXII (July-August 1974):318.
67. Cited in Eric Kierans, Report on Natural Resources Policy in Manitoba, p.8.

68. This summary is based on that provided by M.W. Bucovetsky, "The Mining Industry and the Great Tax Reform Debate," A. Paul Pross, ed., Pressure Group Behaviour in Canadian Politics (Scarborough, Ont.: McGraw-Hill, Ryerson, 1975), pp.91-93.
69. Canada, Statistics Canada, Corporation Financial Statistics, 1974, table 8, pp.112-17.
70. Eric Kierans, Report on Natural Resources Policy in Manitoba, p.8.
71. M.W. Bucovetsky, "Tax Reform in Canada: A Case Study of the Mining Industry," Ph.D. dissertation, University of Toronto, 1971, p.32.
72. Based on the summary provided in Ibid., pp.33-34.
73. Bucovetsky, "The Mining Industry and the Great Tax Reform Debate," p.94.
74. Ibid.
75. Ibid., p.95.
76. Ibid., p.96.
77. Ibid.
78. Based on the summary provided in Bucovetsky, "Tax Reform in Canada..." pp.37-39.
79. Idem., "The Mining Industry and the Great Tax Reform Debate," p.98.
80. Ibid.
81. Ibid., p.100.
82. Ibid., p.103.
83. Canada, Statistics Canada, Corporation Financial Statistics, 1974, table 8, pp. 112-17.
84. Bucovetsky, "The Mining Industry and the Great Tax Reform Debate," p.104.
85. Eric Kierans, Report on Natural Resources Policy in Manitoba, p.17.

86. W.A. Macdonald in the Financial Post, June 26, 1971, p.15.
87. Bucovetsky, "The Mining Industry and the Great Tax Reform Debate," p.107.



## CHAPTER 4

## THE N.D.P. - EARLY POLICY INITIATIVES

## I

The election of the New Democratic Party to power in British Columbia came at a time when a whole series of events had combined to raise doubts about the direction of provincial mineral policy. The growing environmental consequences of new mining developments, the position of the mineral industries as exporters of Canada's natural resources in unprocessed form and the tax privileges enjoyed by mining companies were all being seriously questioned.

The rapid development of the mining industry during the 1960s and early 1970s created a significant potential for widespread environmental damage, and as this development gathered momentum, the scale of the new mines began to dwarf anything that had been seen previously in the province. These mines largely open-pit operations which extracted metal from a very low grade of ore. To put mines of this type into production requires that large areas of land to be completely stripped of all vegetation. A large crater is then produced as huge amounts of rock are progressively dug up and processed by chemical and mechanical means. This processing or milling stage requires large amounts of power and water. After the

metal is extracted from the ore, the waste rock, which is diluted in water and heavily contaminated by both residual heavy metals and processing chemicals, must be disposed of.

The first major open pit copper mine, which was opened in 1960 by Granby Mining Co. at Phoenix, B.C., had a processing capacity of 3,000 tons of ore per day. The Gibraltar project, which opened in 1972, was fourteen times as large with a capacity of 42,000 tons per day.<sup>2</sup> The fact that under .5 percent of this rock is actually extracted in the form of copper concentrate means that a mine like Gibraltar must dispose of 41,790 tons of chemically contaminated waste during every operating day.

Thus, the large open pit mining developments in British Columbia during the 1960s increased dramatically the social and environmental costs of mining, and the demands on government to increase its regulation over the industry began to mount. In the late 1960s this issue was brought to public attention when an American mining company, Utah International, began to develop a very large open pit copper mine on Vancouver Island. The company applied for a permit to dispose of untreated mine waste into Rupert Inlet, and after a controversial public hearing, the province's Pollution Control Board gave approval to the project. Opponents of Utah's plan foresaw grave environmental consequences, disputed the thoroughness of the company's research, and questioned the ability of a

specialized body like the Pollution Control Board to regulate effectively the development of large scale mining in British Columbia.<sup>3</sup>

Another environmental concern was the status of the province's large provincial parks. The Social Credit government whose priorities lay in the direction of economic growth at almost any cost, consistently refused to ban mineral production or exploration in these parks. In 1971 Mines Minister, Frank Richter, stated unequivocally that " I am gravely disturbed by the attitudes of certain groups in our society who advocate the alienation in perpetuity of large areas of this province for a single purpose of use [i.e. parkland]." <sup>4</sup>

During the early 1960s the government gave permission to Western Mines to open a major mining project in Strathcona Park on Vancouver Island. Although the government argued that the mine would be small "ten acre hole in the bush", it soon grew into a major industrial development involving mining, logging, power development and highway construction. When the Parks Branch became seriously concerned over the discharge of untreated mine waste into the nearby Buttle Lake, the response of the Bennett government government was to remove the jurisdiction over park waterways from the branch altogether.<sup>5</sup> The result was a steady increase in the pollution level of Buttle Lake, a problem which has still not

been resolved.<sup>6</sup>

However, the public pressure generated by the question of mining pollution did produce some legislative and administrative action on the part of the Social Credit government. Amendments to the Mines Regulation Act passed in 1969 allowed the government to require mining companies to file reclamation plans and to post performance bonds guaranteeing that they would be carried out.<sup>7</sup>

In order to prevent major mine projects from being disrupted by the type of opposition raised by Utah's Island Copper Mine, the government directed the Pollution Control Board to hold hearings to set overall pollution standards for the mining industry. These hearings however, suffered from exactly the same drawbacks as the earlier Utah ones. Mr. Venables, the chairman of the Board, made it quite clear that the hearings would be strictly limited to the presentation of technical data and would not look at the pollution problem in its wider environmental context.

In an attempt to prevent a recurrence of the wide-ranging public involvement in the 1970 Pollution Control Board hearings into the forest industry, the public hearings conducted by the Board into mining pollution were kept very short, and many of the briefs presented were edited to remove 'irrelevant' testimony. Anti-pollution groups also complained that the hearings were of little value since the vast majority of

concrete data was possessed by industry and government; data which both parties refused to make public. When the N.D.P. government came to power, the province still awaited the Board's report.<sup>8</sup>

The issues of mineral taxation and the growing export of the province's resources were closely interrelated, and the approaches of both the federal and British Columbia governments were outlined in the last chapter. There, we saw that British Columbia's role as an exporter of primary products was never completely accepted by the previous Social Credit government. However, none of the legislative actions taken by the Bennett administration were effective in halting a growing trend toward the export of the province's minerals in a relatively unprocessed form during the 1960s and early 1970s. Many critics saw the large open pit iron, copper and coal projects of this period as nothing more than a massive giveaway, under which the province's vital natural resources were being alienated at bargain basement prices. The theme was one that the N.D.P. opposition expounded consistently during the the 1960s. In 1970, for example, the leader of the opposition, David Barrett, called for a 10 percent surcharge on all mineral exports, and the creation of a mineral marketing board to encourage processing in British Columbia.<sup>9</sup>

The conviction that British Columbia was not getting the maximum potential benefit from its mineral industries was intensified by a growing feeling that natural resources in

general were being highly undervalued in the international market place. In the future, it was asserted, the limits to western industrial growth would tend to be set by the availability of these resources, and their possessors would thereafter enjoy a strategic economic position. In addition, the protests of the primary producers of the third world that the international economic order was stacked against them grew in intensity during the 1960s. By the early 1970s this growing feeling had resulted in the creation of producer cartels for commodities like petroleum, bauxite and copper.<sup>10</sup> The growing assertiveness of the O.P.E.C. nations and their success in greatly increasing the returns from the sale of petroleum seemed to foreshadow a much more widespread shift of world economic power to the primary producers.

The taxation question was very much related to this feeling that British Columbia, like Canada as a whole, was being shortchanged by the rapid export of unprocessed minerals. The well publicized work of the Carter Royal Commission on Taxation clearly demonstrated that the rapid exploration and export of Canada's minerals had been actively encouraged by the federal government's taxation policies.<sup>11</sup> Furthermore, both federal and provincial tax policies ensured that the major beneficiaries of this exploitation would be the mining companies and not the public who were the theoretical owners of the resource. The idea that taxation policy in general was

heavily biased in favour of corporate interests received wide public exposure through the 1972 federal election campaign in which the N.D.P. coined the slogan 'Corporate Welfare Bums'. The federal attempts to withdraw from the unpleasant spotlight of mining tax reform, combined with the victories of the New Democratic Party in Manitoba, Saskatchewan, and British Columbia, created a feeling among many people that a comprehensive reform of provincial mining taxes was long overdue.

Although the N.D.P.'s 1972 election platform outlined clearly the three concerns of taxation, economic diversification and environmental regulation, it differed little from most documents of its type when it came to offering specific solutions.<sup>12</sup> Nevertheless, the section of the platform concerning mining did suggest the government's future policy direction and is thus worth quoting at length:

From the mining industry, the citizens of B.C. deserve an end to the present government's policy of giving away our mineral resources. Mineral resources such as coal and copper are non-renewable and thus should be charged with fair royalties when they are exported without processing. Exporting unprocessed minerals is particularly damaging to the B.C. economy because the jobs created by mineral processing are going to workers in other countries. The N.D.P. believes lighter royalties should be charged on resources processed in B.C. so companies will be encouraged to develop secondary industries that will provide jobs to B.C. citizens. Determining what is a fair share is a problem. The N.D.P. believes B.C. should have a Resource Companies Information Act. This Act would open the books of companies using B.C.'s resources and thus ensure that companies are neither under-taxed or overtaxed.<sup>13</sup>

The reaction of the mining industry in British Columbia to all these trends was pronounced, even before the N.D.P. came to power in the autumn of 1972. For example, in February, 1971, Edward Littman, the chairman of the New York based American Smelting and Refining Company, travelled to Vancouver to warn local mining executives that mining was being "slowly throttled". Littman referred to five negative trends which had combined to produce this increasingly desperate situation. These were the rising taxation, restrictions on mineral prospecting, the rising tide of nationalism in Canada, the growing power of organized labour, and a misguided concern for the environment.<sup>14</sup> Shortly thereafter, T.H. McClelland, president of both Placer Development and the Mining Association of British Columbia, warned that proposed federal and provincial tax changes would result in a serious erosion of the job and revenue producing capability of the industry.<sup>15</sup>

The unhappiness of British Columbia's mining industry was not due entirely to the concern over growing government involvement in the areas of taxation and regulation. In 1970, the western world underwent a sharp recession, which caused mineral prices to plunge. For example, in the first six months of 1970, the L.M.E. price of copper dropped from 79 to 46 cents per pound.<sup>16</sup> Thus, mining company profits began to fall at the same time as the massive new mining projects like Gibraltar, Lornex, and Brenda Mines reached the production



stage. Both the Mining Association of British Columbia, representing the province's major mineral producers, and the British Columbia and Yukon Chamber of Mines, advocating the interests of prospectors and exploration companies, proclaimed the end of the favourable mining conditions of the 1960s.

In the words of T.H. McClelland:

Sharp declines are forecast for claim staking, exploration and development expenditures and new plant construction. These are convincing indications that venture capital ...may be looking for other areas.<sup>17</sup>

The B.C. and Yukon Chamber's manager T.M. Elliot put it this way:

After ten years of unprecedented growth we now have a recession. We said two years ago it would happen when we looked at the government's taxation policies.... But we didn't expect it to be compounded by adverse world conditions.<sup>18</sup>

The assertion that relatively minor government tax changes were the principal cause of the decline, and that price declines of the magnitude of 40 percent were merely a contributing factor was, to say the least, questionable. Nevertheless, it does illustrate the propensity of the two mining interest groups to emphasize government as the source of their woes. Government actions, unlike world prices, can be influenced by a wide variety of pressure tactics. The industry's public pronouncements, however, did not emphasize one major factor in the slowdown of the growth of mining. Between 1970 and 1972 six major new copper mines came into

production resulting in a five-fold increase in maximum production capacity.<sup>19</sup> After absorbing these massive amounts of capital investment a decline in mining expansion and the activity related to it was inevitable. The 1971 Price Waterhouse study of the mining industry predicted a sharp decline in future capital spending. Table 9 outlines these projections and the actual capital expenditures contained in subsequent reports.

TABLE 9  
ACTUAL AND PLANNED CAPITAL EXPENDITURES  
AS OUTLINED BY THE MINING ASSOCIATION OF B.C.  
(Millions of Dollars)

Year	Actual Figure	Predicted in 1971 Price Waterhouse Report
1968	125.6	
1969	129.8	
1970	157.3	
1971	339.8	
1972	112.2	104.4
1973	50.7	31.1
1974	82.5	24.8
1975	83.0	24.5
1976	91.8	22.6

SOURCE: Price Waterhouse and Co., The B.C. Mining Industry in 1971, tables 15 and 17.; ibid., 1975, table 40, p. 115; and ibid., 1976, table 34, p. 47.

NOTE: Although the numbers presented in this table clearly illustrate a decline in projected capital expenditures, it should be noted that they are based on the firm commitments of the major mining companies. Thus, they should not be accepted as a literal statement of company spending intentions in 1971, especially when they refer to four or five years into the future.

As the mining slump began to extend into 1972, the Social Credit Mines Minister, Frank Richter, warned publicly of the danger of a prolonged recession in the industry. There was, he said, evidence that the confidence of the mining industry to invest in British Columbia was diminishing. He listed developments such as the closure of six mines in 1971, a reduction of claim staking and diamond drilling, and the departure of "four major North American, one European, and one Japanese exploration companies" to illustrate his conclusion.<sup>20</sup> As 1972 advanced, however, the situation began to improve. The discovery of the rich Afton copper deposit near Kamloops stimulated exploration and produced a flurry of speculative claim staking activity in the area. The year 1972 also saw a sudden upturn in business conditions and an equally sharp gain in mineral prices. By the end of the year, copper prices had regained their peak 1969 level and were continuing to climb.<sup>21</sup> When the new N.D.P. government assumed office on September 15, 1972 it was becoming increasingly apparent that the mining recession of 1970 and 1971 was over.

## II

When Dave Barrett assumed office as British Columbia's first socialist Premier, he chose Leo Nimsick as his Minister of Mines and Petroleum Resources. Nimsick was a native of the Kootenays, British Columbia's traditional mineral producing region, and had spent 30 years working in the warehouse and

and offices of Cominco. In 1949, he was elected to the British Columbia legislature for the C.C.F., and when he assumed the mines portfolio he was the longest serving M.L.A. in British Columbia. Nimsick was a genial, plain spoken man, and with so many years experience in political opposition, had developed a strong sense of party loyalty.<sup>22</sup> The primary link between Nimsick and the permanent staff of the Department of Mines and Petroleum Resources was provided by Hart Horn. Horn was a native of Alberta with a background in commerce and economic history. He had been active in the New Democratic Party and had managed Leo Nimsick's campaign in Kootenay in 1972. On his accession to the mines portfolio, Nimsick appointed Hart Horn as his executive assistant.<sup>23</sup>

The responsibility for the formation of the New Democratic Party's mineral policies was given principally, but not solely, to the Department of Mines and Petroleum Resources. A good part of this responsibility was shared by a special committee of Cabinet, whose purpose was to oversee the province's resource policy and to provide a policy link between the government as a whole and the various resource oriented departments. Known simply as the Resource Committee of Cabinet, this group consisted of six members. These were the Premier, Dave Barrett, the Attorney General, Alex McDonald (who would later be the minister responsible for the new B.C. Petroleum Corporation), the Minister of Lands, Forests and Water

Resources, Robert Williams, the Minister of Mines and Petroleum Resources, Leo Nimsick, the Minister of Agriculture, Dave Stupich, and the Minister of Public Works, William Hartley.<sup>24</sup> Gary Lauk became a member of this committee when he was appointed as Minister of Industrial Development, Trade and Commerce in May 1973.<sup>25</sup>

The role of the new committee was to set the general philosophy of the new government and to approve the policy initiatives of the various resource oriented departments. In general it did not itself initiate concrete policy proposals and did not have any permanent secretariat to back up its work. In fact, it gradually met less and less as the goals of the new government were formulated and the responsibility for detailed policy formulation and implementation was assumed by the resource departments themselves. In the case of mining, the responsibility for the formulation of concrete policy was assumed by the Department of Mines and Petroleum Resources, who subsequently passed them up to the Resource Committee for approval, rejection or modification. Much of the work involved in these early attempts at policy making was assumed by Hart Horn who acted as the major link between the Department and the Cabinet Committee as a whole.<sup>26</sup>

The traditional orientation of the permanent staff of the Mines Department ensured that the N.D.P.'s new policy initiatives would have to come from outsiders like Horn. We

have seen that the major direction of provincial mineral policy during this century had ensured that the Department of Mines and Petroleum Resources had come to assume the role of a servant of the privately owned industry. It had been almost entirely a service, rather than a policy making branch of government and this situation reflected itself in the make-up of the Department's personnel. Since their *raison d'etre* was to serve private corporations their values were almost identical to those of their clientele. Much of the literature on regulatory agencies has pointed to the tendency of the personnel of these agencies to assume, with interaction over time, a set of shared goals and values with those whom they are supposed to regulate.<sup>27</sup> In the case of British Columbia's Department of Mines and Petroleum Resources, these tendencies were undoubtedly intensified by the fact that its actual regulatory activities were severely limited. The framework of industry regulation was provided by the Mineral Act itself, and the role of the Department's personnel was mainly to aid the industry in its activities. In addition many of the Department's permanent staff had backgrounds as employees of private mining companies. Thus, much of the prestige and social standing of these civil servants, whose department had always been viewed as a relatively minor one in terms of both funding and decision making, came from their association with the dynamic captains of the mining industry.<sup>28</sup>

During the months immediately following the New Democratic Party's electoral victory, the Department of Mines and Petroleum Resources, under the guidance of Nimsick and Horn, considered a broad spectrum of policy alternatives. One of the most important questions that they faced was the extent to which government itself would become involved in the mining industry, either through exploration or actual mining operations. The party platform had been rather vague on this point, but at the end of 1972 the question was examined in some detail by Eric Kierans in a study conducted for the N.D.P. government of Manitoba.

This study concluded that the only way a province could ensure the maximum benefit from its mineral deposits was through a crown monopoly on mining and mineral exploration. The traditional freedom of access to the province's mineral deposits, combined with the liberal tax benefits engineered by the federal government had resulted in the virtual monopolization of mining by a few large multinational corporations. "Enclosure of Manitoba's resources is coming anyway," Kierans predicted, "if it is not already here. The only question is how enclosure will be imposed, by political decision or by commercial cartel control."<sup>29</sup> Public ownership was seen as essential because the price charged by the corporations was simply too high. If a province left its mineral development in private hands it would forfeit a good part of the economic

surplus generated by its resources.<sup>30</sup>

However, the full scale public ownership advocated by Kierans was rejected in British Columbia right from the outset. The British Columbia N.D.P., in office for the first time in its history, had a host of priorities and did not wish to become embroiled in a program which was potentially both costly and controversial. There was a widespread feeling within the party that mining, by itself, was simply not important enough to warrant the major effort required to carry such a program through. Despite persistent rumours from the media, industry and opposition sources, Eric Kierans was never seriously consulted by the new government.<sup>31</sup>

The possibility of a crown exploration agency was taken more seriously, and the idea was discussed at length, both among the new policy makers of the Mines Department and within the Resource Committee. A representative of Manitoba's crown exploration agency was consulted by the Mines Department and he gave a detailed presentation to the Resource Committee of Cabinet. However, neither the enthusiastic new policy advisors in the Mines Department, nor the representative from Manitoba were able to sell the Committee on the idea. By the beginning of 1973, a crown exploration agency had been firmly rejected.<sup>32</sup>

The reasons for this rejection were roughly similar to the ones which caused the Committee to reject the Kierans' approach. Given the commitment of the new government to a large number of expensive new social programs, there was a



real reluctance on the part of some Cabinet members to authorize the expenditure of substantial sums of money for something like mining exploration. The monetary returns from such an investment would likely come only in the fairly distant future. Similarly the immediate political returns from such an investment were equally tenuous. Much of the electoral support for the New Democratic Party had come from groups like labour, teachers, senior citizens and the poor, who were fed up with the inaction of the previous government. Thus the new government had to move quickly to maintain the support of these groups through positive legislation.<sup>33</sup> Given the vocal demands for new labour legislation, increases in minimum wages and old age pensions, welfare reform and an overhaul of the province's educational system, any major new investment in mining had a low priority. There was simply no significant group in the province demanding government involvement in mining exploration. In the forest industry, government involvement could proceed piecemeal through the acquisition of operations which were in danger of closing down. Indeed much of the political support for these initiatives came from the inhabitants of towns like Ocean Falls, whose livelihood was threatened by pulp mill closures.

In mining there was no such constituency, and the nature of the industry dictated that investment could not be either partial or half-hearted. When reacting to the idea of govern-

ment involvement in mineral exploration, the mining industry has always stressed the inherent risks and the high incidence of failure among exploration companies. The government, in the eyes of the industry, has no right to risk the public's tax dollars in ventures which are essentially speculative. This argument is only partially true. There is indeed a high element of risk, but it is largely due to the structure of the industry in which several large firms and a much greater number of smaller ones compete to discover economic mineral deposits on a 'finders-keepers' basis. Given the relatively low probability of locating such deposits, the risk involved in exploration activity bears a direct inverse relationship to the amount of capital invested. For example, Brian Mackenzie of McGill University's Department of Mining and Metallurgical Engineering has developed a set of such probabilities based on hypothetical data, and these are shown in table 10.

In the case of a government exploration monopoly of the type advocated by Kierans there would obviously be very little risk at all. If mineral exploration per se were risky then so many private firms simply would not engage in it. The investment involved in such a plan, however, would have had to be very large. Any plan for government involvement in mineral exploration in competition with private firms would automatically carry some element of risk, and the smaller the degree of this participation, the higher the risk would become.

TABLE 10  
SURVIVAL PROBABILITIES AT VARIOUS  
LEVELS OF INVESTMENT

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ASSUMPTIONS:

Return from a successful discovery - \$21,000,000  
Average exploration cost for each discovery - \$150,000  
Probability of an economic discovery - .01

<u>Exploration Investment</u>	<u>Probability of Survival</u>
\$ 1,500,000	.05
\$ 9,000,000	.27
\$ 15,000,000	.40
\$ 37,500,000	.72
\$ 75,000,000	.92
\$150,000,000	.99

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SOURCE: B. W. Mackenzie, "Investment in Information for the Assessment of Mineral Value: Some Guidelines for Mineral Leasing Policy," in Crommelin and Thompson, ed. Mineral Leasing as an Instrument of Public Policy (Vancouver: University of British Columbia Press, 1977), p. 107.

These economic and political constraints were reinforced by a strong 'anti-mining' outlook on the part of some influential Cabinet members. These members looked at mining itself as an activity which brought high social and environmental costs for the economic benefits it provided, and thus did not want to put the government into a position of actively encouraging it.<sup>34</sup>

However, the possibility of the government entering directly into the mineral industry, either alone or in the form of joint ventures with private firms was not firmly rejected. Leo Nimsick himself was personally in favour of this approach despite the reluctance of Cabinet, and stated publicly that such participation might be the least injurious way of increasing its return from mining since, "if the government owns shares, it only profits if the company profits."<sup>35</sup> When the new amendments to the province's Mineral Act were introduced in February 1973, they contained provisions allowing the government to enter into such arrangements with private firms.<sup>36</sup>

When the N.D.P. government took office, it was confronted with two industry proposals for the development of a copper smelter in the province. The first was a plan by Cominco to convert its Kimberly iron smelter to a copper smelter. Cominco had originally developed this smelter with the aid of the Iron Bounty Act and had collected substantial sums from the government under this Act before closing the plant as uneconomic. Cominco had actually reached an agreement with the Social Credit government just before its 1972 defeat involving payments under the Copper Bounty Act. Although Mines Minister Nimsick favoured the honouring of this agreement providing some sort of equity participation could be negotiated, the Cabinet's Resource Committee decided to

repudiate it for two reasons. In the first place, the vast majority of actual copper production was not located anywhere near the plant's Kimberley location. Copper concentrate would have to be shipped great distances from the mine to the smelter and then shipped again from the smelter to coastal ports for export. On a political level there was a distinct aversion, at least among some Cabinet members, to continuing in any form, the Social Credit policy of subsidizing processing ventures undertaken by private interests. The government followed through on its philosophy in April, 1973, when it repealed both the Copper and Iron Bounty Acts. During the debate on the repeal of these measures, Mines Minister Nimsick asserted that "we want the people of British Columbia to be treated exactly the same way as any other private investor. We may assist them or participate, but it will be on a participation basis."<sup>37</sup>

The other proposal that faced the new N.D.P. government was put forward by a consortium of four companies, Bethlehem Copper, Newmont Mining, Placer Development and Noranda Mines. We have seen that these four companies accounted for a large proportion of the province's copper production. This proposal was much less definitive than the Cominco one and was ignored by the new government for technical and environmental reasons. It apparently contained no detailed impact or feasibility studies and the consortium's solution

to the sulphur pollution problem inherent in copper smelters was to construct a very high smoke stack like that in use in Sudbury, Ontario.<sup>38</sup>

## III

The first major policy area to be dealt with through legislation was that of the regulation of new mining developments. The initial step in this direction was taken by Robert Williams, the new Minister of Lands and Forests, on February 23, 1973, when he announced that all mining and exploration in provincial parks would henceforth be prohibited. Williams outlined the situation regarding the Western Mines operation in Strathcona Park, and stated that although the government could not close it down, it would make sure that it did not affect any more of the park's environment. 39 ✓

A week later, the Pollution Control Board's standards for mining were finally released. These final guidelines, a compromise between environmental concerns and industry interests, called for three stages of permissible pollution levels with the first being required for new mining developments. The lowest level of pollution control tolerated by the Board did not differ substantially from the standards recommended by the Mining Association of British Columbia. Both the standards and the purely technical approach adopted by the Pollution Control Board produced a strong dissenting report from board member Peter Pearse. Pearse concluded that:

A  
 Pollution requires attention in the first instance to the environment--its assimilative capacity and the quality of air and water desired. The recommendations in the report for the most part are not based on these considerations. 40

Pearse's dissension was backed by Robert Williams, but the latter did not move to re-open the contentious mines pollution issue.

The major responsibility for the development and administration of a comprehensive program for the regulation of new mining developments, however, was given to the Department of Mines and Petroleum Resources, and throughout 1973, a series of personnel and structural changes were made to allow it to fulfill its more activist role. The first of these changes was the replacement of Dr. J.T. Fyles by John E. McMynn as Deputy Minister of Mines and Petroleum Resources. Fyles, a veteran of the Department, had been appointed to the Deputy Minister's position in 1972 by the outgoing Social Credit administration and his replacement was obviously prompted by the desire to have a Deputy Minister whose views would be more receptive to the N.D.P.'s new mining initiatives than to the permanent officials of the Department.<sup>41</sup> McMynn, a professional mining engineer and consultant, had started his career as a mine worker in Greenwood, B.C. before taking his professional training. He came to the Deputy Minister's position with a wide range of executive experience with companies like Cominco, Granby and Newmont; and when he assumed his position, he was the president and owner of six consulting and exploration

companies. A press release accompanying the appointment predicted that "...Mr. McMynn's wide experience in industry will be invaluable in the government's management of the resource."<sup>42</sup>

The appointment of McMynn to the Deputy Minister's post was just the first step of a general program of department reorganization which culminated with the passage of the Department of Mines and Petroleum Resources Act in September 1973. This act formally split the Department into two separate branches, Mineral Resources and Petroleum Resources with each to be presided over by an Associate Deputy Minister. The former Deputy Minister, Dr. J.T. Fyles, became an Associate Deputy Minister in charge of the Mineral Resources Branch. This branch, along with its petroleum counterpart, included most of the established service functions of the Department. The new policy functions were assumed by two new divisions: Mineral Revenue and Economics and Planning, operating directly under the supervision of the Deputy Minister.<sup>43</sup>

In the words of the 1973 "Mines and Petroleum Resources Report":

The function of the Mineral Revenue Division is to collect royalties under the Petroleum and Natural Gas Act and the Mineral Royalties Act to be introduced in 1974, and to collect taxes under the Mineral Land Tax Act. The purpose of the Economics and Planning Division is to be responsible for the collection, compilation and analysis of statistical data for the mineral industry.



This function, related to solid minerals was formerly carried out by the Bureau of Economics and Statistics of the Department of Industrial Development, Trade and Commerce. The Economics and Planning Division will also compile data on mineral commodities, corporate structure and financing and the marketing of minerals.<sup>44</sup>

Nimsick's executive assistant, Hart Horn became Director of Mineral Revenue and J.S.Poyen was appointed as Director of Economics and Planning. The overall direction of this reorganization was toward a clear separation of the policy making and revenue collection aspects of the Department from the traditional service aspects, with the former group of functions largely under the direction of departmental 'outsiders'. This trend culminated with another reorganization in 1975 in which these policy divisions were grouped together in a separate Operations Branch with Hart Horn becoming its Associate Deputy Minister.<sup>45</sup> The evolution of the Department of Mines and Petroleum Resources is illustrated in graphic form in appendix I.

The 1973 Department of Mines and Petroleum Resources Act left no doubt as to the important role given to the Department in formulating and implementing the government's overall mineral policies. Section 6, for example, stated that one of its major functions would be "to prepare and develop comprehensive policies respecting mineral resources and petroleum resources in the province, and to make reports and recommendations to the Minister respecting implementation."<sup>46</sup>

On March 1, 1973 just as these departmental changes were getting underway, Mines Minister Nimsick introduced a series of wide-ranging changes to the province's Mineral Act. Some of these changes were the restriction of the "Free Miners Certificate" to Canadian residents or Canadian corporations; a ban on mining exploration and development in provincial parks without the express permission of cabinet; and the raising of most of the fees under the Act with the most significant being an increase of the expenditure required to hold a mineral claim from \$100 to \$200 per year.<sup>47</sup> The new amendments also inserted a provision into the Mineral Act allowing the government to "make loans to the holder of a lease or mineral claim" and to "acquire an interest or equity on behalf of the Crown in the property or operations of the holder of a lease or mineral claim."<sup>48</sup>

By far the most important changes, however, involved the granting of the mineral leases which allowed actual production to take place. The new section 64 of the Mineral Act stated that:

Every application for a lease, or any renewal thereof, shall be accompanied by:

- a) such plan of operations; and
  - b) such certification of information
- as may be required for the purposes of evaluation by the Minister and shall also be accompanied by:
- c) a production plan that, in the opinion of the Minister having regard to:
    - (i) the economic feasibility, or probable economic feasibility, of producing the minerals; and
    - (ii) the ecological reclamation of the land designated in the lease; and

- (iii) the safety standards established by the regulations made under the Mines Regulation Act; and
  - (iv) the regulations under this Act;
1. provides for the best possible method of producing the minerals and of achieving the best possible results from production.
  2. Where a lessee is not, in the opinion of the Minister, exploring, developing, or producing minerals in accordance with a plan submitted under this section, or is not achieving the best possible results from production, the lessee shall, upon demand by the Minister, submit a revised plan and certificate under subsection (1) for evaluation by the Minister; and the Minister may, in his discretion use the powers given to him under section 65.<sup>49</sup>

Both sections 60 and 65 gave the Minister wide-ranging powers to cancel a mineral lease or suspend the operations of the lessee if he was in contravention of the Mineral Act, the provisions of his lease, or any of its regulations, and section 66 specified that no lease could be transferred to another party without the consent of the Minister.<sup>50</sup>

By introducing these latter amendments, the Mines Department was utilizing the powers of the government inherent in its position as legal owner of the province's mineral deposits. Because of the compromises of the earlier Social Credit government, the change from a grant to a lease system really occurred in name only.<sup>51</sup> The private holders of these new leases still enjoyed almost absolute control over their own activities. Although the N.D.P. government had rejected any direct involvement in the mineral industry through a crown

corporation, it intended to use its position as 'landlord' to assert firm government control over all future mineral developments and their consequences. In opening the second reading debate on the Mineral Act amendments, Leo Nimsick outlined this new approach:

...the mineral resources of our province are a very important resource and one that has to be managed in the best interests of the people. Since taking over this Department one of the things that I have tried to do is to bring about a better management of the resource and bring it back into the Department, because I do not believe that a resource that belongs to the people should be left entirely at the behest of the private sector throughout the province. 52

#### IV

The first reaction to the new Mineral Act amendments came from the British Columbia and Yukon Chamber of Mines, the major representative of the province's prospectors and exploration companies. While the organization's response was critical, it was relatively cautious in tone with the major objection being directed towards new requirements for production leases. In the words of Bob Sheldon the Chamber's vice-president:

This proposal could compromise the financing of properties in British Columbia. ...financing institutions would be reluctant to lend money if the mining company isn't sure that it could get proper title to the property...for their part mining companies won't be willing to risk possibly millions of dollars on exploration if they can't be sure of going into production. 53

The ban on park exploration came in for some rather subdued criticism, and the provisions on Canadian residency and government participation were both accepted in principle. Regarding the latter provisions, the Chamber's manager, Thomas Elliott, a veteran of the industry's earlier struggles with the Social Credit regime stated that "this is all right if the government wants to gamble, but it must be in fair competition with private capital. We don't see any objection on this basis."<sup>54</sup>

However, the opposition of both the mining industry and the province's newspapers gradually hardened and became much shriller in tone. The Vancouver Province quickly followed the criticisms of the Chamber of Mines with an editorial endorsing the general idea of a production lease but decrying the discretion given to the Minister and the Cabinet.<sup>55</sup> Then on March 8, 1973, the Mining Association of British Columbia, representing the province's major mineral producers called a news conference to ask for a delay of the new Bill. Like the Chamber of Mines, the Association's major complaint concerned the discretionary powers that the new amendments gave to the Minister of Mines and Petroleum Resources. The Mining Association also expressed its disappointment that the government had ignored its suggestions for new amendments to the Mineral Act when it drafted its legislation.<sup>56</sup>

During the news conference the Mining Association's vice-president, J.D. Little, who was also president of Placer Development, made public a detailed letter of protest that he had sent directly to Premier Barrett. This letter repeated the allegation that the concept of a production lease would "greatly discourage prospecting and development and frighten away investors who provide the risk capital the industry needs." It went on to state that the mining companies did not "... accept without most serious reservations the competence of the Minister, his staff or his consultants in these areas of critical decision."<sup>57</sup> The Mining Association also expressed its outright opposition to any government participation in what it considered its exclusive sphere of operations. "At present," Little's letter asserted, "the crown participates substantially in the affairs, operations and profits (but not the losses) of the mining industry which remains strongly opposed to any extension of this participation."<sup>58</sup>

The British Columbia and Yukon Chamber of Mines then proceeded to step up its opposition to the Mineral Act amendments, and called a special general meeting of all its members for Friday March 23, in Vancouver. The meeting, according to newspaper reports, was attended by about 1,000 people who "thunderously approved a resolution demanding major change in government action and attitudes."<sup>59</sup> The meeting was addressed by a variety of speakers, with the major speeches

being given by Dr. Harry Warren, U.B.C. geology professor and longtime Chamber member, and the Chamber's vice-president Bob Sheldon (also president of Newmont Mines' Canadian Exploration Department). Warren gave a lengthy speech in which he praised the mining industry's history in the province and recalled the lore of the rugged individualists of the 1930s who "...refused to accept the dole and kept themselves in beans and bacon by prospecting for gold with pick, pan and rocker."<sup>60</sup> He also praised the province's existing Mineral Act and favourable tax provisions for producing "one of the greatest periods of discovery, development and production ever seen on the face of the earth." By contrast, said Warren, the N.D.P.'s new mining legislation "would appear to have been written by an academic living in the nineteenth century."<sup>61</sup> Bob Sheldon echoed these sentiments and predicted that an unamended Bill would result "in the slow but certain death of the mining industry in British Columbia."<sup>62</sup> The Social Credit M.L.A. from Peace River, Don Phillips, fresh from his twelve hour filibuster against the Land Commission Act, was also prominent among those in attendance. He promised that its efforts on behalf of free enterprise would continue, and that the opposition would be equally successful in forcing major amendments to the N.D.P.'s ill-conceived mining legislation.<sup>63</sup>

The meeting passed four point resolutions which combined

the diverse concerns of B.C.Y.C.M. members. This document asked the government to declare that it would make a careful study of mining taxation and show some evidence that it recognized the "unique high risk nature of mining." Amendments to Bill 44 were demanded to protect the rights of free miners: drop the proposed cost increases for staking and holding claims, and exempt small claims from the production lease provisions of the new Bill. In addition the government was asked to show some restraint in its supposed plans to spend tax dollars in a high risk industry.<sup>64</sup> The Chamber of Mines' campaign was followed up a week later when its manager, Thomas Elliott, charged that the proposed Mineral Act amendments had already caused a significant decline in mineral exploration activity, a drop which had cost the province 500 jobs so far.<sup>65</sup>

Although the opposition parties' campaign against Bill 44 did not equal that mounted against the Land Commission Act, the six and a half hours of debate which occurred during the Bill's second reading came quite close to filibuster. As in the case of the Land Commission Act, the verbal assault was led by Social Credit member Don Phillips. Phillips as well as attending the Chamber of Mines' protest meeting, had conducted a rather vituperative attack on Leo Nimsick during the debate on his departmental estimates, and when the debate on Bill 44 commenced on April 10, 1973, Phillips was the lead-off opposition speaker.<sup>66</sup> He proceeded to deliver an extremely



lengthy oration during which a good proportion of the proceedings of the Chamber of Mines' protest meeting was read verbatim into the record. The obviously obstructive nature of much of his four hour speech prompted speaker, Gordon Dowding, to warn Phillips that he was "pushing the house to the point of endurance."<sup>67</sup>

The major elements of the Social Credit position were that the Mineral Act was "...as it now stands one of the finest pieces of mining legislation anywhere in Canada...", that the new amendments placed undue burdens on mining companies, and that the ultimate aim of the N.D.P.'s policy was to "step in and take the industry over."<sup>68</sup>

The Social Credit Party's criticisms were largely echoed by the other opposition parties. Liberal leader, David Anderson, pointed to the N.D.P. government's purchase of Ocean Falls and Canadian Cellulose pulp mills, and raised the spectre of Eric Kierans and the Waffle movement as evidence of its true intentions in regard to mining. He also predicted that the amendments would not only make it possible for government to intimidate private mining interests through the production lease mechanism, but would result in the creation of so much uncertainty that only the large multinational corporations would be able to survive in B.C. Within 3 to 4 years, Anderson predicted, 30-50 % of the province's mining industry would be in government hands.<sup>69</sup>

Anderson's attack also condemned, in a general way, legislation which gave power to ministers and the cabinet to make wide-ranging decisions at their own discretion:

We feel this is the type of power that the executive arm of the government should not be given by the representatives of the people because it so happens that this is precisely the type of power which could be badly, badly abused in the future by this Minister or indeed some other...It is the type of thing which gives a carte blanche, the open type of legislation which allows just about anything to take place as the government wishes. 70

The approach taken by Conservative leader, Scott Wallace, was identical to that of the other two opposition parties, with the issues of government nationalization plans and the Bill's wide-ranging ministerial powers forming the focus of the attack.

Thus, when it came to the reform of the Mineral Act, the approach taken by both the industry and the opposition was virtually identical. It does not involve any great distortion to conclude that all three opposition parties simply represented the industry's interest on the floor of the legislature. The belief of one mining executive that "what's good for British Columbia is in the long run good for the mining industry and ...what is bad for the mining industry will be even worse for the province " was accepted without question.<sup>71</sup> Don Phillips' reading of the proceedings of the British Columbia and Yukon Chamber of Mines protest meeting into the legislative record was simply a rather extreme manifestation

of this tendency. This uncritical attitude also carried over into the acceptance of information from industry sources at face value. For example, the assertion of Charles Elliott that the Mineral Act amendments had already meant a loss of 500 jobs in the mining industry was accepted by Conservative Scott Wallace on the grounds that "...a man in his position must have close and immediate awareness of what the employment situation is."<sup>72</sup> This acceptance of an unsubstantiated statement by a longtime political lobbyist as fact illustrates a tendency which would become more pronounced on the part of all three opposition parties as the mining controversy progressed.

V

There are a number of possible reasons for this alliance between the industry and the opposition. The most cynical interpretation is that the wealth of the mining industry made it a very desirable political ally. The ability of mining executives to make political donations far surpassed that of most other segments of the population. This theme was one that came to be emphasized more and more by the N.D.P. as the 1975 election drew closer. Although there is no conclusive proof, it is quite likely that the mining industry did use some of its considerable resources in 1975 to ensure that the N.D.P. did not return to power.

Another factor was the tendency on the part of all three opposition parties to view questions regarding the mining industry in terms of socialism versus free enterprise. The over-riding issue in the eyes of the opposition parties was the attempt by the N.D.P. to subvert this free enterprise system by extending the heavy hand of socialist control into the marketplace. Members of the opposition, whose social and occupational ties were predominantly with the business world, thus viewed the attempts by the government to regulate the industry as simply one instance of "impersonal socialism" trying to stamp out the initiative of the competitive free market system. Thus the decision to support the industry was probably instinctive rather than consciously made. When it came to considering the nature of the mining industry itself, the myths put forward by the British Columbia and Yukon Chamber of Mines clearly predominated. The rugged individualism of the prospector and the vision of a myriad of small companies valiantly striving to extract the province's wealth against great odds, obscured in their minds the reality of the almost total control of actual production by a small number of large corporations. These myths fitted their overall perspective of socialism versus free enterprise much better than the ambiguities of the actual situation. Missing from this perspective was any appreciation of the fact that the mining companies themselves possessed power and that its exercise might not always

be in the best interest of the province.

The virtual denial by all the provincial opposition of any notion of an independent public interest in regard to mining meant that the method chosen by the N.D.P. to protect this interest was never really criticized in a meaningful way. In an age where politicians of all political parties have delegated extremely wide policy making and regulatory powers to the executive and various bodies appointed by it, the provincial opposition, in simply repeating the position of the mining industry, found itself in the position of rejecting the delegation of any such powers at all to the executive. Thus the very important questions of how wide these powers should be, through what bodies they should be exercised and what procedures should be employed were totally ignored.

A procedure by which major mineral projects would be approved by a small number of individuals in the Mines Department based on secret reports submitted by mining companies is open to question. If major mining developments have a large enough impact to merit government scrutiny before being allowed to proceed, then surely, that process should have specific mechanisms through which the interests and concerns of all those affected by such developments can be heard. Under a system like the one contained in the N.D.P.'s Mineral Act amendments, the criteria for judging whether a new mine should

go ahead, the range of concerns taken into account, and the amount of information released to the public would depend completely on the views of the officials making policy at the time. Under this rather informal process of regulation, the mining industry, with continued and direct access to departmental officials, would likely be the group least likely to have its interests ignored.

Although the fears expressed by the opposition that the real aim of the government was to take over the mineral industry by harassing the private sector out of existence contained a large amount of rhetoric, the general question raised was a serious one. We have seen that any extensive participation by the new N.D.P. government in the industry was ruled out at an early stage, but this decision was not at all evident at the time. The government had recently moved to acquire ownership of several forest mills and there was a general feeling among those committed to 'free enterprise' that these moves were just a small taste of things to come. Besides, although Leo Nimsick had publicly ruled out any consideration of a crown exploration agency, he refused to do so absolutely. "It might come up again," he predicted, "so don't be too worried if it does come up again and we have such a corporation."<sup>73</sup> Why, reasoned the opposition, would the government give itself authority to acquire equity in mining companies if it did not plan to become involved in a major way?

Besides its well publicized potential for coercing mining

companies, the relationship between the regulatory aspects of the Mineral Act amendments and the provision allowing the government to acquire equity in these operations raised the more general question of the precise relationship between the two set of provisions. In the absence of any clear institutional separation between the ownership and regulatory functions of government, there exists a constant possibility of conflict of interest. If such separation is not present it appears almost inevitable that government participation in any given mining venture would introduce a severe bias into the decision as to whether the project should go ahead. The fact that the government would stand to benefit from such a venture would surely tend to render less objectionable the social or environmental costs involved. The potential situation whereby the officials of the Department of Mines would make a decision on an application for a mineral lease by a venture with substantial government involvement was rife with such possibilities. Again, the loser in such a situation is much more likely to be the public interest rather than any mining company.

The major point here is not only a certain insensitivity on the part of the government (which was legislating in areas where previous administrations had shown a marked reluctance to tread) to all possible consequences of its legislation. Of at least equal importance was the fact that, although the

opposition's objection to arbitrary power was sincere, their alliance with the mining industry prevented them from offering any really creditable, constructive criticism. The issues of public ownership and regulation, by being formulated solely in terms of the protection of the almost complete freedom of access of the mining companies to the province's resources, could be easily dismissed as just so much special pleading. By denying that the executive should have any discretionary power at all over the mining industry, the opposition was really denying the need for regulation of the industry itself.

This situation arose because legislation can lay down ground rules in a general way but it cannot in itself make the decisions necessary to apply the law to concrete situations. The more that legislation attempts to regulate an activity, the more decision making power must be delegated to those who enforce it. If the need for regulation itself is denied then the questions as to what form that regulation should take cannot really be raised.

The criticism directed at the N.D.P.'s Mineral Act changes continued after the Bill received final passage and prompted the government to make one minor change during the fall session of 1973. Mining industry briefs and opposition critics had raised the point that the new section 59 of the Mineral Act simply stated that a free miner, after having his claim surveyed, filing his field notes, and giving proper



notice, "may apply to the Lieutenant-Governor in Council for a lease authorizing him to produce minerals for the purposes of marketing and sale."<sup>74</sup> They may be able to apply, said the critics, but there was no assurance that such a licence would be granted. To avoid any suggestion that a lease would be arbitrarily denied, the section was changed to read "is, subject to section 64, entitled to a lease authorizing him to produce minerals... [emphasis added]."<sup>75</sup> Since the real element of regulation occurred in section 64, the actual operation of the process of granting a lease was really not changed at all. In fact the wording of section 64 was tightened up somewhat to make absolutely sure that no lease could be issued unless a production plan was submitted and approved by the Minister.<sup>76</sup>

The additional amendments brought down during the fall session of 1973 contained two very significant, but little noticed extensions of the regulatory aspects of the Mineral Act. The new section 71 made it obligatory for all existing mineral producers to file with the Minister of Mines and Petroleum Resources:

- a) A description of the claim or lease
- b) A description of the mineral deposit from which minerals are being produced
- c) The rate of production of the minerals, and
- d) Where the Minister is of the opinion that further information is required for the purposes of

evaluating the claim, lease, production, or minerals, such information as the Minister may require.<sup>77</sup>

A new section 72 extended the 'production lease' provisions to all existing mineral grants and leases where production had not yet commenced.

It is interesting to note that these changes produced no comment from the industry, no editorials denouncing the extension of ministerial powers, and almost no debate at all in the legislature. With the mining industry not expressing any real concerns, the Social Credit Party's mines critic, Frank Richter, did not seem to know what to make of the new amendments, and Scott Wallace's short speech concerned itself with whether the changes to section 59 really removed all the ambiguity over the issuance of mineral leases.<sup>78</sup>

The incident is interesting because it reveals quite clearly who was formulating the concerns of both the opposition and the press over mining legislation. Perhaps the fact that the government had actually moved to implement one of the industry's suggestions had temporarily distracted its usually careful scrutiny. A more likely explanation, however, was that the industry's attention had become directed more towards the question of the new government's taxation policies. This did not mean that the mining companies had reconciled themselves to the inevitability of the government's new role in their industry. Their unusual quiescence, meant only that they were waiting for a more favourable context before raising

the issue again.<sup>79</sup>

## VI

Although the N.D.P.'s mineral royalties legislation was not introduced to the Legislature until the Spring session of 1974, the attempts by the party to devise a tax system which would meet its stated objectives began immediately after the 1972 electoral victory. As soon as Hart Horn became Nimsick's executive assistant, he and a group of policy makers in the Mines Department, began an in-depth study of various taxation schemes and their possible impact on the mining industry. The study was not widely publicized, but was done on an informal basis in close connection with the companies themselves.<sup>80</sup> Some refused to have anything to do with such an exercise, but a significant proportion of the province's major mineral producers did cooperate by voluntarily providing information requested by the government.<sup>81</sup> Although they obviously did not relish the thought of increased taxation, they were at least anxious to insure that the government would not make demands which could seriously damage their viability. It is also quite likely that they feared the consequences of provoking the N.D.P. into introducing some form of public disclosure legislation as promised in the 1972 party platform.<sup>82</sup>

At the same time the mining companies and their interest groups were putting out a series of briefs and public pronouncements warning against any form of royalty or increased

taxation. On September 21, 1972 for example, Tom Elliott of the B.C. and Yukon Chamber of Mines said publicly that he hoped the new government wouldn't do anything to discourage mining. The industry, he claimed, was just beginning to recover from a serious slump and simply could not afford to pay more.<sup>83</sup> Over a month later, Dr. Harold Siegel of Scintex Ltd., a Toronto based mining company, came to Vancouver to make a major speech condemning the whole concept of royalties. Mining Royalties, he claimed, had killed the industry in Mexico, and if imposed in British Columbia, they would have exactly the same result. A day later the Vancouver Province repeated Siegel's message in an editorial entitled "Don't Starve Our Copper Goose."<sup>84</sup> The message was repeated yet again by Albert E. Hall, Chairman of the Bank of British Columbia, when he warned in December, 1972 against taxing the resource industry to provide funds for secondary manufacturing. The B.C. economy, he said, was still dependent upon resource exports and any increased tax burden would weaken it significantly.<sup>85</sup>

The N.D.P. government, however, publicly let it be known that it fully intended to implement its campaign promise to impose royalties on the metal mining industry. It was the level, rather than the principle, of these mineral royalties that was under consideration. In January, 1973, Mines Minister Leo Nimsick made a major policy speech to the British Columbia and Yukon Chamber of Mines which left

no doubt concerning this issue. He said that although he had no wish to destroy incentives to exploration and development, the people were not getting their proper share of the jackpot. " I know you will immediately come back with the argument that we have a profits tax," Nimsick continued, "this I agree, but it seems to me that by this method you are saying to the industry that you can have the principal ingredient in your operation for nothing provided you do not show a profit."<sup>86</sup>

Nimsick subsequently asserted that, at this point, the N.D.P. caucus was unanimous in its desire to impose a royalty of some sort, and Premier Barrett summed up the government's stance in an uncompromising fashion when he gave a personal interview to the publisher and two editors of the Vancouver Province:

Take the mining industry in this province. It is essentially an extractive industry using non-renewable resources that everybody is now aware in North America are becoming a pretty precious commodity. We are not going to say no more mining, no more extraction. But unless we can get a better deal for what we are doing, then we will leave the ore in the ground and I mean it. <sup>87</sup>

Barrett admitted, however, that the application of the government's priorities in the economic field would be much more difficult than its social goals.<sup>88</sup>

When Premier Dave Barrett, acting as his own Finance Minister, brought down his first budget on February 9, 1973,

the question of mining taxation was conspicuous by its absence. The mining interests, in public at least, considered the omission to be hopeful but an uncertain sign. W. Clark Simpson, president of the Mining Association of B.C., said he was:

...pleased with the presentation the Premier made. All we had asked in our submission to the Department of Mines was that we would have an opportunity for an in depth study before any new taxes were imposed. The Premier in his budget evidently recognized this situation... His modified appraisal of the industry will encourage rather than drive away exploration.<sup>89</sup>

However, the delay in introducing a new royalty system was due more to political differences within the government itself than to either a need for further study or a 'modified appraisal' of the situation. By late 1972 the Mines Department study team had completed its enquiry into the mining tax question, and with the backing of Mines Minister Nimsick, had submitted its recommendations to the Resource Committee of Cabinet. These recommendations were that a flat rate royalty of about 5 percent be imposed on all mineral production and that the province acquire a 20 percent interest in all future mineral developments.<sup>90</sup>

The plan put forward by the Mines Department, however, was rejected by the Resource Committee after a fairly lengthy debate. The dominant, though not unanimous view of the Committee was that the proposals did not go far enough in obtaining for the province of British Columbia, a fair share of the surplus generated by mining.<sup>91</sup> Mineral prices,

especially those for copper, were just beginning a rapid increase, and it seemed likely that the large corporations would soon enjoy a very substantial rise in profits. There is also little doubt that the notion of economic rent or unearned profit as outlined by Kierans and others was uppermost in the minds of these Cabinet 'hawks'. If British Columbia was going to experience a revival of the mineral boom of the 1960s then the government had a duty to ensure that the province would receive a significant proportion of the economic surplus generated.<sup>92</sup>

The policy-makers in the Department of Mines, however, backed by Nimsick and, probably, other Resource Committee members, argued that any attempt to appropriate a very large portion of the mining surplus would not produce appreciably large tax revenues. In their view, the political controversy that such a measure was bound to raise outweighed any such gain in revenue.<sup>93</sup> In the end, this internal debate was won by those demanding a much stiffer taxation system and the Resource Committee of Cabinet instructed the Department of Mines and Petroleum Resources to incorporate into their royalty plan, a method by which the expected surplus revenue generated by extraordinarily high mineral prices could be captured in the form of taxation.<sup>94</sup>

While the government was trying to decide the future course of its royalty policy, it proceeded during the Spring

session of the Legislature to introduce a bill dealing with taxation of crown granted mineral land. We have seen that the previous Social Credit administration had attempted to tackle this question in 1957 with its Mineral Property Taxation Act, and that this Act had been declared ultra vires because of the government's stated intention to apply it only to iron mines.<sup>95</sup>

## VII

On April 9, 1973, Mines Minister Leo Nimsick introduced both an Act to repeal this old Social Credit law and the new Mineral Land Tax Act to replace it. This new Act was, in many respects, similar to its 1957 counterpart, but was much broader in its application. In the first place, it called for a basic flat-rate tax on "designated mineral land" (land where the mineral rights were privately held). The rate of this tax varied from 25 cents per acre for holdings of under 50,000 acres to a maximum of \$1.00 per acre for holdings exceeding one million acres. The major target of this tax was the mineral rights, held mainly by the C.P.R., over some eight million acres of railway grant lands. It was also hoped that families who had owned mineral rights over large areas of land would return them to the government rather than pay the new tax.<sup>96</sup>

In addition, the new Mineral Land Tax Act gave the government the unrestricted power to designate any privately held mineral land as either a 'production area' or a 'production tract'. Land within 'production area' was subject to



an additional tax of \$2 per acre, while land falling under either of the two above designations was subject to a tax of up to 25 mills on each dollars of assessed value. The government indicated that the rate would be 12½ mills in 1974, and would rise to maximum 25 mills in 1975. This provision was very similar to the original Social Credit land tax which had also allowed the government to designate and tax mineral producing areas. Whereas the Social Credit's land tax was designed to levy the equivalent of a royalty on iron ore, the N.D.P.'s version was drafted to ensure that any general royalty system could be made applicable to mines operating on crown granted land. Once a royalty rate for production from crown leased land was arrived at it would be a relatively simple matter to set the land tax assessments to produce an equivalent royalty rate for mines operating on crown granted land. Like its predecessor, the Act also appointed a land tax assessor and set up a review board to hear assessment appeals, although appeals to the British Columbia Supreme Court were restricted to points of law.<sup>97</sup> Nimsick, himself left no doubt about the aim of the taxation provisions for producing mines: "This Act," he explained, "just applies where the mineral rights are owned privately. We have the right to tax, we haven't the right to put a royalty on it."<sup>98</sup> It was estimated that the Mineral Land Tax Act would produce \$15 million in revenue in 1974 and \$25

million in 1975.

### VIII

The introduction of the Mineral Land Tax Act produced relatively little reaction from the province's mining companies. Gerald Hobbs of Cominco simply predicted that it "will cause consternation in the mining industry", while Charles Mitchell, the secretary of the Mining Association, contented himself with asking rhetorically whether anyone would "...be nutty enough to invest money in British Columbia mining now?"<sup>99</sup> The industry's reluctance to launch an immediate attack on the Mineral Land Tax Act was not really surprising since it represented only half of the government's mineral taxation policy. It was, by now, common knowledge in the industry that a flat-rate royalty would eventually be introduced and applied to crown granted land through the Mineral Land Tax Act. For example, an institutional report prepared by Bartlett Securities Ltd., showed remarkable foreknowledge when it stated that the Mineral Land Tax assessments would make the 12.5 mill rate equivalent to a 2.5% royalty in gross metal production in 1974, and that this would double to 25 mills and 5% in 1975. The report also correctly predicted that this rate would be reduced for any company smelting or refining in the province.<sup>100</sup> Although the Mineral Land Tax Act was a crucial piece of legislation, the mining companies had obviously decided to hold their fire until the actual

introduction of the new mineral royalties. As was the case with the second set of Mineral Act amendments, this lack of direction from the industry put the opposition at somewhat of a loss. The debate on second reading was thus a rather brief affair with the opposition seemingly unable to come to grips with the Bill's far reaching implications.

Socred M.L.A. Don Phillips seemed particularly confused and spent most of his speech trying to demonstrate that the acreage tax would likely discourage exploration by making it more costly.<sup>101</sup> David Anderson of the Liberals took the opposite view and accused the government of undermining its own conservationist epic by forcing mining companies to either develop their crown grants or return them to the government. Anderson's major criticism however, was simply that the government didn't need any more revenue.<sup>102</sup> The Social Credit Party's Frank Richter interpreted the government's intention to encourage the return of unused mineral rights to the crown as just another aspect of a general socialist plot.

You're going to have the mineral industry, the crown granted properties, loaded with so many taxes it will be obvious that you will be in possession, which is the ultimate aim of the socialist government--to control all the land. This is the way they feel--they can control the people once they control the land.<sup>103</sup>

Perhaps the most germane criticism was put forward by N.P. Morrison, the Social Credit M.L.A. from Victoria when he

criticized the new Bill's discretionary powers:

Again, in this Act, the government has the power to designate, and the rate of tax is subject only to the overall limit of 25 mills....As I see it, therefore, the government has a choice whether the tax will be substantial or very small. We have an Act where the tax is actually undeterminable. I don't know how you're going to figure it out....The Tax base, that is, the assessed value, is impossible to determine. 104

This observation is about the closest any of the opposition members came to linking the Mineral Land Tax Act with the question of royalties.

## NOTES: CHAPTER 4

1. For a detailed account of this mine pollution problem, see Patrick Moore, "The Administration of Pollution Control in British Columbia: A focus on the Mining Industry" Ph.D. dissertation, University of British Columbia, 1974, pp.56-128.
2. M.A. Galway, Japanese Involvement in British Columbia Copper, Appendix, pp.40-41.
3. For a detailed account of these hearings, see Patrick Moore, "The Administration of Pollution Control in British Columbia..." pp. 139-197.
4. Vancouver Province, February 12, 1971, p.11.
5. Ibid., February 23, 1973, p.1.
6. Moore, "The Administration of Pollution Control in British Columbia..." p.107.
7. B.C., Statutes, 1969, Chapter 18, "An Act to Amend the Mines Regulation Act," section 2.
8. Vancouver Province, October 23, 1971, p.14; December 10, 1971, p.20; March 9, 1972, p.8; March 13, 1972, p.17; March 16, 1972, p.2; and March 18, 1972, p.8.
9. Ibid., February 10, 1970, p.14.
10. Norman Girvan, Corporate Imperialism, Conflict and Expropriation, pp. 3-4, 49 and 143-151.
11. See above, pp.117-26.
12. See above, pp.2-3.
13. As reprinted in the Vancouver Province, November 4, 1975, p.5.
14. Vancouver Province, February 23, 1971, p.19.
15. Ibid., March 5, 1971, p.24.
16. Canada, Energy, Mines and Resources Canada, Copper, figure 2, p.12.

17. Vancouver Province, August 21, 1971, p.17.
18. Ibid., December 22, 1971, pp.13-14.
19. Calculated from production capacity figures provided by M.A. Galway, Japanese Involvement in British Columbia Copper, Appendix, pp.40-41.
20. Financial Post, March 18, 1972, p.B.C.3.
21. Canada, Energy, Mines and Resources Canada, Copper, figure 2, p.12.
22. For a more detailed biography, see Vancouver Province, October 2, 1972, p.5.
23. Hart Horn, Interview with the Author, Victoria, October 1, 1978.
24. Ibid.; Confirmed by Leo Nimsick, letter to the author, January 9, 1979.
25. The name of this department was subsequently changed to the Department of Economic Development. For an account of its subsequent activities see below, p.327. Gary Lauk's eventual appointment to the mines portfolio is outlined in chapter 6. See below, p.330-40.
26. Hart Horn, Interview, October 1, 1978.
27. G. Bruce Doern, "The Concept of Regulation and Regulatory Reform," G.B. Doern and V.S. Wilson, ed., Issues in Canadian Public Policy (Toronto: Macmillan of Canada, 1974), p.10. We return to this theme in the conclusion. See below, pp.374-78
28. These observations concerning the staff of the Department of Mines and Petroleum Resources were made by both Hart Horn, Interview, Victoria, Oct. 1, 1978; and Gary Lauk, Interview with the author, Vancouver, September 28, 1978. The relatively minor position of the Department of Mines and Petroleum Resources in the provincial government hierarch is illustrated by its consistently small budget; about .2 to .4 percent of total government expenditures between 1965 and 1976. This compares with about 4. to 5. percent for the Department of Lands, Forests and Water Resources, over ten times as large. B.C., Department of Finance, Public Accounts of British Columbia, for the fiscal year ended March 31, 1976, p.A7; 1974, p.A7; 1972, p.A7; 1970, p.E9; 1968, p.E9; 1966, p.E9.

29. Eric Kierans, Report on Natural Resources Policy in Manitoba, p.40.
30. Ibid., p.12.
31. Interview, Hart Horn, Victoria, Oct. 1, 1978.
32. Ibid.; Both Leo Nimsick and the Department's new Deputy Minister, John McMynn, were in favour of a Crown Corporation which would participate actively in mining and exploration. Leo Nimsick, Letter to the Author, January 9, 1979; and Idem., "NDP Mining Policy and Administration 1972-75." (Confidential Memorandum)
33. For a good account of the role of these groups in the N.D.P.'s 1972 election victory, see John Cleveland and Guy Pocklington, "The NDP Didn't Sneak Into Power in B.C., It was Pushed," Canadian Dimension 9 (January 1973):13-18 and 63.
34. Interview, Hart Horn, Victoria, Oct. 1, 1974. We do not know who these cabinet members were.
35. Financial Post, December 2, 1972, p.9.
36. See below, p.158.
37. B.C., Legislative Assembly, Official Report of the Debates of the Legislative Assembly (Hansard), 30'th Legislature: 2'nd session (Victoria: Queens Printer, 1973) April 9, 1973, p.2422. This publication is hereafter referred to simply as Debates.
38. Vancouver Province, April 27, 1974, p.22: Hart Horn, Interview, Victoria, Oct. 1, 1978.
39. Vancouver Province, February 23, 1973, p.1.
40. Ibid., March 2, 1973, p.8.
41. Vancouver Sun, May 8, 1973, p.21; Leo Nimsick, Minister of Mines and Petroleum Resources, "A Press Release," Victoria, May 8, 1973.
42. Nimsick, "A Press Release," Victoria, May 8, 1973. The details of McMynn's background were contained in a resume made public with the press release.
43. B.C., Department of Mines and Petroleum Resources, Report 1973, pp.A58-A60.

44. Ibid., pp.A58 and A60.
45. Ibid., 1975, pp.A27-A28.
46. B.C., Statutes 1973 (Second Session), Chapter 111, "Department of Mines and Petroleum Resources Act," section 6.
47. B.C., Statutes, 1973, Chapter 52, "An Act to Amend the Mineral Act," sections 3, 9 and 21.
48. Ibid., section 5.
49. Ibid., section 28.
50. Ibid., section 28. For a journalistic summary of all these changes, see Vancouver Province, March 2, p.1.
51. See above, pp.95-96.
52. B.C., Legislative Assembly, Debates, 30:2, April 10, 1973, p.2455.
53. Vancouver Province, March 2, 1973, p.17.
54. Ibid.
55. Ibid., March 3, 1973, p.4.
56. Ibid., March 9, 1973, p.18.
57. Ibid.
58. Ibid.
59. Ibid., March 24, 1973, p.16.
60. As quoted by M.L.A. Don Phillips, B.C., Legislative Assembly, Debates 30:2, April 10, 1973, p.2457.
61. Ibid.
62. Vancouver Province, March 24, 1973, p.16.
63. Ibid.
64. Ibid.
65. Vancouver Sun, March 31, 1973, p.



66. Vancouver Province, April 11, 1973, p.11; B.C., Legislative Assembly, Debates 30:2, April 10, 1973, pp.2456-63 and 2470-88.
67. Vancouver Province, April 11, 1973, p.11.
68. B.C., Legislative Assembly, Debates 30:2, April 10, 1973, p.2458.
69. Ibid., p.2481; and Vancouver Province, April 11, 1973, p.11.
70. B.C., Legislative Assembly, Debates 30:2, April 10, 1973, p.2490.
71. Norman B. Keevil Jr., vice-president of Teck Corporation. Quoted by M.L.A. Scott Wallace, Ibid., p.2495.
72. Ibid., p.2496.
73. Ibid.
74. B.C., Statutes, 1973, Chapter 52, "An Act to Amend the Mineral Act," section 26; Vancouver Province, November 1, 1973, p.6.
75. B.C., Statutes, 1973 (second session), Chapter 129, "An Act to Amend the Mineral Act," section 18.
76. See above, pp. . The provision that every application for a mineral lease "...shall be accompanied by..." a production plan was changed to state explicitly that "...no lease shall be issued or renewed unless the application is accompanied by..." such a plan. Ibid., 1973, Chapter 129, section 20.
77. Ibid., Chapter 129, section 25.
78. B.C., Legislative Assembly, Debates 30:3, November 5, 1973, p.1270.
79. See below, p.
80. Leo Nimsick, "NDP Mining Policy and Administration, 1972-75," Interview, Hart Horn, Victoria, Oct. 1, 1978; The existence of this process of consultation was mentioned briefly in the Financial Post, December 2, 1972, p.9; Vancouver Sun, October 5, 1972, p.52; Province March 9, 1973, p.18.

81. Interview, Hart Horn, Victoria, Oct. 1, 1978.
82. See above, p.139.
83. Vancouver Province, September 21, 1972, p.21.
84. Ibid., November 15, 1972, p.77; and November 16, 1972, p.4.
85. Ibid., December 13, 1972, p.15.
86. Ibid., January 11, 1973, p.18.
87. Ibid., January 20, 1973. The Premier's words returned to haunt him and were republished in the Province at the start of an election campaign in which he was trying to project a 'moderate' mining image. First impressions are often lasting. Vancouver Province, November 4, pp. 4-5; also, see below, pp.
88. Ibid.
89. Ibid., February 10, 1973, p.22.
90. At least according to Leo Nimsick, "NDP Mining Policy and Administration, 1972-75"; Hart Horn also told the author that a proposal for a royalty at a relatively moderate level was recommended but rejected by the Cabinet's Resource Committee. Interview, Hart Horn, Victoria, Oct. 1, 1978.
91. Ibid.
92. The reasons for these actions are imputed to the political actors from external evidence. Because of the traditions of Cabinet secrecy, we do not know the exact nature of the arguments put forward in Cabinet by the proponents of the incremental royalty.
93. Hart Horn, Interview, Victoria, Oct. 1, 1978.
94. Ibid.
95. See above, pp.91, 94-95.
96. Vancouver Province, March 30, 1973,
97. B.C., Statutes, 1973, Chapter 53, "Mineral Land Tax Act,"; Vancouver Province, March 30, 1973, p.1.
98. Vancouver Province, March 30, 1973, p.1.

99. Ibid., p.8.
100. Ibid., April 1, 1973, p.19.
101. B.C., Legislative Assembly, Debates 30:2, April 10, 1973, p.2510.
102. Ibid.
103. Ibid., p.2513.
104. Ibid., p.2515.

## CHAPTER 5

## THE MINERAL ROYALTIES ACT

## I

As 1973 drew to a close, the only major piece missing from the N.D.P. government's mineral policy was the long awaited mineral royalties legislation. At the beginning of September, the government announced that this question would be dealt with during the fall session of the legislature. However, on November 2nd, news reports indicated that the Cabinet was split over the size of the new royalties.<sup>1</sup> A spokesman for Nimsick then announced that the introduction of royalty legislation would be delayed by a week, but the next day, Nimsick himself announced to the press that it would not be introduced at all during the fall session. Nimsick, not very convincingly, denied that there was a Cabinet split and asserted that "...other legislation was given priority by the Queen's Printer and the royalties bill will have to wait until the spring session."<sup>2</sup>

The real reason for this second major delay in one year was a last minute reluctance on the part of some Cabinet Ministers to go ahead with the incremental royalty system requested by the Cabinet's own Resource Committee. The Department of Mines had prepared the type of legislation requested by the Committee, but when the issue came up before

the full Cabinet, major objections were raised. The specific nature of these objections is not known but, presumably, some of the more cautious ministers saw the political risks of substantial mining royalties outweighing the monetary gains.<sup>3</sup> Their misgivings were to be fully justified as events unfolded.

As we have seen, the absence of concrete royalty proposals during 1973 meant that the mining industry's opposition to the government was a fairly low key affair. The major government consultations with the industry had taken place in late 1972 and the two mining interest groups had both presented major briefs to the government by early 1973. After their vigorous attack on the changes to the Mineral Act, the industry's criticisms took on a more general character, with the elements of uncertainty and the general decline of the industry under the N.D.P. being stressed.

In late April of 1973, J.P. Nowlan, the former Nova Scotia Deputy Minister of Mines and the new president of the Canadian Institute of Mining and Metallurgy, gave a speech to that group's annual meeting in which he attacked government interference in mining and warned that "the tendency toward socialism is clear and dangerous."<sup>4</sup> Nowlan denied that his warning was directed specifically at the B.C. government despite the fact that Leo Nimsick was in the audience. The real significance of this attack lay in the fact that the C.I.M.M. which was largely a technical and scientific body, had

previously avoided becoming involved in political debate.<sup>5</sup>

Nowlan's warnings were quickly followed up by the province's more overtly political mining groups, the Mining Association of B.C. and the British Columbia and Yukon Chamber of Mines. W.J. Tough, president of the former group, announced on April 21st that mining was in danger of being slowly strangled to death by government interference. "The legislative efforts of the new N.D.P. government," he said, "have created uncertainty that arch enemy of investment...." He predicted that, until this uncertainty was resolved, "... exploration will be reduced, new mine construction will be at a relative standstill and the growth of direct and indirect employment will be less than in past years."<sup>6</sup> On May 8th, the Chamber of Mines announced that mining exploration would be down by 31 percent in 1973. Exploration, it claimed, was shifting to the Yukon creating a loss of 500 jobs in British Columbia.<sup>7</sup>

In December 1973, the Chamber again outlined more evidence of what it considered to be a decline in the province's mining industry. The number of mining claims staked, it reported, was down to 27,842 in the first 10 months of 1973, a decline of 54 percent over the previous year. Furthermore, exploratory drilling had not increased over its already low 1972 level and the amount of equity raised through the Vancouver Stock Exchange was down by

20 percent. "The past year," concluded Thomas Elliott, "has undoubtedly been the most disconcerting one during my long-term association with the mining industry in British Columbia." <sup>8</sup> The sharp decline in capital investment, the serious drop-off in exploration activity and the fact that no new mines were scheduled for production were, according to Elliott, "...all brought about by unfavourable government legislation."<sup>9</sup>

The assertion that the provincial government was responsible for these industry trends and even whether they really represented a decline in mining is open to some doubt. The mining industry had undergone an unprecedented expansion of its capacity in the early 1970s, with five very large projects coming into production almost simultaneously. Thus, a decline in net capital inflow from \$465 million in 1971 to \$261 million in 1972 was not unexpected, and had been widely predicted even before the N.D.P. came into power.<sup>10</sup> In fact, the amount of capital raised for mining in 1973 actually exceeded that of 1972 and it was only the rapid repayment of loans from very high profits that resulted in a further 23 percent decline in net capital inflow."<sup>11</sup> Thus, to assert that N.D.P. mismanagement was responsible for a decline in capital inflow was not entirely correct.

Relatively sharp declines in exploration, development, and claim staking during 1973 undoubtedly bore some relation

to the uncertainty created by the new N.D.P. government. However it must be remembered that much of this exploration and development was also closely related to the development of major new copper mines which ended in 1972. If we take the Mining Association's figures for primary exploration (which is the search for new mineral deposits in unexplored areas), there was actually an increase, in both 1973 and 1974.<sup>12</sup>

The decline in the number of claims staked in 1973 was substantial, but it also was not due entirely to investor uncertainty. In fact, much of this reduction in claim staking was the conscious aim of the new mineral policy-makers, who felt that the staking of such claims had become far too easy. In doubling the charges for maintaining mining claims, Leo Nimsick had pointed out that these costs had not changed since 1900 despite enormous increases in the cost of living.<sup>13</sup> Furthermore, as the Chamber of Mines itself had pointed out earlier in 1973, part of this claim staking decline was due to a lack of any major mineral discovery during that year.<sup>14</sup>

There is also some evidence that changes in the number of claims staked bears little correlation to the actual health of the industry as a whole. For example, a decline in 1968 was explained away by the Financial Post as simply the result of the more efficient use of exploration dollars and the prevalence of larger, more sophisticated exploration firms.<sup>15</sup> The very high level of claim staking in 1972 was partly the



result of speculative activity surrounding the discovery of a major orebody by Afton Mines. This discovery prompted the staking of 6,000 claims in the Kamloops area alone during the first six months of that year and these claims were traded for as much as \$50,000 each. This claim staking fever had prompted Thomas Dohm, the president of the Vancouver Stock Exchange to warn that:

The public should be very cautious in the current speculative market and obtain advice before purchasing stock. This is particularly important because while some companies may have promising orebodies others are being bought strictly as a gamble...thus creating high market activity in these issues as well.<sup>16</sup>

This rampant staking resulted in no major new mines apart from the original Afton discovery and really served no purpose but to enrich a few mining promoters.

Thus, it is fair to conclude that the widespread accusation that N.D.P. policies and the uncertainties that they created were strangling the industry contained a large dose of rhetoric. There was no doubt that the rapid expansion of the late 1960s had begun to slow down, but this lull was the inevitable result of an unprecedented development of new capacity, especially in copper.

In fact, indicators such as mineral prices, sales volume, and company profits told a rather different story. The price paid to British Columbia's copper producers jumped from just under \$ .44 per pound in 1972 to over \$ .70 per pound in 1973.<sup>17</sup>

That price increase, combined with the added production from the newly opened mines, resulted in copper revenues growing from \$191.4 million in 1972 to \$487.7 million in 1973. Lead and zinc prices also increased, but the lack of any major expansion in productive capacity meant that the effect on production value was much less spectacular.<sup>18</sup>

This sudden return to favourable market conditions in the mining industry reflected itself in large company profits. For the British Columbia industry as a whole, before tax profits were 33 percent of total revenue in 1973, and the average return for seven major open-pit copper mines was just under 50 percent.<sup>19</sup> This was substantially higher than the average 28 percent return to Canadian mining during the same year.<sup>20</sup> Industrywide figures for British Columbia were not available prior to 1973 so we cannot judge the overall increase over the previous year. However, as Table 11 illustrates, the profits earned by several of the province's major producing companies increased significantly during 1973.

These large profits enabled the newly opened copper mines to pay off substantial portions of their outstanding debts, with the most spectacular example being Gibraltar Mines which completely paid off its \$56.4 million long term debt from its 1973 earnings.<sup>21</sup> Most of the producers listed above had made modest profits during 1972 and the large increase in metal prices were translated almost completely into greatly increased

earnings. The sharp price increases of 1973 were a striking example of Kierans' notion of economic rent or 'surplus profit' since world economic trends had given British Columbia's mining companies a windfall far greater than any normal return to capital.<sup>22</sup>

TABLE 11  
INCREASE IN THE PROFITS OF  
SELECTED MINING COMPANIES  
1972-1973

Company	Millions \$ Profit before Tax		Approximate Percentage Increase
	<u>1972</u>	<u>1973</u>	
Craigmont	4.250	17.400	300
Bethlehem	8.825	34.010	300
Brenda	(.050)	18.529	
Granisle	3.369	8.392	150
Gibraltar	8.670	60.308	600
Cominco	35.908	87.535	140
Placer	18.034	88.683	360
Western Mines	2.261	7.214	200

SOURCE: Financial Post Corporation Service, Corporation Service Reports, for the companies listed.

NOTE: Brackets indicate a loss.

It was also apparent that the existing taxation system was not capable of appropriating a significant portion of this surplus for the province. Total corporate income taxes paid by B.C.'s major mining producers in 1973, the last year of the old federal tax system, amounted to about \$21 million or about 7 percent of earnings. Of this amount, British Columbia received a mere \$5 million. Another \$17 million worth of income taxes was deferred to future years.<sup>23</sup> Direct returns to the province of British Columbia were no better. In 1973, total receipts for direct charges like royalties, mining taxes, licences and fees were only \$8.7 million, or .8 percent of total industry production. As illustrated in table 12, the direct returns to the province for mineral resources during the late 1960s and 1970s were far less than those obtained from the petroleum industry. (It should be noted, however, that the very low direct returns during 1973 shown in table 12 are somewhat misleading because much of the provincial mining tax was not received until 1974. Industry figures show that the mining tax payable for 1973 was about 2.5 percent of gross production value.)<sup>24</sup>

TABLE 12

DIRECT PROVINCIAL REVENUE FROM THE  
MINERAL AND PETROLEUM INDUSTRIES

Year	Mines	Percentage of Total Production	Petroleum	Percentage of Production
1969	6,074,825	1.6	44,802,882	52
1970	15,378,478	4.0	39,010,699	43
1971	7,555,933	2.0	46,318,142	32
1972	8,295,218	1.8	44,821,758	26
1973	8,731,464	.8	46,553,424	40
1974	48,194,068	5.4	83,610,413	50
1975	48,121,999	3.4	NA	-
1976	57,557,387	5.2	NA	-

SOURCE: B.C., Department of Mines and Petroleum Resources; Report 1969, pp. A12-13 and A 27; 1970, pp. A7 and A27; 1971, p. A27; 1972, pp. A7-A8; 1973, pp. A6-A7; 1974, pp. A11-A12; 1975, pp. A9 and A13; 1976, pp. A10-11.

## II

There is little doubt that the high profits and low taxes for 1973 encouraged the backers of stiff tax on metal mines to push ahead with their plans, despite misgivings within the N.D.P. itself and the controversy it would surely generate. Thus, on February 19, 1974, the long awaited Mineral Royalties Act was introduced in the legislature imposing both a flat rate and an incremental royalty on metal mines.

This Act, numbered Bill 31, was a rather complicated piece of legislation. The most straightforward provision imposed a royalty of 2 1/2 percent on the 'net value' of any designated mineral produced in the province in 1974 and a 5 percent royalty starting in 1975. A 'designated mineral' was simply any mineral designated by the Lieutenant-Governor in Council as being subject to a royalty. When the designated mineral was smelted or refined within the province "in a manner approved by the minister", the royalty payable was reduced one percent.<sup>25</sup> As noted above, these royalty provisions had been common knowledge for some time and were probably drafted as far back as the fall of 1972.<sup>26</sup>

The incremental royalty provisions, however, were far more complex and involved establishing and defining three different mineral price levels. The first was 'gross value' which was defined, rather confusingly, as follows:

1. Money, or rights or things expressed in terms of the amount of money or the value in terms of money of the right or thing, paid or credited to a producer as a consideration for the purchase or other acquisition from him of a unit of a designated mineral produced by him; or

2. The value in terms of money of a benefit to a producer as a result of the use by him of a unit of a designated mineral produced by him:<sup>27</sup>

The rather circuitous language of this definition was undoubtedly designed to cover instances where minerals were transferred within a single corporation rather than sold in the market. The Act also gave government the power to set the 'gross value' of inter-company transfers when it felt that the price actually received was not a fair one.<sup>28</sup>

The 'net value' of a mineral was defined as the 'gross value' minus "such reasonable costs of and incidental to smelting or otherwise refining the unit of the designated mineral, and of transporting the unit of the designated mineral, as are paid or payable by the producer and are approved by the administrator in accordance with the regulations."<sup>29</sup> These deductions were written into the bill because, when metals like copper are exported in a raw, unsmelted state, the smelting and refining charges are subtracted from the quoted selling price. Similarly the transportation costs to a smelter were often charged to the producer. As we have seen, it was the 'net price' which formed the basis for the 2 1/2- 5 percent flat rate royalty.

Finally, the Act established a 'basic value' for a mineral. In the words of Bill 31:

In determining a basic value in respect of a unit of a designated mineral, the Lieutenant-Governor in Council shall consider the average of gross values in the province during the five-year period immediately preceding the date of the first determination of the designated mineral and, for the purposes of a determination other than the first determination, may make such increase or decrease therein as in his opinion, is necessary to provide for:

- a) Any change in the value of the Canadian dollar that, in the opinion of the Lieutenant-Governor in Council, substantially affects the gross values...since the date of last determination; and
- b) any province-wide change in the costs of labour that...substantially affects the gross values of the designated mineral since the date of last determination. <sup>30</sup>

Thus, the basic value was meant to be a five-year average price which could also be adjusted to reflect cost changes affecting the industry. The incremental royalty provisions of the new Act stipulated that, when the gross value of any designated mineral rose above the basic value by more than 20 percent "...the producer ...shall pay a royalty, in addition to the royalty payable under subsection (1) [2 1/2-5 percent] of fifty percent of the amount by which the gross value of the unit exceeds the basic value of the unit by twenty percent or more."<sup>31</sup> When the 'gross value' fell below the 'basic value' by 10-20 percent the basic royalty would decline 1/2 percent, and when this fall was greater than 20 percent, the corresponding royalty decline would be 1 percent.<sup>32</sup>



Other provisions called for the terms of all selling agreements involving producers of designated mineral to be reported to the government, and for both information and royalty payments to be submitted monthly. At the end of the year a final return would be filed and the royalty payments for the year would be adjusted accordingly.<sup>33</sup> The Mineral Royalties Act also gave the government the power to file a "Certificate of Delinquent Royalties" with the courts in case of non-payment and this certificate would have "...the same force and effect... as if it were a judgement of the appropriate court for the recovery of a debt of the amount stated..."<sup>34</sup> In addition the government could suspend production from the offenders operations and any producer ignoring such a suspension was subject to a fine of \$1,000 per day.<sup>35</sup> A fine of from \$500 to \$5000 was also provided for persons convicted of submitting false information under the Act.<sup>36</sup> Unlike the Mineral Land Tax Act, an appeal could only be made to the Mines Minister with appeals to the courts being restricted to points of law.<sup>37</sup> Finally, the collection of royalties was made retroactive to January 1 , 1974.<sup>38</sup>

In bringing down the new royalty legislation, mines minister Leo Nimsick was careful to stress the point that the royalties were a "payment to the people of British Columbia for the depletion of non-replenishable resources owned by them", and thus could not be equated with taxes.<sup>39</sup> Nimsick

did not spell out in detail exactly which minerals would be designated under the Mineral Royalties Act, but left no doubt that the government's major target was copper. He said that the 'basic value' for copper would likely be set at 55 cents per pound and that, if the prices stayed at the same level as in 1974, the Act would produce revenues of about \$20 million from the copper industry.<sup>40</sup>

### III

The reaction of the mining industry to the new Mineral Royalties Act was immediate. J.W. Tough, president of the Mining Association of British Columbia, commented only hours after the Bill's introduction that, "on the whole it looks like a disaster for the industry. We hand't expected the excess profits tax. We were not consulted on this."<sup>41</sup> Tough went on to outline the low returns to equity during 1972 and an actual loss in 1971 in an attempt to show that mining simply could not stand the increased costs involved. Between 1967 and 1972, he asserted, the average return to mining equity was only 8.1 percent, "less than on first mortgages and some Canada savings bonds."<sup>42</sup> Gerald Hobbs of Cominco concurred in this assessment and termed the new tax "onerous" while Frederick Higgs of the British Columbia and Yukon Chamber of Mines commented simply that "it appears as if the industry is on the way to stagnation and decline."<sup>43</sup>

The reaction from investment brokers, however, was not

so pessimistic. Peter Brown of Canarim Investments stated that the royalty would create problems for marginal producers, but that companies with good grades of ore would still be able to finance plant expansion and production increases. Robert Fay, president of Carlisle, Douglas & Company, commented that "basically, the proposals are in line with what had been strongly rumoured. I have been talking to some mining people and they feel that the royalties are something they can live with."<sup>44</sup>

Whether or not the mining industry really felt that it could "live with" the new royalties, it was certainly not going to admit it in public. In fact it soon became clear that the industry was in the process of mounting a sustained attack upon the N.D.P. and Bill 31, and the rather sanguine attitude of the investment brokers was hurriedly corrected to one of appropriate gloom. A day after his earlier pronouncement Peter Brown of Canarim predicted that the legislation would cause "massive confusion", and would result in immediate cutbacks in exploration and development in British Columbia. Cyril White, president of the Vancouver Stock Exchange, reiterated the critical position of the investment community when he predicted that "if changes are not made...I don't believe we will see a new mine opening in B.C. in the foreseeable future."<sup>45</sup> A headline in the Province's business section proclaimed "Mining Stocks Dive as Investors Bail Out",

as share prices dropped in response to Bill 31's introduction. These declines however could not really be described as either spectacular or unprecedented.<sup>46</sup>

The initial attacks on Bill 31 led by the Mining Association of British Columbia, a rather select group of major mining executives representing most of the large producing mines in the province. The central role of this group was not surprising, considering that its members would be most directly affected by the new mineral royalties. Only one day after the announcement of the new royalties, a special executive committee of the Mining Association had prepared a detailed report for the media on the effects of Bill 31.

The initial calculations made by this committee claimed that the royalty would produce revenues of \$70 million rather than the \$20 million predicted by Leo Nimsick. The discrepancy, although it provided a spectacular front page headline was more apparent than real. Nimsick's estimates assumed an average 70 cents per pound price for copper in 1974, whereas the mining industry assumed prices of \$1.00 per pound of copper. In addition the mining industry estimate was based on a 5 percent royalty on total provincial copper production while Nimsick's was an estimate of the 2.5 percent royalty for 1974 on that proportion of production covered by crown leasing.<sup>47</sup>

The committee also re-emphasised the low returns earned

by the industry in 1971 and 1972, and its average return to equity of 8.08 percent from 1967 to 1972. The mining industry, it asserted was cyclical and depended upon the profits of good years to tide it over bad ones. In addition the discretion of the mines minister to designate minerals and determine such things as 'basic value' and 'gross value' meant that the actual tax rate was very uncertain.<sup>48</sup> The Mining Association's analysis of the effects of the royalty on the revenues generated by one pound of copper is summarized in table 13.

The day after these projections were made, the same Mining Association committee released a new set of figures to the press purporting to show that the new royalties would collect \$137.7 million in 1974 and \$153.3 million in 1975. These levies would, the Association claimed, equal or surpass the total net profits of copper production in 1973. These new estimates were based upon interpretation of the Bill in which the gross price was taken to be the quoted price for copper of \$1.00 per pound and the incremental royalty was calculated using this \$1.00 gross price instead of the \$ .82 net price.<sup>49</sup> Mines minister Nimsick replied to these new revelations by saying that he had no thought of collecting revenues of this magnitude and repeating that his calculations had been based on a \$ .70 copper price.<sup>50</sup>

TABLE 13

EFFECTS OF THE MINERAL ROYALTIES ACT  
 AS OUTLINED BY THE MINING ASSOCIATION OF B.C.  
 AT COPPER PRICES OF \$1.00 and \$ .50 PER POUND

	Copper Price of \$1.00 per lb.	Copper price of \$ .50 per lb.
Copper price	\$1.00	\$ .50
Smelting and Transportation	.18	.13
Net Price	.82	.37
5 % Royalty	.041	.011
Incremental Royalty Based on \$ .55 'basic value'	.08	
Total Royalty	.121	.011
Net Return	.699	.358
Operating Costs	.45	.45
Net Profit	.249	(-.09)
43 % Income Tax	.11	-
Net Profit after Tax	.139	-

SOURCE: Vancouver Province, February 21, 1974, p. 27.

Although the mining industry's new calculation was as hypothetical as the one presented a day earlier, it pointed out a very fundamental ambiguity in the wording of Bill 31. As we have seen, section 3(2) of the Bill did stipulate that "the producer...shall pay a royalty...of fifty percent of the amount by which the gross value...exceeds the basic value...by twenty percent or more",<sup>51</sup> but the wording of the definition of gross price was vague enough so that it was by no means certain whether it referred to the quoted price or not. The definition seemed to imply that it was the actual price received by the producer, but if so, why did the Act go on to define 'net price' as the 'gross price' minus smelting charges and transportation? A lot would seem to depend upon whether charges for smelting were deducted before a producer was actually paid or whether the producer received the quoted price and paid these charges separately. Despite Leo Nimsick's assurance that he had no thought of such large royalties, this ambiguity was not resolved publicly by the government until much later.<sup>52</sup> The mining company's new figures also underlined exactly how much money was involved in these different interpretations. If the government was imposing a royalty of 50 percent when prices exceeded a certain level, then the way in which this level was determined was of critical importance. The mining companies, quite understandably, took full advantage of the uncertainties in their growing fight against Bill 31.

By a fortunate coincidence the annual meeting of the Mining Association of British Columbia had been scheduled for February 23, 1974, only four days after the Mineral Royalties Act was brought down. These meetings had in the past been rather exclusive affairs conducted largely behind closed doors, but in 1974, the annual meeting provided an ideal forum to keep up the intense rhetorical onslaught on the government. J.W. Tough, the association's president, gave a major speech to the gathering criticizing the N.D.P. for its "simplistic solutions" and "uncritical devotion to catch phrases and slogans."<sup>53</sup> In an attempt to further damage the government's credibility, Tough accused it of providing misleading information on the amount of revenue actually collected from the industry. Whereas the Mines Minister's report claimed revenue of \$7.1 million in 1971 and \$ 7.7 million in 1972, the government had actually collected about five times as much: 35.4 million in 1971 and 33.1 million in 1972.<sup>54</sup> These industry figures, however, included items like school and property taxes, gasoline taxes, sales tax and even the B.C. portion of their employees income tax.<sup>55</sup>

Tough's attack was repeated by Charles R. Elliot, president of the Mining Association of Canada, who urged the B.C. Association to press home its attack with even greater vigour:

There is no quarelling with government if it is simply carrying out a clear mandate from the public to assume functions traditionally performed by the public sector. However, I do not believe any Canadian government has



such a mandate, and it is therefore important that our industry continue to make its views, its hopes and its aspirations known. Let us not lose by default.<sup>56</sup>

A few days later the Mining Association of British Columbia sent a telegram to Premier Barrett himself asking that the Mineral Royalties legislation be given to a select committee of the legislature for detailed study before it was passed.<sup>57</sup> By requesting this procedure the Association was obviously hoping to obtain another forum in which to mobilize opposition. Committees of this kind in both the House of Commons and the Senate had been valuable platforms from which to present detailed opposition briefs during the federal debate over mining tax reform at the federal level.<sup>58</sup> Barrett did not answer the telegram but passed the request on to the Mines Minister, who two weeks later, issued the following reply:

I have no doubt there is some concern in regard to this Bill but I do not understand your request that I go to a select standing committee when I have had discussions with the association and companies many times prior to the Bill going in...I have also had discussions with the industry since the Bill was presented. The principle of the Bill is quite simple and to my mind can be better debated on the floor of the house rather than go to a committee...<sup>59</sup>

Mining Association spokesmen claimed, however, that there had been no prior consultation over the incremental or 'super' royalty and, judging by the way these proposals were received, this claim was probably true.<sup>60</sup>

The same day that Nimsick released his reply, he met formally with an executive delegation from the Mining

Association led by president J.W. Tough. On that occasion the Association presented a formal brief which laid stress on the uncertainty generated by Bill 31:

Unless the government is bent on destroying the mining industry...Bill 31 must be revised so that the industry will know precisely what it has to pay - and the amount must be reasonable...the Act that was to settle for the foreseeable future the new tax liability for all present and future mines is so riddled with discretionary powers that no mine can calculate even its first year's tax or royalty without a specific decision from you.<sup>61</sup>

This uncertainty did not stop the Association from stating elsewhere in its brief that a survey of eight actual mines showed that the new royalty would result in a 50 percent tax rate at copper prices of \$ .75 per pound and a 90 percent rate at \$1.00 per pound. The negative effects on the mining industry, it concluded, would be disastrous for the British Columbia economy as a whole.<sup>62</sup>

When the mining delegations and the Minister emerged from their two hour meeting they both pronounced themselves happy with the proceedings. Nimsick said that he was firm on the principle of the royalties, but that he would look at any alternatives presented to him. Since Nimsick was neither the original initiator nor a cabinet backer of the royalty formula that he was defending, this offer was likely quite sincere. J.W. Tough of the Mining Association promised that his delegation would return in a week with more concrete proposals.<sup>63</sup>

The Association was as good as its word. On March 23, J.D. Little of Placer Development and Keith Steeves of

Bethlehem Copper unveiled a detailed royalty plan that would be "less damaging" than the N.D.P.'s. Under its plan there would be a 'basic value' for minerals but it would be the net smelter return over the previous two years rather than the N.D.P.'s five. The royalty rates were as follows:

<u>Price Level as a Percentage of 'Basic Value'</u>	<u>Royalty Rate</u> <sup>64</sup>
0-50	2
50-75	4
75-100	4
100-120	5
120-150	7.5
+150	10

Under the scheme no royalty would be assessed on new mines for two years so that they could repay their capital costs, and domestically processed minerals would be taxed at one-half the proposed rate. The Mining Association made it quite clear that it opposed royalties in principle and was only proposing its system because the government seemed to be adamant.<sup>65</sup> The impact of the mining companies' proposal would have been to virtually eliminate the incremental royalty altogether and produce a royalty of about 4 percent under most circumstances. This level was apparently viewed as too low by the N.D.P. government and it decided to press ahead with its own scheme.

#### IV

Although the mining companies associated with the Mining Association would bear the brunt of the new mineral

royalties, the various prospectors, exploration firms, and small mining companies represented by the British Columbia and Yukon Chamber of Mines felt themselves at least equally threatened. It had been these interests who had felt most of the ill effects of the economic slowdown of 1970-71, and they would be the first to feel any further cutbacks on the activities of the major firms. A great deal of the prospecting and exploration activity of these firms had been generated by the rapid growth in mining during the 1960s and many of them depended upon this growth for their continued existence.<sup>66</sup>

If the large companies were not developing new mines, prospectors could not sell their claims at a good price and would therefore have to cut back their activity. A slowdown in development would also produce an unutilized inventory of mineral deposits, and the demand for further intensive exploration would slow down. The speculative boom accompanying all this activity would also begin to ebb, and the smaller speculative companies dependent upon the Vancouver Stock Exchange would have increasing difficulty in raising money and making speculative profits. Much of the activity of these smaller companies is directed towards acquiring claims in areas where large mineral deposits have been acquired by larger firms, in the hope of making large sums as these claims appreciate.

Table 14 shows the relationship between these variables

in quantitative form. The relationship between the capital expenditures of the major producing companies and employment in exploration and development activities is particularly striking. Activity in this area grew rapidly throughout the 1960s and peaked in 1970, just as construction was getting underway on the province's major new open pit copper mines. The relationship between capital expenditures and share volume is less pronounced but it seems likely that the peak of the trading activity reached in 1969 was associated with the earlier exploration and development activity associated with the large producing mines. As we have seen, the brief flurry of stock exchange activity in 1972 was connected to the discovery of the rich Afton Mines deposit near Kamloops.<sup>67</sup>

Thus the decline in capital spending had a direct effect on the activities of the members of the British Columbia and Yukon Chamber of Mines. They tended to put the entire blame for their situation on the new N.D.P. government and were quite vocal in their opposition to the earlier 1973 mineral legislation. This tendency to put the entire blame on the government was quite understandable. In the first place it was possible to put political pressure on the new government and virtually impossible to do anything about the underlying economic causes of their problems. The N.D.P. victory in British Columbia also coincided quite closely with the decline of the investment boom in the early 1970s and thus it appeared

to many people involved in the mining industry that the former event was the sole cause of their misfortunes.

TABLE 14  
CAPITAL EXPENDITURES, SHARE VOLUME, AND  
EXPLORATION EMPLOYMENT IN BRITISH COLUMBIA

Year	\$Million Capital Expenditures of the Major Mining Companies	\$Million Volume in Mining Shares Traded on Vancouver Stock Exchange	# of Men Employed In Mineral Explor- ation and Development
1962	18.2	53.9	270
1963	18.6	52.9	450
1964	42.4	141.0	772
1965	37.8	228.8	786
1966	60.8	241.9	1894
1967	52.6	236.9	1264
1968	125.6	436.2	3990
1969	129.8	727.0	4270
1970	157.3	261.3	4964
1971	339.8	253.2	4040
1972	112.2	464.6	4201
1973	50.8	232.1	3392
1974	82.5	256.8	2848
1975	82.9	138.9	2931
1976	91.8	170.1	3101

SOURCE: Price Waterhouse and Co., The Growth and Impact of the Mining Industry in B.C., Appendix III-7, table 4, p.15; idem., The B.C. Mining Industry in 1971, tables 11 and 15, p.28 and table 34, p. 47. B.C., Department of Mines and Petroleum Resources, Report 1976, table 3-10, p. A100.

When the N.D.P. finally brought down its mineral royalties legislation in 1974, the Chamber of Mines saw it as the final nail in the coffin of their industry, and was quick to join the Mining Association in its vigorous opposition to the measure.<sup>68</sup> Two days after the government introduced the Mineral Royalties Act, the executive of the British Columbia and Yukon Chamber of Mines held a meeting and issued a statement outlining the ill-effects of the legislation. These effects were largely the same ones outlined earlier by the Mining Association. On February 26, E.A. Scholz, a vice-president of Placer Development and president of the Chamber of Mines, returned to Vancouver after a business trip and immediately issued a statement outlining one of the industry's main criticisms of the new royalties. By adding to the fixed cost involved in mining, the argument went, the government was making the lower grades of ore uneconomic to mine and forcing the companies to leave them in the ground. According to Scholz:

By one legislative stroke the British Columbia government has made a minimum of a billion tons of ore waste... It is understood that ore is material that can be mined at a profit... The end result of this legislation will be tremendous unemployment and a drop in the well-being of the people of B.C.... It will cut down the life of the industry in a startling way.<sup>69</sup>

This theme was re-emphasized two weeks later when the Chamber released its own study purporting to show that Bill 31 would

halve the life of a typical mine in British Columbia.<sup>70</sup> Shortly afterward, it released the results of a survey showing that exploration activity would decline by 50 percent if Bill 31 were to become law.<sup>71</sup>

The British Columbia and Yukon Chamber of Mines also decided to demonstrate its displeasure by calling a mass meeting of its members like that held in 1973 to protest the Mineral Act amendments. The Chamber asked Leo Nimsick to attend, but he declined the invitation.<sup>72</sup> The meeting, held on March 11, 1974, attracted 1,500 people and was every bit as raucous as its predecessor. Although it was billed as a 'non-political' gathering, representatives from all three opposition parties were present, and anti-socialist sentiments were voiced vehemently from the floor. Ed Scholz repeated his criticisms of Bill 31, outlined the 1973 decline in exploration and claim-staking, and darkly predicted that "this legislation, if enacted sounds the death knell for exploration in British Columbia."<sup>73</sup> The resolution passed by the meeting was a lengthy one but dealt largely in generalities. The Chamber called on the government to restore confidence in the mining industry, establish a tax formula "that recognizes the high risk nature of the industry", and reduce the restrictions on staking and holding mineral claims.<sup>74</sup>

The Chamber of Mines continued to keep its protest momentum going and, a few days after the mass meeting, sent a large delegation to Victoria for a day of intensive lobbying.



A delegation consisting of nine executive members including president E.A. Scholz, first vice-president R.F. Sheldon, manager Thomas Elliott and Dr. Harry Warren, met the Cabinet while thirty-five other Chamber members spent their time lobbying the members of the legislative assembly. In order to ensure a common front against the government, the executive delegation was accompanied by J.W. Tough and Keith Steeves of the Mining Association, who had recently presented their own brief. In fact the Chamber of Mines' brief was almost identical in substance to that given by the Mining Association. Some of the major points made were that:

1. Royalties of any type would mean diminishing returns from British Columbia's resources
2. That discretionary powers, excessive taxation, wide policing and punitive powers "appear to indicate an unannounced policy of the government to expropriate by taxation"
3. The low average returns made by the industry averaging only 9.15 percent on equity from 1967 to 1973
4. The industry needed higher rates of return than others because of the risks it faced and the depleting nature of its assets
5. Mining was in an unhealthy state with exploration down and development being postponed<sup>75</sup>

After the meeting Ed Scholz stated that the delegation

had received a good hearing. "The reception was great" he said, "the Premier listened most attentively but it ended there."<sup>76</sup> Leo Nimsick, the only Cabinet member to comment publicly on the talks, said that he had found the Chamber's brief well prepared and promised that "we're going to look at it."<sup>77</sup> This formal lobbying effort, however, was no more successful than the one conducted by the Mining Association and the government continued with its plans to pass Bill 31 in its original form.

V

The efforts of the two formal interest groups representing the mining industry were supplemented by individual companies. Spring is a time when many companies hold shareholders' meetings to present their annual report, and the mining companies took full advantage of these gatherings. No such shareholders' meeting in early 1974 was complete without a lengthy and vehement attack on Bill 31 and its ill effects on the company's future performance. Lornex Mines, with sales of \$96 million and net earnings of almost \$32 million for 1973, announced to its shareholders that the Mineral Royalties Act would "have the direct and immediate effect on Lornex of reducing its earnings substantially and curtailing its rate of debt repayment significantly."<sup>78</sup> President J. Norman Hyland of Granduc Mines told his annual meeting that Bill 31 threatened the company's

future survival.<sup>79</sup> J.D. Little of the Mining Association and Ed Scholz of the Chamber of Mines used their positions as directors of Gibraltar Mines to turn the company's annual meeting into a protest gathering. Gibraltar's brief to the government was circulated and the shareholders were asked to reinforce it with protest letters of their own. One irate shareholder even suggested that the mine close down in protest, but Little, with Gibraltar's unprecedented \$52 million net earnings for 1973 obviously in mind, said that it would continue producing "as long as it can make a profit."<sup>80</sup> Ed Scholz reassured the stockholders that a campaign to inform the public was being organized.

As well as using their annual meetings to organize opposition, many of the province's major mining companies submitted their own written briefs to government, wrote letters to their M.L.A.'s, and tried with varying degrees of success to mobilize their employees. An example of what must have been a large number of protest letters written by mining companies is reproduced in appendix II. It was written by J.W. Jewitt, president of Granisle Copper Ltd., a large open pit producer in North Central B.C., to N.D.P. M.L.A., D.T. Kelly. Copies were also sent to the Premier, the mines minister, the area supervisor of the United Steelworkers of America and various chambers of commerce in the area. Like most of the mining industry's publicity, it emphasized the loss of investment and

and jobs that would occur if Bill 31 became law. "For example," Jewitt wrote, " the Granby Mining Company Ltd. [owner of Granisle] will be forced to abandon any further efforts to bring its Huckleberry property south of Houston into production because Bill 31 would render it uneconomic. This means the loss of \$60 million in capital investment, the loss of tax revenues of \$30 million per annum in sales, and the loss of 250 new jobs in the mining industry and perhaps 500 to 600 jobs in supporting industries." Although Granisle did not threaten to close its existing mine, it did predict that the royalties would make low grades of ore uneconomic and thus shorten the mine's life. "As far as the 310 employees of Granisle are concerned," warned Jewitt, "their long term job prospects and the future and prosperity of the village of Granisle will become much less attractive."<sup>81</sup>

Cominco's president, Gerald Hobbs, gave much the same warning in a letter to all the firm's employees. Although Hobbs reassured his workers that Cominco planned no immediate cutbacks, he predicted that "the Bill would, however, have an impact on everyone employed in our British Columbia operations." "The Royalties," he continued, "are not related to profits as are normal taxes..." and the net result would be to "...reduce the amount of money available to Cominco and other mining companies for wages, salaries, pensions and the creation of new operations." Hobbs concluded by urging

all workers concerned about their future to write to their members of the legislature.<sup>82</sup>

The public statements of the province's mining companies did not, by and large, threaten any immediate cessation of production. Mineral prices had reached their highest levels ever and profits were still high. Rather, the major threat was directed at mineral deposits which had been established by major firms but not yet brought to the production stage. The first major announcement came when a firm called Canadian Longyear Ltd., a diamond drilling contractor, advised the cabinet and the media that its \$900,000 contract on the Stikine Copper property would not go ahead if Bill 31 was passed (diamond drilling is a process by which potential mineral deposits are delineated in detail and hopefully established as viable producing mines). Longyear was acting on the advice of the Hudson's Bay Mining and Smelting Company, a large Canadian mining conglomerate who was exploring the property under an agreement with Cominco and the U.S. giant Kennecott Copper.<sup>83</sup>

Two weeks later, on April 1, Valley Copper, which held very large low grade deposits in the Highland Valley area of B.C. announced in its annual report that no decision had yet been made on whether to bring its property into production. The company, owned jointly by Cominco and Bethlehem Copper, cited uncertainty as to government legislation and new

royalties as important factors in this postponement.<sup>84</sup>  
Bethlehem subsequently announced that Bill 31 could also make the company's new 'J.A.' and 'Maggie' orebodies uneconomic to develop.<sup>85</sup>

One major American owned mining company, Newmont, which operated the Granduc and Similkameen Mines, threatened that, if the Bill went ahead, it would cease all its exploration and development activity in British Columbia. Newmont, along with other major companies, also claimed that their existing mines would never have come into production if royalties had been in effect at the time.<sup>86</sup>

These and many similar announcements were continuously catalogued by the British Columbia and Yukon Chamber of Mines and summarized in the form of dramatic announcements. In April 1974, vice president F.G. Higgs stated that eight major new mines were threatened by Bill 31, and in June, Thomas Elliott claimed that fifteen new deposits could have been brought into production had conditions not "changed dramatically for the worse." Elliott estimated that \$2 billion dollars in new capital investment was now lost to the province.<sup>87</sup>

It should be noted, however, that these numerous announcements did not necessarily add up to a concerted 'Capital Strike'. Bill 31 certainly prompted the public announcements of the postponements, and may indeed have been a factor prompting the decisions themselves, but it is by no

means clear that any of these projects would have gone ahead at that point. The taxation structure was a major factor in a company's decision making, but by no means the only one standing in the way of developing a new mine. Any new mine had to have a prospective market for its product and the necessary transportation facilities and power supply before it could go into production.

Much more important, however, was the question of price and demand. Although prices had skyrocketed during 1973 and early 1974, there was no assurance that these levels would persist and many indications that they would not. High copper prices in particular were the combined result of a sharp upturn in the world economy combined with a shortage of supply caused by political events in producing countries like Chile and Zambia. Given the uncertain state of world markets and the vast expansion of B.C.'s copper producing capacity in the early 1970s, the executives of the major mining companies had every reason to be cautious. The low grades of British Columbia's copper deposits and the escalating capital costs of new mines meant that an increasing world demand for copper as well as consistently high price levels would be necessary for further development to occur. Despite the industry's rhetoric, no executive of a major mining company was willing to risk sums of over \$100 million on new mines if both markets and prices were uncertain. In this instance, as in others that we

have examined, the political aspects of the behaviour of the province's mining companies were at least as important as the economic ones. It involved no sacrifice at all on the part of mining companies to announce the postponement of such 'prospective' projects and lay the blame solely on government actions.

Another aspect of the mining company's campaign against the Mineral Royalties Act was the mobilization of other institutions and groups throughout the province. The impact of mining on a wide variety of other business interests, together with a tendency to perceive the issue of mineral royalties in terms of 'socialism versus free enterprise', made it easy for the mining industry to obtain wide support from the business community very quickly. The Vancouver Board of Trade, representing about 1,800 British Columbia businesses, was one of the first associational interest groups drawn into the fray. On February 26, 1974, H.P. Bell-Irving, the Board's president, wrote a well publicized letter to Premier Barrett requesting "a complete re-examination of Bill 31 and extensive modification if this is to be found in the best interests of the people of British Columbia."<sup>88</sup> This reappraisal was called for, in the opinion of the Board, because the inherent risks of mining required "a fair and friendly legislative climate" and because the government's estimates of revenue from Bill 31 differed so widely from those provided by the industry. "The



mining industry of British Columbia," concluded the letter, "is too important to many thousands of our citizens and to the future of British Columbia to be imperilled by legislation with a potentially negative effect."<sup>89</sup> The Board's demands were echoed about a month later when the British Columbia Employers Council, another major business interest group in the province, called for a legislative committee to rewrite Bill 31 completely.<sup>90</sup>

Another major voice of business opposition was provided by the province's investment community. We have seen that the initially mild reaction from this quarter was quickly corrected, and the growing opposition of the investment dealers culminated in a critical brief to the government presented jointly by the Vancouver Stock Exchange and the Pacific District of the Investment Dealer's Association.

Shortly thereafter, senior executives of the Investment Dealers Association from across the country travelled to Victoria for a personal meeting with Premier Barrett. The executives apparently offered their services in drafting "less punitive" royalties and even suggested that the Association could help the provincial government with its investments on a consultative basis.<sup>91</sup> This meeting was no more successful than any of the others discussed so far in persuading the government to back down from its position.

The growing campaign against the Mineral Royalties Act

received additional credibility from a number of professional groups and individuals. Professionals connected to the mining industry were, as could be expected, particularly active in writing letters to the Premier, the Mines Minister, M.L.A.'s and the editors of the province's newspapers. A great many of these were read during the legislative debate. One individual who commanded more public attention than most mining professionals was Dr. John B. Evans, the chairman of the University of British Columbia's Mineral Engineering Department. Evans, whose department obviously had by its very nature very close ties to the mining industry, loudly proclaimed that, "I have no political axe to grind, I do not care about the profits that mining companies will or will not show." <sup>92</sup> He then produced a study purporting to prove the industry's assertion that Bill 31, by adding to the fixed costs of a mine, would turn a large proportion of the province's ore reserves into worthless rock. This study was given prominence by the Vancouver press under headlines like "HOW BILL 31 TURNS ORE INTO WASTE" and "IN DRAFTING BILL 31 THEY FORGOT THE FUTURE."<sup>93</sup>

In general terms the argument advanced by Evans and the mining industry contended that as the grade of copper in a mineral deposit declined, extraction costs as a percentage of revenue increased until the point is reached where the ore can no longer be mined at a profit. When a fixed percentage of the

mine's production is taken in the form of a royalty, this point will be reached much sooner than it would otherwise because royalties do not take these increased costs into account. Thus Ed Scholz, president of the Chamber of Mines, had claimed that two-thirds of the ore in the province had been wiped out by Bill 31.<sup>94</sup> The widely publicized study by Dr. J.B. Evans purported to document this claim by looking at "the effects of the royalties on an established B.C. copper mine."<sup>95</sup> At copper prices of \$1.20 per pound, Evans claimed, the ore reserves of this mine were 37 million tons containing 168 million pounds of copper and having an operating life of 7.4 years. Under Bill 31 the reserves would shrink to 13 million tons containing 108 million pounds of copper, and the mine's life would be reduced to 2.6 years. Evans estimated the government would gain an extra \$2.9 million in revenue, but that revenues lost by an early curtailment of operations would total \$75.5 million. At a price level of 80 cents per pound the mine would have reserves of 8 million tons but under Bill 31 it would become uneconomic and cease to exist.<sup>96</sup>

Although it is impossible to ascertain the accuracy of Evans' projections without an extensive technical study, several drawbacks are readily apparent. In the first place Evans did not provide any evidence at all concerning the relationship between cut-off grade on the one hand, and royalties, costs, and world prices on the other. The only

assumption that he did spell out was that the 'base price' under the Mineral Royalties Act would be 55 cents. However, this assumption alone would only allow the calculation of royalty levels for one year, 1974, and would certainly give no indication at all of what their impact would be over the entire life of the mine. The 'base price' and the size of the incremental royalty in future years would depend entirely on future price levels and the size of their fluctuations. To predict the future life of a mine at a hypothetical price level of \$1.20 a pound was rather meaningless without some estimation of future price levels. For example, a relatively constant price level of \$1.20 per pound over four years would produce completely different results from an average price level of \$1.20 which fluctuated widely over the same period. While the industry executives were complaining that the tax structure outlined in Bill 31 made it impossible to project the future viability of new mines, Evans was claiming that he had produced a valid study capable of exact predictions.

Evan's typical B.C. mine also looked far from typical if his figures are examined a little more closely. Table 15 summarizes his data and calculates the average grades of the ore deposit considered in his study. The most striking aspect of these figures is that, quite apart from royalties, his 'typical' B.C. mine has substantial ore reserves only at prices of \$1.00 per lb. and up. This price has never actually

been attained by British Columbia's copper producers on a sustained basis. Thus the 37 million ton ore deposit exists only at a totally unheard of level of \$1.20 per pound and its grade is only one-half that of the average actually mined in the province. At 80 cents per pound, which is very close to the peak price realized in 1974, Evan's mine is barely viable even without royalties. The grade of its ore reserves is still substandard and its projected life well under two years. If this mine were typical, then British Columbia's copper industry would simply cease to exist at prices lower than 80 cents per pound. The millions of tons of ore wiped out in this case were purely imaginary.

TABLE 15  
SUMMARY OF J.B.EVANS' ANALYSIS OF BILL 31

Copper Price Level	Before Bill 31		After Bill 31	
	Ore Reserves (millions of tons)	Grade	Ore Reserves (millions of tons)	Grade
.80	8	.30%	0	-
1.00	24	.20%	12	.24%
1.20	37	.22%	13	.41%

SOURCE: Vancouver Sun, March 23, 1974, p.30; and Vancouver Province, April 8, 1974, p.24.

The figures presented by J.B. Evans' also contained two apparent inconsistencies. The whole thrust of his argument depends upon the assertion that, as prices rise or costs fall, the grade of ore that can be mined decreases and thus the mine's economic reserves of ore increase. When prices fall and costs increase the opposite happens and reserves decrease. However, if one actually calculates the grades of ore mined at various prices from Evans' figures, this rule does not hold. A price jump from \$1.00 to \$1.20 per pound does, as would be expected, increase the size of the mine's reserves, but the average grade of these reserves actually increases from .2 per cent to .22 per cent copper. The analyses becomes even more confusing when Evan's claims that "with Bill 31 only mines which can extract 5.5 pounds of copper from each ton of ore would have a chance at showing a profit (this assumes that the basic value of copper will be set at 55 cents per lb.)"<sup>97</sup> However, most actual B.C. copper mines extract substantially more than that amount from their orebodies. Any mine that extracted less would be mining ore with a grade of .27 percent compared to the B.C. average of over .4 per cent copper.<sup>98</sup> Thus Bill 31 might indeed wipe out the unnamed mine considered in Evans' study but it would certainly not affect most actual mines in anything like such a dramatic fashion.

The actual figures for several B.C. operating mines do not really bear out the dramatic predictions made by various

industry spokesmen. The grades of ore mined by three major copper producers before, during and after the Mineral Royalties Act show no major fluctuations. Bethlehem mined an average grade of about .46 percent from 1973 to 1976, Gibraltar, .36 percent between 1972 and 1977, and Granisle, .43 percent between 1973 and 1977.<sup>99</sup> The actual projected size of these companies' ore reserves does show some fluctuation over the same period but here is no clear correlation with mineral royalties. After compensating for depletion, Gibraltar's reserves fell about 1 percent between 1972 and 1973 but actually increased yearly from 1973 to 1976 and fell again by 2 percent in 1977, the year royalties were abolished. The correlation in this case is actually negative. Bethlehem's ore reserve fluctuations seem to correlate with copper price changes. These reserves fell 10 percent between 1970 and 1972, and rose by a dramatic 73 percent in 1973. In 1975 with another decline in the world price of copper they shrank by 2 percent and in 1976 by a further 9 percent. Granisle's reserves also fell in 1975 and 1976 beyond actual depletion by about 3 percent.<sup>100</sup> Thus, although the decline in reserves for Bethlehem and Granisle does correspond with mineral royalties in 1975 and 1976, it also corresponds with substantially lower copper prices. The introduction of royalties in 1974 does not seem to have been accompanied by an immediate downward revision of the ore reserves of these three companies. If Bill 31 had really rendered billions of tons of ore uneco-

conomic to mine, one would have expected to see much larger changes in the reserve projection of the province's major producers. Nevertheless, this contention, with the backing of respected experts like John Evans, was not publicly challenged and became one of the major slogans of the anti-Bill 31 campaign.

Another major professional group to take a stand against the Mineral Royalties Act was the province's legal fraternity. The British Columbia branch of the Canadian Bar Association produced a resolution critical of the legislation and communicated its concern directly to Leo Nimsick. The lawyers' main objection was the degree of discretion given to the Minister by Bill 31. Giving such wide discretionary powers "to a particular minister and even to a civil servant" was viewed as "particularly objectionable in a statute that imposes a tax or royalty."<sup>101</sup> Thus, the Bill represented "an unprecedented abdication of responsibility by the legislature in favour of the administration." The Bar Association also expressed concern over the limited right of appeal to the courts under the new royalties act and took the position that "all questions of fact and law that must be decided in settling the existence and extent of liability be subject to the courts."<sup>102</sup>

The close relationship between the province's mining industry and all three opposition parties had been established



very soon after the N.D.P. brought down its first mining legislation in 1973, and with the introduction of the Mineral Royalties Act in 1974, they were quick to jump to a defence of the industry. As with the case during the 1950s, the Liberal party was one of the most vocal and active sources of industry support. The newly elected member of the Legislative Assembly from North Vancouver, Gordon Gibson, was particularly disturbed by Bill 31 and kept up a steady storm of criticism right from the first day the measure was introduced. Gibson was adamantly opposed to the idea of mineral royalties in principle, and even criticized the Mining Association for presenting its modified royalty proposal to the government in March 1974.<sup>103</sup> The subject of mineral royalties played a prominent role in the activities of the party during the spring of 1974 with members of the British Columbia and Yukon Chamber of Mines and the Liberal M.L.A.'s taking a major role in each others' meetings. Gordon Gibson was prominent among those attending the Chamber's March 11 protest rally while Ed Scholz and Harry Warren were prominent speakers at Liberal rallies.<sup>104</sup>

The Social Credit and Conservative parties, as noted above, had been active in opposing the earlier N.D.P. changes to the Mineral Act, and they also made sure that representatives were in attendance at the Chamber of Mines' March 11 protest meeting. Conservative leader Scott Wallace summed up the common attitude of all three parties rather

well when he told that gathering that "this Bill exemplifies the gulf between our side of the house and the socialist side."<sup>105</sup>

Even before Bill 31 came up for debate in May 1974, the opposition parties lost no opportunity to attack the government for its handling of the mining industry. As in 1973, the legislative debate on the estimates of the Department of Mines and Petroleum Resources provided the forum for a full scale attack upon the government, with opposition members being constantly reminded by the Speaker that they could not discuss the principle of the Mineral Royalties Act until second reading debate on it was called. On May 6, Gordon Gibson and Social Credit M.L.A. Alex Fraser presented petitions in the legislature asking for a reconsideration of Bill 31. Fraser's petition bore 250 signatures from employees of the large Gibraltar Copper Mine, and Gibson's contained 4,500 signatures from mining based towns like Kamloops, Trail and Merritt.<sup>106</sup>

The province's press gave the Mineral Royalties Bill much more extensive coverage than it had the N.D.P.'s previous mining legislation and, like the 1973 controversy, the industry got by far the most favourable treatment. Both of Vancouver's dailies, the Vancouver Sun and the Province, gave the topic of mineral royalties extensive coverage. Of the approximately ninety-five news stories carried by the

Vancouver Province between the introduction and final passage of Bill 31, twelve dealt primarily with government actions or pronouncements, six with various industry-government meetings, nine with legislative debates, and sixty-seven with various forms of critical reactions to the Bill.<sup>107</sup> However, front page coverage was, in purely quantitative terms, more favourable to the government. Out of twelve front page stories on the subject of mineral royalties, eight were concerned with government actions and pronouncements, and four with critical industry reaction. The government advantage in this area was not clear cut, since three of the headlines dealing with government actions were overtly critical. Leo Nimsick's use of the word 'Japs' in the heat of legislative debate generated a small front page headline for two days in a row, and the short front page story on the Premier's legislative speeches was concerned entirely with his undignified behaviour. As was the case with the Mineral Act controversy, the mining companies obtained a large portion of their extensive publicity through the business pages.

All the major analysis presented by both the Vancouver Sun and the Province on both the business and editorial pages were, without exception, critical of the Mineral Royalties Act. The Vancouver Sun gave particular prominence to these analytical pieces. Two full page analyses of Bill 31 were published opposite the editorial page during the spring of 1974, one on

April 27 by reporter Neale Adams under the headline, "A Royalty on Minerals Won't Work" and another by Charlie Campbell, a mining engineer, titled "Kill Bill 31, Keep Miners on the Job." In addition, three major analyses appeared in the business section, one by business editor Terry Hammond titled "Bill 31, Irresponsible-Anachronistic", one summarizing John Evans' study referred to earlier titled "In Drafting Bill 31 They Forgot the Future", and a full page interview with Bethlehem Copper's president, Patrick Reynolds.<sup>108</sup> Needless to say, the editorial positions of both the Vancouver Sun and the Province were as vehemently opposed to Bill 31 as they had been to the N.D.P.'s earlier mining legislation.<sup>109</sup>

## VI

Despite this overwhelming preponderance of favourable coverage, the mining industry was not content to leave the expression of its concern entirely to news reporters and editors. Shortly after the introduction of Bill 31, an extensive industry advertising campaign involving newspapers, radio, and eventually television began to unfold. The initial step was taken by Placer Development, one of the largest mine operators in B.C., who placed a full page advertisement in the Province on March 14 and the Vancouver Sun on March 20th. The ad in the Province featured a very large picture of a miner on one side of the page next to a large headline asking:

"WILL HE BE THE LAST OF A VANISHING BREED?"

The text went on to outline some of the industry's criticisms of the mineral royalties, and warned that "...all jobs connected with mining in British Columbia will be in danger if the provincial government passes its legislation...." The ad closed with a request, in large type, to "Write your M.L.A. today, ASK FOR A 'SECOND LOOK' AT BILL 31."<sup>110</sup> Placer's ad in the Vancouver Sun was very similar with the same endangered miner and the headline:

"TODAY HE HAS A JOB, TOMORROW...?"<sup>111</sup>

At the same time, the Mining Association of British Columbia began placing its own ads. One placed in the Vancouver Sun on March 16, 1974 contained the following headline in bold 3/4 inch type:

BILL 31  
IS SUPPOSED TO GIVE  
BRITISH COLUMBIANS  
A BIGGER SHARE OF  
OUR MINERAL  
RESOURCES

IN FACT  
IT WILL WIPE OUT  
JOBS, PAYROLLS...  
EVEN WHOLE  
COMMUNITIES

The text of this ad warned of the closure of mines "either now or in the not too distant future" and urged the reader to "write your M.L.A. before the mines start closing."<sup>112</sup>

By April 1974, the mining industry had decided to pool its organizational and financial resources in a joint advertising campaign. A mining emergency fund, sponsored jointly by the Mining Association and the British Columbia and Yukon Chamber of Mines was established to finance the effort.<sup>113</sup> Henceforth, ads were placed under the name of "The Mining Industry of British Columbia" but their tone and content were virtually indetical to the earlier ones. One of the first of these joint efforts appeared on April 25 under the large headline:

MINING JOBS  
ARE ALREADY  
DISAPPEARING...  
AND BILL 31  
HASN'T EVEN BEEN  
PASSED YET

Although the ad did not provide any concrete substantiation of this dramatic claim, it concluded that "The plain fact is that the fear of Bill 31 is killing mine exploration and all business that depend on it."<sup>114</sup> This extensive mining industry advertising campaign was to continue well after the defeat of the N.D.P. government in December 1975.

It is evident from the examples dealt with above, that the major message conveyed by the industry's advertising effort was that the passage of Bill 31 would quickly result in the death of mining and significant loss of jobs in the province. While the industries press conferences, public statements and financial analyses dealt with cut-off grades, overall tax rates, ministerial discretion, and reduced profit margins, the ads tried to present the issue directly in terms of lost employment and immediate economic collapse. While the large mining companies, in their public statements, were careful not to threaten an immediate cessation of mining activity in the province, their ads gave the impression that this was a very real and imminent possibility.

## VII

The government's response to this sustained outpouring of opposition to Bill 31 was rather subdued. We noted earlier that Leo Nimsick did respond briefly to the industry's initial projections of the royalty's impact but did not publicly clarify the ambiguities of the Bill. In early March he also released a lengthy reply to the Mining Association's telegram to the Premier, in which he firmly rejected the need for detailed committee hearings on Bill 31.<sup>115</sup> Two days later, executives of the British Columbia and Yukon Chamber of Mines invited the Mines Minister to attend their protest rally, but Nimsick declined the invitation. It would be a breach of the

privileges of the legislature, he claimed, to engage in detailed discussion of Bill 31 before the opening of a second reading debate.<sup>116</sup>

However, as the attacks mounted throughout March and April, 1974, and Bill 31 had still not been called for second reading, Nimsick and the government came under increasing pressure to reply to the critics. Thus, on April 3, he drafted a lengthy letter to the editor which was mailed to B.C.'s major newspapers. In it Nimsick reiterated his position that "in order not to add to confusion and misinterpretation, the proper time to discuss the Bill in detail would be at the time of second reading", but that, "since the mining industry's advertising program had created a climate of biased opinion, I have been asked by a number of people to make a reply."<sup>117</sup> The defence of the Bill contained in the letter was largely one of principle rather than an attempt to answer the critics in detail. Since minerals were an exhaustible resource, Nimsick asserted, the government has a responsibility to ensure that the people of the province obtained the maximum return from their depletion:

Now why all the fuss about the Royalty Act? Is it something new and untried? Royalties are collected on the production of oil and gas, which are also non-replenishable resources. We collect royalty in the form of stumpage on our timber. These industries have not been destroyed. Why should the government be deprived of its legal right to collect royalties on mineral resources?...it must not be forgotten that the minerals are owned by the people, and whoever wishes to



use that resource should be prepared to pay for it in exactly the same way that he must pay for any other ingredient in the process of production.<sup>118</sup>

Nimsick went on to compare the incremental or 'super' royalty to the federal government's export tax on crude oil which allowed Canadians to share "in the good fortune of the oil companies." The mining companies, he concluded "have mentioned everything but their profits." Unfortunately, none of British Columbia's major newspapers saw fit to publish this defence, although the Province did notice its existence in print.<sup>119</sup>

Nimsick did manage to get a wider audience when he appeared on B.C.T.V.'s Capital Comment at the beginning of April. On that occasion, he claimed that, despite Bill 31, the government had been approached by about eight parties to undertake joint ventures in the mining field. All these propositions, he revealed, had been rejected as insubstantial.<sup>120</sup> Any doubts about the future of Bill 31 were apparently laid to rest on April 5, when the Minister told reporters that there would be, at most, minor changes to the legislation.<sup>121</sup>

At the end of March the government had given another indication of its determination to proceed with the Mineral Royalties Act in its original form when it issued Order in Council #1086. This order was issued under the Mineral Land Tax Act, and it contained a complex formula which, in effect, applied the provisions of the Mineral Royalties Act to the production from mines on crown granted lands.<sup>122</sup> Liberal M.L.A. Gordon Gibson then accused the government of imposing Bill 31

on these producers before it had even been formally debated in the legislature.<sup>123</sup> It was not until the end of May that the Mineral Royalties Act finally came up for second reading debate.

Other government ministers and N.D.P. Members of the Legislature were equally subdued in their response to the growing storm over Bill 31. Neither the government as a whole nor the party moved in a concerted fashion to counter the mining industry's intense campaign. A few political speeches were made on the subject by government and party figures but they were isolated affairs and did not add up to a coordinated effort. For example, Robert Williams, the Minister of Lands, Forests and Water Resources, gave a speech in Smithers, B.C. at the end of April in which he condemned the industry's campaign and outlined the 100 to 300 percent profit increases enjoyed by the major mining firms.<sup>124</sup> The N.D.P.'s party newspaper, the Democrat, and its newsletter M.L.A.s at Work also carried the occasional brief article on the subject of mineral royalties with an emphasis on the industry's advertising campaign, the low taxes traditionally enjoyed by the mining industry, and the appropriateness of royalties.<sup>125</sup> The party produced no intensive studies of the Bill's effects to counter those of the industry. By and large, the overall posture of the N.D.P. government was defensive, and the early public debate over mineral royalties, consequently rather one sided.

There were a number of reasons for this low profile. In the first place the Mineral Royalties Act was one of many policy initiatives being pursued by the New Democratic Party. As well as the introduction of the Mineral Royalties Act, the Spring session of 1974 had to deal with a full program of legislation including new timber and oil royalties, rent control, and a provincial budget. As noted above in relation to the Mineral Act amendments, the issues raised by mining legislation were of immediate and vital concern to the industry, but only one of many areas dealt with by the government.<sup>126</sup>

However, these considerations (which obviously affect the cause of any debate in which government confronts a group of private interests) were intensified by significant divisions within the N.D.P. government itself. We have noted that serious differences of opinion within the N.D.P. Cabinet delayed the introduction of mineral royalties for over a year, and that the Minister of Mines was not one of those who supported the royalties in their final form.<sup>127</sup> When faced with an issue capable of generating serious internal conflict, the reflex of the government was to take a low key approach. Any serious attempt to produce a vigorous and co-ordinated defence of the royalty scheme would have required a far greater degree of unanimity on the issue.

The government's defence of its royalty scheme was also hindered by the fact that, unlike the mining companies, its ability to utilize and manipulate information was severely limited. The companies had access to a wide range of information and expertise and could select and utilize it in a variety of ways to achieve a maximum level of impact. The government on the other hand, had access to information through the Department of Mines and Petroleum Resources, but was not nearly as free to utilize it for political purposes. Much of this information was gathered from corporations on a confidential basis, and to have used it in this way would have seriously damaged both the credibility of the Department and its ability to function effectively in the future. Besides, such an attempt would likely have produced great strains within the bureaucracy, if its permanent officials had seen themselves being drawn directly into a political controversy at the expense of their professional ethics.

An example of these factors at work occurred when professor J.B. Evans publicized his study purporting to prove the industry's contention that mineral royalties would turn billions of tons of ore into waste rock. Evans presented these findings to the Department of Mines and offered to discuss them with John McMynn, the Deputy Minister. McMynn, himself an experienced mining engineer, took strong issue with the validity of Evans' study but his position as Deputy Minister

clearly prevented him from even considering producing his own public study using departmental data.<sup>128</sup> Thus Evans' assertions were never publicly debated and went largely unanswered.

Without employing an extensive opinion survey it is impossible to judge the extent to which the various claims of the mining industry were accepted by the general public as fact. It is fairly clear, however, that the picture portrayed by the industry through its pronouncements, studies, and advertising tended to prevail in the absence of any widely presented alternative. The notion that the N.D.P. government, through either ignorance, incompetence or ulterior ideological motives, was out to destroy the second most important segment of the provincial economy seemed almost indisputable. Its public acceptance by a wide segment of the media and the business community gave the idea an added credibility.

The N.D.P. government, however, was able to gain the the active support of one major interest group for its mineral policies. The United Steelworkers of America was by far the largest union representing miners in British Columbia, but its domination of the industry had occurred only in the 1960s following a nationwide organizing drive. In British Columbia, the union made a largely successful effort to organize the workers of the new open-pit mines of the 1960s and, in 1967, the U.S.W.A. was finally able to absorb its chief rival, the

Mine Mill and Smelter Workers Union. The latter union, representing the workers at Cominco's Trail operations had suffered after World War II because of the communist affiliation of its leadership and its isolation from the main stream of the North American labour movement.<sup>129</sup>

When the Mineral Royalties Act was introduced there was a strong effort made to convince mine workers that their self-interest lay in opposing the measure. We have seen that the mining companies had intimated to their employees, both directly and through advertising, that they would be the first to feel the brunt of the new legislation. At the giant Gibraltar open-pit copper mine 250 of the mine's 609 employees actually signed a petition asking for a review of Bill 31, and at the Granduc copper mine in remote Stewart, B.C., John Lundquist of the International Union of Operating Engineers, Local 115, was successful in organizing a 1,000 name petition against the Royalties Bill. Harvey Parliament, vice-president of Granduc, claimed that the petition movement was entirely spontaneous. The company, he said, "had nothing to do with starting it."<sup>130</sup>

There may have been some hope, at least initially, that the United Steelworkers would join the industry in its opposition to Bill 31. The newly chosen leader of the Social Credit Party, Bill Bennett, contacted the union on March 5, 1974, asking for its views on the new legislation and the

Steelworkers were invited to a Vancouver Board of Trade meeting at the beginning of April to discuss the Bill.<sup>131</sup> U.B.C. mining engineer professor J.B.Evans also made an attempt to show the Union where their real interest lay. Evans, in a letter to Monty Alton, the Union's area supervisor for B.C., claimed that: "...I have available to me considerable information relevant to mining in British Columbia, yet I hold no allegiances to mining companies, the mining working force, nor any political affiliation...I believe I have a moral obligation to offer you my assistance in gauging the effects of Bill 31 with respect to the extent of work available to your members."<sup>132</sup>

Quite apart from a natural reluctance to side with the employer, there were a number of reasons which predisposed the United Steelworkers to support the N.D.P. government. For one thing the relationship between the Union and the C.C.F.- N.D.P. had been extremely close since the Second World War. The Steelworkers and the C.C.F. had joined to do battle with the communist dominated Canadian unions during the 1940s and 1950s, and the U.S.W.A. was one of the first unions to affiliate extensively with the C.C.F. In fact it involves little exaggeration to say that the relationship between the two parties was crucial in the formation of the New Democratic Party in 1961.<sup>133</sup>

This longstanding relationship was undoubtedly reinforced in British Columbia by the rather uncertain nature of the

Steelworkers' hegemony during the early 1970s. No sooner has the U.S.W.A. established its position in the province's mining and smelting industries than it was confronted with growing dissatisfaction on the part of many workers. The American control of the Union, its conservative orientation, and a low level of material benefits provided by the Steelworkers were some of the grievances expressed.

In early 1972, the U.S.W.A. was dealt a major blow when Local 5115, representing about 1700 workers at Alcan's Kitimat aluminum smelter broke away to form an all-Canadian union. Later the same year, the crucial union local at Cominco's Trail operation was also threatened by the newly organized Canadian Workers Union. However, the Steelworkers were, on that occasion, successful in having the C.W.U.'s certification drive overturned by the Labour Relations Board, and in early 1973, the Board's decision was upheld by the new N.D.P. Cabinet despite the protests of some Trail workers.<sup>134</sup> Thus, despite some early dissatisfaction with Mines Minister Leo Nimsick over the issue of mine safety, the U.S.W.A.'s support of the government over royalties was never seriously in doubt.

The position of the Union was articulated publicly for the first time when it organized its own meeting in Kamloops, B.C. on March 25 to discuss the Mineral Royalties Act. The gathering, named the First Annual British Columbia Mining Conference, was attended by 60 delegates, and Leo Nimsick



in a direct reversal of his earlier position concerning public debate of Bill 31, attended the meeting to give a major speech. The speech was a forceful one designed to intensify the support of a largely sympathetic audience, and marked the only really spirited defense of Bill 31 given by the Minister during the spring of 1974. The mining kings, said Nimsick, were off the throne in British Columbia after a one-hundred year rule and they had every right to be worried.<sup>135</sup>

The Union's reaction was overwhelmingly positive, and the delegates voted unanimously to support the Bill. Monty Alton and Ken Waldie, a union executive from Toronto, met with Leo Nimsick shortly after the Kamloops gathering and announced that the Steelworkers planned to make an extensive study of the Bill's effects. The U.S.W.A.'s support of the royalties would then be qualified by whatever amendment's might be suggested by this study.<sup>136</sup>

The task of preparing this study was given to the Union's research department, located at the U.S.W.A.'s Canadian headquarters in Toronto. It was completed by the first week of April, and as might be expected, was not particularly extensive or detailed. The first section of this report merely outlined the provisions of Bill 31, while the second contained an analysis similar to that made by the Mining Association when the legislation was first introduced. However, the Union's study disputed the industry's interpretation of

the gross value provisions which had produced estimates of \$150 million in royalties.

...the meaning of 'Gross Value' has been open to various interpretations. Some analysts have taken it to mean the London Metal Exchange price. Our interpretation, however, is that the actual price paid to the producer will be used and it is expected that this interpretation will be confirmed on second reading.<sup>137</sup>

In addition, the Union's study used the hypothetical figure of \$ .80 rather than the \$1.00 per pound for copper used by the Mining Association. This price was much closer to the actual record prices of 1973 and 1974 and the result was a projected total royalty of \$22 million in 1974 and \$33.6 million in 1975.<sup>138</sup> The mining industry's assessment, using the same 'gross value' provisions and a \$1.00 price, produced a 1975 total royalty of about \$85 million for 1975.<sup>139</sup> The whole exercise proved little more than the obvious point that royalties would vary enormously depending upon both metal prices and the actual definitions of terms like 'gross value' and 'basic value'.

The Steelworker's study of Bill 31 did not even begin to attempt an overall assessment of the impact of the mineral royalties on company profits. The Union lacked both comprehensive data and the time to assemble and assess what company data was available. The financial performance of four companies, Gibraltar, Lornex, Brenda, and Craigmont mines was briefly assessed, but the data covered only 1973, a record year for the industry. "The impact that the proposed royalties

would have on these profits," the study concluded, "cannot be estimated...."<sup>140</sup>

Despite the extremely inconclusive nature of the study's analysis, it concluded that the "Mineral Royalties Act and the Mineral Land Tax Act will provide the people of British Columbia with a reasonable share of the value of their mineral resources."<sup>141</sup> Furthermore, the Bill would not have the disastrous impact predicted by the mining companies. The total royalty collected in 1975 would be only \$40 million and because this amount would be deductible from income tax "the actual cost to the industry's shareholders would be little more than half of that."<sup>142</sup> In light of the mining industry's \$300 million 1973 profit, the Steelworkers did not consider that amount an excessive burden.

Nevertheless, the U.S.W.A. study did express some reservations:

In the process of securing debt capital, producers must be able to show that proposed mines are feasible and that debt can be repaid. The discretionary power which the Bill gives to the Mines Minister and the Cabinet leaves some doubt as to what the effective royalties will be in the future.

While it is important that British Columbians get a larger share of their natural resources it is only fair that the amount of their share be announced in advance.<sup>143</sup>

The Union also chided the N.D.P. for providing an inadequate defense of its own measure and observed that "...government estimates of the Bill's consequences in the press have been

unsatisfactory and incomplete."<sup>144</sup>

Despite these reservations, the United Steelworkers of America began a fairly concerted effort to publicize their study and counteract the mining industry's attack on Bill 31 and the N.D.P. government. At the beginning of April 1974, even before the Union's research report was complete, its leaders were planning to launch an advertising campaign to counteract the one initiated by the mining industry. In an April 3 letter to B.C. area supervisor Monty Alton, Marc Zwelling, a Toronto based Steelworkers executive, noted that "It's worth placing good ads if it's worth running ads at all, and that's why I'd like to see you go to an agency for art, layout, type, design ect."<sup>145</sup> A professionally prepared newspaper advertisement was eventually developed and run briefly in Vancouver newspapers. It contained much of the same information as the Union's brief research analysis, its main points being that the industry could afford the royalties and that their threats of economic collapse were simply propaganda:

Over the years miners have been treated as little more than factors of production. Mines have closed on short notice leaving many miners unemployed in isolated communities. The accidental death rate among B.C. miners is the highest in all of Canada.

So it's no wonder the present concern for job security is regarded with more than a little suspicion by the working people of the industry. Prior to the introduction of Bill 31, mining companies were complaining about the shortage of labour.<sup>146</sup>

This particular advertisement, however, was the only one run by the Steelworkers, and compared to the concerted campaign

waged by the industry in newspapers as well as on radio and television, its impact was minimal. The problem was largely one of money, and the Union's leadership was either unwilling or unable to finance a full-scale advertising campaign. After the advertisement was run in Vancouver, copies were forwarded to the province's union locals accompanied by suggestions that it could be run in regional centers. However, continued a letter from union headquarters, the costs of placing the ad would have to be borne the the locals themselves, and if the cost was prohibitive, "placing ads on notice boards or doing a ballot distribution might be better."<sup>147</sup> The union was clearly no match for the mining companies, for whom advertising was a relatively minor tax deductible expense.

The publication of the newspaper advertisement was not the only effort made by the United Steelworkers of America to obtain publicity for their support of Bill 31. They also tried to have their research report widely published in the mass media, both provincially and nationally. During April and May 1974, the report was sent to papers like the Globe and Mail and the Northern Miner as well as to the local press. On April 17, Marc Zwelling of the Union's Toronto office instructed Monty Alton to "try to get on the Webster hot line show" and "if this is impossible complain to the C.R.T.C."<sup>148</sup> (Jack Webster's C.J.O.R. program had provided a major forum for critics of Bill 31). The Union also contacted Marketing magazine of Toronto, an advertising trade periodical which

had carried the story of the mining industry's advertising campaign against the royalties. "This is the first time" wrote Alton, "that the United Steelworkers have used advertising in this way and your readers might be interested in knowing more about the media warfare between the government, the mining industry and the Union."<sup>149</sup>

Like the advertising campaign, the results of this public relations effort were insignificant when contrasted to the mining industry's continuous access to the new pages of the mass media. For example, the Union's study was written up in a fairly minor page 8 story in the Province, whereas the industry's initial royalty estimates had obtained front page treatment for two days in a row.<sup>150</sup> While the Province's April 9 story on the Union study was fairly brief, John Evans' study had been written up in a six-column feature length article in the business section only a day previously.<sup>151</sup> No amount of cajoling, it seemed, could obtain for the Union the media prominence enjoyed by the mining companies.

The Steelworkers' efforts were at least appreciated by the New Democratic Party. When its study was released, the Union had mailed a copy to the N.D.P. members of the legislature along with a pamphlet supporting Bill 31. Despite the rather limited scope of the study, it was especially well received by several of the back-bench M.L.A.s who had previously had very little documentary evidence to fall back on in the face of an overwhelming industry campaign. For example

Chris D'Arcy, the N.D.P. M.L.A. from Rossland-Trail, a mining riding, wrote an enthusiastic letter of thanks to Monty Alton;

Dear Monty,

Great stuff--hard facts and readable...although most people on the street feel they have been ripped off by the mining industry, little thus far has been said to counteract company propaganda. This is partly our fault in Victoria...152

Karen Sanford, a back-bencher from Comox, was also thankful for the Union's documentary support and noted to Alton that "calculations on copper royalties are most revealing, especially in relation to John Evans' analysis for the industry. I also appreciate your ads in the media."<sup>153</sup>

At the beginning of May 1974, over two months after Bill 31 had been introduced in the legislature, it still had not been called for second reading. Given the intense and well organized opposition generated by the Bill, this delay was not surprising. The N.D.P., being an activist government, had during the Spring session of 1974, a full list of bills to pilot through the legislature. It became increasingly clear that, although Bill 31 was not an overriding priority with the government, its defeat or delay was one of the opposition's chief legislative aims. An extensive filibuster of the Mineral Royalties Act was a virtual certainty, and thus the government continually put off debate so as not to jeopardize the rest of its legislative timetable.

#### VIII

Before the Mineral Royalties Act was called for second

reading debate during the closing weeks of the spring 1974 session, it received a drastic blow when the federal government's May 1974 budget disallowed provincial royalties as an income tax deduction. In Chapter 3 we saw how the federal government had dealt with the furor aroused by its own reform of mining taxation by shifting the onus to the provinces. The 1971 federal budget had replaced the deductibility of provincial mining taxes with an income tax abatement to the provinces of 15 percent starting in 1977.<sup>154</sup> Mining royalties were still deductible, presumably because the federal government did not view them as significant enough to warrant specific treatment. The development of the Canadian tax system since World War II had meant that virtually all provincial mining taxes were based on income.

Events in the early 1970s produced a change in federal policy. Undoubtedly, the most important single occurrence was the rapidly escalating petroleum prices and the large amounts of money that the province of Alberta was able to collect in the form of royalties. When oil prices began to sky-rocket, Alberta changed its royalty rate to capture about two-thirds of this increase.<sup>155</sup> The election of the N.D.P. governments in Manitoba, Saskatchewan, and British Columbia also meant that these provinces were unlikely to use the tax room vacated by the federal government to reduce the tax burden on either the mining or petroleum industries. The federal government soon came to recognize that the effect of the 1971 budget was



simply to redistribute a large portion of resource revenues to the provinces. Although oil was certainly uppermost in the minds of federal policy makers, British Columbia's Mineral Royalties Act was disturbing because it extended the royalty principle from oil to minerals. In the words of R.D. Brown, a tax lawyer with Price Waterhouse and Company;

There is little doubt that the B.C. Mining Royalties were designed to extract revenue not only from the industry but also from the federal government; the supposition was that these mining royalties would be deductible in computing taxable income and that therefore part of their cost would be paid by the federal government...156

If other provinces followed British Columbia's lead and imposed royalties on mineral production instead of increasing their mining taxes, then the federal government's tax base would be seriously eroded.

Thus, the major provision of the 1974 federal budget was that provincial royalties on both the petroleum and mineral industries would no longer be deductible for federal income tax purposes. In justifying this measure, Finance Minister John Turner, alluding to the rhetoric of various provinces, stated that it would ensure a "fair share" of resource revenues for all Canadians, not only those who happened to be fortunate enough to reside in resource-rich provinces.<sup>157</sup> The budget also made several further significant changes to Ottawa's resource taxation policy:

1. The 'earned depletion' system was to be implemented immediately rather than in 1977 and the maximum deduction

allowed under this arrangement was reduced from 33.3 to 25 percent

2. The basic federal rate of tax on resource profits was fixed at 50 percent instead of being allowed to decline to 46 percent in 1976
3. The disallowance of provincial mining taxes and the corresponding abatement to the provinces on mining income taxes was implemented effective immediately
4. Canadian exploration and development expenses would henceforth be deductible only at a maximum rate of 30 percent per annum instead of in full.<sup>158</sup>

The combined result of all these measures was to increase substantially the tax burden on the mining industry.

The provision which had the greatest impact in British Columbia was the lack of deductibility of the royalties, and the federal move seems to have caught the N.D.P. government completely off guard. It involves very little exaggeration to state that the cost of the N.D.P.'s royalty scheme to the provinces mining companies was doubled overnight. The N.D.P. government, however, decided to press ahead with its royalty legislation. Indeed, there was little else it could do without appearing to cave in to pressure from Ottawa, and in any case, it was by no means certain that the Trudeau minority government would last long enough to implement its proposals. The federal budget was defeated in parliament

shortly after its introduction, and a Liberal victory at the polls was by no means a foregone conclusion.

For the mining companies, the federal budget was unwelcome news indeed, and they reacted to it by pressing their attack on the provincial government. In the eyes of the companies this latest blow was entirely the result of the N.D.P.'s royalty legislation. According to Patrick Reynolds, president of Bethlehem Copper, "It wasn't unexpected that Ottawa would move to stop our provincial government from reaching into the federal pocket but we the mining companies are caught in the middle. I wouldn't be surprised if some mines had to close down."<sup>159</sup>

On May 23, 1974, only a few days before second reading of Bill 31 was due to begin, the Mining Association released another study on the effects of the royalties. This study basically repeated the projections released when the Bill was first introduced and added the effects of the May 1974 budget. Like the earlier projections, it also exploited the ambiguity over 'gross value' and assumed that it was equivalent to the quoted price rather than that actually received. The 'basic value' for the study, derived by averaging the London Metal Exchange price for the previous five years, was set at \$ .62 per pound rather than the \$ .55 mentioned by Nimsick. Thus, quite apart from the changes brought about by the federal budget this Mining Association study employed widely different

assumptions from those used by the Steelworkers Union. The result of the study was to arrive at the set of overall tax rates for the industry outlined in table 16.

TABLE 16  
SUMMARY OF MINING TAX RATES  
PRESENTED BY THE MINING ASSOCIATION OF B.C.

Copper Price	Total Taxes and Royalties as a Percentage of income	
	No Federal 'Earned Depletion' Available	Maximum 'Earned Depletion' Available
.75	76.00	66.75
1.00	99.00	89.76
1.25	103.09	93.84
1.50	105.44	96.19

SOURCE: Price Waterhouse and Co., B.C. Mining Industry Effective Royalty and Tax Rate, May 22, 1974.

This new study was immediately circulated to the press and distributed by hand to every member of the legislature. An accompanying letter from the Mining Association sought to put into dramatic terms the figures it contained:

Between the two governments, the mining industry of British Columbia will be squeezed to death because taxes will exceed income....

We wish to point out that Bill 31 has already resulted in the curtailment of exploration in the province and many people are out of work because of it. Should the federal budget come into effect it will mean a complete collapse of the mining industry in B.C. with thousands of people out of work.... We urge you to vote against Bill 31 and ask that the two governments sort out this

problem.<sup>160</sup>

## IX

With this latest warning fresh in their minds British Columbia's legislators finally began second reading debate on Bill 31. The debate, according to parliamentary custom, was opened by the Mines Minister Leo Nimsick. The Minister, in a lengthy speech that was continually interrupted by heckling from the opposition, attempted to defend the principle of the Bill, clarify its ambiguities and discount the mining industry's opposition campaign. The mineral resources of British Columbia, said Nimsick, were a rapidly depleting asset from which the province had always received a very poor return. Indeed, in the year 1967-68 and 1972-73 the government spent more servicing the industry than it received in direct revenue. The Minister, using the industry's imagery to make his own point referred to the numerous ghost towns created throughout the years by mining. "If those people who lived in those ghost towns could talk today they would be in full support of Bill 31, because Bill 31 is one of the bills that is going to help plan and bring back to the people of British Columbia a proper return on behalf of these limited resources."<sup>161</sup> By obtaining a direct return from the depletion of its mineral deposits the province was simply applying sound business practices to the management of its resources. Besides, Nimsick continued, mining companies like Cominco receive production royalties if

another company mines their deposits and "...if it is good enough for these companies to collect a royalty, which is a payment for the product that comes out of the ground, then it should be good enough for the government. ...don't forget that a royalty is a payment for the product. It is not a tax." Royalties were accepted practice in all the other resource sectors like oil, gas and timber so "why shouldn't we be paid for the ore that comes out of the ground?"<sup>162</sup>

Nimsick, in his speech, took direct issue with the various interpretations of the Bill's impact which had been circulated by the industry and estimated that the government's total revenue from all minerals under the Act would be \$23 million in 1974 and \$30 million in 1975. He also made it clear that the term 'gross value' would be interpreted to mean the amount actually received by the mines from a smelter:

The net smelter returns are usually the equivalent of the gross value under the bill, being the money paid to producers after deducting the cost of smelting... There will be an amendment to clarify that so some of you people can get it through your head what it means....Net value under the Bill equals net smelter returns less the cost of transporting the concentrate.<sup>163</sup>

Nimsick closed his speech by asserting that the only factor which would really threaten to close mines would be abnormally low world metal prices. In that case the government could buy the ore from the mining companies at a break-even price, stockpile it, and re-sell it when the price improved. "We're not going into the mining business," the minister claimed, "but this is a possibility sometime in the

future; this could happen. In order to keep a community alive and going...."164

Interestingly enough, it was this aspect of Nimsick's speech which got the most attention, since it seemed to both the opposition and Vancouver's newspapers to raise once more the government's ulterior motives. "There it is, right down the line, the Waffle Manifesto, you've spelt it out," interjected Liberal M.L.A. Garde Gardom after Nimsick's first mention of the stockpiling possibility.<sup>165</sup> The next day the Vancouver Province editorialized that Nimsick's approach to mining was simply "nationalization by the back door."<sup>166</sup>

The Mine's Ministers speech was followed by a sustained opposition attack as fourteen of the seventeen opposition members made speeches attacking the Bill. The newly appointed leader of the opposition, Bill Bennett, opened the onslaught and left no doubt about the current position of the Social Credit party towards the mineral industry. Right from the outset, he explicitly repudiated the activist reputation that the party had gained in the 1950s from its confrontations with the industry:

I would say that our party has a history of ....  
 [pause in the original] In 1956 we tried to  
 get more money from the resource in bringing in a  
 tax on minerals, on 50% of minerals in the ground.  
 I would like to say that it was unworkable. We lost  
 the development and that economic base for almost 10  
 years. It wasn't a matter of backing out; it was a  
 matter of government recognizing its responsibilities

in its attempt to get revenue--in recognizing that they also have a responsibility for continuing the healthy economic development of that resource base for the benefit of the people. 167

Although Bennett's comments seemed to illustrate a complete ignorance of the substance of his father's earlier policies, the reasons for them, and their effects, he was quite certain at least that he disapproved of them. For the younger Bennett the issue was clear cut:

What truly are the motives of this minister and his government? They're highly suspect.... Now I know we're in favour of resources, you're in favour of resources, we believe in a commitment to the public to develop them, but you're a socialist and I believe in private enterprise. And if you're a socialist and you want to take over the mines, stand up and say so. Be proud of it! 168

The mining industry, continued Bennett, was struggling against great odds to discover mines and bring them into production, and their rate of return for this activity had not been excessive in the past. The mining companies might enjoy free access to mineral deposits but it was the activities of these companies that actually produced their value. All that the state provided was "...the opportunity to spend money--to go out and look for a situation in which this economic value can be created." 169 The government and the people according to Bennett already enjoy:

"The best possible position under private enterprise... as long as they encourage the development of an industry, they participate, only in the profits and never in losses. In normal business that's good but it is even better in the high-risk business of mining. The public, through their general taxation, do not face periods of debts when they



have to absorb huge losses which the mining industry does every day.<sup>170</sup>

A moderate tax rate for mining, he concluded, would actually increase government revenues by encouraging new production. This moderate level should produce a combined federal and provincial rate of 33 to 50 percent of pre-tax income. Bennett ended his speech by moving that Bill 31 be 'hoisted' for six months.<sup>171</sup>

The motion for a hoist was an obvious delaying tactic, and member after member rose to make lengthy speeches attacking Bill 31 and endorsing the motion for a delay. It is not possible to reproduce even a small portion of the rhetoric expended in this debate without a great deal of repetition. The general thrust of the opposition's argument was that a six month delay would enable the government to recognize the enormity of its blunder and pull back before it was too late. In the words of Social Credit member Don Phillips, "when the money stops rolling in, when the unemployment increases, when the true facts of the results of this legislation are brought down on this government, then they'll take a second look."<sup>172</sup>

Although the defence of the large mining companies was a prominent aspect of their opposition's anti-Bill 31 effort, it was by no means the only one. On the contrary, much of this attack concentrated on the damage done to the small company dependent on the mining industry, the small investor with his life savings tied up in mining stocks, the mine worker, and

proverbial independent prospector. While the N.D.P. justified its royalty scheme in populist terms as returning to the people a proper share of the provinces mineral wealth, the opposition concentrated on the suffering that this ill-conceived effort was creating for many of these same 'people'. Social Credit member Bob McClelland listed a long series of complaints from companies like Canadian Industries Limited, Finning Tractor and Equipment, Crown Fire Service, and Jones Tent and Awing, all of whom claimed that a decline in their business was a direct result of Bill 31. "I am amazed," exclaimed McClelland, "and concerned about their future, not just the people in the mining industry, but people in all walks of life in British Columbia."<sup>173</sup>

Pat McGeer, the Liberal member from Point Grey, outlined the problems of one of his constituents who had invested his life savings of \$180,000 in some mining properties only to find that they had been rendered worthless by Bill 31. The real victims of the royalties, McGeer concluded, were the "little people who go out and do the dirty work of hunting for mines in B.C..... All their work and all their efforts has been undone by the thoughtless and vicious legislation of that minister and his government."<sup>174</sup>

As was the case during the debate over the Mineral Act amendments, the various analyses produced by the mining industry were accepted without question by the opposition and

provided much of the background for their legislative speeches. This was especially true for the Liberals, whose speeches tended to be more detailed and analytical than the largely rhetorical efforts of the Social Credit members. David Anderson, for example, refuted the N.D.P.'s claim that the slowdown in mining was not entirely due to its legislation by pointing to "...the information from the industry which is being put forward in a well-meaning fashion by people who obviously have their own private concerns but many of whom are more dispassionate in that they work for the university or they work outside of the direct industry and their income is not dependent upon the operations of any particular company." Anderson seemed particularly anxious to establish the credibility of John B. Evans' study, and stressed the professor's own claim that he held "...no allegiances to mining companies nor to the mine work force."<sup>175</sup>

Undoubtedly, the most lengthy opposition performance was given by Liberal Gordon Gibson, for whom opposition to Bill 31 had taken the character of a personal crusade. In the legislative debate on the Mineral Royalties Act, Gibson was the star performer and played the same central role that Social Credit member Don Phillips had played in the earlier debates over the Land Commission and Mineral Act amendments. Gibson delivered two speeches during the second reading of Bill 31, one on the amendment to delay the Bill, and, when that had finally been

disposed of, a lengthy filibuster on the Bill itself which continued over three days. At the beginning of this speech he made his purpose quite clear. Since the government had refused to hold committee hearings on Bill 31, he would act as a one-man representative of the views that would have been expressed during those hearings. "On a bill of this complexity, that should have gone to committee," said Gibson, "we're going to have to introduce in the House a lot of evidence that should have been handled in other ways..."<sup>176</sup> He then proceeded to summarize and read into the legislative record a good part of the material that had been generated during the three month opposition to Bill 31.

The sustained opposition attack on Bill 31 during second reading debate at least had the effect of stirring the N.D.P. from its rather low-key approach, and when opposition leader Bill Bennett moved that the legislation be hoisted for six months, four members of the party rose to defend the government's decision to proceed with it immediately. The most prominent of these speakers was the Premier, Dave Barrett, who proceeded to give one of the most controversial speeches of the entire debate. His address began by dismissing both the plea that the Bill should be held up until Ottawa and the provinces could work out a new tax formula, and the opposition's assertion that the Mineral Royalties Act was so disastrous to the industry that it had already cut back their

activity in British Columbia. The former, according to Barrett, would weaken the province and strengthen the position of the multinational resource corporations, while the latter was simply untrue. He pointed to the 1971 projections of future mining investment in the province and exclaimed that, "we weren't even the government in 1971... [and] Price Waterhouse report the mining industry said; 'we're easing up, boys'."<sup>177</sup> The mining industry, in Barrett's opinion, had never been in a more profitable position:

Kaiser Resources in their annual report, 1972, shows a profit of \$3.4 million. In 1973, the profit went from \$3.4 million to \$13 million--an increase in only one year. Get that all you trade unionists out there, all you civil servants, all you working people, all you pensioners. Don't ask for more money from your employer, just do like Kaiser did; one year they had an increase of 282 percent... One could even weep across the nation for poor mining companies. One gets the impression from the Liberals that the only reason the mining companies are in business is for the opportunity to continue losing money... Bralorne Resources: in 1972 a skimpy \$648,000 in profit. In 1973 they went up \$2.3 million, an increase of only 254 percent in one year. Placer Development's profit went up under the socialists in one year by 332 percent. I can see them in the board room rubbing their hands and saying: "Bring on more socialism, we never had it so good."<sup>178</sup>

For Barrett, the opposition campaign against the Mineral Royalties Act was simply a combination of the economic self-interest of the mining companies and the political opportunism of the opposition parties. He was particularly critical of the industry's advertising campaign, and punctuated his address by crumpling one of its newspaper ads and throwing it over his shoulder. The mining companies, Barrett continued,

were simply perpetrating a cynical scare campaign. "The same day the ads are running that the mining industry is going to close down, they are running ad after ad advertising to hire people to come and work in the mines. All they are hoping is that the business community in downtown Vancouver can hold hands with the opposition and read the big ads, but that the workers will still read the small ones and still come to work."<sup>179</sup>

A delay in bringing in mineral royalties, in Barrett's view, would simply allow the large companies to continue to make exorbitant profits without compensating the public. The demands of the mines minister, Barrett concluded, were actually extremely modest:

We are asking just what the ordinary people have with the sales tax—5 percent. The Minister should be mildly chastized for not asking for enough, but I'll take his word for it. I still don't think you're asking for enough—25 years ago when you were more radical, you would have asked for more. But I'm taking his advice Mr. Speaker... We want a return for the people of this province.<sup>180</sup>

Barrett's rather flamboyant defence of his government's mining taxation policies was, as might be expected, not well received by either the mining companies, the opposition or the press. The latter was particularly critical, as a columnist for the Vancouver Sun, Marjorie Nichols took exception to both the tone and content of the speech, while the Province ran an editorial under the headline, "Mr. Barrett's Pointless Performance." The editorial charged that the

Premier's profit figures applied only to the very large companies, and that Bill 31 would cause the smaller, more marginal operations to close down.<sup>181</sup>

A few days later it was revealed that one of the profit figures that Barrett did quote was incorrect. Kaiser Resources, it turned out, had actually sustained a \$13 million loss during 1972 and a \$3.4 million profit in 1973. Furthermore, Bralorne Resources, whose profit figures were also quoted by Barrett, had earned none of its 1973 revenue in British Columbia. The incident provided the opposition and the press with a good opportunity to reemphasize their contention that the government simply did not know the facts and that the high profits made by mining companies were a myth.<sup>182</sup>

When the debate on second reading finally ended and the committee study began, Leo Nimsick suddenly introduced a series of amendments to Bill 31. One set of changes simply altered the Bill's wording in order to ensure against future legal challenges, and the royalties were stated in terms of quantity rather than value. By far the most significant amendment, however, was a clarification of the extremely confusing wording of the term 'gross value'. In the new version of the Bill this term was defined to mean:

...the international price, or a combination of international prices, paid or credited to a producer on the sale, disposition or use by him of a unit of a designated mineral produced by him less such reasonable costs of and incidental to smelting or otherwise refining ...the unit of the designated mineral as are paid

or payable by the producer and are approved by the administrator in accordance with the regulations. 183

The net price was also amended to the 'gross value' minus approved transportation costs. This interpretation was the same one used by the United Steelworkers in their analysis of the Bill, and as we have seen, had been hinted at by the government some time ago. Then, four days later, Nimsick announced that four minerals would be designated immediately under the Mineral Royalties Act, copper, gold, silver and molybdenum. The 'basic values' for these minerals were also announced, with that for copper being set at \$.58 per lb. 184 This figure was arrived at by averaging the net smelter returns of the preceding five years and then adding a 10 percent adjustment to compensate for inflation. The effect of these announcements was to end at least some of the uncertainty concerning the impact of the royalties and render the industry's earlier predictions of \$150 million in total royalties virtually impossible.

The mining industry, needless to say, was unimpressed by the changes. J.W. Tough, president of the Mining Association saw "no change other than some clarification of the confusion over net and gross values," and P.R. Mathews, the Association's managing director said the burden imposed by Bill 31 was still excessive after the government's designation of the basic values for four minerals. Despite the fact that the basic value for



copper was three cents higher than that originally indicated Mathews said it was actually lower than he had expected.

"Taking the provincial royalties and the federal budget into consideration" he concluded "if the copper price is 75 cents we lose one cent a pound...our position is unchanged."<sup>185</sup>

The opposition was equally unimpressed with the governments announcements and continued to press their attack during the committee stage of the Bill. Gordon Gibson was especially persistent and he focussed the attack on Bill 31's wide-ranging powers and proposed numerous detailed amendments.<sup>186</sup>

During the three week debate on the Mineral Royalties Act, the province's major mining companies and their associations kept up their own campaign against Bill 31 through a series of news conferences, annual meetings and public speeches. The British Columbia and Yukon Chamber of Mines in particular kept up a steady flow of announcements concerning the impending demise of mining in the province. Two billion dollars in new investment, 5,900 direct jobs, and 15,000 more jobs in supporting industries were, in the Chamber's opinion, directly threatened by the imposition of mineral royalties.<sup>187</sup> On June 7, the Chamber's manager Thomas Elliott, sent a memo to all members of the legislature outlining a further drop in the number of mining claims staked in the first six months of 1974.<sup>188</sup> A week later, Elliott alleged that the government's ambitious program for railway expansion in north-western British Columbia was also being seriously undermined

by Bill 31. The law, he charged, had frozen all new large scale mining ventures and thus destroyed much of the new railway's potential traffic.<sup>189</sup>

The mining industry's advertising campaign also continued at a brisk pace, and its format changed somewhat to take into account the legislative debate. The industry was not content to leave the coverage and interpretation of these debates solely in the hands of the province's journalists, and thus developed a new series of advertisements titled "Bill 31 ...Report from the Legislature." These ads, as could be expected, repeated the various arguments against the legislation outlined by the opposition, and sought to refute the points made by government spokesmen. The Premier's flamboyant speech defending the royalties received a particularly harsh and detailed response from the industry's advertising men.<sup>190</sup> The Province's decision to run these ads on the legislative page of the newspaper, where they dwarfed the actual journalistic accounts of the debates, represented an interesting blurring of the line between news and advertising.

The mining royalties even intruded briefly into the federal election which was being waged during June 1974, as Prime Minister Trudeau gave a hard-hitting speech in the mining based town of Kamloops criticizing the policy of the provincial government. The N.D.P.'s mining policies, Trudeau charged, were selfishly motivated and undermined Canada as a whole.<sup>191</sup>

X

The culmination of the intense anti-Bill 31 crusade occurred when a political protest group and a small number of mine workers and prospectors attempted to stage a mass protest rally in Victoria during the closing days of debate. The incident is revealing because it underlined, in a rather striking fashion, the relationship between the mining industry's campaign and the coalition of the three provincial opposition parties into one anti-socialist force. This relationship was one from which the mining companies would soon reap considerable benefit.

The majority movement was a small political group formed after the N.D.P.'s electoral victory by Jarl Whist, a Kamloops millionaire and Arnold Hean, a Burnaby lawyer. As its name would imply, the group's principle aim was to weld the province's three opposition parties into a single force potent enough to gain a significant proportion of the 60 percent non-socialist vote and drive the N.D.P. from power. Although Vancouver Sun columnist, Allan Fotheringham, described the Majority Movement and its leaders as "...dabblers and diletantes, short cut artists who won't take the time or trouble to get into a legitimate political party...", the unity idea soon gained the support of a wide range of groups in British Columbia.<sup>192</sup> It became a popular discussion topic on Vancouver's 'hot-line' radio shows, and was openly endorsed by members of the province's economic establishment like

MacMillan Bloedel's J.V. Clyne and John Ellis of the Bank of Montreal. By the Spring of 1974, Liberal M.L.A.s Allan Williams and Pat McGeer, and Conservatives Scott Wallace and Hugh Curtis strongly favoured a new provincial 'free-enterprise party'.<sup>193</sup>

For the Majority Movement, the mining issue seemed to provide an ideal focus for its attempts to mobilize both the businessmen and the politicians of the province into a solid anti-N.D.P. alliance with significant working class support. For these two groups, the Mineral Royalties Act was socialism at its worst, and it emphasized the absolute necessity of defeating the government. The Majority Movement thus devoted a good deal of its energy and substantial financial resources to organizing a march on the legislature to oppose Bill 31.

The effort was coordinated by the movement's executive director, Brian Tracy, who told the press that his function was simply to provide the organization for another group called the "Save Our Jobs Committee". In direct contrast to the Majority Movement, this committee had a distinctly working class appearance. Its membership included Dick Furby, a Prince George prospector, John Lundquist, a shop steward from Stewart, and Bill Sewidge, a union organizer from Matsqui, as well as several miners. Furby had been active in leading the prospectors of Prince George in a protest against the earlier N.D.P. changes to the Mineral Act, while Lundquist had been instru-

mental in organizing an anti-Bill 31 petition from the residents of Stewart, B.C. In a June 10 press conference, Brian Tracey announced the existence of this "Save Our Jobs Committee" and said that its protest march would take place on June 21.<sup>194</sup>

During the middle of June, the Majority Movement took out large full-page ads in the province's major newspapers inviting the public to:

JOIN US IN OUR  
MARCH TO VICTORIA

On Thursday and Friday--June 20th 2P.M.& 21st 11A.M.

The ad continued, in a distinctly populist vein, to emphasize the need for the fullest possible participation:

We are men who work in the mines of British Columbia. We are tunnelworkers, carpenters, painters, machinists, drivers and prospectors. All of us depend on MINING for our livelihoods....Now many of our jobs are being eliminated because of the policies of this government. We are some of the 'little people' they talk about so much and WE NEED HELP.<sup>195</sup>

The ad also contained the ferry schedules to Victoria as well as an appeal for funds for the "Save Our Jobs Committee". At the bottom of the page a bold headline proclaimed that "This march has been organized by the Miners of B.C." and the name of the Majority Movement was nowhere to be seen.<sup>196</sup>

The Majority Movement was not content to rely solely on advertising to produce a good turnout for its cause. Miners willing to make the trip to Victoria were provided funds to pay for their transportation, hotel and food bills. The movement later admitted that between 300 and 400 individuals

had been the recipients of its largesse and that the entire demonstration had cost about \$44,000.<sup>197</sup> The United Steelworkers of America charged that the province's major mining companies were also using their influence to encourage participation. In the words of Union leader Jack Diamond:

We told Gibraltar Mines if they shut down the mine for the day and pay us, we'd gladly take the trip to Victoria. But we'd carry our own signs supporting the Bill. They backed off after that. The whole demonstration is a farce.<sup>198</sup>

The mining companies, unlike the Majority Movement, denied any involvement in the affair.

The organizers of the 'March to Victoria' were also faced with the very real possibility that legislative debate on the Mineral Royalties Act would be all over before the demonstrators arrived. The opposition parties thus made every effort to postpone the inevitable passage of the legislation. On June 18, a prorogation pact between the government and the opposition collapsed after the committee stage had finally ended, and the third reading approval of Bill 31 was delayed by an unprecedented twenty minute debate.<sup>199</sup> These delays were unable to prevent third reading approval only hours before the demonstration was due to begin.

The demonstration itself can only be termed a failure. For one thing, the actual turnout was abysmal with only 150 people present on the first day and around 300 to 350, the second.<sup>200</sup> This number was well short of the 2,000 to 7,000

miners predicted by the demonstration's organizers and, in the words of one reporter, the actual miners and prospectors present were "equalled in number by other persons there to challenge socialism in its B.C. form."<sup>201</sup> Businessmen clearly outnumbered miners among those present, but the demonstration's organizer Brian Tracey, tried to look unobtrusive in dark glasses and blue-jeans. The demonstrators, nevertheless, made up in spirit for their lack of numbers by loudly cheering the numerous opposition speakers and booing the Mines Minister, Leo Nimsick. The Minister, according to news accounts, narrowly missed receiving a soft drink can in the head when he braved the hostile crowd to defend his newly enacted measure.<sup>202</sup>

Although the demonstration was originally planned in the hope of announcing the formation of a new British Columbia unity party, it failed to produce anything more than a re-affirmation of the unity idea by the four M.L.A.s already committed to it. The main stumbling block was the Social Credit members who were unwilling to take a step that would have almost certainly resulted in their permanent self-destruction as a party.<sup>203</sup> Nevertheless, the Majority Movement, in a full-page follow-up advertisement titled "Thank You For Your Support in Victoria..." was determined to put a brave face on the affair. The demonstration, it claimed:

showed that all kinds of people in B.C. who went to Victoria together to support a common belief in favour of a new unity party in our province. They proved this

with their cheers and applause for the courageous men who stood up on the steps of the legislature and declared themselves in favour of unity and willing to put their province ahead of party. 204

The movements organizers, more for the sake of consistency than in a serious effort to convince anyone, also credited this ad to the "Save Our Jobs Committee."

The 'March to Victoria' was instructive in that it illustrated, in a rather extreme form, the organized effort by special interests masquerading as a popular mass movement. In this case, however, the attempt was so obviously blatant that it seriously backfired. The leadership of the Majority Movement overreached itself when it attempted to put to the test the proposition that opposition to the Mineral Royalties Act was broadly based enough to provide a vehicle for its own political ambitions. The rather inept attempts by the movement to hide its rather obvious involvement behind a hastily contrived 'front' organization simply served to give the whole affair an exotic cloak and dagger flavour. One cannot help but conclude that the Majority Movement itself fell victim to the skillful three-month publicity campaign waged by the province's mining companies. It was one thing to generate the appearance of a popularly based protest movement through skillful manipulation of the mass media, and quite another to attempt to actually mobilize such support in practice.

However, the mining controversy undoubtedly aided the movement toward coalition by emphasizing to the members of all



three parties that their common beliefs and aspirations clearly outweighed older party differences. While the Majority Movement itself was unsuccessful in creating a completely new party, the same result was eventually accomplished under the banner of a revived Social Credit Party. The campaign waged by the mining industry and the attempts by this nascent coalition to polarize the electorate along socialist versus non-socialist lines mutually reinforced one another until they became virtually inseparable.

## NOTES: CHAPTER 5

1. Vancouver Province, November 2, 1973, p.1.
2. Ibid., November 3, 1973, p.6.
3. The delay as well as the supposed leak of a cabinet document containing plans for a flat-rate 5 percent royalty led Vancouver Sun columnist Allan Fotheringham, to speculate that cabinet moderates, including Attorney General, Alex Macdonald had won the day on the mining issue. Vancouver Sun, January 25, 1974, p.27.
4. Vancouver Province, April 18, 1973, p.26.
5. Ibid.
6. Ibid., April 21, 1973, p.31.
7. Ibid., May 9, 1973, p.14.
8. Thomas Elliott, Mining Exploration and Development Review: British Columbia and Yukon Territory, 1973-74 (Vancouver; British Columbia and Yukon Chamber of Mines, 1974) p.3.
9. Ibid. The Chamber's report was summarized in the Vancouver Province, December 12, 1973, p.17.
10. See above, p.142.
11. Price Waterhouse and Co., The British Columbia Mining Industry in 1975, table 12, p.87.
12. Ibid., table 37, p.112.
13. B.C., Legislative Assembly, Debates 30:2, April 10, 1973, p.2455.
14. Vancouver Province, December 12, 1973, p.17.
15. Financial Post, March 23, 1968, p.M22.
16. Ibid., April 15, 1972, pp.1-2.
17. Price Waterhouse and Co., The British Columbia Mining Industry in 1975, Chart 7, p.18.
18. Ibid., table 8, p.83.

19. Calculated from Ibid., table 6, p.80, and table 3, p.75. The percentages were arrived at by dividing "Earnings before taxes and royalties" by "Net mining revenues."
20. Canada, Statistics Canada, Corporation Financial Statistics, 1972-73, pp. 50-51.
21. Financial Post Corporation Service, Coporation Service Report, "Gibralter Mines."
22. See above, p.147-48.
23. Price Waterhouse and Company, The B.C. Mining Industry in 1975, table 3, p.75 and table 29, p.104.
24. Ibid., table 3, p. 75. Calculated by dividing "Mining taxes" by "Gross mining revenue."
25. B.C., Legislative Assembly, Bills, First Reading 30:4 1974 (Victoria: Queen's Printer, 1974), Bill 31, "Mineral Royalties Act," section 3.
26. See above p.182.
27. B.C., Legislative Assembly, Bills, First Reading 30:4 1974, Bill 31, section 1.
28. Ibid., Sections 1 and 3.
29. Ibid., section 1.
30. Ibid., section 2.
31. Ibid., section 3(2).
32. Ibid., section 3(3).
33. Ibid., sections 5-7.
34. Ibid., section 11(1a)
35. Ibid., section 14.
36. Ibid., section 23.
37. Ibid., sections 18 and 20.
38. Ibid., section 27.

39. Leo Nimsick, Minister of Mines and Petroleum Resources, "A Press Reslease," Victoria, Februrary 19, 1974.
40. Vancouver Province, February 20, 1974, pp.1 and 18.
41. Ibid., pp.19 and 20.
42. Ibid. For a discussion of returns to equity see pp.49-56
43. Ibid.
44. Ibid.
45. Ibid., February 21, 1974, p.1.
46. Ibid., p.27.

Despite the implications of the dramatic headlines, the stocks of even the established producing companies tend to fluctuate quite widely, even in a 'stable' legislative climate. For example, Gibraltar Mine's stock fell from 12.25 to 11.25 from January to March 1974. During 1972, it traded between 4.90 and 8.25; in 1973 between 8.00 and 15.00; in 1974 between 12.50 and 3.50; and in 1975 between 3.95 and 6.25. Western Mines fell from 3.25 to 3.10 between January and March 1974. During 1972 it traded between 2.10 and 4.20; in 1973 between 2.40 and 3.60; in 1974 between 3.80 and 1.43; and in 1975 between 3.20 and 1.45. Most other mining stocks show similar patterns with speculative issues fluctuating even more widely. There is no doubt that the Mineral Royalties Act had an effect on share values but the really large fluctuations seem to correspond with very substantial changes in world mineral prices during the early 1970s. Copper prices in 1974, for example fell from record highs to near record lows. Vancouver Stock Exchange Review, December 1972; December 1973; January 1974; March 1974; December 1974; and December 1975.

47. Vancouver Province, February 21, 1974, p.27. The average copper price for 1974 turned out to be around \$.85 per lb. Price Waterhouse and Co., The B.C. Mining Industry in 1975, p.181.
48. Vancouver Province, February 21, 1974, p.27.
49. Ibid., February 22, 1974, p.1.
50. Ibid.

51. B.C., Legislative Assembly, Bills, First Reading 30:4, 1974, Bill 31, section 3(2).
52. See below, p.266.
53. Vancouver Province, February 23, 1974, p.20.
54. Ibid.
55. Price Waterhouse and Co., The B.C. Mining Industry in 1975, table 29, p.104 and table 32, p.107.
56. Vancouver Province, February 23, 1974, p.20.
57. Ibid., March 8, 1974, p.19.
58. See above, p.121.
59. Vancouver Province, March 8, 1974, p.19.
60. Ibid.
61. Ibid., March 9, 1974, p.18.
62. Ibid.
63. Ibid.
64. Ibid., March 23, 1974, p.20.
65. Ibid.
66. See above, p.20-22.
67. See above, p.143.
68. Vancouver Province, February 20, 1974, p.19.
69. Ibid., February 26, 1974, p.18.
70. Ibid., March 7, 1974, p.22.
71. Ibid., March 9, 1974, p.18.
72. Ibid., March 4, 1974, p.23; and March 6, 1974, p.8.
73. Ibid., March 12, 1974, p.16.
74. Ibid.

75. Ibid., March 15, 1974, p.20.
76. Ibid.
77. Ibid.
78. Ibid., February 28, 1974, p.30.
79. Ibid., February 26, 1974, p.18.
80. Ibid., March 22, 1974, p.27.
81. Letter, J.W. Jewitt to D.T. Kelly, M.L.A., February 27 1974. The letter is reproduced below in appendix
82. Vancouver Province, April 2, 1974, p. 15.
84. Ibid., March 15, 1974, p.20.
85. Vancouver Sun, May 23, 1974, p.38.
86. Ibid., March 28, 1974, p.24.
87. Ibid., April 2, 1974, p.22; and Vancouver Province, June 6, 1974, p.23.
88. Letter, H.P. Bell-Irving to Premier David Barrett, February 25, 1974. For a newspaper summary, see the Vancouver Province, March 1, 1974, p.21.
89. Ibid.
90. Vancouver Sun, March 29, 1974, p.28.
91. Vancouver Province, March 9, 1974, p.18; and March 12, 1974, p.16.
92. Vancouver Sun, March 23, 1974, p.30.
93. Ibid.; and Vancouver Province, April 8, 1974, p.24.
94. Vancouver Province, February 26, 1974, p.18.
95. Ibid., April 8, 1974, p.24.
96. Ibid.
97. Vancouver Sun, March 23, 1974, p.30.

98. Calculated by averaging the grades mined at the 10 major open-pit copper mines in B.C. A number of very small, high-grade mines were deleted to avoid distorting the average. B.C., Report of the British Columbia Copper Task Force (Victoria: N.P., 1975) Appendix V, pp.61 and 63. The average grade calculated was .58 percent.
99. Financial Post Corporation Service, Corporation Service Report, "Bethlehem Copper", "Gibraltar Mines", and "Granisle Copper."
100. Ibid. The percentage changes were calculated by comparing year to year changes in these companies' ore reserves after subtracting the ore actually mined during that year.
101. Vancouver Province, April 1, 1974, p.10.
102. Ibid.
103. Vancouver Sun, March 28, 1974, p.28.
104. Ibid., May 4, 1974; and Vancouver Province, April 5, 1974, p.5.
105. Vancouver Province, March 12, 1974, p.16.
107. Calculated from a count of news articles in the Vancouver Province. The count is an approximate one and relies for its accuracy on the British Columbia Newspaper Index.
108. Vancouver Sun, April 27, 1974, p.10; May 30, 1974, p.5; March 22, 1974, p.26; March 23, 1974, p.30; and June 1, 1974, 1974, p.26.
109. The Province ran strong page 4 editorials against the Mineral Royalties Act on February 20, 1974; April 5, 1974, May 2, 1974; May 30, 1974; June 12, 1974;
110. Vancouver Province, March 14, 1974, p.18.
111. Vancouver Sun, March 20, 1974, p.6.
112. Ibid., March 16, 1974, p.30.
113. "B.C. Mine Chiefs Fight Minister in Ad Campaign" Marketing 80 (January 6, 1975), p.15.

114. Vancouver Province, April 25, 1974, p.53.
115. See above p.213.
116. Vancouver Province, March 6, 1974, 0.8.
117. Leo Nimsick, Minister of Mines and Petroleum Resources, letter, "to the editor," April 3, 1974.
118. Ibid.
119. Vancouver Province, April 7, 1974, p.35.
120. Ibid., April 5, 1974, p.10.
121. Ibid., April 6, 1974, p.68.
122. British Columbia Gazette, Part II, Regulations, 1974, (Victoria: Queen's Printer, 1974) Order in Council #1086, "Mineral Land Tax Assessment Regulation," B.C. Regulation 203/74, pp.446-8. We noted in chapter 4 that the Mineral Land Tax Act was worded so as to allow this sort of regulation. See above pp.
123. Vancouver Province, April 26, 1974, p.9.
124. Vancouver Sun, May 1, 1974, p.38.
125. Democrat 14 (April 1974) MLAs at Work (NDP Newsletter) February 22, 1974; March 1, 1974; March 22, 1974.
126. For a summary of the N.D.P.'s Spring 1974 legislative program, see Patricia Roy, "British Columbia," Canadian Annual Review of Politics and Public Affairs 1974 (Toronto: University of Toronto Press, 1975) pp. 226-237.
127. See above, pp.178-79, 192-93.
128. Hart Horn, Interview, Victoria, Oct. 1, 1978.
129. Philip Resnick, "The Breakaway Movement in Trail," P. Knox and P. Resnick, ed., Essays in B.C. Political Economy (Vancouver: New Star Books, 1974) pp.52-53. The relationships between the leadership of the Mine Mill and Smelter Workers Union, the C.C.F., and other segments of the Canadian labour movement during the 1940s is dealt with by Gad Horowitz, Canadian Labour in Politics (Toronto: University of Toronto Press, 1968) passim., especially pp. 118-119, 122 and 130-131. The



M.M.S.W.U. was expelled from the Canadian Congress of Labour in 1949.

130. Vancouver Province, March 28, 1974, p.22; and April 4, 1974, p.49.
131. Letter, William Bennett to Monty Alton, March 5, 1974.
132. Letter, J.B. Evans to Monty Alton, March 26, 1974.
133. For an account of labour union involvement in the founding of the New Democratic Party, see Horowitz, Canadian Labour in Politics, Chapter 6, pp.198-133. At the party's founding convention, the Steelworkers had far more delegates than any other Canadian union and accounted for over 30 percent of labour's representation. Ibid., p.233, note 118.
134. P.Resnick, "The Breakaway Movement in Trail," p.53. The success of C.A.S.A.W. in Kitimat is outlined by Paul Knox, "Breakaway Unionism in Kitimat," Knox and Resnick, ed., Essays in B.C. Political Economy, pp.42-51.
135. Vancouver Province, March 25, 1974, p.38.
137. Research Department, United Steelworkers of America, "An Analysis of Bill 31, The Mineral Royalties Act of British Columbia" (Toronto; United Steelworkers of America, April, 1973), p.2.
138. Ibid., p.4.
139. See above, pp.208-211.
140. Research Department, U.S.W.A., "An Analysis of Bill 31..." p.5.
141. Ibid., p.6.
142. Ibid.
143. Ibid., p.7.
144. Ibid., p.1.
145. United Steelworkers of America, Memorandum, Marc Zwelling to Monty Alton, April 3, 1974.
146. Vancouver Sun, April 26, 1974, p.12.

147. Letter, Monty Alton to "All Presidents of Mining Locals in B.C. and the Yukon," May 14, 1974.
148. U.S.W.A., Memorandum, Marc Zwelling to Monty Alton, April 17, 1974.
149. Letter, Monty Alton to "News Editor, Marketing," May 28, 1974.
150. Vancouver Province, April 9, 1974, p.8; February 21, 1974 p.1; and February 22, 1974, p.1.
151. Ibid., April 8, 1974, p.24.
152. Letter, Christopher D'Arcy, MLA (Rossland-Trail) to Monty Alton, June 5, 1974.
153. Letter, Karen Sanford, MLA (Comox), to Monty Alton, April 22, 1974.
154. See above, p.123.
155. R.D. Brown, "The Fight Over Resource Profits," Canadian Tax Journal XXII (July-August 1974):325 and 330.
156. Ibid., p. 324.
157. Ibid., pp.320-321
158. Ibid., pp.319-20.
159. Vancouver Province, May 7, 1974, p.18.
160. Letter, P.R. Mathews (Managing Director, Mining Association of B.C.) to members of the Legislative Assembly, May 23, 1974.
161. B.C., Legislative Assembly, Debates 30:4, May 28, 1974, p.3481.
162. Ibid., p.3486.
163. Ibid., p.3488.
164. Ibid., p.3490.
165. Ibid.
166. Vancouver Province, May 30, 1974, p.4.

167. B.C., Legislative Assembly, Debates 30:4, May 28, 1974, p.3491.
168. Ibid., p.3492.
169. Ibid., p.3494.
170. Ibid.
171. Ibid., p.3501.
172. Ibid., June 5, 1974, p.3764.
173. Ibid., June 7, 1974, p.3852.
174. Ibid., June 6, 1974, p.3826.
175. Ibid., June 7, 1974, p.3843.
176. Ibid., June 12, 1974, p.3961.
177. Ibid., June 7, 1974, p.3837.
178. Ibid., pp. 3837-38.
179. Ibid., pp. 3839.
180. Ibid., p.3840.
181. Vancouver Province, June 11, 1974, p.4.
182. Ibid., June 11, 1974, p.17; June 12, 1974, p.4.
183. B.C., Statutes, 1974, Chapter 54, "Mineral Royalties Act," section 1.
184. Vancouver Province, June 19, 1974, p.1. The other basic values announced were:
- |                        |                 |
|------------------------|-----------------|
| Gold                   | \$82.50 per oz. |
| Silver                 | \$ 3.00 " "     |
| Molybdenum Concentrate | \$ 1.60 per lb. |
| " " Oxides             | \$ 1.85 " "     |
| Ferro-Molybdenum       | \$ 2.21 " "     |
185. Ibid., June 15, 1974, p.27; and June 20, 1974, p.10.
186. Ibid., June 20, 1974, p.10; and B.C., Legislative Assembly, Debates 30:4, June 18, 1974, pp.4215-41; and June 19, 1974, pp.4262-71 and 4285-89.

187. Vancouver Province, May 27, 1974, p.27; and June 14, 1974, p.12.
188. Ibid., June 8, 1974, p.33.
189. Ibid., June 14, 1974, p.27. In 1973, the provincial and federal governments had reached agreement in principle on a plan for joint participation in rail development in north-west British Columbia.
190. Ibid., June 14, p.12.
191. Ibid., p.1.
192. Cited in G.L. Kristianson, "The Non-partisan Approach to B.C. Politics: The Search for a Unity Party--1972-1975," B.C. Studies 33 (Spring 1977): 18.
193. Ibid., p.25.
194. Vancouver Province, June 11, 1974, p.
195. Ibid., June 18, 1974, p.8.
196. Ibid.
197. Ibid., July 5, 1974, p.40.
198. Ibid., June 19, 1974, p.9.
199. Ibid., June 21, 1974, p.1; and June 19, 1974, p.11.
200. Vancouver Sun, June 21, 1974, p.1; and Province June 21, 1974, p.1; and June 22, 1974, p.10.
201. Vancouver Province, June 22, 1974, p.10.
202. Vancouver Sun, June 21, 1974, p.1.
203. G.L. Kristianson, "The Non-partisan Approach to B.C. Politics...", p.20.
204. Vancouver Sun, July 6, 1974, p.9.

## CHAPTER 6

## COMPROMISE AND DEFEAT

## I

The final passage of Bill 31 did nothing to defuse what had become one of the most controversial issues of the N.D.P. government's term in office. J.W. Tough of the Mining Association reacted to the event by pledging that the industry would redouble its efforts to make the government understand the consequences of its legislation and it soon became clear that the mining companies had just begun to fight.<sup>1</sup>

The Summer and Fall of 1974 thus saw a whole series of announcements by the province's major metal mining companies that their exploration spending was shifting out of British Columbia. Placer Development Ltd., one of the largest mining development companies operating in the province, announced that its 1974 exploration budget would be only \$450,000 compared to \$1,811,000 in 1972. Over 50 per cent of the companies \$6 million exploration budget, announced president, T.H. McClelland would be spent overseas in countries like Mexico, Surinam and South Africa. Both the giant Cominco and the smaller Western Mines indicated that their British Columbia exploration activities would be kept at a maintenance level only while Noranda Mines said that it would spend "almost nothing in the province."<sup>2</sup> Noranda, along with the large Hudson's Bay Mining and Smelting Co., indicated that the Yukon would be the major beneficiary of their exploration budgets.

Newmont Mining Corporation pulled back from its earlier threat to cease its exploration activity in B.C. altogether but indicated that both its budget and its geological staff would be reduced by more than half. Bethlehem Copper also announced that its B.C. exploration expenditures would be a fraction of their previous levels whereas its activity in both Canada and other countries would increase significantly.<sup>3</sup>

Two major events combined during the summer of 1974 to intensify the N.D.P.'s problems with its controversial new piece of legislation, one political and the other economic. At the beginning of July, right on the heels of the passage of Bill 31, the federal Liberals were returned to power in Ottawa with an overall majority. This victory dashed the provincial N.D.P.'s hope that the hard line on resource taxation taken by the federal government in its 1974 budget would be reversed by either a Conservative victory or a continued minority government with N.D.P. backing. The Liberals, during their election campaign had pledged to implement these proposals in their original form if they formed the new government.

Another aspect of the Liberal election victory was the drastic decline in the federal N.D.P.'s support in British Columbia. The party lost an unprecedented nine seats in the province, leaving it with only two federal M.P.s. At 23 percent of the popular vote, the N.D.P.'s electoral support in British Columbia had declined to the second lowest level in forty years. Only the Diefenbaker sweep of 1957 had

produced a result more disastrous for the New Democratic Party.<sup>4</sup> Furthermore, polls taken by the party itself and Daniel Koenig of the University of Victoria indicated that these results would almost certainly translate themselves into a Social Credit victory on the provincial level.<sup>5</sup>

Although it would be a serious oversimplification to attribute this drastic reversal of N.D.P. fortunes entirely to the controversy over the party's mineral legislation, there can be little doubt that this issue had played a significant role in the erosion of the N.D.P.'s image during early 1974. The Mineral Royalties Act, along with the Land Commission Act, the government automobile insurance plan, increased welfare spending, and a major controversy over the provincial egg marketing agency all combined to alienate a wide variety of interests and produce increasingly hostile press coverage. The loss of the supposedly safe N.D.P. riding of Skeena to the Liberals and the latter's success in Kamloops indicated that the government's confrontation with the mining industry was directly undermining its support in the vital hinterland areas of the province. The federal riding of Skeena alone contained four provincial legislative seats.<sup>6</sup>

The summer of 1974 also saw the renewal of the world economic recession of 1970 and 1971 as a steep increase in world oil prices precipitated an end to a brief period of prosperity. British Columbia, whose economy is largely depen-

dent upon commodity exports, began to feel the effects of these changed conditions particularly keenly in both the forest and mineral industries. By July, economic development minister, Gary Lauk, admitted that the provincial economy was in serious trouble.<sup>7</sup>

The result of these changes on world copper prices and thus on British Columbia's mining industry was dramatic. The London Metal Exchange quotations, which formed the basis for most of the export contracts covering B.C. producers, had peaked at record levels of around \$1.30 per lb. during the spring of 1974, but by the fall of that year, they had plunged to around \$.55 per lb.<sup>8</sup> The threats of mine closures that had been made by the industry during its spring advertising campaign now became more than mere rhetoric as companies rushed to cut their costs in the face of falling revenue and reduced demand for their product. Stockpiles of copper concentrate began to pile up in Japanese smelters, and the province's mining companies had to find new markets for their products or cut back production. By the beginning of December, 1974, over 1,000 mine workers had lost their jobs as three mines closed down and others either reduced production or tried to streamline their operations.<sup>9</sup>

The first major casualty was the Britannia Mine owned by the U.S. copper giant, Anaconda. This operation was one of the oldest in the province, and on November 7, its American



based management announced that it would cease operations at the end of the month. The company's spokesmen were careful not to blame the Mineral Royalties Act for the closure. According to Dan Cummings, Britannia's administrative superintendent:

There is no special cost which affects the decision. We are in labour negotiations and we expected to have to pay higher rates in order to stay competitive in the labour market. Royalties are an item in cost of operations but would not by themselves be the determining factor....It's the price of copper that really determines the situation and the prognostications for copper prices are not rosy.<sup>10</sup>

It was also revealed that the mine's orebody was virtually exhausted and would have closed in 18 months even at very high metal prices.<sup>11</sup>

The second operation to cease production was the Jordan River copper mine and the story surrounding its closure was rather more intriguing. The mine was an old one and was situated on crown granted mineral land belonging to Cominco. In 1970, Pechiney Development, a large French mining company, had entered into an agreement with Dison International, a small British Columbia based company, to bring the property back into production. Then, in 1974, the French directors of Pechiney decided to withdraw their 60 percent investment and liquidate the Jordan River operation. Sydney Fowlds, the president of Dison, the minority owner of the mine, did not agree with Pechiney's pessimistic assessment of its profitability and decided to try to keep the operation going. "There

are 100 men employed in the communities of Sooke and Jordan River," Fowlds said, "and the payroll of \$1.5 million a year is important there."<sup>12</sup> Dison was successful in obtaining Pechiney's share of the project on favourable terms, but needed operating capital to continue in operation. The company then approached a New York corporation for interim financing, offering the companies unsold copper concentrate as collateral. The unnamed New York corporation refused, saying that it was not sure how the Mineral Royalties Act would affect the title to these concentrates. Canadian banks and Placer Development also refused to extend any help.<sup>13</sup>

A main stumbling block, however, was a royalty of 4 percent payable to Cominco along with back royalties of \$240,000 incurred by a previous operation. Cominco, however, had earlier refused to defer its royalties and insisted upon payment of the debt. As a last resort, Dison decided to make a final appeal to Cominco. In the words of president Sydney Fowlds:

...I had this Monday payroll to meet and I went to Cominco as a last resort. I asked if they would use moral suasion at the bank or even guarantee the concentrates. I was only wanting 80 cents on the dollar. I told him if the mine shut down it would never reopen and they'd never get their royalties and 100 men would be out of work. He said 'too bad'.<sup>14</sup>

Dison then took its case to the government, and talked with the Premier, the Department of Mines and Petroleum Resources, and the B.C. Development Corporation. None of these parties,

however, were willing to subsidize what was clearly a very marginal mine, and they were equally reluctant to use it as a basis for a major new government involvement in the industry. Thus, at the beginning of December, Jordan River Copper closed down.

Fowlds then turned his wrath on the N.D.P. government, and in a well publicized attack, blamed Bill 31 for the mine's closure. "The government" concluded Fowlds, "seems to want to put people on welfare rather than letting them work."<sup>15</sup>

The Jordan River incident also strained the Labour movement's support for Bill 31 when Ken Levy, president of the Steelworkers' Jordan River local, defied his Union's stand and picketed the legislature for 15 days. "It is the job of the Union to protect the jobs of the worker," Levy commented, "and not to put them out of work."<sup>16</sup> He claimed that the Union's rank and file were becoming increasingly unhappy with their leadership's stand.

## II

Given the severe electoral jolt and the increasing economic gloom in the province, it is not surprising that the N.D.P.'s policy began to shift direction of the summer of 1974. There was certainly no sharp transition but a trend toward moderation gradually gained momentum as the desire to consolidate and maintain its hold on power replaced the bold initiative of 1973 and early 1974. In mining, the first

indication of compromise came at the beginning of September, 1974, when Leo Nimsick announced that the government was examining the application of royalties to new mining developments and would consider changes "if the mining industry could show such a move would mean new mines would come into production."<sup>17</sup> The increasing costs of developing new mines, according to Nimsick, could result in a higher 'basic value' when applying the royalty formula to these operations, and he indicated that the industry was being asked to provide their opinions on the matter.<sup>18</sup>

The reaction of the Mining Association of B.C. to this overture was relatively positive. According to its managing director:

Mining exploration in British Columbia has declined significantly as a result of Bill 31 and its onerous royalty provisions. We therefore congratulate the minister for his decision now to reconsider these royalties to help revive mining exploration in this province.<sup>19</sup>

The Province hoped editorially that the initiative announced by Nimsick would correct the decline in the mining industry which the paper saw as solely the fault of the N.D.P. government.<sup>20</sup>

The enthusiasm of the industry was, however, rather short lived, and only four days after its initial reaction, the Mining Association of B.C. announced that the easing of the incremental royalties for new mines would have no appreciable

effect. According to the Association's president, J.W. Tough, no company would be willing to start a new mine simply because it would get tax relief for a few years when it would still be faced with a minimum royalty of 5 percent:

We are waiting until we receive a letter from Mr. Nimsick before we make our next move but from what I understand from his statement, he does not deal with the main problem, the basic royalty. However, we are encouraged that he realizes there is a problem and is considering change. 21

This statement marked at least a change of emphasis in the demands of the mining industry. Up until that point, its major criticism had been directed at the incremental royalty provisions of Bill 31, but now the basic royalties themselves were the focus of their opposition. There were two reasons for this shift. In the first place, the mining companies sensed the growing weakness of the provincial government and thus decided to pursue their protest with even greater vigour in the hope of obtaining further concessions. The attacks of the industry had initially been focussed on the most questionable aspects of the Mineral Royalties Act, and now that the government was clearly having second thoughts, there was nothing to lose by pushing for the total abolition of royalties.

There was, however, a second reason of at least equal importance. With the drastic fall of copper prices, it was the basic 5 percent royalty, rather than the incremental royalty, that was the most damaging to the mining companies. At copper

prices of between 50 and 60 cents per lb. and escalating costs many of the province's major mines became rather marginal operation. It became clear that incremental royalties would not be collected under these conditions, but that the basic 5 percent levy could make the difference between a modest profit and an actual loss. The operating results of the seven major open pit copper mines in British Columbia during 1975, a year of royalties and very low prices, were revealing in this respect. After provision for all costs, depletion charges and taxes, these mines had a small loss of \$2.9 million or 1.2 percent of revenue. However, total royalty and land tax payments for the same year came to \$5.29 million, and without them a small profit of 1 percent would have been possible.<sup>22</sup>

Despite the fact that concessions for new mining developments would certainly not be hailed by the industry as a major breakthrough, the government introduced these adjustments when it officially proclaimed the Mineral Royalties Act at the end of September, 1974. The changes were limited to the incremental royalty, and left the basic 5 percent levy unchanged. For all new mines, the 50 percent incremental royalty would come into effect only if prices exceeded 135 per cent during the first year of production, 130 percent during the second year and 125 percent during the third year. Thereafter, the incremental royalty would apply at the normal 120 percent level.<sup>23</sup> Although the potential benefits of the change to new mineral producers was quite large, the circumstances

under which it could be enjoyed were extremely limited. Unless rapid price rises corresponded exactly with the new mine's initial three years of operation, it would enjoy no additional benefit at all. In a slightly more wide-ranging adjustment, the Mines Department also indicated that, henceforth, the 'basic value' of all designated minerals would be adjusted upward each year by one half of the change in the wholesale price index in order to take account of rising production costs.<sup>24</sup>

Despite the rather limited nature of these changes, mines minister Nimsick portrayed them as a major concession:

Today is the day of reckoning. We've been discussing how we could assist new mines to get into production. We realize it costs a great deal more today. The escalating royalty bothered the industry. They admitted they could get along with the basic royalty but the incremental was too big a slice. Our regulations have come from all the considerations. The industry might have liked a lot more but we feel this should be an encouragement especially if prices go up.<sup>25</sup>

The mining industry, needless to say, was not impressed.

Despite this early concession to the mining industry, the government continued to defend its mining policy in a fairly vigorous fashion. If the N.D.P.'s election losses, a hostile federal government, increasing economic recession, and the constant opposition of the mining industry had all combined to produce some doubts among government members, they at least stimulated others to step up the public defence of their mining policy. In October, 1974, Premier Barrett

said that he was "ashamed to say that we're still charging less in taxes and royalties on minerals than in Tory Ontario" while the mining companies continued to make high profits.<sup>26</sup> "Even when we tax them," Barrett added later, "they are making more money."<sup>27</sup> The Premier also mocked a promise by opposition leader Bill Bennett that a Social Credit government would repeal Bill 31 and appoint a Royal Commission on mining by saying that "you don't need a Royal Commission to figure out when you ain't payin' nothin' you're getting away with murder."<sup>28</sup>

Barrett maintained the government's firm public position on the mining tax question when he met federal Finance Minister John Turner in October to discuss the impasse over royalties. The two men emerged from their hour long meeting with no hint of any compromise. Barrett promised to retain provincial royalties on oil and gas production and pointed to the scandalously low tax rates enjoyed by the resource industries, while Turner said that these same industries had suffered uncertainty too long and were now the victims of excessive taxation.<sup>29</sup> The federal budget proposals on mining taxation were reintroduced to parliament the following month in their original form.

The provincial government also sought to defend its record on mineral policy through the tried and true medium of newspaper advertising, and in November, 1974, the Department



of Mines and Petroleum Resources placed a major ad in most of the province's major newspapers. This advertisement, however, differed in tone from the flamboyant efforts of the mining industry. It contained only one headline, "Mineral Revenue in British Columbia" and an entire page of small print with two graphs. The drafters of this ad, it would seem, were trying to present a quiet and reasoned image befitting a government department. The small print attempted to provide a rationale for mineral royalties, outline the governments record in both the mineral and petroleum industries, and assure the reader that the problems connected with them were well in hand. The ad documented the relatively low direct returns from the mining industry in particular, and claimed that they did not even begin to cover the enormous cost to government of providing the infrastructure and social services in mining communities. Furthermore, the low level of employment within the industry meant that much of the return to British Columbia's economy had to be derived through taxes or royalties. Bill 31, continued the ad, was now estimated to collect \$30 million rather than the \$25 million originally predicted "largely due to the unexpected stability of copper prices at relatively high levels"<sup>30</sup> Even after the imposition of mineral royalties mining production would only account for one quarter of mineral revenue while oil and gas produced the rest. Although there was growing evidence that the province was now facing a reces-

sion, the Mines Department's ad closed on an optimistic note:

The Department of Mines and Petroleum Resources is engaged in a constant process of evaluation....Early indications are that the province is flourishing as never before. So long as the government of Canada refrains from introducing punitive tax measures, mineral producers in British Columbia will continue to flourish with the province.<sup>31</sup>

During December, the government continued to phase in the Mineral Royalties Act by designating eight new minerals, including asbestos, iron, lead, zinc and nickle as subject to royalties.<sup>32</sup> Later in the month, the new 'basic values' were set for all thirteen minerals now subject to the Act. These values (which determined the point at which the incremental royalty would come into effect) were moved upward significantly by both a 10 percent inflation index and the generally higher mineral prices in 1974.<sup>33</sup> At the end of 1974, despite worsening economic conditions and widespread unease within the government itself, it was clear that there would be no early repeal of the Mineral Royalties Act.

### III

The industry, of course, had not kept silent during the closing months of 1974 and kept up its steady stream of advertising and public pronouncements. After a brief lull in the Summer, the series of mining industry newspaper advertisements began again in the Fall and emphasized the taxation fight between Ottawa and Victoria. One such ad was headlined "DOUBLE TAX CRUSH ON RESOURCES", while another proclaimed "OUR

GOVERNMENTS ARE KILLING THE MINING INDUSTRY--and its going to affect you."34

The ad placed by the Department of Mines and Petroleum Resources was quickly followed by a response titled "LET'S TELL THE WHOLE TRUTH ABOUT MINING MR. NIMSICK". This ad took issue especially with the department's estimates of the taxes imposed on mining companies and detailed the large range of indirect taxes that they had to bear. Thus, in 1973, the industry claimed it actually paid \$52.3 million in taxes rather than the \$8.7 million claimed by the government. The industry's response also questioned the government's confident economic predictions and asserted plainly that "British Columbia's second largest industry is dying."<sup>35</sup> The mining companies continued to generate publicity against the Royalties through a series of speeches, interviews and press conferences which were summarized by headlines like "B.C. MINING INDUSTRY ON WAY TO CRASH", "MINING MEN RECALL BETTER DAYS: ITS ALL DOWN HILL NOW", and "DESPAIR, FRUSTRATION HAUNT MINING MEN."<sup>36</sup>

In December 1974, the mining industry decided to employ another method of action and took its case to the courts. In a press conference called by the Mining Association of B.C., it was announced that a suit was being filed jointly by all the Association's producing member companies to have both the Mineral Royalties Act and the Mineral Land Tax Act declared ultra vires of the provincial government. The action would

claim that the royalties were actually a form of indirect taxation and would request an injunction preventing any further collections under either act.<sup>37</sup> The industry's law suit was endorsed by all three opposition parties and prompted Leo Nimsick to issue a detailed statement early in the new year. Collections under the Mineral Royalties Act, he now predicted would be only \$13 million for the period January 1, 1974 to March 31 1975, and amount which was not likely to "drain the industry of all its lifeblood....as long as none of us panic, I am sure that all the problems will soon disappear."<sup>38</sup>

The problems facing both the mining industry and the N.D.P. government, however, were far from over, and 1975 saw the continuation of both hard economic times for the industry and increasing pressure on the government to change its mining policies. On February 28, 1975, Premier David Barrett brought down a new provincial budget in which he defended the Mineral Royalties Act, but offered a concession to off-set the effect of the federal government's 1974 actions. Barrett promised that legislation would be introduced to rebate to the mining companies the additional corporation tax revenues that the province would have received as a result of the non-deductibility of royalties. Since the province at that time received half of the corporate income tax from mines, the concession was a fairly significant one in terms of revenue. "I am sure", said the Premier, "that it is welcome news for the

mining companies in this province."<sup>39</sup>

The executives of British Columbia's major mining companies, however, did not rush to congratulate the Premier. P.R. Mathews of the Mining Association of B.C. simply reiterated the industry's position that the royalties themselves were the major stumbling block, while Robert F. Sheldon of Newmont Mines and the British Columbia and Yukon Chamber of Mines said that "it is apparent...that Premier Barrett and his government are prepared to let the mining industry go down the drain."<sup>40</sup>

In any case, much of the financial and political impact of the Premier's concession was negated the following June, when a new federal budget abolished the 15 percent abatement to the provinces for mining income taxes and lowered the overall corporate tax rate on mining income from 50 to 46 percent. The net effect was to reduce the province's share of these taxes from 25 to 10 percentage points and raise the federal share to 36 percentage points. The budget also contained new incentives for mining exploration activity.<sup>41</sup>

The 1975 federal budget was interesting in that it revealed how much the relationship between Ottawa, the provinces, and Canada's major mining companies had shifted in only four years. In 1971, the Liberal budget, by introducing the provincial mining tax abatement, had attempted to pacify the opposition raised by both the mining industry and many of

the provinces. This move was followed almost immediately by a vigorous and concerted occupation by almost all of these same provinces of the resource taxation field. Alberta increased its oil royalties, British Columbia applied royalties to mining, Saskatchewan increased the tax burden on its potash and oil companies while Manitoba and Ontario both increased their income based mining taxes.<sup>42</sup>

This drive was undoubtedly spurred by the rapid rise in the price of almost all mineral and petroleum resources after 1972, and the federal government was quick to realize that the provinces were appropriating most of the tax revenue created by this boom. The primary aim of the 1974 budget was, therefore, to appropriate a larger share of this revenue by disallowing provincial royalties as an income tax deduction, increasing the overall income tax rate on mining, and speeding up the implementation of the reforms proposed in 1970 and 1971. These latter proposals included such things as the earned depletion allowance and the end of provincial income based mining taxes as a federal tax deduction.<sup>43</sup>

With the 1975 federal budget, the relationship had come full circle and it was now the provinces who had assumed the aggressive role on mining taxation. The federal government responded to this new situation by further increasing its share of mining revenue through the cancellation of its 1970 abatement concession, while at the same time offering new

concessions to the mining industry. There was little doubt that in British Columbia at least, the mining industry now considered the federal government an ally against the provincial N.D.P. Shortly after the new federal budget had been brought down, the Mining Association of B.C. sent a telegram to federal Finance Minister, John Turner congratulating his initiative but noting that:

...even at very high metal price levels, calculations show British Columbia companies cannot make use of the tax incentives offered because provincial royalties cancel them out. We urge you to follow up on the lead you have taken and initiate further talks with the provincial governments to end the dispute over resource taxation and help reduce total taxes on mining to levels applied to other industries in Canada.<sup>44</sup>

Meanwhile, the pressure on British Columbia's provincial government to seek a solution to the persistent mining problem was growing stronger. Neither the economic slowdown nor the constant barrage of damaging criticism showed the slightest sign of easing up. A good part of the budget debate had been taken up by opposition criticism of the government's mining policies, and in April, the estimates of the Department of Mines and Petroleum Resources turned into the usual free for all attack on the minister. Liberal M.L.A. Gordon Gibson even introduced a private member's bill to repeal the Mineral Royalties Act.<sup>45</sup>

The annual meetings of mining companies and the well publicized speeches of mining executives continued to herald the death of the province's second largest industry while the

British Columbia and Yukon Chamber of Mines released another damaging set of statistics. Drilling by mining companies in British Columbia, the report said, had declined 99 percent in the first three months of 1975 while planned exploration spending was off 30 percent and had declined a full 60 percent since 1972. Exploration in the Yukon, the Chamber claimed, had surpassed that in British Columbia for the first time in history. The report went on to spell out in some detail the continuing tendency toward foreign diversification among the major mining companies. Noranda and Placer, for example, planned to spend the majority of their exploration budgets abroad, while the International Nickel Company (Inco) had plans for a \$200 million project in Indonesia and Cominco, a \$43 million lead-zinc mine in Spain. The Chamber's report admitted that the decline in mining activity was affecting all of Canada, but asserted that it was "somewhat less" than in British Columbia.<sup>46</sup>

British Columbia's two mining interest groups kept up their joint advertising campaign through the 'Mining Emergency Fund' during 1975 but its theme was altered somewhat. The portrayal of the industry's aggressive stance against the government was left to the interest groups, the political opposition parties and a generally friendly mass media, while the advertisements tried to bolster the image of mining as a provider of jobs and prosperity. Thus, "OUR GOVERNMENTS ARE KILLING



THE MINING INDUSTRY" was replaced by headlines like "HOW THE ROCK OF GIBRALTAR WORKS FOR B.C." and "HIGH GRADE COPPER SUCCESS."<sup>47</sup>

## IV

It soon became evident that the pressures on British Columbia's N.D.P. government to modify its approach were now virtually irresistible. The New Democratic Party, like its Social Credit predecessor, had a great deal of its reputation tied up with continued economic prosperity. While the Social Credit Party's lengthy term in office was due in large part to the seemingly endless economic boom in British Columbia, the appeal of the N.D.P. was based on its ability to preside over this prosperity more effectively and increase its benefits to the average citizen. It was a commitment that Premier Barret had made explicit when he assumed office, and thus the N.D.P. could no more afford to become associated with mismanagement and economic decline than could the Social Credit Party eighteen years before.<sup>48</sup>

At the beginning of 1975, the officials of the Department of Mines and Petroleum Resources had already begun to draft a wide range of alternative tax proposals, as the Cabinet continued to debate the future course of government policy. The alternatives developed by the department even included a complete abolition of the royalty scheme and a return to a tax system based entirely upon income.<sup>49</sup> There was, observed one

reporter, a "de-radicalization program now underway in the Premier's office."<sup>50</sup>

The first public hint of a general government move away from confrontation with the mining industry came when a delegation of executives from the British Columbia and Yukon Chamber of Mines met with the provincial cabinet at the beginning of March. The delegation presented a lengthy and detailed brief outlining the poor state of the mining industry and making four very general but wide-ranging demands. These were that:

1. A clear definition be given by the government of the rights and obligations of the public and private sectors.
2. Assurance be given that mine finders would have complete security of tenure and a right to develop their properties.
3. That the government recognize the right of a mine developer to a 'fair return' from his capital in view of the high risks involved.
4. An equitable division of profits between the mine operator and government should be worked out.<sup>51</sup>

The second demand was interesting in that it resurrected publicly the industry's earlier opposition to the reform of the province's Mineral Act. We saw in Chapter 4 that the attack on the Mineral Act amendments had receded very much into the background in late 1973 following the uncertainty over taxation and a minor concession on the part of the govern-

ment. In fact, during the Chamber of Mines' annual meeting of January, 1974, president E.A. Scholz had expressed satisfaction over the progress made in clarifying the requirements for a production lease.<sup>52</sup> However, with the increasingly untenable position of the N.D.P. government, the mining industry obviously felt that more substantial concessions could now be obtained in this area.

The Chamber's executive was extremely optimistic after the meeting and expressed the hope that the government had finally come around to their way of thinking. F.G. Higgs, the Chamber's manager, said that they had discussed "fundamental changes in the law and we were very much encouraged at his sign they understand that changes have to be made."<sup>53</sup> Higgs even went as far as to assert that there was no substantial disagreement between the Cabinet and the six member mining delegation during the talks. The Chamber was asked to discuss specific changes with the Department of Mines and Petroleum Resources, and the government was urged to contact the Mining Association of B.C. to ensure that the group also had a direct input into any proposed changes to mining legislation.<sup>54</sup>

The apparent reconciliation between government and the mining interests was, however, rather short lived. On March 21, two weeks after the initial meeting, representatives from both the Mining Association and the Chamber of Mines met Leo Nimsick and group of officials from the Department of Mines

and Petroleum Resources. The government side was apparently surprised by the wide-ranging demands of the industry and its concentration in the issue of ministerial discretion. Leo Nimsick emerged from this meeting and commented angrily that it had been "completely unproductive."<sup>55</sup> The mining companies, it seemed, were now demanding the virtual dismemberment of the Mines Department's resource management policy embodied in the Mineral Act amendments. "It seems to me," continued Nimsick, that "they don't want anything to do with how a resource is managed... Basically the industry thinks that the people who put up the money should be the ones who make all the rules."<sup>56</sup> The Minister and his aides seemed willing to discuss concrete changes to a royalty scheme which they had not fully approved of in the first place, but would not go along with substantial alterations of the regulatory structure that they had initiated. Thus, a major attempt by the N.D.P. government to defuse the public confrontation between itself and the mining industry ended in failure.

V

The next major development in this continuing stalemate occurred when the report of the B.C. Copper Task Force was made public in July, 1975. The Task Force had originally been appointed in April, 1974 to make a detailed analysis of the possibilities of copper smelting, refining and fabricating in British Columbia.<sup>57</sup> In chapter 2, we noted that all of the provinces copper production was exported in unprocessed concen-

form, a situation virtually without parallel anywhere else in the world.<sup>58</sup> The group chosen to study the problem was a varied one and included John McMynn, Deputy Minister of Mines and Petroleum Resources, Hart Horn, then Director of Mineral Revenue, William Armstrong, a vice-president of the University of British Columbia, Les Hemsall, Associate Deputy Minister in the Department of Economic Development, H.L. Keenleyside, a former co-chairman of B.C. Hydro, Cliff Sawyer a retired mining executive and E.T. Staley, general vice-president of the Canadian Labour Congress. Most of the Task Force's concrete research and feasibility studies were undertaken by the Department of Mines and Petroleum Resources. The primary tasks of the group, Nimsick announced at the time, would be to undertake a detailed feasibility study of copper processing in British Columbia and make recommendations concerning the construction of provincial processing capacity. By far the most sensitive question given to the Task Force concerned who would build this new capacity; government, the large mining companies, or a partnership of the two?<sup>59</sup>

The release of the Copper Task Force's 84 page report, after over a year of study, was important because it finally provided some indication of how the government would approach one of the major elements of its general mineral policy. The report, not unexpectedly, recommended that the provincial government should begin immediately to develop a fully inte-

grated copper industry.<sup>60</sup> The benefits of each stage of additional processing, as outlined by the Task Force, are outlined in table 17.

TABLE 17  
VALUES AT DIFFERENT LEVELS OF A FULLY  
INTEGRATED COPPER INDUSTRY

	<u>Percentage of Wages Paid</u>	<u>Percentage of Total Value Added</u>
Mining and Concentration (already carried out in British Columbia)	29	24
Smelting	5	6
Refining	5	4
Rod Milling	2	2
Wire and Cable	59	64

SOURCE: Government of British Columbia, Report of the British Columbia Copper Task Force, table 4.7, p. 29

It is evident from the data presented by the report that the great majority of economic benefits are obtained from the final manufacturing of copper products, but the Task Force was not able to obtain enough information to make any concrete recommendations concerning this stage. Rather, it recommended that the province develop full integration gradually, through the construction of two 'world scale' smelter and refinery complexes:

To realize the full potential of value added, the full integration of British Columbia's copper industry is required. Without a smelter and refinery, the province lacks a local supply of refined copper for a major

expansion of its small copper manufacturing industry. On the other hand, the development of smelting and refining facilities alone is a half measure.<sup>61</sup>

Thus, the Copper Task Force recommended an immediate start on the planning of a 125,000 ton per year smelter and refinery complex in the Highland Valley area to be operational by 1978 and a preliminary study of a second complex on the north coast for 1983. These smelters would be constructed to capture the sulphuric acid by-products so that the latter could be processed to yield products like fertilizer and aluminum fluoride. The capture of these emissions was essential if a serious pollution problem was to be avoided.<sup>62</sup>

The role of government in this ambitious project, however, would be limited largely to regulation and planning. "In the interests of harmonious and orderly development of the province, ...development by the private sector seems to be most appropriate unless necessary action by the private sector is not forthcoming within a reasonable time."<sup>63</sup> Furthermore, in order to ensure that private capital would be available, "...it may be worthwhile to study the effects of a further royalty reduction on concentrate producer participation in the capitalization of a smelter complex....until all funded debts are repaid."<sup>64</sup>

The reaction of the industry to the Copper Task Force's report was mildly favourable, and J.D. Little of the Mining Association of B.C. expressed particular satisfaction with the recommendation of private sector participation. The

government's acceptance of the report, he concluded, would involve a change in its previous policies, especially mineral royalties.<sup>65</sup>

The government, however, had already moved to implement the policies suggested by the Copper Task Force. Negotiations were underway with a number of mining companies, and by the Autumn of 1975, a deal with Lornex Mining was under active consideration by the Department of Mines and Petroleum Resources.<sup>66</sup> The Lornex proposal was for a large 'world scale' copper smelter and refinery complex in the Highland Valley producing a minimum of 125,000 metric tons per year. Lornex Mining, a subsidiary of Rio Tinto Zinc of Great Britain and owner of the largest open pit copper mine in the province, would provide the concentrate of its own mine and obtain supplies under contract from other mines. Its plan would also include a sulphuric acid plant to trap and refine the by-products of the smelting process.<sup>67</sup>

There is little doubt that the discussions with Lornex occurred concurrently with the feasibility studies of the Copper Task Force itself. The potential smelter considered by the Task Force was similar in every important respect to the Lornex proposal, and the detailed financial projections contained in its report could only have been the result of detailed discussions with the company. Although it did not mention Lornex by name, the report noted that "the Task Force was most fortunate in obtaining access to a detailed copper smelter



feasibility study commissioned independently by a major Canadian mining company."<sup>68</sup>

A tentative agreement with Lornex would also explain the early projected completion date of such a major project (1978), and the recommendations on private sector participation and the further abatement of royalties. Even Lornex, with the largest open pit copper mine in the province, could provide little more than half the copper concentrate necessary to feed the proposed world scale smelter and refinery complex, and some sort of adjustment of royalties was probably a precondition for a guaranteed supply for the new project. The Copper Task Force had concluded that even a projected restriction on the export of raw copper would not avoid the necessity of developing major new mining capacity to feed a provincial smelter and refinery.<sup>69</sup> The industry had made it quite clear that no new capacity would be developed unless far-reaching changes were made to the province's mining legislation.

## VI

In the latter part of September, 1975, there was no doubt that a major new development in government policy was at hand. In a September 16 speech in the mining town of Greenwood, B.C., Premier Barrett broke a long silence on the question of mineral legislation and announced that discussions were underway with the industry concerning royalty changes:

We have said to the mining industry, "if you are prepared to come to us with proposals on secondary and tertiary use of these minerals, then we will talk abatement with you."<sup>70</sup>

The development of secondary industry, the Premier added, had been one of the government's primary goals right from the outset.

In early October it was revealed that the Department of Mines and Petroleum Resources was already actively involved in studying the effects of royalty abatement on industry participation in a copper smelter, and John McMynn, the department's Deputy Minister indicated that he was soliciting briefs on these changes from the provinces major mining companies. Future legislative changes, he was reported as saying, would be made directly on the basis of these briefs.<sup>71</sup>

Before this series of initiatives could come together in the form of a concrete government announcement, a major new element was added when Premier Barrett announced a sudden Cabinet shuffle on October 4. One of the most decisive of these changes was the demotion of Leo Nimsick to the travel portfolio and his replacement by Gary Lauk, who retained his former portfolio as Minister of Economic Development. Lauk, a young lawyer representing the riding of Vancouver Center had entered the Cabinet in May of 1973. The Department of Economic Development, in terms of both budget and decision making responsibility, can only be described as a relatively minor portfolio. Throughout the 1960s and early 1970s its budget was even lower than that of the Mines Department, ranging between .2 and .25 percent of total provincial expend-

itures. It's primary function was to promote economic activity through two major types of aid to private business, the promotion of British Columbia exports abroad and the conducting of economic research.<sup>72</sup>

When Gary Lauk took over the department in early 1973 it was the scale rather than the orientation of these activities which changed. Between 1973 and 1975 the department undertook a fairly major trade promotion effort at Japan's Expo 74, and the Minister accompanied the Premier to Japan in 1975 to negotiate Japanese participation in a proposed provincial steel mill. The Department of Economic Development's research role was expanded through its participation in a joint federal and provincial study on regional development and, by 1975, a policy planning branch had evolved from this exercise. The major expansion of the department's scope under Lauk was its responsibility for the B.C. Development Corporation, a crown corporation whose main activities involved acquiring land for private industrial development and providing capital for new business ventures.<sup>73</sup> The effect of this increased level of departmental activity was to increase the department's expenditure 60 percent in fiscal year 1974 and a further 90 percent in 1975. In both those years the budget of the Department of Economic Development surpassed that of the Mines Department.<sup>74</sup>

Neither Lauk nor his department played a significant role

in mining from 1973 to 1975. Right from the outset, the Department of Mines and Petroleum Resources had taken over the research function in the industry from the Department of Economic Development and the former department had gained almost all of the responsibility for mineral planning and policy formation and relations with private corporations.<sup>75</sup> Although Economic Development was a co-sponsor of the Copper Task Force report, the research as well as the negotiations with private firms like Lornex had been conducted by the Department of Mines and Petroleum Resources. Nevertheless, by late 1975, Lauk's department through its involvement in the Federal-Provincial Interim Planning Agreement, had become involved in the promotion of extensive coal development at Hat Creek, near Kamloops and in North-Eastern British Columbia. This intrusion into the jurisdiction of the Department of Mines and Petroleum Resources did not occur without a certain amount of resentment on the part of that Department's policy makers.<sup>76</sup>

The nature of Gary Lauk's former portfolio and his reputation as an economic 'conservative' in the Cabinet were a clear signal to the industry that the government's priorities had changed. On being handed the new portfolio the Minister announced that his first priority would be to initiate talks with the mining companies concerning ways that it could reinvest in British Columbia.<sup>77</sup> The reaction of the mining industry to this new development was, for once, overwhelmingly positive

and J.D. Little of the Mining Association of B.C. extended his congratulations to the new minister. "I am confident," he said, "that Lauk will appreciate--as we do--that regular contact and discussion must be maintained between government and industry."<sup>78</sup> The business pages of the province's press echoed the industries enthusiastic response. Leo Nimsick, wrote Bob McMurray, the Province's business editor, had not enjoyed the respect of the mining industry. Furthermore, his department had been 'directed' to a large extent by other cabinet influences and by that of Hart Horn, now an associate deputy minister.<sup>79</sup>

Even though there was probably a large element of truth in these observations it would be a grave mistake to view the change in the Mines Department as simply the replacement of a 'tired' or 'incompetent' minister with more energetic and conciliatory leadership. The road towards conciliation had been initiated at least as far back as early 1975, and was being effectively pursued by Mines Department policy makers like McMynn and Horn well before the change of ministers. One obvious reason was that this change was a clear symbolic break from past policies. Nimsick, through his promotion of the idea of resource management, and his association with the ill-fated Mineral Royalties Act, had been largely discredited in the eyes of both the industry and the press. There is little doubt that, at that point, Premier Barrett was actively

considering a Fall election, and a rapid improvement of the N.D.P.'s bad mining image was his first priority. Subsequent events would clearly reveal that it was these political aspects of the situation that were uppermost in the government's mind.

At the end of October, the new Minister of Mines made a dramatic announcement. A major new mine and the province's first copper smelter would be developed with government involvement. The mining company involved in this deal, however, was not Lornex, but Afton Mines. Afton Mines had located a small, but very rich copper deposit near Kamloops, and after a lengthy court battle, Teck Corporation had managed to gain control of the company from Placer Development.<sup>80</sup> Teck, originally based in Toronto, was a relatively junior Canadian owned resource development complex which had established itself in Ontario's silver mining industry during the 1950s. The profits earned in this enterprise allowed the company's diversification into oil and mineral development in Saskatchewan, Alberta, Quebec and British Columbia during the 1960s and early 1970s. Teck's primary objective, the company's vice president Norman B. Keevil announced in 1974, was to become the next major Canadian resource company.<sup>81</sup>

A major element in the achievement of this corporate strategy was the acquisition of a significant foothold in British Columbia's mining industry which, as we have seen, was largely dominated by Cominco, Noranda and Placer Development.<sup>82</sup>

Teck had gained a foothold in B.C. in the 1960s through the opening of a small lead-zinc mine but had been less successful in the copper industry. The Consolidated Churchill Copper Corporation, a mine in northern British Columbia, opened with substantial Teck participation but proved to be a marginal operation, and was forced to close in 1971 and again in 1975 due to low metal prices. Thus, when Teck finally acquired control of the small, but very rich Afton Mine in 1973, it moved its head office from Toronto to Vancouver and began planning to bring its new property into production, despite the presence of the N.D.P. government.<sup>83</sup>

When Gary Lauk and Norman B. Keevil Jr. of Teck jointly announced the agreement on the Afton mine and smelter project, the former outlined a generous government subsidy. In addition to a \$4 million royalty reduction for smelting within the province, Afton was to receive a payment of 2 cents for every pound of blister copper produced for four years, for a total payment of \$4.3 million. In a letter to Keevil, made public when the agreement was announced, Lauk made it quite clear that the payment did not prevent Afton from taking advantage of the benefits under any existing taxation legislation or any changes that might be made while the mine was under construction. In return for granting this "incentive", the government was given an option to purchase a 5 percent equity in the new smelter (but not the mine) for \$1.25 million.<sup>84</sup>

The announcement seemed to indicate that the N.D.P. had completely reversed its earlier position against granting outright subsidies to private corporations. The amount granted to Afton Mines was almost twice as much as the 1 cent per lb. or \$2.5 million total payment that Cominco would have received from the government under the old Copper Bounty Act.<sup>85</sup> We have seen that the new N.D.P. government had expressed its opposition to the subsidy idea by repealing this act altogether in 1973.<sup>86</sup> It could be argued that the equity option gave the government a measure of participation in exchange for its generosity, but this participation was so small that it was little more than a token. Besides, this equity was restricted to the smelting operation, which would likely be much less profitable than the new mine itself.<sup>87</sup>

Gary Lauk, of course, tried to portray this reversal as simply the fulfillment of the N.D.P.'s priority goal of providing secondary processing in the province. The government was providing an "incentive" rather than a subsidy; the former being a concession provided specifically to encourage investment and the latter, a direct grant like that given by the federal Department of Regional Economic Expansion.<sup>88</sup> The distinction, in this case however, was purely semantic and did not alter the fact that Afton would receive a direct cash payment in addition to any present or future tax breaks.

Despite the prominence given to the Afton announcement,



it did not really represent a major step towards the secondary processing of British Columbia's copper resources. In the first place, the Afton smelter was infinitely smaller than the 'world scale' smelter and refinery complex envisioned by both the Copper Task Force and the Lornex proposal. The capital costs of this latter complex were estimated at over \$180 million, while the Afton smelter would cost a mere \$25 million. The capacity of the 'world scale' plant was projected at 125,000 tons of copper per year while the Afton plant would produce only 25,000 tons.<sup>89</sup> In addition, the Afton smelter was a relatively simple design which would only be able to process the high-grade, low-sulphur ore from its own mine. It would not be able to smelt the ore from any other B.C. mine without extensive modifications.<sup>90</sup>

Thus, despite the optimism of the press that more new smelters would soon be forthcoming, and Lauk's statement that the new incentive would be available to any other company, the mining industry greeted the Afton agreement as a largely symbolic announcement. "They have got a special situation", said P.R. Mathews of the Mining Association of B.C., "The incentive is of help to Afton and it may be of a little help to others...[but] there is not yet a clear signal."<sup>91</sup>

In fact, it is possible that Lauk's accession to the mines portfolio and the agreement with Afton may have set back the progress toward a larger project. When Leo Nimsick left

the Department of Mines and Petroleum Resources the Deputy Minister, John McMynn, resigned his post and was replaced temporarily by A.L. Peel, Lauk's deputy from the Department of Economic Development. McMynn had been a main proponent of the 'world scale' copper smelter and refinery complex and was ill-disposed to the Afton project, which had been negotiated by Lauk without the involvement of the Department of Mines and Petroleum Resources.<sup>92</sup> The strains accompanying these events could only have hindered the department's work, and in any case, no more copper smelter proposals were announced during the remaining month of the N.D.P. administration.

The Afton proposal and even the replacement of Nimsick by Lauk could also be interpreted as a reluctance on the part of the N.D.P. government as a whole to become involved in a project of the magnitude recommended by the Copper Task Force. The Afton agreement may have cost the government \$4.3 million in direct subsidies, but the involvement required to bring about a 'world scale' copper processing plant would undoubtedly have been much higher. There seems to have been no reluctance on the part of the mining industry to submit smelter projects, but it is by no means clear what additional government concessions would have been necessary to bring such projects into actual production. Tax exemptions, government guarantees, and substantial government equity participation can, in the long run, prove infinitely more costly than a simple subsidy.

As Eric Kierans has warned, the growing tendency of most nations (and provinces) to demand secondary processing of resources means that governments now run the risk of simply financing excess capacity in industries like copper.<sup>93</sup>

Gary Lauk also moved quickly to accelerate the trend towards compromise on mineral legislation, a trend which was well underway before he assumed his new portfolio. In the Minister's own words:

...I had two things in mind. Politically I wanted to neutralize them as quickly as possible...and secondly, and fundamentally at that point, the cabinet was pretty well unanimous in wanting a review of our approach.<sup>94</sup>

Lauk thus initiated a long series of individual meetings with the province's major mining executives to discuss the situation first hand. These executives, though, maintained their common front, and the Minister subsequently recollected that "...most of them had discussed meeting me and discussed what they were all going to say...they didn't want this punk politician cutting anyone off from the herd so it was difficult to get a fairly honest and reflective view..."<sup>95</sup> However, some did offer their cooperation in evolving a 'fair' taxation structure.

On October 24, a formal delegation from the British Columbia and Yukon Chamber of Mines met the new minister and emerged in an optimistic frame of mind. "It takes a little give and take from both sides", commented one executive, "and he's going to have to make some changes. I think he realizes

that."<sup>96</sup> Another member of the delegation asserted that Lauk "didn't rule out changes to any piece of legislation."<sup>97</sup> The compromise, however, was entirely one sided, and a hard hitting brief presented to the Minister laid the entire blame for the unhappy state of the mining industry on the N.D.P. government.<sup>98</sup> The Chamber's brief also contained four demands which, if accepted, would virtually dismantle the government's entire mineral program. These were:

1. That the royalties be abolished and taxation be based solely on profits
2. That the right to mine be reattached to all mineral claims
3. That the discretionary powers given to the Mines Minister, Cabinet, and departmental officials be removed from all mining statutes
4. That rentals on mineral claims be abolished.<sup>99</sup>

Lauk had indicated that major changes were in the wind even before his meeting with the British Columbia and Yukon Chamber of Mines. On October 22, 1975, only one day after the Afton announcement, the Minister indicated that he would move quickly to bring in changes to the province's mineral legislation if the mining companies would delay their lawsuit. This suit, introduced in late 1974, had been stalled by legal technicalities during the first half of 1975. In September, after these obstacles had been surmounted, the trial was postponed to January 19, 1976, presumably because of the review of

mining legislation that was underway at that time. <sup>100</sup>

By far the most important aspect of Lauk's announcement was his willingness to make changes to the province's Mineral Act. In fact, he went as far as to say that quick action was necessary to alter the discretionary power of the mines department in granting production leases to private developers.<sup>101</sup> Although its significance was not noted at the time, Lauk's statement marked the first time that such change had been contemplated publicly, and was thus a basic shift in government policy. As we have seen, the unwillingness of Leo Nimsick and his departmental advisors to yield on this issue was a major stumbling block to a rapprochement between industry and government.<sup>102</sup> They considered the control given to the Mines Department under the N.D.P.'s Mineral Act amendments as essential to the government's ability to manage the province's mineral resources. This issue was more important than a division of revenue between industry and government in that it involved, in a fundamental way, the relative decision making power of the two institutions.

The mining industry made no public response to Lauk's initiative, but on November 2, the Mines Minister used the annual regional conference of the United Steelworkers of America to announce the government's next step. A special three man study team would be appointed immediately to examine "...the whole question of legislation that affects the mining

industry."<sup>103</sup> The group's wide-ranging mandate would include such things as the federal-provincial taxation question, mineral royalties, ministerial discretion, and mine safety. One member of this study team was to be the Steelworkers' area supervisor, Monty Alton, but the other two were not named. This review, Lauk claimed, was essential because of the low world price for copper and the federal government's new taxation policies.<sup>104</sup>

The remainder of the speech emphasized the government's commitment to economic development, and although he promised that environmental standards would be maintained, Lauk decried the "knee-jerk environmentalists who do not realize the importance of minerals and timber to the province."<sup>105</sup> In an interview afterwards, he reportedly indicated that an announcement would be made at the end of the year concerning the development of the Stikine copper mine in northern British Columbia.<sup>106</sup> But, the very next day, Premier Barrett called a provincial general election for December 11, 1975.

Nevertheless, Mines Minister Gary Lauk proceeded, a few days later, to name the two missing members of the Mining Review Board and reiterate its very broad terms of reference. The chairman was to be John F. Helliwell, a University of British Columbia economics professor. J. Douglas Little, the executive vice-president of Placer Development and president of the Mining Association of B.C. was to complete

the panel. Helliwell was a resource economist with a wide knowledge of the issues involved in mineral taxation, and had recently completed a major examination of the Syncrude project in Alberta. Little's position needs no further elaboration. Lauk also said that the upcoming election would have no effect on the new group's work and, a week later, Helliwell said that the review committee planned to have "recommendations of some sort" by January or February.<sup>107</sup>

Despite its overtly partisan nature, there was a large element of truth in the Province's editorial opinion that the committee was simply "...a put-up job designed to make this government look better in this cynical election campaign."<sup>108</sup> For one thing, two months was precious little time for three men to make an adequate study of this vast and complex area. Besides it is difficult to conceive of a meaningful set of recommendations to which all three members could possibly agree. Helliwell would undoubtedly use his skills to the best of his ability in addressing the taxation question, but Little's opposition to anything but a return to a tax based on profit was a virtual certainty. Also, the Steelworkers previous support of the Mineral Royalties Act would put Alton in a somewhat difficult position.<sup>109</sup> On the mine safety question the differences between union and management would be fought out with Helliwell in the middle possessing no expertise on the matter. The only certainty on the question of ministerial

discretion was the uncompromising position of the mining industry, which would certainly be reflected in Little's approach. One simply cannot avoid the conclusion that the Mining Review Commission was largely a symbolic gesture designed to defuse the whole mining issue during a critical period. A comprehensive mining review could have been carried out much more effectively by the Mines Department who at least possessed a great deal of experience and expertise in all these areas, or if an independent body was desired, by a Royal Commission.

Although the mining issue did not by any means dominate the short 1975 election campaign, it was not totally ignored. All three opposition parties had been adamantly opposed to all the N.D.P.'s mining legislation, and the repeal of the the Mineral Royalties Act had become one of the few definite Social Credit policy commitments well before an election was announced.<sup>110</sup> All but one of the sitting Liberal members had, by this time, joined the Social Credit Party, and the position of the lone Liberal, Gordon Gibson, was, if anything, even more favourable to the industry. Conservative Scott Wallace was in favour of the royalties as a general concept, but wanted them tied to the economic health of the mining industry.<sup>111</sup> The issues of regulation, resource management, and the secondary processing of resources were barely mentioned by the opposition during the election campaign.



The mining question, not surprisingly, did not play a major part in the N.D.P.'s campaign, and when asked directly about the recent policy changes, the Premier stressed the government's sincerity:

I regret we have not had in the past a very frank exchange with the mining industry that has led to productive cooperation. Mr. Lauk's initiatives are not window dressing. It is an attempt to establish a better relationship with the mining industry, perhaps on a new footing.... We are not a rigid doctrinaire administration. I think labour has found that out. I think a significant part of management has discovered that. 112

The mining industry itself was not content to sit back and simply await the results of the 1975 provincial election. The major mining companies and their representative, the Mining Association of British Columbia, did not take a public role in the campaign. They would have to deal with the N.D.P. government again if it regained power, and any overt interference would be almost certainly be counterproductive. There were allegations that the executives of the industry had donated heavily to the Social Credit Party, and while such allegations probably contained an element of truth there was no conclusive proof.

Nevertheless, one aspect of industry activity was admitted publicly. Using the leftover funds from the earlier 'mining emergency fund' and numerous donations from mining companies and other related firms, a new committee was formed to publicize the plight of the industry during the campaign.

Pamphlets and television commercials were prepared to spread the message, although an overtly 'partisan' stance was avoided. Estimates of the size of this fund ranged from \$12,500 to \$30,000.<sup>113</sup>

The British Columbia and Yukon Chamber of Mines was not quite as reticent as the Mining Association in taking a direct part in the election, and on December 5, only a week before voting day, the group called an unprecedented press conference. The Chamber's president, Robert Sheldon, said that the industry had already lost "several good years...and unless the decline is immediately reversed, British Columbia will have lost the benefit of a decade of mineral exploration.... We make no excuse," Sheldon continued, "for reemphasizing our message. Our timing--the climax of the campaign--is intentional."<sup>114</sup> The Chamber disclaimed any partisanship but urged the voters to examine carefully the platforms of the various parties. Favourable legislation, Sheldon concluded, could lead to 50,000 new jobs in mining and related industries by 1985.<sup>115</sup> A week later the Chamber's unstated wish was fulfilled, and the N.D.P. government was decisively defeated by a revived Social Credit Party.

Without a systematic analysis it is difficult to say for certain what effect the mining issue had on the outcome of the December, 1975 election. However, of the nine seats won by the N.D.P. in 1972 in ridings where mining was a significant economic factor, only two stayed with the party in 1975,

Nelson-Creston and Rossland-Trail. Although the percentage of the popular vote won by the N.D.P. in the province as a whole remained roughly constant from 1972 to 1975, it dropped significantly in these nine 'mining ridings'. In mining ridings like Kamloops and Kootenay, where the N.D.P. actually managed to increase their popular vote, the trend was offset by dramatic Social Credit gains from the Liberals and Conservatives.<sup>116</sup>

In addition it is likely that the N.D.P.'s problems with the mining industry added to a general image that the government had, in some general sense, lost control over the course of economic events. The general tendency of the mass media to blame the problems of the mining industry on the provincial government reinforced the negative image generated by such things as a troubled economy, a rumoured budget deficit, controversy over 'excessive' welfare spending and political interference with the government owned automobile insurance corporation. In electoral terms mining was simply one element in a polarization between 'left' and 'right' in the province from which the latter had emerged victorious.

## NOTES: CHAPTER 6

1. Vancouver Province, June 21, 1974, p.21.
2. Vancouver Sun, July 6, 1974, p.9.
3. Ibid.
4. Daniel J. Koenig et al., "The Year that British Columbia Went N.D.P.: Voter Support Pre- and Post-1972," B.C. Studies (Winter 1974-75):65.
5. Ibid.
6. Financial Post, July 20, 1974.
7. Ibid., July 24, 1974, p.5.
8. Canada, Energy Mines and Resources Canada, Copper, Figure 2, p.12.
9. Vancouver Province, December 10, 1974, p.17; and December 11, 1974, p.17.
10. Ibid., October 8, 1974, p.16.
11. Ibid., November 2, 1974, p.29.
12. Ibid., October 2, 1974, p.16.
13. Ibid.
14. Ibid.
15. Vancouver Sun, December 5, 1974, p.1.
16. Ibid.
17. Vancouver Province, September 7, 1974, p.1.
18. Ibid.
19. Ibid.
20. Ibid., September 10, 1974, p.4.
21. Ibid., September 11, 1974, p.20.
22. Calculated from Price Waterhouse and Co., The B.C. Mining Industry in 1975, table 6, p.80. The loss of 1.2 percent was arrived at by dividing "Earnings

(loss) after Taxes and Royalties" by "Net mining revenues." The second figure of 1 percent was calculated by adding "Royalties" and "Mineral land taxes" to "Earnings after Taxes..." and dividing by "Net mining revenues."

23. Vancouver Province, September 27, 1974, p. 26.
24. Vancouver Sun, September 27, 1974, p. 28.
25. Vancouver Province, September 27, 1974, p. 26.
26. Vancouver Sun, October 11, 1974, p. 40.
27. Ibid., October 19, 1974, p. 37.
28. Vancouver Province, October 11, 1974, p. 9.
29. Ibid., October 22, 1974, p. 1.
30. Victoria Daily Colonist, November 16, 1974, p. 6.
31. Ibid.
32. British Columbia Gazette Part II Regulations 1975, Order in Council 3958 "Mineral Designation Regulation", December 13, 1974, B.C. Regulation #827/74, p.38.
33. B.C. Gazette Part II Regulations 1975, Order in Council 4103 "Basic Value Regulations 1975," December 23, 1974, B.C. Regulation #872/74, p. 74; Vancouver Province, December 24, 1974, p.17; Vancouver Sun, December 24, p.11.  
 In reporting this upward adjustment in 'basic values', the Vancouver Sun's story contained an incredibly misleading headline and first paragraph. The former read "B.C. MINERAL ROYALTIES TO GO UP NEXT YEAR" and the article began by claiming that "Basic mineral royalty charges will rise by 11.6 percent next year because of continuing inflation. The increase in royalties announced Monday by cabinet order applies across the board...." The effect of the upward adjustment of the basic value was, of course, to lower the amount collected under the incremental royalty clauses.
34. Victoria Times, October 24, 1974, p.25; and Vancouver Province, November 27, 1974, p.44.
35. Victoria Daily Colonist, December 12, 1974, p.10.

36. Vancouver Province, November 18, 1974, p.24; November 28, 1974, p.20; and December 4, 1974, p.16.
37. Ibid., December 21, 1974, p.1.
38. Leo Nimsick, Minister of Mines and Petroleum Resources, "A Press Release," Victoria, January 14, 1975.
39. B.C., Legislative Assembly, Debates 30:5, February 28, 1975, p. 274.
40. Vancouver Province, March 1, 1975, p.18.
41. Ibid., June 24, 1975, p.6.
42. R.D. Brown, "The Fight Over Resource Profits," Canadian Tax Journal XXII (July-August 1974):322-32; see above pp. 260-61.
43. See above p.262.
44. Vancouver Province, June 28, 1975, p.18.
45. Vancouver Sun, April 10, 1975, p.11.
46. Vancouver Province, May 24, 1975, p.17.
47. Vancouver Sun, July 12, 1975, p.18; and July 26, 1975, p.15.
48. See above pp.1-2, 106-108.
49. Leo Nimsick, "N.D.P. Mining Policy and Administration, 1972-5"; Hart Horn, Interview, Victoria, October 1, 1978. According to Nimsick, his department twice recommended the replacement of the incremental royalty by a profits tax but was turned down by Cabinet. Nimsick favoured the retention of the basic 5 percent royalty.
50. Marjorie Nichols in the Vancouver Sun, March 8, 1975, p.8.
51. Vancouver Province, March 7, 1975, p.16.
52. Ibid., January 9, 1974, p.13.
53. Ibid., March 7, 1975, p.16.
54. Ibid.
55. Ibid., March 22, 1975, p.8.

56. Ibid.
57. Ibid., April 26, 1974, p.1.
58. Ibid.
59. Ibid.
60. B.C., Report of the British Columbia Copper Task Force (Victoria: N.P., 1975) p.9.
61. Ibid., p.30.
62. Ibid., pp.10 and 33-37.
63. Ibid., p.54.
64. Ibid., p.55.
65. Vancouver Province, August 6, 1975, p.15.
66. The details of the negotiations between Lornex and the N.D.P. government are surrounded by a veil of bureaucratic secrecy. However, the Vancouver Province noted that Lornex had had "a number of detailed conversations with the government, its advisers and the Copper Task Force..." Vancouver Province, October 22, 1975, p. 17. The fact that consideration of the Lornex proposal had reached a far more advanced stage than the proposals of other firms is inferred from the information presented in the following three paragraphs.
67. Vancouver Province, October 22, 1975, p. 17.
68. B.C., Report of the British Columbia Copper Task Force, p.44.
69. Ibid., p.41.
70. Vancouver Sun, September 17, 1975, p.1.
71. Vancouver Province, October 8, 1975, p.
72. Calculated from B.C., Department of Finance, Public Accounts of British Columbia, for the fiscal year ended March 31, 1976, p.A7; 1974, p.A7; 1972, p.A7; 1970, p.E9; 1968, p.E9; 1966, p.E9.
73. B.C., Department of Economic Development, Annual Report, 1974 and 1975 (Victoria:Queens Printer),

74. B.C., Department of Finance, Public Accounts of British Columbia, for the fiscal year ended 1975, p.A7.
75. See above pp.144, 155-57.
76. At the time, the Department of Mines and Petroleum Resources was trying to work out a comprehensive coal policy through the Coal Task Force chaired by Hart Horn.
77. Vancouver Province, October 4, 1975, p.1.
78. Ibid., p. 18.
79. Ibid.
80. Ibid., June 1, 1973, p.21; and December 13, 1972, p.19.
81. Ibid., June 7, 1974, p.29.
82. See above pp.32-37.
83. Vancouver Province, June 1, 1973, p.1.
84. Ibid., October 22, 1975, p.17-18.
85. Ibid.
86. See above, pp.152-54.
87. By examining aggregate data for Canadian mining, Eric Kierans showed that mining operations were far more profitable than either integrated mining, smelting and refining complexes, or smelting and refining operations alone. In 1969, net profit on income for these three classes of operations was 33, 27 and 11 percent respectively. Kierans, Report on Natural Resources Policy in Manitoba, pp. 18-19
88. Vancouver Province, October 22, 1975, p.19.
89. Ibid., pp. 17-18;
90. Ibid., p. 19. This point was emphasized by Leo Nimsick "N.D.P. Mining Policy and Administration, 1972-75," and by Hart Horn, Interview, Victoria, October 1, 1978. Both men, of course, favoured the larger world scale smelter and refinery complex proposed by the Copper Task Force.



91. Vancouver Province, October 22, 1975, p.18.
92. McMynn had chaired the Copper Task Force and thus much of his reputation was tied to its implementation. McMynn's position was strongly supported by Leo Nimsick and when the latter resigned, McMynn seems to have had little choice but to follow suit. Nimsick, in a letter to the author attributed his removal from the mines portfolio largely to differences with Lauk over the copper smelter.
93. Eric Kierans, Report on Natural Resources Policy in Manitoba, p.31. This point is raised again in the conclusion of this work. See below p.417
94. Gary Lauk, Interview with the Author, Vancouver, September 28, 1978.
95. Ibid.
96. Vancouver Province, October 24, 1975, p.19.
97. Ibid.
98. Ibid.
99. Ibid.
100. Vancouver Sun, October 25, 1975, p.26.
101. Vancouver Province, October 23, 1975, p.23.
102. See above pp.319-20.
103. Vancouver Province, November 3, 1975, p.1.
104. Ibid.
105. Ibid.
106. Ibid.
107. Ibid., November 8, 1975, p.16; and November 18, 1975, p.16.
108. Ibid., November 4, 1975, p.4.
109. See above, pp.252-59.

110. We have noted that the Social Credit Party took a strong stand against the Mineral Royalties Act almost immediately after its introduction. Its abolition had become one of the party's firm commitments by October 1974 (see above p.308). In fact, the repeal of Bill 31 was one of the few concrete campaign promises of the Social Credit Party during the 1975 election.
111. For detailed statements of the positions of the Liberal, Conservative and Social Credit parties on mining and other issues see Vancouver Province, December 4, 1975, p.4.; and December 5, 1975, p.5.
112. Ibid., November 6, 1975, p.5.
113. Ibid., November 21, 1975, p.23; and Vancouver Sun, December 5, 1975, p.18.
114. Vancouver Province, December 5, 1975, p.18.
115. Ibid.
116. These trends were observed from a perusal of the voting results in the 1972 and 1975 elections in the ridings of Atlin, Fort George, Kamloops, Kootenay, Nelson-Creston, Omineca, Rossland-Trail, Skeena, and Yale-Lillooet. B.C., Chief Electoral Officer, Statement of Votes, 1972 and 1975 (Victoria: Queen's Printer, Irregular),

## CHAPTER 7

## AFTERMATH

## I

The election of the Social Credit government in November, 1975 was greeted with enthusiasm by the province's major mining companies. "MINING LEADERS JUMP FOR JOY", proclaimed a headline in the Vancouver Province, as the industry's executives expressed their jubilation. J.D. Little of the Mining Association commented that "...in view of the statements made in the platforms of the Social Credit candidates...we can look to the future with enthusiasm and encouragement," while William St. Clair Dunn of the Chamber of Mines anticipated a close working with the new government.<sup>1</sup> Rick Higgs, the Chamber's manager added that four major new mines could be put into production fairly quickly.<sup>2</sup>

Despite this spontaneous show of enthusiasm, some executives were careful to emphasize that the mining picture was far from rosy. It was plain that the industry still faced low prices, especially for copper, so that even the most friendly government could not breath new life into mining overnight. For example, Cliff Grandson of Placer Development sought to put a damper on the Chamber of Mine's high expectations. The mining industry, he said, could take from two to ten years to recover and "...may never recover until a hospitable taxation and legal environment materializes, together with favourable markets and prospects of adequate

supplies of capital."<sup>3</sup> Sufficient capital was in serious doubt over the long term because government was simply utilizing too much of it. "However," concluded Grandison, "this is not an immediate risk and I would like to suggest that everyone make one last killing in the market and go on a long holiday."<sup>4</sup>

Grandison's general observations proved correct, and despite a brief flurry of stock market activity, the industry showed no dramatic improvement during early 1976. Valley Copper, for example, moved no closer to making its long awaited production decision despite the change in government, and the four major new mines so confidently predicted by the Chamber's manager also showed no signs of materializing. In fact, because of low prices and escalating capital costs, there have been no major metal mines commencing production in British Columbia during the three years that the Social Credit government has been in power. In mid 1975, Plato Malozemoff, the American chairman of Newmont Mining Corporation predicted that no new copper mine in British Columbia would be feasible unless world prices stabilized between \$1.10 and \$1.25 a pound. He added that when this occurred existing mines like Bethlehem Copper would reap major benefits.<sup>5</sup> However, by 1978, world copper prices remain well below that level despite the inflationary trends of recent years.

The message of the province's major mining companies

changed somewhat to reflect these changing conditions. Analyses of the state of the metal mining industry in the business pages of the press now tended to emphasize the economic rather than the political difficulties standing in the way of a return to renewed prosperity. Nevertheless, only a decisive return to a favourable legislative climate was seen capable of offsetting these negative trends. The industry's advertising campaign, which had been geared throughout 1975 to outline the benefits of mining to the economy, continued in high gear despite the change of government.

Both the concerns and the demands of the mining industry received a full public airing in June 1976 when the Chamber of Commerce organized a 'mining symposium' to run concurrently with its annual meeting in Penticton, B.C. The gathering was attended by almost every major group concerned with the industry including mining executives, officials from both the federal and provincial governments and the new Minister of Mines. Dr. Ralph Sulton, the chief economist of the Royal Bank, warned the meeting that British Columbia could lose all mining activity in four years unless the present unprofitable situation was reversed while Dr. A. Sutherland Brown, the chief geologist from the mines department said that growing revenue demands of government as well as pollution requirements were putting a squeeze on the industry.<sup>6</sup> Jean Paul Drolet, the Deputy Minister of Ottawa's department of Energy Mines and

Resources advocated a five-year moratorium of new mining taxation, while Placer's Cliff Grandison reemphasized the industry's demand for absolute freedom of access to British Columbia's mineral resources.<sup>7</sup>

## II

It is unlikely that the mining industry ever really entertained any serious doubts that the new Social Credit government would fulfill all their major demands. The man chosen by the new Premier to head the Department of Mines and Petroleum Resources was Tom Waterland, and in a move that clearly illustrated the new government's lack of available ministerial expertise in the resource field, Waterland was also given the Lands, Forests and Water Resources portfolio. The new Minister had been a resident engineer for the Department Mines and Petroleum Resources in Kamloops, B.C. and, in 1974, his strong opposition to the policies of the N.D.P. government had prompted him to write to the leaders of both the Social Credit and the Liberal Parties that "...British Columbia and your political parties cannot afford the luxury of a split 'Free Enterprise' vote....We cannot afford another term of socio-communism."<sup>8</sup> Waterland also advised Bill Bennett that "...if you need a candidate with a good mining background for the next election please let me know." and the latter took up the offer when the provincial election was called in late 1975.<sup>9</sup> Not surprisingly, Waterland's first statement on

assuming his new portfolio was that mineral royalties would soon be abolished.<sup>10</sup>

In the middle of January, Waterland elaborated his commitment to the mining industry in an enthusiastically received address to the annual meeting of the British Columbia and Yukon Chamber of Mines. The government would repeal the Mineral Royalties Act and replace it with a profits-based on tax as soon as it determined the taxation level necessary to assure a healthy industry. In addition, Waterland vowed that he would "...remove as much ministerial discretionary power as possible from all mining legislation in order to ensure that the "right to mine...be predicated on strict adherence to existing and future laws." Although the new Minister claimed that he would not be dictated to by the mining industry, the government's sole aim was to ensure a healthy, privately owned industry.<sup>11</sup> A few days later, the lawsuit against the N.D.P.'s mineral taxation legislation was postponed by mutual agreement while the government devised its new legislation.<sup>12</sup>

During the Spring of 1976, Tom Waterland's close relationship with the mining industry became somewhat of an embarrassment to the new government. The first incident occurred in April when the Mines Minister attended a meeting of 200 business leaders held to form a new 'mining support group'. The members of this new group were companies dependent

on the mining industry, and its purpose was to convince the populace that, in effect, what was good for mining was good for the province. Waterland urged the group to join forces with forestry support groups and produce a "...really good, proud and informative campaign." <sup>13</sup> Much of the controversy surrounding this incident, was produced by the fact that a proposal for a massive advertising campaign was put forward to the meeting by Ian Fothergill, the son of Waterland's executive assistant Bill Fothergill. The close association of Waterland with the 'mining support group' was strongly criticized by the N.D.P. and even Liberal Gordon Gibson, who supported the trend toward cooperation with the mining companies, condemned Waterland's actions as a clear conflict of interest. <sup>14</sup>

The next major controversy occurred shortly after Waterland had finally introduced his new Mineral Resources Taxation Act. On June 16, 1976, Gary Lauk charged that Jurgen Lau, a director of Barrier Reef Resources, had helped draft the Minister's new legislation and had seen a copy of the Bill before it was introduced into the Legislature. Lau readily confirmed the allegations but Waterland only admitted Lau's involvement after both the latter's 'confession' and extensive questioning in the Legislature. <sup>15</sup>

The substance of the Social Credit Party's new mining legislation was far more important than the controversy



generated by either the 'Fothergill' or the 'Lau' affair. On June 4, Waterland introduced two major bills to the Legislature, Bill 57 the Mineral Resource Tax Act and Bill 30, a sweeping set of new Mineral Act amendments. The new Mineral Resource Tax Act, in effect, replaced both the N.D.P.'s Mineral Royalties Act and the old Mining Tax Act with a straight 17.5 percent tax on the net income of a mine.<sup>16</sup> The incremental royalty sections of the old Mineral Royalties Act would end on April 10, 1976, and the entire Act, at the end of the year. However, the royalties paid in 1976 could gradually be deducted from the new Mineral Resource Tax at a rate of up to 1/3 of the new tax each year.<sup>17</sup> Thus, the province had reverted to the old mining tax at a rate 2 1/2 percent higher than that which existed in 1972.

The new mineral tax also contained provisions for what can only be termed a very generous set of tax deductions. For the purposes of determining income under the Mineral Resources Tax Act, a company could claim virtually all the deductions allowed under the federal Income Tax Act including the earned depletion allowance, all exploration and development within the province, all production assessments under the Mineral Land Tax Act, and a return to capital equal to 8 percent of a mine's undepreciated capital cost. The last deduction was restricted to between 15 and 65 percent of the income remaining after all other deductions.<sup>18</sup> If a company disagreed with its

assessment under the Act, it had a full right to appeal to Cabinet and then to the Supreme Court of British Columbia. In this case the company would not even have to worry about disclosing any of its financial information in court, since the Act also provided for a closed trial if any of the parties requested it.<sup>19</sup>

The new law, of course, was welcomed by the province's mining executives when Waterland flew to Vancouver only hours after its introduction, to outline it to them. J.D. Little of the Mining Association noted that the new combined federal provincial tax rate of 57 percent was "...still excessive in comparison with other industries--particularly manufacturing where the tax rate is 42 percent--but this tax rate is comparable with taxes levied on mining in other parts of Canada..."<sup>20</sup> Little neglected to mention that the manufacturing industry did not enjoy the wide-range of income tax deductions available to mining.

The New Democratic Party, again as might be expected, was less than enthusiastic with the new Bill. Although the Social Credit leadership managed to rush Bill 57 through second reading when the entire N.D.P. opposition was away at their annual convention, the committee stage produced some bitter criticism. The party's mining critic, Gary Lauk, observed that:

...the Minister has swung the pendulum from one side of the taxation structure drastically to the other. It seems to me that the old Mineral Royalties Act perhaps needed some changes...But now...the mining producers in this province who come under this act pay less tax today than they paid under the previous Social Credit administration...It is a total and complete sellout.<sup>21</sup>

Opposition leader Dave Barrett, in a lengthy and impassioned attack charged that "the god-given resources of this province are being handed over holus-bolus to the mining companies" leaving the taxation burden solely on the backs of the ordinary citizen.<sup>22</sup> For the lone remaining Liberal in the Legislature, Gordon Gibson, the only thing wrong with mining in the province was "...the nonsensical, dogmatic, stupid approach of the N.D.P. that is terrifying people in the mining industry."<sup>23</sup> In June, Gibson had even offered to attend the N.D.P.'s convention in order to educate the party on an appropriate mining policy. "Mind you," added Gibson, "I won't be buying any of their ideas."<sup>24</sup>

Bill 30, an act to amend the province's Mineral Act was introduced by the Mines Minister along with his tax changes. This Bill was every bit as wide-ranging as the Mineral Resources Tax Act in that it virtually eliminated the 'resource management' policies developed by Leo Nimsick and his advisors. The 'right to mine' was restored to holders of a valid 'free miners certificate' and to the holders of all mineral claims, while the fees for holding such claims were reduced substantially.<sup>25</sup> By far the most important change was the

repeal of section 64 of the Act which, as we have seen, required mining companies to obtain ministerial approval of a detailed production plan before commencing operations. In its place a much more lenient clause was drafted requiring only that:

Reports shall be submitted to the Chief Gold Commissioner in the prescribed form and manner setting forth all technical data gathered during the exploration and development of the leasehold prior to the time the application is submitted.<sup>26</sup>

In addition, the power of the Mines Minister to cancel a mining lease or suspend production on it if the Act or its regulations were contravened and his right to approve all transfers of mining leases were all abolished. Needless to say, the ability of the government to acquire an interest in new mineral developments was also removed. The net result of all these changes was that the Mineral Act no longer gave the provincial government the power to regulate new mining developments or impose any conditions not already required by other statutes like the Pollution Control Act or the Mines Regulation Act.

The most surprising aspect of the Social Credit's Mineral Act amendments was the N.D.P.'s support of them. In direct contrast to the party's stand on the taxation question, Gary Lauk expressed the opinion that:

It's not a bad bill, particularly having regard for the personality who occupies that present office....

These are changes which reflect the need of securing a greater understanding with the mining industry. That was begun under the previous administration and would have been completed. We don't agree with all the amendments, Mr. Speaker, but we agree with enough of the amendments that the opposition will support the bill in second reading.<sup>27</sup>

The N.D.P. also supported it in both the committee stage, where it was approved without debate, and at third reading when it was passed without dissent. Now that those who had originally initiated the N.D.P.'s 'resource management' policies had all departed from the scene, there was no inclination on the part of the party's present spokesmen to defend their approach.

This repudiation of the N.D.P.'s previous approach was confirmed when the Social Credit government introduced an entirely new and simplified Mineral Act in 1977. In general terms, this Act reaffirmed the status that the 'free miner', ensured his access to the province's mineral resources, and removed the last vestiges of production regulation. The new section governing mining production contained only two sections requiring any prospective producer to have his claim surveyed and pay the required fees and rentals. In addition, section 117 of the old Mineral Act giving the government the explicit right to impose royalties on any mineral lease or crown grant issued after May 1, 1948, was not retained in the new act.<sup>28</sup> We saw in Chapter 3 that the Liberal-Conservative coalition

deliberately added the section so as not to forfeit its right to mineral royalty payments and it will be interesting to see how such a move will affect any future government attempt to collect royalties on crown granted lands.

Despite the new Mineral Act's virtual restoration of the mining status quo in the province, Graham Lea of the the N.D.P. called it "...generally housekeeping legislation..." and the party approved the Bill on second reading.<sup>29</sup> The new Act did run into some heated opposition during the committee stage but it was almost exclusively concerned with the lack of applicablility of the new legislation to sea bed mining and the question of mining in provincial parks.<sup>30</sup> This last controversy was based entirely upon the N.D.P.'s suspicions about the Social Credit government's underlying attitudes toward the sanctity of parks since the N.D.P.'s original clause that "...no person shall explore for or develop minerals within the boundaries of any park...unless authorized by the Lieutenant Governor in Council on the recommendation of the person, corporation, or government that it is responsible for the park" was virtually the only one that was retained in the new Act.<sup>31</sup> When the Bill finally reached third reading there was no N.D.P. opposition to it.

One major piece of N.D.P. mining legislation that did survive the Social Credit onslaught was the Mineral Land Tax Act.. Its retention was apparently due to the fact that the

substantial coal royalties collected from Kaiser Resources relied upon this Act for their legality. Although the new government lowered these royalties it did not want to forfeit them altogether.<sup>32</sup> The sections of the Act which imposed the equivalent of a royalty on metal mines were, in effect, negated by the wording of the Mineral Resources Taxation Act. In fact, the Mineral Land Tax Act was amended in 1977 to strengthen it and ensure that it was immune from a continuing legal challenge from a number of mining companies. Despite this one exception it was clear that the N.D.P.'s metal mining policy had been completely dismantled.

## NOTES: CHAPTER 7

1. Vancouver Province, December 12, 1975, p.9.
2. Ibid., December 13, 1975, p.20.
3. Ibid., December 12, 1975, p.24.
4. Ibid.
5. Ibid., June 13, 1975, p.19.
6. Ibid., May 31, 1976, p. 15; and June 1, 1976, p.12.
7. Ibid., May 29, 1976, p.17; and June 1, 1976, p.12.
8. G.L. Kristianson, "The Non-partisan Approach to B.C. Politics..." B.C. Studies 33 (Spring 1977):19 (emphasis original).
9. Ibid.
10. Vancouver Province, December 23, 1975, p.1.
11. Ibid., January 14, 1976, p.1.
12. Ibid., January 20, 1976, p.9.
13. Ibid., April 14, 1976, p.17.
14. Ibid., April 28, 1976. p.44.
15. B.C., Legislative Assembly, Debates, 31:1, June 9, 1976, pp.2698-2713, 2723-29 and 2730-59; Vancouver Province, June 17, 1976, p.1.
16. B.C., Statutes, 1976, Chapter 31, "Mineral Resources Tax Act," Section 2. Unlike the Mineral Royalties Act, the Mining Tax Act was not repealed. The definition of 'mineral' under that act was simply changed so that no mineral coming under the jurisdiction of the new Mineral Resources Tax Act was subject to the old law. Ibid., Chapter 31, section 45.
17. Ibid., section 2.
18. Ibid., section 5.
19. Ibid., section 26.



20. Vancouver Province, June 5, 1976, p.18.
21. B.C., Legislative Assembly, Debates, 31:1, June , 1976, p.3351.
22. Ibid., p. 3357.
23. Vancouver Province, July 2, 1976, p.8.
24. Ibid., June 3, 1976, p.10.
25. B.C., Statutes, 1976, Chapter 30, "Mineral Amendment Act, 1976," sections 5, 6 and 12.
26. Ibid., section 23. For the text of the repealed section 64, see above, pp.158-59.
27. B.C., Legislative Assembly, Debates, 31:1, June 9, 1976, pp.2504-5.
28. B.C., Statutes 1977, Chapter 54, "Mineral Act."
29. B.C., Legislative Assembly, Debates 31:1, August 16, 1977, p. 4642.
30. Ibid., August 26, 1977, pp.4973-93; August 29, 1977, pp.5050-61; and August 30, 1977, pp.5068-76.
31. The relevant clause occurred in B.C,Revised Statutes of British Columbia 1960, Chapter 244, section 12(1a), as consolidated in 1974; and Statutes 1977, Chapter 54, section 7. The only other major N.D.P. amendment retained in the new Mineral Act was the restriction of the 'free miners' certificate' to Canadian residents and corporations.
32. Suggested by Hart Horn, Interview, Victoria, October 1, 1978.

## CHAPTER 8

## CONCLUSION

The attempt by the New Democratic Party to change, in a permanent way, the conditions under which British Columbia's mineral resources are exploited can only be judged a failure. Its taxation policy, as embodied in the Mineral Royalties Act, was found to be untenable almost as soon as it was passed in the legislature, and there is little doubt that the Act would have been abandoned even if the government had not gone down to defeat in 1975. The question as to whether the N.D.P. government would even have retained a royalty system for metal mines in any form cannot be answered for certain, but the evidence seems to indicate that it would not. Hart Horn, a former Associate Deputy Minister in the Department of Mines and Petroleum Resources, has indicated that a return to a profits-based tax on mining was being actively considered during 1975, but of course, the preparation of alternative courses of action is one of the principle tasks of bureaucracy.<sup>1</sup> A more concrete indication is provided by Gary Lauk, the former Minister of Mines and Petroleum Resources, who has subsequently asserted that he opposes even the principle of royalties.

In the mineral field, I would reject royalties on the basis that the costs of production from project to project are so variable...We have to have something that

could take into account the costs involved, therefore a royalty off the top would seem to be precluded and one would have to look at a system where we could determine for each project what is a fair return on investment...<sup>2</sup>

Thus, the return by the new Social Credit government to a tax system similar to that which prevailed during the 1950s and 1960s was an extreme manifestation of a trend which was already well underway. The statements made by N.D.P. policy makers since 1975 give the distinct impression that the Mineral Royalties Act is not viewed as one of the party's major achievements.

The policies that the N.D.P. government formulated to regulate new mining developments in the province were equally unsuccessful in producing any kind of lasting change. Like the party's taxation initiatives, these policies were under active reconsideration after Gary Lauk assumed the mines portfolio, and the N.D.P. would undoubtedly have moved at least some of the distance toward the position eventually adopted by the Social Credit government. Although the policies contained in the N.D.P.'s 1973 Mineral Act amendments were vigorously defended by the policy makers in the Department of Mines and Petroleum Resources, they do not seem to have been wholeheartedly adopted by the government. This ambivalence became evident when these 'resource management' policies became an obstacle to the re-establishment of a cooperative relationship between industry and government, and it was

confirmed by the lack of opposition on the part of the remaining N.D.P. members of the legislature when the new Social Credit government dismantled these policies. It is interesting to note in this regard that the regulation of new mining developments was the least emphasized aspect of the N.D.P.'s 1972 policy platform on mining.<sup>3</sup>

By contrast, the diversification of the mining industry away from a reliance on the export of primary product was a central plank of the N.D.P.'s platform well before its election in 1972. Because of the detailed study that was necessary before the problem could even begin to be approached in a meaningful way, the active promotion of secondary processing in the mining industry occurred relatively late in the government's term of office. Thus, the initiatives in this area were affected by the political considerations which inevitably arise when a government begins to look toward a election .

These circumstance make it difficult to assess the policy itself . There can be little doubt that the arrangement that the government made with Afton Mines was such a small step on the road to secondary processing of copper as to be virtually meaningless except as a political gesture. Whether or not any more substantial projects of this kind would have gone ahead had the N.D.P. retained power is a question that simply cannot be answered. The continuously bad

state of the world's metal markets since 1975 would have made the construction of a 'world scale' copper smelting and refining complex a difficult task at best, even with substantial government involvement. In any case, the present Social Credit administration has yet to express any active interest in this direction.

There are a number of fundamental reasons for the N.D.P.'s almost total lack of success in the mining field, and together they illustrate quite clearly some of the constraints facing governments in the area of economic policy. The rest of this chapter will be devoted to an examination of this general question from three points of view. These are the power that the mining industry has been capable of bringing to bear on its own behalf, the factors that limited the government's ability to implement its policies effectively, and the weaknesses inherent in the policies themselves. These three perspectives are, of course, intimately interrelated, but they can be better understood if they are treated separately.

## I

If one overriding tendency is discernible in the history of the mining industry in Canada, it is the power and influence wielded by the large, privately owned resource companies. H. V. Nelles, in his detailed history of resource politics in Ontario prior to 1940, traced the success of these companies

in using the state to facilitate their exploitation of the province's timber and mineral resources. In fact, Nelles asserts that the ownership of the public domain by the province actually increased the sensitivity of successive Ontario governments to these special interests. Thus, in the area of mining, the companies:

...began by demanding that the state give up its proprietary pretensions entirely. They very quickly won for themselves a form of tenure more in keeping with the American pattern. As far as taxation was concerned, the miners eventually brought a stabilizing influence to bear upon the government after some dubious experiments with leases, royalties and even public ownership... In mining it would seem that the regulated group experienced greater success in bringing the regulator under control than the other way around.<sup>4</sup>

In British Columbia, the comfortable position enjoyed by resource companies has, if anything, been more pronounced. Unlike Ontario, forestry and mining in British Columbia have provided virtually the sole economic foundation for the province, and thus the health of these industries has been almost inseparable from that of the economy as a whole. Martin Robin has asserted that these economic relations have had a pervasive effect on the political life of the province:

The British Columbia government ...is and has been in the position of being the grantor and regulator of the greatest material prizes this economy has to offer. No more evidence of the hypertrophy of the acquisitive spirit in British Columbia is needed than the fact that industrial magnates have striven, in large measure successfully, to acquire governments as well as economic resources...Investment in politics in British Columbia has always been good business.<sup>5</sup>

This was certainly true in the mining industry where the sole purpose of government taxation and regulation up to the mid-1950s seems to have been to facilitate the exploitation of the provinces mineral resources by private firms. The relatively mild reforms to mining legislation brought down by the Social Credit Government were quickly blocked by the companies affected by them, and the cooperative relationship between state and industry continued through the 1960s.

On the federal level, the mining companies were equally successful in promoting their interests, and in the early 1950s, managed to have a variety of tax concession made a permanent part of Canada's Income Tax Act. The extensive series of deductions from mining profits embodied in the Income Tax Act were really nothing less than a substantial government subsidy to the industry, and when these generous terms were finally questioned by the Carter Commission's report, the industry was able to prevent a great many of its proposals from becoming law. A good part of this success was due to the ability of the industry to exploit its historically close relationship with many provincial governments so that mining reform became a controversial federal-provincial issue.<sup>6</sup>

However, the increasing activism of both federal and provincial governments in the resource field in the early 1970s led at least one observer to conclude that the success of the mining industry as an interest group had reached its

culmination with the fight against the Carter proposal. According to Donald V. Smiley, "these events confirmed the industry as a client of the various provinces and this client relationship seems to me reflected in the manifest inability of mining to mount an effective resistance to more recent provincial policies unfavourable to its interests."<sup>7</sup>

In the case of British Columbia at least, Smiley's judgement was premature. As the preceding account has illustrated, the mining industry has been quite successful in preserving its interests even against a hostile 'socialist' government on the provincial level. The relatively unsympathetic stance of the new N.D.P. policy makers was simply compensated for by enlarging the scope of the issue from the sphere of private interaction to the level of a full scale public controversy. Once the mining issue was raised to this level, the companies could employ an impressive array of methods to pressure the government into retreating from its position.

Any explanation of the remarkable success of the large mining companies as an interest group must begin with a consideration of their position in Canada's economic structure. From the earliest days Canada's economy has been based largely on the exploitation of staples or primary products like furs, timber, fish, wheat, minerals, and petroleum. Thus the country's economic position has been that of a hinterland to



two major metropolitan powers; Britain in the 19th century and the United States today.<sup>8</sup>

Because of the rapid development of major new technologies and an accelerating world arms race, mining became an important industry in Canada soon after the turn of the century. Its growth coincided with a tendency toward increasing corporate concentration in both Europe and North America, and this concentration was given further impetus in mining with the development of large scale capital intensive mining methods and an increasing trend toward vertical integration. Thus these developments had two effects in Canada. They created the mining industry as an important sector of the economy, and almost simultaneously, resulted in its domination by a relatively small number of very large companies. The American owned International Nickel Co gained control of the overwhelming proportion of Ontario's nickel deposits, Noranda established its domination in all phases of the copper industry, while Canadian Pacific, through Cominco, gained control over British Columbia's lead and zinc deposits. These large Canadian and foreign companies, have been able to maintain their tight hold over the mining industry during this century through both direct expansion and participation in other companies. Thus there are a few mining ventures in Canada in which the 'majors' have not participated. In Chapter 2 we saw that the opportunities presented by the recent

Japanese demand for British Columbia's minerals have been taken up almost exclusively by these large mining companies.<sup>9</sup>

The political leverage that this dominant economic position has given the mining companies is substantial, and it has taken a number of different forms. These companies have historically had two broad aims in their relationships with government; first to preserve for themselves the maximum degree of autonomy within which to pursue their own interests, and second, to obtain the maximum level of financial benefit through either preferential tax treatment or government subsidies. The first of these aims has been pursued within the context of an ongoing relationship with the administrative arm of government. This was particularly true in British Columbia, where the legal structure governing the access of private companies to the province's mineral resources remained remarkably stable until the late 1950s. In general terms, a close 'clientele relationship' between a particular interest group and a permanent government department will give the 'client' group a definite series of advantages. It is assured a continual access to the governmental process and it will thus be able to utilize the existing regulatory structure. To the extent that changes in this structure are developed within the regulating department, the group will be able to express its opposition well in advance. The scope and strength of these advantages will be affected not only by group attributes

like size, physical resources and organizational cohesiveness, but by its possession of highly valued information.<sup>10</sup> In the words of one writer on the subject:

It appears that civil servants grant recognition to interest groups primarily because these groups possess valuable knowledge and experience. One of the consequences of this emphasis on expertise is that civil servants will interact most frequently with those interests which must themselves be most diligent in producing and acquiring information in the ordinary pursuit of their own affairs.<sup>11</sup>

Thus much of the literature on interest groups and the regulatory process has concerned itself with the tendency of regulatory bodies to become mere captive agencies of the interests that they are supposed to regulate.<sup>12</sup>

The mining industry in British Columbia has enjoyed all these theoretical advantages in its relationship with the Department of Mines and Petroleum Resources. The concentration in the mining industry has meant that the relatively small number of men who direct the affairs of the major mining companies are able to bring to bear considerable physical and organizational resources. The mining industry's position as the province's second largest industry represents a substantial concentration of physical resources, and its virtual monopolization by fewer than ten large companies means that they are employed in a highly organized manner in both the economic and the political spheres. When this organization is applied to the industry's political goals, its interest groups act as

agencies through which these common aims can be effectively coordinated. The economic position of the established mineral producers means that their interests vis-a-vis government are virtually identical while the small numbers of individuals involved makes the effective co-ordination of these interests a relatively simple matter. The membership of the Mining Association of British Columbia consists of the province's major producers and thus its executive is entirely composed of the executive officers of large companies like Noranda, Placer, Cominco and Newmont Mines. The tendency of the executive positions to rotate on a year by year basis undoubtedly contributes to the sense of group solidarity as well as providing these business leaders with a direct exposure to the political process.

The British Columbia and Yukon Chamber of Mines has a much more diverse membership than the Mining Association, but the economic dependence of prospectors, mining promoters and small mining companies on the activity of the larger companies leads to a close coincidence of interests vis-a-vis government. The executive of the large mining companies are also prominent among the executive officers of the Chamber of Mines. Finally, there is a tendency for the two groups to co-ordinate their activities when an important issue is at stake. During the controversy over the N.D.P.'s mining legislation in British Columbia one of the two mining interest groups was sometimes

present when the other attended formal meetings with government officials, and their positions seem to have been carefully worked out in advance. None of the conflicts between government and the mining industry examined in this work shows any significant difference of opinion between either mining companies or their interest groups.

Like most other business and professional groups, mining companies amass a great deal of information and expertise in the day to day pursuit of their economic self-interest. Knowledge concerning such things as the precise economic state of producing mines, the value of discovered mineral deposits, and the viability of new projects is usually the exclusive preserve of the companies themselves. This is particularly true when a mining operation is the wholly owned subsidiary of a larger company, and even the basic financial information is not released. The officials of provincial departments of mines are simply unable to function effectively without the day to day co-operation of those who control the major mining companies.

Not only do government policy makers depend on the large privately owned mining companies for much of the information that they need, but they also rely on these companies to carry out their publicly defined mandate. This situation arises because the mandate of provincial departments of mines has been formulated almost exclusively in terms of encouraging mining

development while the privately owned companies have been relied on to produce this development. In such a situation the principle criterion of public policy becomes its acceptability by these companies.

This situation has been encouraged by the cyclical nature of the mining industry. Most mineral deposits are only viable for a relatively short time period (generally about 20 years for most B.C. mines). This means that a healthy industry in any area like British Columbia is dependent upon a continual series of investment decisions on the part of private companies. The principle criticism of the N.D.P.'s mining policy in 1974 and 1975 was not that major mines were closing down, but that no new ones were being established to replace the closures and provide for future growth. This situation is unlike that which prevails in many countries in Africa and South America, where the discovery and monopolization of extremely large mineral deposits by multinational corporations has led to pressure for nationalization.<sup>13</sup>

The net result of all these factors is that the Mines Department in British Columbia became little more than a service agency for the privately owned industries. This is not to say that its regulatory activities were non-existent. The area of mine safety and working conditions have been regulated by the Mines Regulation Act throughout this century,

and in 1969, amendments to this act gave the Mines Department some control over the reclamation of open-pit mines.<sup>14</sup> By and large, however, activities of the Department have been confined to gathering geological information for use by prospectors and exploration companies, helping to construct mining roads to provide access to newly discovered deposits, registering mineral claims, and granting production rights to mining companies holding these claims. The dominant position of the companies led to a strongly developed sense of institutional autonomy. Mining executives considered their unimpeded use of crown lands as a basic right and this attitude was stated with particular force after the relationship between the industry and the state was altered in 1957.

The change from the grant to the lease as a method of alienating crown lands was vigorously condemned because the industry had not been consulted in advance. By applying a great deal of public pressure on the government, the mining companies were successful in gaining a direct formal voice in determining how this new lease system would operate and were thus able to minimize its impact.<sup>15</sup> The principle of institutional autonomy was emphasized even more forcefully in response to the more substantial changes instituted by the N.D.P.

The following statement, made in 1974, by Gerald Hobbs, the president of Cominco, is interesting because it reveals

both the strength of this feeling of autonomy and the lack of acceptance of the mineral lease principle more than fifteen years after its introduction:

Bill 31 is an example of the increasing tendency of governments to alter unilaterally, many of the social contracts that traditionally have bound society together....The government of British Columbia appears to be basing legislation on the principle that mineral holdings are no longer the property of the owner, but in fact belong to the Crown and are only rented to the title holder. This creates a new set of uncertainties. 16

The Mineral Act amendments brought down by the N.D.P. and the 'ministerial discretion' that they created were objected to so strongly because they gave government officials the power to make and enforce decisions in areas which had previously been the exclusive preserve of the mining companies.

In trying to assure itself of a favourable tax climate, the mining industry could not rely exclusively on its position as a relatively autonomous interest group facing a small government department. Taxation policy has not generally been made within the confines of the mines department, but by government as a whole, and is often introduced as part of an overall budget. Many of the attributes of the mining companies as an interest group; their important economic position, their substantial resources, and their highly developed organization have proved just as effective in their dealings with cabinets as they have with departmental officials. Our account of the activities of these companies has shown that they have had no difficulty in organizing authoritative, well prepared dele-



gations to meet cabinets on both the federal and provincial levels. They have also had an ability to create ad hoc committees almost instantaneously to pursue specific political objectives. This formal influence is also exerted at the level of federal-provincial negotiations, where the industry has formal representation at the annual Mines Ministers Conference and on its six continuing subcommittees.<sup>17</sup>

In pursuing its position on taxation, however, the mining industry has had to justify publicly its desire for a favoured status. Thus, the industry has never been reluctant to portray mining as providing employment, creating the basis of a modern industrial economy, and opening up new areas to development and human settlement. As noted in chapter 3, this last contribution to society was particularly valued in British Columbia where geography rendered the traditional pursuit of agriculture ineffective in opening up many areas of the province. However, these benefits are by no means clear cut. Mining has become increasingly capital intensive during this century, and although mining may open up virgin territory to settlement, it has been less successful in providing a permanent economic base. The numerous 'ghost towns' in British Columbia emphasize the fact that mining has not taken the place of agriculture in permanently expanding the areas of human settlement. Finally, it is by no means clear that the development of mining, in itself, has contributed substantially to the creation of secon-

dary industry in Canada. In the United States, mining has been encouraged in order to ensure a supply of raw materials for the world's largest industrial machine, but in Canada, it has been argued that similar policies simply perpetuated the country's dependence on the export of primary products.<sup>18</sup>

Instead of attempting to provide a detailed analytical defence of the economic benefits of mining, the industry has generally tended to emphasize mineral extraction as a public good in its own right. Bucovetsky calls this position "Mineral Fundamentalism" and explains its impact in the following way:

'Mineral Fundamentalism' is a lineal descendant of physiocratic economics that still has considerable currency....The least sophisticated versions of... [this] view seem to imply that since there are undiscovered minerals in the good earth of Canada, it would be wasteful not to unearth them. If costs exceed commercially valued benefits, so much the greater reason for public subsidy by tax preferment or otherwise. While not going that far, currently respectable versions of this view retain the physiocratic mystique. Minerals are something special whose exploitation merits special encouragement.<sup>19</sup>

The historical reliance of the Canadian economy on the exploitation and export of various primary products meant that these physiocratic premises were largely shared by politicians and other business interests. The ready acceptance of the tenets of 'Mineral Fundamentalism' by public policy makers thus formed the virtually undisputed framework for mineral taxation into the 1950s and is still important today.

Before the challenges of the 1960s, the political activi-

ties of Canada's major mining companies were carried on largely through regular interaction between the industry and the executive and bureaucratic levels of government. The acceptance of the tenets of 'Mineral Fundamentalism' by those in positions of power meant that this form of interest articulation was sufficient to protect and enhance both the autonomy and the favoured tax position of the mining industry. Starting in the late 1950s, public policy began to be formulated on different assumptions, and the mining companies faced a major challenge to their position. In British Columbia, a new Social Credit government soon came to realize that the laissez-faire approach of the past had not produced widespread industrialization. The fact that the increase in British Columbia's mineral production was the lowest in Canada during the 1940s and 1950s meant that these policies had not even been successful in promoting growth in mining itself. This threat to the established position of the industry was followed, ten years later, by the report of the Carter Royal Commission, which raised a number of fundamental questions concerning both the equity and the effectiveness of the tax concessions enjoyed by mining companies. In British Columbia, the debate over the Carter recommendations was followed, almost immediately, by the election of an N.D.P. government committed to a basic re-examination of mining policy.

Thus, the old lobbying methods were no longer effective

in dealing with these new challenges to the position of the mining companies. The industry had to assume a much more public profile, and mining became a hotly debated political issue. Writing in the context of American politics, E.E. Schattschneider has asserted that one of the most critical variables affecting the outcome of any political conflict is its scope. This situation arises because the resources of the contending groups are never fixed in advance, but change as the level of involvement in an issue increases. Thus, an established interest group may enjoy almost complete success in its day to day interactions with the bureaucracy or the political executive, but may find its position undermined when it has to defend it in the public arena. The expansion of the conflict may bring other interests into play, and thus critically alter the balance between the contending parties. Schattschneider concludes that much of American politics is only comprehensible as an attempt to manage the scope of conflict.<sup>20</sup>

The fundamental reconsideration of mining policy that occurred on both the federal and provincial levels had the effect of enlarging substantially the scope of the debate. But, by and large, this change did not lead to a corresponding shift in the balance of the contending forces because the mining industry was just as successful in pursuing its objectives in this enlarged public arena. Through the mobilization

of a wide variety of interest groups and a skilful public relations campaign, the industry was able to react to the enlarged scope of the conflict by bringing different types of pressures to bear on those developing government policy. These techniques did not supplant the earlier direct lobbying of government officials, but merely supplemented it, and thus rendered it more effective.

The ability of the the mining industry to mobilize a wide array of interest groups in support of its cause has a number of aspects. One major one is the importance of the industry in providing the primary economic base for many of Canada's regional centers. In accounting for the success of the mining companies in their campaign against the Carter Commission's tax reform proposals, M.W. Bucovetsky saw this "geographical localization" as of critical importance:

The mining and petroleum industries can bring intense political pressure to bear because mining shapes so many regionally distinct communities. Where mining exists it tends to dominate....localized industries are able to mobilize regional opinion beyond even the purely economic interest of the region. At the base of the success of the mining and petroleum industries is their success in identifying their own prosperity with the prestige of particular regions, generally the less-developed regions of Canada.<sup>21</sup>

In the case of British Columbia, this factor was of at least equal importance on the provincial level. As noted in chapter 3, one of the major reasons for the Social Credit government's retreat from its early mining reforms was the effect that these policies had on the party's support in the

outlying regions of the province. When the N.D.P. introduced its much more wide-ranging reforms, the substantial gains made by the party in these same regions in 1972 were directly undermined. The Mineral Royalties Act provoked embarrassing petitions calling for the resignation of N.D.P. members of the legislature from these regions, and the party lost heavily in the province's 'mining ridings', both in the federal election of 1974 and the provincial election of 1975.<sup>22</sup>

Another major source of organized support for the mining companies is the business community in general. Part of the success of the industry in mobilizing support within this important group is undoubtedly due to its regional base. In British Columbia, the entire business community in many of the province's regional centers is dependent upon the wealth generated by mining and thus it has tended to support the positions taken by the industry. However, the support of the business community goes well beyond merely regional concerns. As noted in chapter 2, there is a significant sector of business in the metropolitan Vancouver area which depends directly on the activity of the major producing companies. Small mining and exploration firms, investment brokers and suppliers of all kinds have a direct interest in the fortunes of these companies. In addition, the large producing companies have directorship links with numerous other businesses in British Columbia and Canada as a whole, and there is thus a

tendency to view measure affecting mining as 'anti-business in a more general sense. In fact, the mining reforms, both in British Columbia and on the federal level have tended to unite rather than divide the business community as a whole.

Because of the prominent position traditionally enjoyed by business in Canada, this unity has been an important factor in explaining the ability of the mining industry to pursue its goals in the political arena. In most cases where government in Canada has attempted to impose its will on important private interests, it has had the active support of other business groups. A striking example of this tendency was the heated political battle over nationalization of hydro power in Ontario, where the desire of the manufacturing interests for cheap and abundant power allowed the provincial government to overcome the opposition of the Canadian financial establishment.<sup>23</sup> Similarly, in British Columbia, Premier Bennett's nationalization of the privately owned power companies was supported by a significant segment of the business community, who supported the Premier's plans for major new hydro developments.<sup>24</sup> In mining, however, even the initiatives taken by the Social Credit government in the 1950s to increase the level of mining activity in the province did not gain the support of any significant segment of the business community. During the N.D.P.'s term in office, this element was even more pronounced because the changes to mining legislation were introduced by a govern-

ment which was considered by many businessmen to be generally anti-business.

Because of the important role played by private corporations in the country's major political parties, and the solidarity of business on the mining question, there has always been a significant group of elected politicians who have consistently opposed legislation adversely affecting the interests of the mining companies. The Carter Commission's proposals and the subsequent 'Benson White Paper' were opposed by M.P.s from both the Liberal and Conservative parties, while the Bennett government's mining changes in British Columbia ran into opposition within his own Social Credit Party. Since the New Democratic Party has generally been far less responsive to business than to organized labour, the opposition of the mining companies and the business community as a whole to that party's mining initiatives was expressed through the provincial opposition parties. Although the pressures exerted through these channels did not succeed in blocking the N.D.P.'s legislation, they certainly helped make the party's mining program one of the most controversial aspects of its term in office. When a newly revived Social Credit Party regained power in 1975, its alliance with the mining companies made the dismemberment of the N.D.P.'s mineral legislation a forgone conclusion.

In pursuing its cause in the public arena, the mining



industry enjoyed one more decisive advantage; access to the provinces mass media. In any political controversy access to the mass media of communication are important for several reasons. What appears on the pages of the daily newspaper or on the television and radio newscasts determines, to a large extent, what the relevant issues are perceived to be. Quite apart from the tone or bias of news coverage, the very fact that an event is covered extensively makes it much more important than it would otherwise be.

The positions of the various contending parties in a dispute can be either confirmed or undermined in the press, and if the latter is the case, then some pressure will certainly exist to change its position. This is especially true of governments who, being subject to periodic elections, must be vitally concerned about the impressions conveyed to the general public by their actions. Governments must also rely, at least to some extent, on the mass media to assess how their performance is being perceived.

In the case of mining legislation, the role of the mass media is especially important because, for most of the population, the issue does not exist outside the coverage given to it. Unlike such issues as inflation, unemployment and urban pollution, there is very little direct evidence that mining even exists. Most of the urban population in British Columbia have never even seen a mine, and they do not directly

consume any of its products. It can also be argued that the newspaper, radio and television newscasts are relatively short and only issues of critical national and international importance obtain continuous coverage. In addition, the controversy over mining taxation is rather complex and not particularly dramatic in a visual sense. Thus, it is largely through the newspaper that the mining issue is debated and kept continuously in the mind of a significant portion of the population.

As noted in the foregoing account, the mining industry has received by far the most favourable coverage in its conflicts with government. Bucovetsky, in his study of mining tax reform on the federal level noted the important role played by the press, and especially the Globe and Mail, in focussing the opposition to the Carter Commission proposals.<sup>25</sup> In British Columbia, the editorial opinion of the major urban newspapers has been distinctly supportive of the mining industry since the first Social Credit reforms of the 1950s. The hostility of the press to the provincial governments mining legislation reached its peak during the N.D.P. administration, and was part of a more generalized opposition to that government. This support of the industry was evident in the orientation of the newspaper stories, the majority of which were concerned with various aspects of the industry's opposition to government legislation. Although several letters to

the editor were published supporting the N.D.P. government, this author was not able to find a single analytical article in Vancouver's two daily newspapers supporting either the Mineral Royalties Act or the changes to the Mineral Act.

One reason for the favourable coverage received by the mining companies is that Canada's major newspapers are themselves large businesses and thus share the general business support of the industry. Wallace Clement, for example, has argued that the ownership and directorship ties between the country's dominant media complexes and other large corporations make it deceptive to consider the press as an autonomous institution. Clement thus uses the term 'corporate elite' to refer to an effective concentration of both economic and ideological power in the hands of a small number of corporate executives.<sup>26</sup> Donald Gutstein has applied this analysis to British Columbia and illustrated some of the links between the Vancouver press and other corporations.

For example:

Southam interconnects tightly with almost every aspect of the Canadian economy. If you've ever wondered why the province was so partial to the giant lumber companies it may help to know that Southam has two interlocking directorships with MacMillan Bloedel, one with B.C. Forest Products and one with Northwood Pulp and Lumber.

It's exactly the same with the mining industry, Southam interlocks with Noranda Mines, who are active in B.C. through Placer Development... Another Southam director is president of Granduc Mines. The mining industry can be sure of a fair hearing from the Province.<sup>27</sup>

Paddy Sherman, publisher of the Province, made no secret of his hostility to the N.D.P. government's mineral legislation (as well as almost all of its other policies), in at least two speeches to mining interest groups. The coverage of the Vancouver Sun, owned by F.P. Publications, differed little from that of the Province.

Quite apart from these direct business links with the press, the mining industry enjoyed a number of other advantages in utilizing the mass media. The style of news coverage of the mining issue was not generally investigative, but restricted itself to passing on to the public the pronouncements of the government and the various interest groups concerned. In such a situation it is inevitable that the side which is best at creating such 'media events' will get the most coverage. In this situation, the mining companies had large amounts of money at their disposal and were represented by two organizations which were able to spend a great deal of time and effort generating such events. Besides, they had a direct overriding interest in overturning the government's changes and thus attached a high priority to the campaign.

The rather privileged position of access enjoyed by the mining companies and their associations was reinforced by the fact that so much of the news regarding the mining controversy was carried by the business pages of the major newspapers. The day to day function of these pages is to carry news about

business for businessmen, and thus has a distinct pro-business bias. In addition a large proportion of the news content of these pages originates in the form of news releases by corporations or business associations, news conferences called by these same organizations and speeches by business executives. This general style of news coverage carried over to the press treatment of the debate over mining legislation, and it produced the same tendency toward the uncritical transmission of industry information and opinion that we observed in relation to the provincial opposition parties.

It is possible that the limited readership of a newspaper's business section limits somewhat the advantage gained by the mining companies through their access to these pages. However, headlines like 'GOVERNMENT BITING HAND THAT FEEDS IT?', 'BILLION TONS OF ORE WIPED OUT BY ROYALTIES', 'INVESTMENT MEN WARN OF END TO NEW MINES', and '\$2BILLION LOSS SEEN ON MINES' are, almost certainly, at least noticed by readers who do not concern themselves with the intricacies of corporate finance.<sup>28</sup>

The mining companies have been able to increase their access to the mass media through paid advertising. At the level of federal politics, Bucovestky noted a dramatic increase in institutional advertising by both the Mining Association of Canada and large individual companies like Inco and Cominco in response to the Carter Commission's

recommendations.<sup>29</sup> Advertising did not play a part in the response of the mining industry to the Social Credit Party's mining policies in British Columbia, but during the N.D.P.'s term of office, it was a very prominent part of the industry's campaign. After its initial use at the federal level in the late 1960s, the mining companies obviously found advertising a productive enough tool to employ again at the provincial level. As noted in chapters 5 and 6, the mining industry's campaign in British Columbia, which utilized newspaper radio and television, assumed a number of forms.<sup>30</sup> The most enduring approach has been that of keeping mining in the public eye by associating it with employment and regional economic benefits, and in late 1978, three years after the defeat of the N.D.P. government, the Mining Association of British Columbia is still running a major series of television advertisements. The industry seems to have recognized both that mining normally does not arouse a great deal of interest, and that advertising is a method by which the subject can be can be raised in a context which favours its goals. Mining companies still feel that overall tax rates are too high and there is always the danger that the N.D.P. party will again form the government in British Columbia. Thus, it continues to cultivate a climate of favourable public opinion.

The effectiveness of advertising of this sort is difficult to judge without a detailed opinion survey. It is

quite probable that information relayed in the form of advertising is, by its very nature, regarded with some degree of skepticism, and is thus of less value than favourable press coverage. However, in the case of mining, one form simply reinforces the other, and the information portrayed about the industry is consequently rather one sided.

Thus, in summary, the substantial economic power of the mining industry has been translated into a variety of political resources. The industry has successfully adapted itself to a number of different challenges and has always shown an ability to respond in a forceful and effective manner. It is not an interest group which owes its position entirely to its political influence behind the scenes, but is an institution which can mobilize a broadly based coalition to support its cause in a full-scale public controversy. Its success is not due to the fact that it possesses a given number of discrete attributes or resources but, more fundamentally, to its critical economic position, which enables it to employ these resources.

## II

The substantial political resources employed by the mining industry in the pursuit of its goals have not been matched by an effective countervailing power from either society at large or government. In attempting to implement its policies in the face of organized opposition on the part of the industry, governments in both Ottawa and British Columbia

have met with a very limited degree of success. Probably the most fundamental reason for this relative ineffectiveness has been that government have, in effect, acted as their own interest group. In other words mining policy has generally been formulated on the basis of the public interest defined in a broad sense, rather than in response to any externally organized pressure group. The Carter Commission recommendations on the federal level were the result of a government appointed Royal Commission study based on the general principle of tax equality, and its defense was thus left largely to the government itself. Similarly, the Social Credit government's policies in British Columbia during the 1950s originated with the government itself, and as noted in chapter 3, were based on a general concern that the laissez-faire approach of the past had not been entirely successful.<sup>31</sup> These features were even more apparent when the N.D.P. took power in British Columbia. That party's mineral policies had evolved through an ongoing critique of approaches taken to mineral development by previous provincial administrations, the basic assumption of this critique being that an important provincial resource was not being managed in the best interests of the public as a whole. In the opinion of the party, the industry was capable of making a greater contribution to both the public treasury and the economic health of the province. Like other governments, however, the N.D.P. found that it enjoyed the



the support of no organized group for whom changes in the relationship between state and the mineral industries was an overriding priority.

When it gains office, any political party is faced with a large number of competing claims that must be recognized in the form of legislation. Since the party possesses a relatively limited ability to undertake major initiatives, the policies that are pursued in a determined fashion will depend, to a large extent, in the strength of the various organized interests in the party and among its key supporters. As noted in chapter 4, the N.D.P. faced a multitude of demands from a variety of organized groups when it gained power in British Columbia, but there was no major group demanding changes in provincial mining legislation.<sup>32</sup>

This lack of outside support almost certainly inhibited the new government from proceeding with any form of direct involvement in the mineral industry through the medium of a crown corporation. Similarly, the party's mineral taxation policies were subject to a very lengthy series of delays, which seemed to indicate that the issue was not one of the utmost priority. When faced with obstacles of various kinds, the response of the government was to delay the implementation of its tax scheme, and these delays seemed to indicate a fundamental lack of direction and self-confidence. The N.D.P.'s mineral policies brought the party a great deal

of organized opposition but very little sustained support, and it is thus not surprising that the trend toward compromise began almost immediately after the legislation was finally in place.

In his analysis of the political position of the mineral industries in a number of 'third world' countries, Norman Girvan has identified two broad sources of opposition to the hegemony of large multinational corporations. One is the mine workers, but Girvan notes that they are generally too small a force to present an effective opposition by themselves. Much more important in his view is the group of upwardly mobile professional workers and small businessmen who see their opportunities stifled by the monopolization of much of the nation's economic base by the large corporation. These groups thus seek to use the power of the state to control the activities of foreign owned mining companies, or even expropriate them altogether. 33

In British Columbia, this type of constituency is extremely limited. The mineral industries in the province share a number of similarities with their third world counterparts but there are important differences. British Columbia's mineral industry has been dominated by a small number of large corporations but, for a number of reasons, this domination has not tended to generate intense political cleavage. The standard of living in the province remains extremely high

compared to most other countries and the large mining companies do not really represent a distinctly alien cultural presence. In other words, the economic situation does not translate itself into directly perceivable political exploitation. In addition the mining industry does not form an isolated enclave in the province, and as noted above, there are a wide variety of links with professional and business groups.<sup>34</sup> There is undoubtedly a significant body of opinion that resents the economic exploitation of British Columbia's mineral resources by large, privately owned corporations and the lack of secondary industry generated by this activity, but there is not really a distinct class or group interest prepared to use the state in a vigorous, interventionist manner.

As in other mineral exporting areas, the mine workers of British Columbia were a significant source of support for the government's initiatives, but they were much too small a force to have a decisive effect on the outcome of the contest. Besides, the United Steelworkers Union did not actively press for the adoption of mineral royalties, and the issue did not seem to arouse any widespread popular support among the rank and file. In fact, there was at least some dissatisfaction among workers with the Union's stand, and issues like mine safety aroused far more active interest among miners. The Steelworkers' leadership made a serious effort to duplicate the advertising and public relations campaign of the industry,

but it simply lacked the resources to make it really effective.

A different limitation affecting the N.D.P.'s ability to implement its mineral policy was the division of jurisdiction between the federal and provincial governments in Canada. This divided jurisdiction has been especially important in the area of taxation, where a lack of coordination between governments can have effects that neither one intended. Since the inception of the federally controlled corporate income tax, the ability of the provinces to devise their own resource tax systems has been circumscribed by federal guidelines. After the 'tax jungle' of the 1930s, the federal government assumed the dominant role in the resource taxation field and retained it until the early 1970s. The initial impetus for resource tax reform occurred at the federal level, but the opposition of many provinces to the end of the favoured tax status of the resource industries caused Ottawa to back down from some of its original proposals and let the provinces deal with this controversial area.

This period was followed by both changes in the world economy and the election of more activist governments in many of the provinces, so that a broad movement toward higher taxes occurred at the provincial level. The federal government responded with its 1974 and 1975 budgets, which increased its own taxes on mining and ended the deductibility of most provincial levies. The taxes were now higher than either level of government had anticipated or desired, and thus some

sort of compromise on taxation became inevitable. Because it had initiated this latest tax increase through its Mineral Royalties Act, the pressure to back down in British Columbia was felt far more strongly by the provincial administration.

The net result of this division of responsibility is to present a substantial barrier to innovation in the mineral taxation field. Extensive federal-provincial coordination in the resource taxation field is an obvious solution, but as one writer has pointed out:

The quest for coordination is in many respects the twentieth-century equivalent of the philosopher's stone. If only we can find the right formula for coordination we can reconcile the irreconcilable, harmonize competing and wholly divergent interests, overcome irrationalities in our government structures and make hard policy choices to which no one will dissent.<sup>35</sup>

In Canada, basic regional as well as partisan differences have made such rational coordination next to impossible, and federal-provincial interaction in the area of mineral policy has not progressed beyond agreement on rather idealistic generalities.<sup>36</sup> Events of the past decade seem to indicate that an innovating government must face not only the hostility of powerful entrenched interests, but also the resistance of its federal or provincial counterpart.

The divided jurisdiction between the two levels of government has also placed a more formal set of obstacles in the path of tax innovation, especially at the provincial level. Some writers have noted that, in the United States, the judicial application of individual rights and freedoms to corpora-

tions has been instrumental in increasing the power of these latter groups and decreasing that of the government.<sup>37</sup> Although Canada possesses an entirely different constitutional structure, the judicial limitations placed on the taxation powers of the provincial governments in the resource field have had much the same effect. In British Columbia these limitations prevented the Social Credit government from pursuing a concerted policy to control the export of unprocessed iron ore, and it is quite likely that they would have prevented the N.D.P. government from collecting the equivalent of royalties from crown granted mineral lands. Because a substantial portion of the province's mineral production still comes from these granted lands, such a limitation would have seriously undermined the entire royalty system, but the legislation was withdrawn before a direct legal test occurred. A recent court decision has, however, ruled that the Mineral Land Tax Act, under which the equivalent of a royalty was assessed, was ultra vires as originally worded. The basic legal restriction seems to be that the province holds the power to tax privately owned land, but not the production from that land.<sup>38</sup>

Finally, the division of authority between Ottawa and the provinces has, in a general way, resulted in both levels of government taking positions which favour the interests of the resource corporations. Ever since Confederation, provincial governments have competed with one another to attract economic development, and this has certainly resulted in both

the ease of private access to provincial resources and a tax system favourable to resource corporations. In the words of Eric Kierans:

Each province vies with its neighbour to attract the large corporations that will employ a few hundred more workers in the process of extracting wealth. In this contest, the initiative and the flexibility lies with the corporations. They can pick and choose between the offers, compare the tax exemptions and the subsidies and prolong the bidding until the last concession has been gained.<sup>39</sup>

Control of Canada's mineral resources by one political body would undoubtedly make possible the implementation of a consistent national policy concerning access to the country's resources, but the international scope of most resource companies would still give them substantial bargaining power. In any event, such a development is not likely in the foreseeable future.

### III

The attempt by the New Democratic Party to change the terms on which British Columbia's mineral resources are exploited was undermined not only by the circumstances surrounding it efforts, but by the policies themselves. One particularly important weakness in this regard was the failure to present a coordinated, all encompassing mineral policy. Elements of the party's 1972 platform were implemented in a piecemeal fashion and were not really presented as parts of an overall economic strategy.

Paul Tennant has asserted that the lack of planning and coordination characterized the decision making process as a whole under the N.D.P. government:

The New Democratic Party came to power in British Columbia without clear policy priorities. Under the N.D.P. the cabinet, lacking staff agencies and firm leadership, proved unable to effect interdepartmental coordination. The major policy innovations which did occur under the N.D.P. were the product of separate and individual action by more forceful ministers. Thus, contrary to what might have been expected, the N.D.P. government was characterized by lack of overall planning and coordination.<sup>40</sup>

In the area of mineral policy, this lack of general coordination certainly had its effect on the ability of the government to strike a successful balance among the elements of taxation, regulation, and economic diversification.

The pursuit of the latter two policy goals was given to the Department of Mines and Petroleum Resources, and in the case of regulation, this delegation had several unfortunate consequences. In the first place, regulatory reform as embodied in the Mineral Act amendments took place within the context of the traditional industry-department relationship. The amendments merely strengthened the government's position within this relationship rather than changing its closed and informal nature. The changes were accompanied by no overall philosophy of regulation, and as noted in chapter 4, no new structures or public procedures were evolved to govern the exercise of these powers.<sup>41</sup>

The reforms were thus bitterly opposed by the mining



companies (who resented being subject to arbitrary government power in what had always been their exclusive domain), but were not actively supported by any of the province's public interest groups. Anti-pollution groups like S.P.E.C. had been active in the mining pollution issue during the early 1970s, but remained silent on the Mineral Act amendments. Innovations like formal public hearings on the overall impact of new mining projects would probably have gained much greater levels of support for the regulation of these developments, and would have made the reforms much harder to dismantle. As it was, the major public issue became simply one of 'ministerial discretion'.

The development of the policy of mining regulation within the confines of the Department of Mines and Petroleum Resources also mean that the measures that were developed to implement it became identified with a particular minister and his advisors, so that when he was replaced, the policies had no broad support within the party or the government. When Nimsick's successor, Gary Lauk, announced his intention of removing much of the 'ministerial discretion' from the Mineral Act the party raised no objection, and when the new Social Credit government removed the department's regulatory powers altogether, the N.D.P. presented no serious opposition.<sup>42</sup>

In many ways, the dicrediting of the N.D.P.'s Mineral Act amendments was one of the most unfortunate consequences

of that government's entire mineral policy. Despite its defects, these amendments provided for some measure of overall public control of new mining developments. As the provinces's environmental interest groups had pointed out during the late 1960s and early 1970s, there exists no agency whose responsibility it is to assess the overall social, economic and environmental impact of these projects. Agencies like the Pollution Control Board have a mandate which is restricted to setting general technical standards, and have thus refused to undertake such a role.<sup>43</sup> The virtually unrestricted access to the province's mineral resources on a 'finders-keepers' basis has been restored by the Social Credit government and the fact that no major new mineral projects have come into production since that government came to power has meant that the problem has aroused virtually no public attention. However, a recent controversy over the safety of uranium mining has at least raised the regulatory problem once more.

The relative lack of attention given to the regulatory problem by both of British Columbia's major political parties is also unfortunate because the best time to impose limits and conditions on new mining developments is before they go into production. If free access to mineral deposits is granted and major problems arise after a mine has already gone into production, the government's task becomes much more difficult, and it may even have to choose between accepting the status quo or

closing down the operation altogether. For example, the best time to have placed restrictions on the export of the province's iron ore deposits to Japan would have been before the mines concerned were allowed to go into production. When the Social Credit government finally recognized the problem during the 1950s, it found that it was powerless to correct it.

The area in which the N.D.P. ran into the most difficulties was, of course, that of taxation. In his report on mineral policy to the N.D.P. government of Manitoba, Eric Kierans summarized the problem facing provincial governments and presented a number of possible solutions. As outlined in chapter 4, the benefits that the provinces had originally been granted in the form of the ownership of crown lands had been undermined because the large resource corporations had managed to appropriate most of the economic surplus generated by mineral extraction.<sup>43</sup> If these provinces could somehow manage to regain control of this economic surplus, they could begin to diversify their economies away from the reliance on both multinational corporations and the export of primary products. Kierans thus suggested a number of different policy directions. One was to require further processing of the province's minerals to the smelting and refining stage. Kierans rejected this strategy outright for several reasons. Since more and more political jurisdictions are requiring such secondary processing there is a real danger of excess world capacity and

and economic stagnation. Thus:

A resource policy that seeks to increase the returns from resources by forcing the establishment of smelting and refining activities will be inefficient and destructive of the rents accruing from the nation's wealth. There will be little generation of new capital to finance the dynamism latent in other sectors--agriculture, secondary industry or services. The owners of the resources will be financing the increasingly costly attempts of the large corporations to maintain their control over consumer markets and to earn a return on their excess investment in smelting and refining.<sup>44</sup>

Another option was to continue to grant exploration and development rights to private corporations but impose much heavier royalties, licencing fees and mining taxes in order to recoup the economic rent generated by the industry. Kierans warned that such a policy "must be supported by a convincing demonstration by the government that it was prepared to take over and operate any facilities that did in fact close down."<sup>45</sup> Finally, the government itself could carry out all mining and exploration activity through crown corporations. This solution is the one that Kierans finally recommended and thus he outlined it in some detail. His plan called for two separate public corporations, one which would be responsible solely for exploration and the other for extraction to the primary metal stage. The exploration company would be responsible for the systematic discovery and cataloguing of mineral deposits, and the job of the mining company would be to turn these deposits into socially usable capital which would be available for provincial development. The areas of refining and

fabricating would be left to private capital. Kierans advocated an immediate crown exploration monopoly but felt that the transition to a public mining monopoly should take place over a ten year period. This transition would be accompanied by the immediate imposition of a wide-range of taxes on the privately owned sector of the industry, including a property tax on all leased and privately held land and a replacement of the 15 percent mining income tax with a straight 15 percent levy on gross production. Thus, the unwillingness of the industry to bear this additional burden would result simply in a faster transition to public control.<sup>46</sup>

The N.D.P. government in British Columbia seemed to accept some aspects of Kierans' study, but ignored the implications of his whole argument. The notion that the mining companies were able to use their position to appropriate much of the economic surplus that should accrue to the province was accepted by a majority of cabinet members. However, they were mistaken in their assumption that this situation could be rectified by adding a number of clauses to a royalty bill. The appropriation of sums of this magnitude goes far beyond ordinary taxation and represents a major government intervention in the economic system itself. Consequently, this type of intervention can be justified only if the state can demonstrate that it will produce economic and social results not attainable in any other way. Kierans, as a former Liberal

cabinet minister and president of the Montreal Stock Exchange did not favour public ownership for ideological reasons, but only because he felt that it was the only practical method by which sustained economic development could be achieved.<sup>47</sup>

Underlying Kieran's argument is the idea that, although the state as owner and landlord of the province's resources has every right to appropriate the surplus profit or 'economic rent' generated by mining, the realities of political and economic power make this impossible through the traditional medium of taxation. As the major mining companies are fond of pointing out, natural resources are virtually worthless unless they are turned into marketable products. Thus, control over the productive process gives the major mining companies a decisive bargaining advantage.

Because the major producing companies are all multinational in scope, the state's ownership of the resources themselves is not equally decisive. These companies can shift their exploration activities relatively quickly to more favourable areas, and over a much longer period of time, can even shift the location of the production operations themselves. As we have noted throughout this study, the impressive political resources wielded by the major companies can prove effective long before a drastic re-allocation becomes necessary.

Thus, Kierans noted that, at the very least, a taxation system which sought to obtain for the state a significant

portion of natural resource revenues would have to be accompanied by a clear statement that the government would enter the mining field itself if the private corporations pulled out. In fact, the stiff taxation system recommended by Kierans was designed to provide a transition between private and public control, and to hasten the departure of the private corporations from the province.

The N.D.P.'s royalty plan, which attempted to appropriate a significant portion of the surplus generated by mining, was not introduced within the context of any such overall economic strategy. In the first place, the Mineral Royalties Act was defended as a normal taxation measure whose aim was to ensure that the mining industry contribute its 'fair share' to general revenue. In addition, it was asserted that the mining industry should pay for its raw materials like it paid for all its other production inputs. This justification, although sound in principle, merely begged the question. The mining industry's spokesmen simply claimed that the share demanded by the N.D.P. government was excessive. They asserted that the government, through both ignorance and blind adherence to doctrinaire principles, was actually destroying the mining industry altogether, rather than improving its contribution to the economy. The above account has shown that these claims were somewhat exaggerated, but the basic point was valid. A taxation policy which merely seeks to obtain the maximum amount

of general revenue has by its very nature a limit beyond which it destroys the industry itself, and thus becomes counter-productive. In the long run it is the tax-payer himself who, by his investment decision, decides at what level a tax becomes excessive, and in the short run, the impressive political resources of private companies can make life unpleasant for even the most secure government.

Thus, when the New Democratic Party brought down its royalty scheme, the opposition parties and the press accused it of seeking to drive the industry out of the province as a prelude to complete nationalization. However, the cabinet had already rejected public ownership, and the government continually went out of its way to assure both the industry and the public that it had no intention of participating directly in the mineral industry, despite amendments to the Mineral Act allowing it to do so. In fact, the mounting political and economic pressure applied by the mining industry only seemed to increase these assurances.

In the absence of any clearly articulated economic strategy of its own, the government's only real defense was that the industry's threats were merely a bluff and that, when all was said and done, it would be prepared to live with the governments tax measures. Both the sudden increase in world petroleum prices and the record high copper prices immediately following the party's victory in British Columbia



undoubtedly instilled in the party a false sense of confidence. As noted in the introduction to this work, there seemed to be a general assumption on the part of the N.D.P.'s policy-makers that the large corporations could and would eventually accept the new conditions imposed by the party rather than sacrifice their access to the province's rich resources. In any event, it was assumed that there was more than enough money to satisfy the demands of both government and the corporations.

The sudden change in world economic conditions during the latter part of 1974 undermined all these assumptions. The mining industry's argument that the government would have to choose between increased revenues and the health of the industry was given substantial support, and although no major mines actually closed down, many began to lay-off workers. The government was slow to recognize these changed conditions and it continued to assure the population that the only real problem was the propaganda campaign waged by the mining companies. This refusal to admit that the fundamental assumptions underlying its policy were no longer valid seriously undermined the N.D.P. government's credibility, and when it became certain that no quick economic recovery was possible, it was forced to consider fundamental changes.

It is certainly true that the steep decline in economic conditions in late 1974 represented a factor over which neither government nor industry had any control, but this intrusion of

the unpredictable merely brought to a head a situation which was bound to arise anyway. Much of the confidence of the N.D.P. administration that it could greatly increase its return from mining through the medium of taxation and retain at least the tacit cooperation of the private producers was undoubtedly instilled by the success of the Conservative government of Alberta in increasing its petroleum revenues. However, this situation was the result of a complex series of geo-political events which produced vastly increased returns for both government and industry. It was certainly not typical of world commodity trade. The British Columbia N.D.P. learned, much to its chagrin, that it could not base its policies on an unending period of prosperity.

Both the N.D.P.'s taxation policies and the process by which they were arrived at, produced what can only be termed an extremely badly drafted piece of legislation. The incremental royalty system seem to have been arrived at merely by adding a number of clauses to what was originally designed as a simple flat-rate royalty. Thus, a scheme which was essentially an excess profits tax was grafted on to the royalty concept with disastrous results. In order to determine the incremental royalty, a number of terms like 'basic value', 'gross value' and 'net value' had to be defined, and in order to avoid being trapped in a totally unworkable system, these values had to be set by ministerial discretion. The fact that

this incremental royalty was not based on profits meant that the Minister had to have the power to re-adjust these various terms as economic conditions changed. When this situation was combined with an extremely high tax rate of 50 percent of production revenue over a certain level, the actual tax rate was extremely volatile and virtually impossible to assess accurately in advance. The industry's projections of the impact of the Mineral Royalties Act contained some questionable assumptions, but they emphasized this situation very clearly. Leaving aside the general debate over 'ministerial discretion', the contention of the Bar Association that such discretion had no place in a statute imposing a tax or royalty was certainly valid.<sup>48</sup>

The fact that the general goal of appropriating 'economic surplus' from the mining industry was done badly both intensified the opposition to it and made it far less defensible. The unpredictability of the measure gravely disturbed an industry, whose large capital requirements make a relatively high level of predictability essential. Thus, the companies spared no effort to defeat the Mineral Royalties Act. On the other hand, the measure probably cost the government the active support of the academic community, many of whom were sympathetic to the N.D.P. and to the general aim of greater returns from the mineral industry. If a surplus profits tax was the government's aim, the resource economists could devise

any number of far superior schemes.<sup>49</sup> Whether these would have been any more acceptable to the mining industry is an entirely different matter. Even the N.D.P.'s major spokesmen seemed reluctant to justify the incremental royalty. Leo Nimsick's emphasis on the concept of the basic royalty was understandable, but even the Premier's defences tended to ignore the incremental part of the Mineral Royalties Act.<sup>50</sup> It almost seemed as if the party as a whole was trying to convince itself that it had never decided to proceed with these provisions in the first place.

As we have already noted, the N.D.P. government's policy on the secondary processing of resources was initiated much too late in its term of office to allow any definitive judgements to be made. It is clear, however, that the direction of these policies was not really compatible with any attempt to appropriate large amounts of 'surplus profit' from the mining industry. Although the N.D.P. rejected the idea of direct subsidies to private corporations, its policy initiatives were directed mainly toward the encouragement of these corporations through such means as 'incentives', research assistance and perhaps ultimately, joint ventures. With the Afton project the difference between these measures and the traditional subsidy was rendered virtually meaningless, but this was simply an extreme manifestation of a deeper underlying similarity.

These policies, of course, represented a rejection of

Eric Kierans' criticism that such efforts would only result in excess production capacity and economic stagnation, and would increase the power of the large resource corporations. The rejection, however, was not a conscious one, but resulted from pursuing a policy direction which had been decided upon long before Kierans' report. The question as to whether economic diversification can best be achieved through gradual diversification from a primary base, or by using the surplus generated by primary production to diversify into other areas altogether cannot be answered here. However, it is worth noting that even the massive smelter and refinery projects considered by the Copper Task Force would have only added another 10 percent to the value and wages generated in British Columbia. The group could not even obtain enough information concerning the vital fabricating stage to make any sort of feasibility assessment. On the other hand the use of economic surplus to generate completely unrelated activities runs the risk of pouring vast amounts of money into unprofitable ventures.<sup>51</sup>

It can be concluded however, that the encouragement of private resource corporations to undertake secondary processing increases their strategic position and thus their political power. More than ever, the health of the province and that of the corporations becomes indential, and the ability of the government to act in an independent fashion decreased. In times of high profits, the industry will be able

to lobby successfully against high taxes, whereas when conditions deteriorate, the pressure to provide additional concessions and subsidies will be irresistible.<sup>52</sup> Equity participation in secondary processing may increase the governments returns but it can just as easily increase its liability. In a situation where a secondary processing operation is merely one aspect of a large corporate complex, government equity may bring neither substantial profits nor managerial control.

The influence of these general factors in their earlier stages was quite evident in British Columbia during 1975. The large resource companies, who certainly realized the potential benefits involved, were not hesitant to cooperate with the government in the area of secondary processing, despite the Mineral Royalties Act and the production lease requirements of the Mineral Act. The eagerness of the government to compromise these policies in order to achieve some progress on the politically popular issue of secondary processing illustrates that the companies were correct in their assessment.

The lack of compatibility between the three major aspects of the N.D.P.'s mineral policy was partly organizational, but the nature of the lack of coordination in this case was the opposite of that suggested by Paul Tennant. The policies initiated by the Department of Mines and Petroleum Resources were basically a consistent application of the

elements of the N.D.P.'s 1972 resource platform. The issue of regulation was addressed through the Mineral Act, a relatively 'moderate' flat-rate royalty scheme derived, and the question of secondary processing pursued through a policy of incentives. These policies would undoubtedly have been supplemented by some experimentation with direct government participation in the mining industry had the cabinet not vetoed the idea.

Ironically the discordant was introduced by the Resource Committee of Cabinet, (the body which was supposed to coordinate the government's resource policies) in the form of an incremental royalty. The aim of this measure was to achieve an end which was clearly incompatible with the other elements of the government's mineral policy, and the rejection of public ownership simply compounded the contradiction. However, this lapse only intensified a more basic tension between the elements of the policy themselves. There are no grounds for believing that the mining industry would not have opposed a basic 5 per cent royalty with equal vigour, especially after the drastic decline in world prices, or that the N.D.P. would not have modified it substantially in its pursuit of its goal of secondary processing.

In the opinion of this author, there is a relatively clear cut choice involved. If a basic decision is made to restrict government involvement to taxation and regulation, then the goals of policy must similarly be limited. Given

the power of the large resource corporations, government can expect to accomplish little more than imposing a tax rate comparable to that of other industries and ensuring a basic level of environmental and social regulation. Given the competition to attract development capital among various jurisdictions and the depleting nature of mining operations, it is by no means certain that even these goals can be achieved. In any event, the temptation is always there to compromise them in favour of new development. Unless the state possesses a truly exceptional asset, it cannot hope to obtain a significant share of the economic surplus through simple taxation.

The other alternative is direct participation through the medium of a crown corporation. In other words, basic economic goals must be implemented through economic means. This answer is not given as a simple panacea, but only as a direction worth pursuing. There are, of course, a number of very fundamental problems involved. What, for example, would be the relationship between any crown mineral corporation, the privately owned corporations and the government itself, and what impact would such relationships have on the liberal-democratic traditions of limited government? Direct government involvement would not render the problem of regulation redundant, but would make it even more intense, since an adversary relationship would have to be created within the government itself. Finally, the very possibility of substan-



tial direct involvement requires first that it become a political priority and second, that it be pursued in the public arena in a concerted fashion. However, these problems and many more besides are best left to another work.

## NOTES: CHAPTER 8

1. See above, p. 317
2. Gary Lauk, Interview, Vancouver, September 28, 1978.
3. See above, p.139
4. R.V. Nelles, The Politics of Development, p. 491.
5. Martin Robin, "British Columbia: The Politics of Class Conflict," M. Robin, ed., Canadian Provincial Politics (Scarborough, Ontario: Prentice-Hall, 1972), p.38.
6. See above, pp.119-123
7. Donald Smiley, "The Political Context of Resource Development in Canada," Anthony Scott, ed., Natural Resource Revenues: A Test of Federalism (Vancouver: University of British Columbia Press, 1976), p.69.
8. The number of works applying the 'staple approach' to the development of the Canadian economic and political system is too large to list here. For a good summary of the development of this approach by Canadian social scientists, see Daniel Drache, "Rediscovering Canadian Political Economy," Unpublished Paper (Toronto: Atkinson College, York University, N.D.). Two of the more well known recent works employing this approach are Kari Levitt, Silent Surrender (Toronto: Macmillan, 1970), especially chapters 2-4; and R.T. Naylor, "The Rise and Fall of the Third Commercial Empire of the St. Lawrence," G. Teeple, ed., Capitalism and the National Question in Canada (Toronto: University of Toronto Press, 1972) pp. 1-42.
9. See above, pp. 29-41
10. Harry Eckstein, Pressure Group Politics: The Case of the British Medical Association (Stanford, California: Stanford University Press, 1960), p.38.
11. J.E. Anderson, "Pressure Groups and the Canadian Bureacracy," W.D.K. Kernaghan and A.M. Willms, ed., Public Administration in Canada: Selected Readings, 2nd Edition (Toronto: Methuen, 1971), pp. 372-73
12. G. Bruce Doern, "The Concept of Regulation and Regulatory Reform," G.B. Doern and V.S. Wilson, ed., Issues in Canadian Public Policy, p.10.

13. Two good examples are Chile, where two large American companies, Kennecott Copper and Anaconda, gained control over most of the country's large copper reserves and Jamaica, where the large American aluminum companies monopolized the country's bauxite deposits. Norman Girvan, Corporate Imperialism: Conflict and Expropriation, chapters 2 and 3, pp. 52-159.
14. See above, p.136.
15. See above, pp.95-96.
16. Vancouver Province, April 25, 1974, p.23.
17. M.W. Bucovetsky, "Tax Reform in Canada: A Case Study of the Mining Industry," Ph.D. dissertation, University of Toronto, 1971, pp. 57-58.
18. Donald Smiley, "The Political Context of Resource Development in Canada," pp. 62-63; Eric Kierans, Report on Natural Resources Policy in Manitoba, p.37.
19. M.W. Bucovetsky, "Tax Reform in Canada: A Case Study of the Mining Industry," pp. 191-93.
20. E.E. Schattschneider, The Semi-sovereign People: A Realist's View of Democracy in America (New York: Holt, Rinehart and Winston, 1960), especially chapters 1-3, pp. 1-61.
21. M.W. Bucovetsky, "The Mining Industry and the Great Tax Reform Debate," A. Paul Pross, ed., Pressure Group Behavior in Canadian Politics, pp. 105-106.
22. See above, pp. 298-99, 342-43.
23. H.V. Nelles, The Politics of Development, Chapters 6 and 7, pp. 215-306.
24. The battle lines in this dispute, however, were drawn along metropolitan-hinterland lines with most of the province's major business interest groups taking a vehemently negative attitude toward Bennett's nationalization scheme. In Martin Robin's words: "The take-over was advertised as a triumph for provincialism, for local residents inequitably taxed by a remote central authority....Expropriation was less a blow against private enterprise than a victory over the socialistic enemies of growth disguised as Ottawans; a bold declaration that British Columbia, a swaggering mini-state which serviced the American empire, was not an economic colony of the

- federal government." Martin Robin, Pillars of Profit, p. 234. Chapter 8 of that work provides a fairly detailed account of the nationalization of B.C. Electric.
25. M.W. Bucovetsky, "The Mining Industry and the Great Tax Reform Debate," p.94. See above, p.
  26. Wallace Clement, The Canadian Corporate Elite: An Analysis of Economic Power, Carleton Library no. 89 (Toronto: McClelland and Stewart, 1975), p.325.
  27. Donald Gutstein, "Corporations Strangle Media," Georgia Straight (December 18-January 8, 1976):4.
  28. These headlines are from the Vancouver Province, February 23, 1974, p.20; February 26, 1974, p.18; and March 9, 1974, p.18.
  29. M.W. Bucovetsky, "The Mining Industry and the Great Tax Reform Debate," pp. 107-108.
  30. See above, pp.240-43, 310-11, 316-17, 341, 355-56.
  31. See above, pp.105-106.
  32. See above, pp.148-49
  33. Norman Girvan, Corporate Imperialism, Conflict and Expropriation, pp.37-41.
  34. See above, pp.60-62
  35. Harold Seidman, Power, Position and Power: The Dynamics of Federal Organization (New York: Oxford University Press, 1970), p.164; cited in Donald Smiley, "The Political Context of Resource Development in Canada," p.71.
  36. Canada, Energy Mines and Resources Canada, Towards a Mineral Policy for Canada: Opportunities for Choice 1974 (Ottawa: Information Canada, 1974) is an example of such ultimately meaningless generalities. In referring to this glossy pamphlet which purports to lay down "Mineral Policy Goal and Objectives" (sic), Smiley notes that "there is no better example of rationalist sentimentality..." At the time it was issued the federal and provincial governments were locked in a bitter battle over natural resource revenues. Smiley. "The Political Context of Resource Development in Canada," p.71.

37. Theodore Lowi, The End of Liberalism: Ideology, Policy and the Crisis of Public Authority (New York: W.W. Norton & Company Inc., 1969), pp.6-7.
38. This is an inference from the changes made to the Mineral Land Tax Act by the Social Credit government in 1977 to ensure its constitutionality. See above, p. These changes truck all mention of 'production' from the Act. A very recent court decision by Mr. Justice Thomas Berger has declared the Mineral Land Tax Act ultra-vires of the provincial government in its original form, but the author has been unable to obtain a copy of this decision so far.
39. Eric Kierans, Report on Natural Resources Policy in Manitoba, p.9.
40. Paul Tennant, "The NDP Government of British Columbia: Unaided Politicians in an Unaided Cabinet," Canadian Public Policy III (Autumn 1977):489.
41. These points were discussed in more detail above, pp.169-72.
42. See above, pp.337, 360-62.
43. See above, pp.136-37.
44. Eric Kierans, Report on Natural Resources Policy in Manitoba, p.31.
45. Ibid., p.10.
46. Ibid., p.48.
47. Ibid., pp.28-29.
48. For a summary of the Bar Association's objections to Bill 31, see above, pp.
49. During a 1974 academic conference in Victoria on Mineral Leasing as and Instrument of Public Policy, a variety of tax schemes were presented ranging from the taxation of the value of minerals in the ground to cash bidding for mineral rights to more 'surgical' methods of appropriating the mining industry's surplus profit. The papers presented to the conference as well as some of the proceedings are contained in Michael Crommelin and Andrew R. Thompson, ed., Mineral Leasing as an Intrument of Public Policy, British Columbia Institute for Economic Policy Analysis Series;5 (Vancouver: University of British Columbia Press, 1977)

50. For example, Premier Barrett's major legislative defence of Bill 31 did not contain a single reference to the incremental royalty, although the basic 5 percent levy was mentioned three times. A reading of Barrett's speech produces the definite impression that what was actually being proposed was simply a flat 5 percent royalty. For the text of Barrett's address, see B.C., Legislative Assembly, Debates 30:4, June 7, 1974, pp. 3836-40. Also, see above, pp.
51. This phenomenon has occurred so often in Canada that it has become rather notorious, especially in the maritime provinces. See, for example, Philip Mathias, Forced Growth. It can, of course, be argued that the waste of government money through the encouragement of high profile development projects is due more to the way that these projects have been conceived and administered than to the underlying objective of economic diversification.
52. This pressure was clearly evident in Ontario in the 1930s when the government was forced to rescue the bankrupt pulp and paper industry. R.V. Nelles, The Politics of Development, pp.443-464. Nelles writes that:  
"Inevitably, the government of Ontario, as the largest shareholder in the pulp and paper industry, had to bear the brunt of its collapse. Government, which had loaned its pulpwood so liberally to help finance the expansion of the industry during the early twenties, necessarily shared some of the responsibility for its subsequent bankruptcy." Ibid., p.443.

## APPENDIXES

Appendix I, J.W. Jewitt, president, Granisle Copper to  
D.T. Kelly, M.L.A., February 27, 1974.

Appendix II, Evolution of the Organizational Structure of the  
Department of Mines and Petroleum Resources, 1971-1976.  
Source: B.C., Department of Mines and Petroleum  
Resources, Report 1971, p.A58; 1973, p.A59; 1975, p.A28;  
1976, p.A33.

# GRANISLE COPPER LIMITED

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VANCOUVER

BRITISH COLUMBIA

V6E 2H7

428

TEL. (604) 683-0451  
TWX 610 929 1096

J. W. JEWITT  
PRESIDENT

February 27, 1974

Mr. D. T. Kelly, M.L.A.,  
Parliament Buildings,  
VICTORIA, British Columbia.

Dear Mr. Kelly:

We would like to bring to your attention the serious repercussions Bill 31, the Mineral Royalties Act, could have on the economic prosperity of your Electoral District and the consequences to the citizens of the Omineca District, many of whom are employed by the mining industry.

The Bill, if enacted in its present form, can be expected to:

1. Bring to a complete halt any further mining development in the Province of British Columbia, thereby eliminating a very major and reliable source of additional jobs and tax revenue.
2. Shorten the productive life of the existing mines so that the jobs and tax revenues presently supplied terminate sooner than they would have otherwise.

For example, our parent company, The Granby Mining Company Limited, will be forced to abandon any further efforts to bring its Huckleberry property south of Houston into production because Bill 31 would render it uneconomic. This means the loss of \$60 million in capital investment, the loss of tax revenues on \$30 million per annum in sales, and the loss of 250 new jobs in the mining industry and perhaps 500 to 600 jobs in supporting industries.

While Bill 31 does not apply directly to our Granisle mine because the mine is held under Crown granted claims, the Minister of Mines has clearly stated the taxes on Crown grants under the Mineral Land Tax Act will compare closely with the royalties imposed under Bill 31. Using the royalty costs as a guide, we have determined that our effective tax rate at Granisle can be expected to increase from 43% to 67% at the present level of copper prices. This in turn will mean that very low grade copper values in the pit can no longer be recovered at a profit, thereby forestalling any plans on our part to increase the life of the mine with favourable copper prices.



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As far as the 310 employees of Granisle are concerned, their long term job prospects and the future and prosperity of the Village of Granisle will become much less attractive.

For the industry as a whole, it places in jeopardy 15,000 mining jobs, and 34,000 additional jobs in supporting industries, as well as current Provincial tax revenues from mining of \$71,000,000 if the industry gradually winds down because no new mines are developed.

It is our view that a level of taxation or royalties which recognizes that mine operating costs are also increasing with market prices and which does not discourage new mine development would meet your Government's objective and avoid the risk of industry stagnation to the detriment of our many employees and the long term economic gain of the mining communities and the Province.

Your support is requested in prevailing upon the Government to establish a more realistic level of mineral royalties and taxation in the interests of the economic well-being of all citizens of the Province.

Yours very truly,

JWJ:meh

cc: The Honourable David Barrett  
The Honourable Leo T. Nimsick  
Mr. Monty Alton, U.S.W.A.  
Chamber of Commerce, Burns Lake  
Chamber of Commerce, Houston  
Chamber of Commerce, Smithers

1971

MINISTER

DEPUTY MINISTER

PERSONNEL

INSPECTION BRANCH

Inspectors, Resident Engineers,  
Mine Rescue Instructors,  
Reclamation, and  
Environmental Control

ADMINISTRATION BRANCH

Accounts, and Mining  
and Petroleum Titles

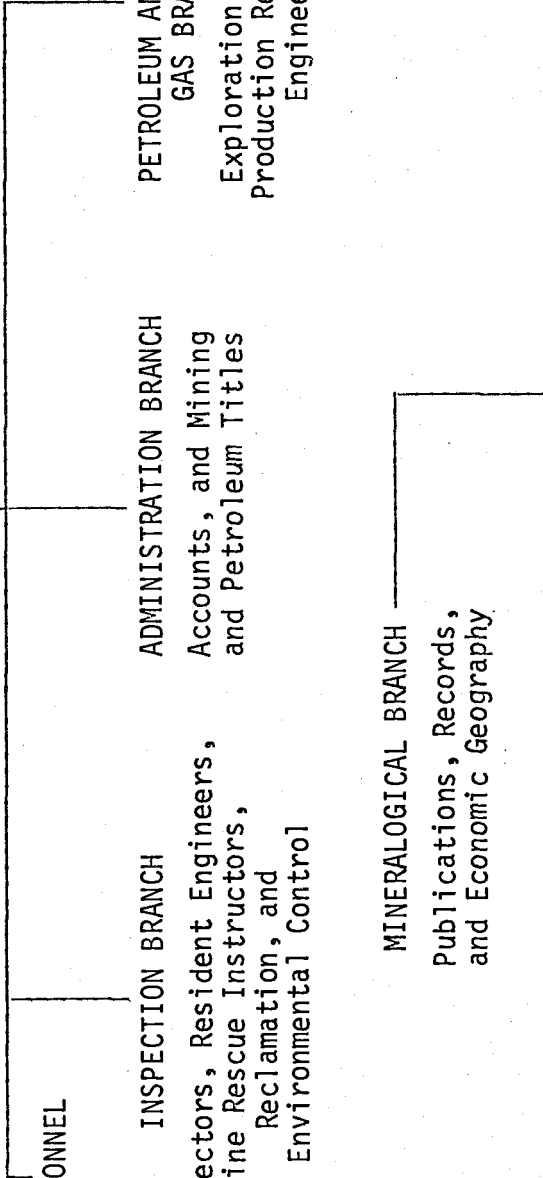
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GAS BRANCH

Exploration, Geology,  
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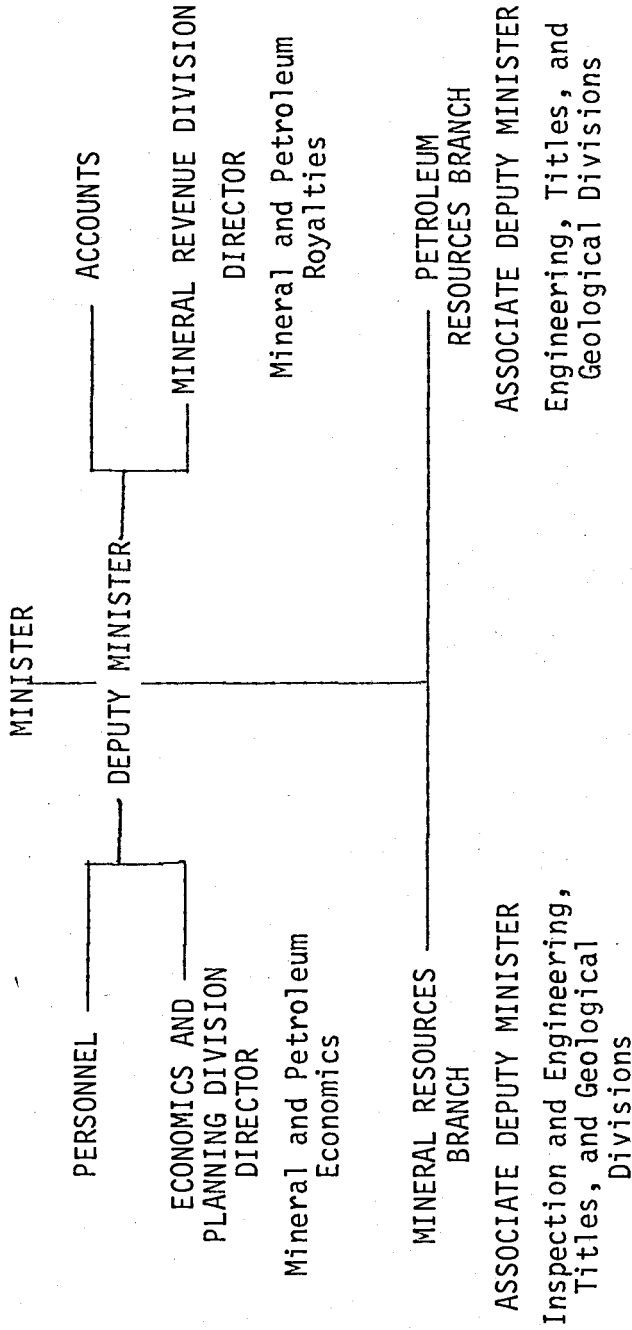
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and Economic Geography

ANALYTICAL AND ASSAY BRANCH



1973



1975

MINISTER

DEPUTY MINISTER

ASSOCIATE DEPUTY  
MINISTER

MINERAL RESOURCES

Inspection and Engineering,  
Titles, and Geological  
Divisions

ASSOCIATE DEPUTY  
MINISTER

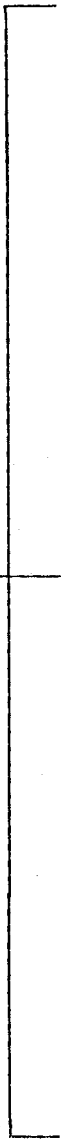
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Mineral Development,  
Administrative Services,  
and Mineral  
Revenue Divisions

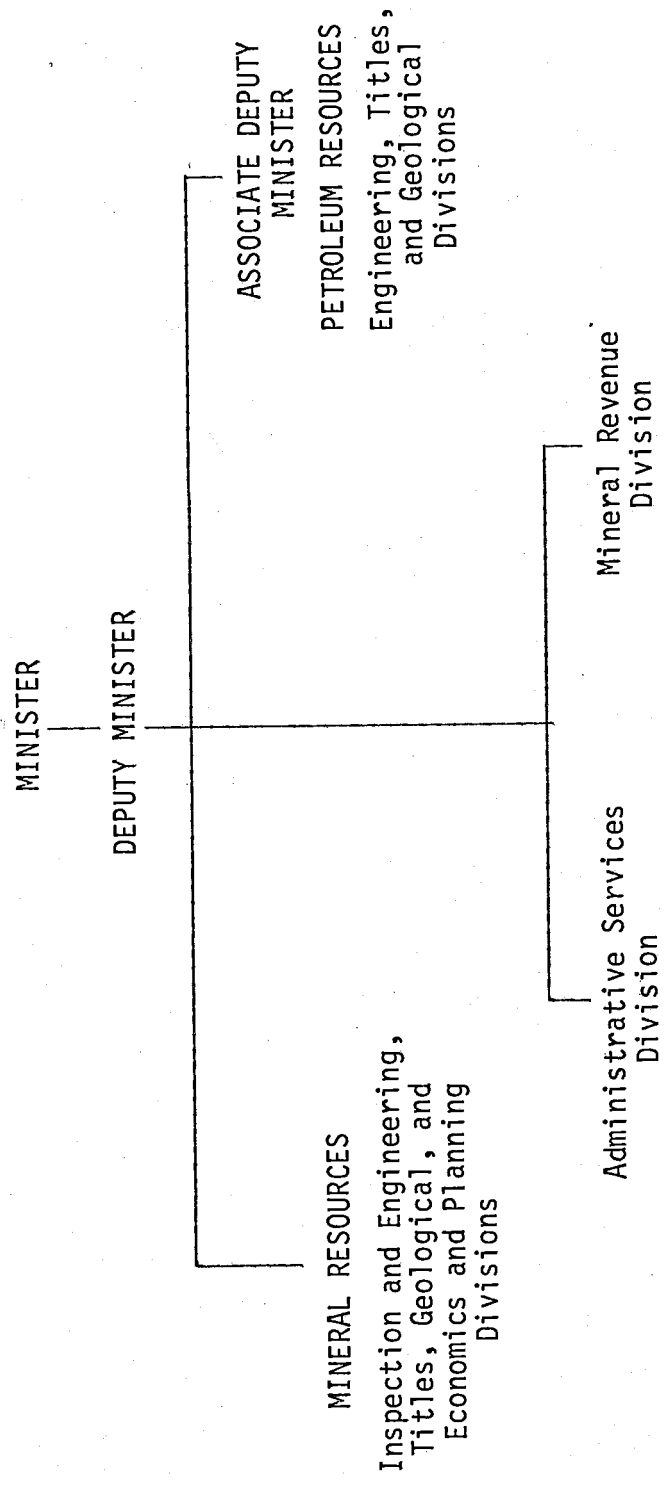
ASSOCIATE DEPUTY  
MINISTER

PETROLEUM RESOURCES

Engineering, Titles,  
and Geological  
Divisions



1976



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- . Statutes 1958. Chapter 30, "An Act to Amend the Mineral Act."
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Chapter 53, "Mineral Land Tax Act."
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