

# Commentary



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## Closing Canada's back door: Strategies to control our Arctic critical minerals

Stephen Van Dine

### Introduction

Chinese balloons, ocean buoys, and ships of all shapes and sizes are navigating through our Arctic waters and over our lands. In response, the coast guards and militaries from both Canada and the United States are increasing their detection and response capability against China's probes into North America. That response includes scrambling fighter jets to shoot down suspected Chinese spy balloons as was done in February 2023 over Yukon.

Today, there is another kind of Chinese incursion in the Canadian Arctic. This incursion is much less visible than balloons or buoys, and is something that the conventional military is ill-equipped to confront: the acquisition of junior mining companies. Chinese state-owned enterprises are hiding in plain sight in this country, taking advantage of the ambiguity in Canada's division of responsibilities between provincial or territorial and federal governments, an acute shortage of North American investment capital, and the limited

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regulatory oversight of foreign direct investment. If left unattended, Canada's Critical Minerals Strategy will be undermined, and its Arctic backdoor will be left open.

China's most recent effort in the Canadian Arctic involved leveraging an 18.1 percent share ownership purchase of Vital Metals to get to the front of the line with a supply agreement to acquire the existing stockpile of the only rare earth minerals mined in Canada. The share purchase transactions were below existing "triggers" for oversight under the *Canadian Investment Act*, an Act designed to police unhelpful or damaging foreign direct investment in the country. The federal department of Industry, Science and Economic Development Canada (ISED) administers the Act. It is outside the authority of the government of the Northwest Territories to deal with issues related to national security.

The way this Chinese "Trojan horse" worked involved a subsidiary of the company Senghe purchasing a relatively modest number of shares in Vital Metals, a smaller Australian-based exploration and development company that owns Canada's only operating rare earth mine: the Nechalacho project. From there, Senghe could influence an added supply purchase agreement for Vital's stockpile of mined ore. According to the *Globe and Mail*, "Vital... said that it had completed its transaction with Shenghe and had agreed to sell its rare earth stockpiles to the Chinese company" (McGee 2024).

“*The move added to China's already global dominance in the supply of rare earths.*”

The move added to China's already global dominance in the supply of rare earths, removed supply from North American and European manufacturers, and placed another speed bump in Canada's embryonic rare earth processing capability. All of these factors could undermine Canada's Critical Minerals Strategy, which was announced in December 2022.

The *Investment Canada Act* (the Act) still gives Canada the option to step in, halt the purchase, and possibly rewind the clock. Although Vital is based in Australia, Ottawa can reject the deal under national security grounds. But the

struggling junior mining sector, hungry for investment, would take a dim view of such an action.

According to ISED,

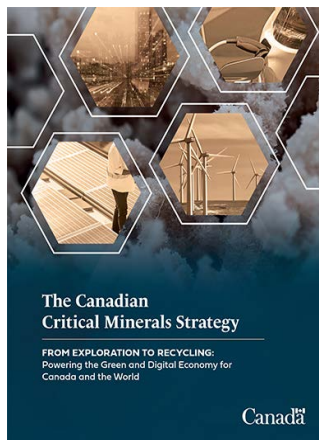
The *Investment Canada Act*... ensures that the most significant investments into Canada by non-Canadians benefit Canada's economy. The Act also allows the government to review foreign investments of any size to ensure they are not harmful to Canada's national security.

The Act aims to balance a positive investment climate to promote economic prosperity while safeguarding Canada from foreign actors that attempt to gain ownership or control of sensitive Canadian goods, technology, infrastructure, or personal data for purposes that could be injurious to Canada's national security. (Innovation, Science and Economic Development Canada 2024)

The Act is currently undergoing its most comprehensive update since 2009 and is now before the Senate in the form of Bill C-34.

## Canada's Critical Minerals Strategy

China's manoeuvres with Vital Metals is not its first attempt to own a part of Canada's Arctic.



In 2020, ISED stepped in at the last minute to stop a \$230 million purchase of TMAC Resources Inc.'s Hope Bay gold mine in Nunavut by Shandong Gold Mining Co. Ltd even after shareholders at TMAC approved the purchase (Strong 2020). ISED used the *Investment Canada Act* to block the sale. Chinese investment was rejected, and the property was sold to a new owner, Agnico Eagle, which already operates two other gold mines in Nunavut.

Recent events suggest that China remains undeterred by its experience with Hope Bay and that Canada's Critical Minerals Strategy (CMS) is blind to some concerns about foreign direct investment.

In 2022, Canada’s Critical Minerals Strategy included a \$3.8 billion whole-of-government commitment to finding, developing, and growing this key sector of the Canadian economy.

Fueling the CMS are two programs: The Strategic Innovation Fund and the Critical Minerals Research Development and Demonstration Program (CMRDD). Both programs are application- and proposal-based. The Canadian Infrastructure Bank provides a complementary measure to encourage Indigenous ownership in infrastructure to support access to critical minerals (Canada Infrastructure Bank 2023).

“*Despite their goal of advancing Canadian critical minerals development in a timely manner, proposal-based programs have drawbacks.*”

Despite their goal of advancing Canadian critical minerals development in a timely manner, proposal-based programs have drawbacks. First, they can take significant time to produce, review, and approve prior to the funds being released – and that is before the avalanche of reporting requirements. This elapsed time may lead to long delays for Canadian- and western-based junior mining companies, thereby making foreign direct investors look more appealing.

Second, proposal-based programs can favour those already involved rather than growing a larger community. That is to say, those already active in the sector and experienced in navigating the complexities of government assistance have an advantage over newcomers, and as such do not necessarily expand capacity in the sector.

Finally, the reporting requirements for proposal-based programs require a not insignificant level of resources for their financial administration, which takes resources away from the actual planning, designing, and delivery of the projects.

## Implications for territorial governments

All three territorial governments are facing challenges related to Canada's Critical Minerals Strategy on the one hand, and the demands for investment in their territories on the other. Compounding the complexity is the absence of a complete picture of the scale of Chinese involvement in northern mining projects.

The newly elected government of the Northwest Territories under Premier Simpson is facing the added pressure of aging diamond mines that will close in the coming years. Finding new mines to replace the ones that close is a daunting challenge. While China is an investor with deep pockets, the Vital experience raises the added questions of community benefits and support.

Roy Erasmus, both a former MLA and member of the Yellowknives Dene First Nation Band Council, now a columnist in *The Yellowknifer*, has written about how Vital Metals “stopped engaging and communicating with the Yellowknives Dene and other Indigenous communities, leaving them and their members completely in the dark” and fearful that previous commitments for employment, contracts, and the possibility of equity participation would be unfulfilled in the Chinese deal (NNSL 2024).

In another NWT project, a few hundred kilometers down the road from Yellowknife, the website of Fortune Minerals' NICO critical minerals project notes that in 2013, the project received a “strategic investment of \$11.7 million... [from] Procon, a full-service mining contracting company... majority owned by China CAMC Engineering Co., Ltd... a leading provider of international engineering, procurement and construction services ... based in Beijing, China” (Fortune Minerals 2013).

While there doesn't seem to be any further investment by Procon in NICO, also in 2013 US regulators ordered Procon to divest itself from a US project due to its Chinese backers (The Prospector 2013).

The Vital Metals situation suggests that a registry for Northern projects should be established and include foreign direct investment information.

While the government of Canada's ambitions in the Critical Minerals Strategy are clear, its strategy seems to be lacking coherence, which is leaving Canada's Arctic backdoor open to foreign investment that might be working at odds with Canada's national interests.

Canada needs a critical minerals implementation approach that integrates three key areas: improving junior mining companies' access to capital (they are the critical mineral finders); strengthening investment regulatory oversight; and encouraging greater intergovernmental cooperation and coordination. Together, these measures can accelerate the objectives of CMS, lock Canada's Arctic backdoor, and protect the country's national interests.

## **National security risks**

To be clear, while Canada's Critical Minerals Strategy is in the national interest, it is not a national security initiative in the conventional sense. Yet mine ownership by foreign interests does pose security risks. In an interview, Colonel Pierre LeBlanc (retired), former commander of Joint Task Force North and now President of Arctic Security Consultants, outlined several risks from allowing Chinese firms to acquire a controlling position in a mining company operating in the Arctic.

The first risk is in controlling access to supply. If China owns all critical metals and rare earth resources, then Canada, the United States, and other countries will become even more dependent on products made from them in China, like microchips and processors.

Second, "once China owns any property in the Canadian North, they can install whatever listening devices or equipment on that property whenever they want." Pointing to Hope Bay, LeBlanc said, "The TMAC mine was remarkably close to several air defence radar installations and one logistical support site of the North Warning System which is part of the North American Air Defense Agreement (NORAD) ... a situation that could put our continental security at risk."<sup>1</sup>

Prof. Rob Huebert, Head of the Centre for Military, Security and Strategic Studies at the University of Calgary and an MLI Senior Fellow, identifies the third risk. China is patient and will play the long game. "Since China has self-described itself as a near-Arctic State in 2018, its efforts to gain physical and policy hooks into the Canadian Arctic are starting to stack up."<sup>2</sup>

While the Canadian and United States Coast Guards and militaries are stepping up their vigilance around conventional incursions into the North American Arctic, Huebert is clear that militaries are not the ones you want to defend against economic aggression. Vigilance requires provincial, territorial, and federal governments to know what to do when they get briefed by the

Canadian Security and Intelligence Service (CSIS). In the same interview, he concluded, “It’s up to policymakers and administrators to take the intelligence reports they receive, or China will keep doing what they’re doing.”

## The investment paradox

Despite Canada placing critical minerals as a national priority, the industry still needs investment throughout the development cycle – sometimes over decades – to finance exploration, mine development, and production. And investment remains hard to find. Canadian junior mining companies are looking to foreign direct investment from China because domestic capital is scarce, there is limited interest from Canadian pension funds in making such investments, and poor performance from the last commodities cycle has scared off investors. The junior mining financial sector is contracting, not expanding.

Brad Nichol, CEO of Alpha Lithium Corp, spoke in the *Globe and Mail* about Canada needing to look at both sides of Chinese investment. Stopping sales or investments might keep China out, but who is going to replace the capital dollars China is supplying? “How do you just shut off 70, 80, 90 percent of a capital pool for a Canadian company?... And then tell them ‘Sorry, we just decided we’re closing the door on funding sources and expertise that’s going to help you develop that asset, but we don’t have an alternative for you’” (McGee 2023).

Canada can still intervene and perhaps will in Vital Metals’ Nechalacho project. It will be interesting to see if there is an alternative investment solution for the Nechalacho rare earths deposit.

## A policy response

The Hope Bay experience in Nunavut has shown that China plays the long game, so Canada must do so too. To address its concerns about foreign interference in its key resources, Canada should adopt a three-pronged approach that focuses on improving access to capital and Indigenous equity, improves regulatory oversight, and enhances intergovernmental cooperation. All three are key to ensuring that the CMS meets its goals and that Canada can protect its Arctic.

On improving access to capital, Budget 2024 can build on the mining tax credit announced in Budget 2023. If the government were to add a Northern mineral exploration tax credit, Canadian juniors would have more chance of

attracting Western investment. Further, such a credit would have the added benefit of nudging Canada's investment community and pension funds to act in Canada's national interests by supporting Arctic sovereignty and the economy. A federal Northern mineral exploration tax credit would likely be welcome news and to the government of the Northwest Territories, which currently must stretch its Mining Incentive Program budget to cover the many demands on it. Additionally, the government could enhance the Strategic Innovation Fund to allow Indigenous communities to purchase equity, which would replace Chinese investment in projects in their traditional areas, a stated ambition of the CMS. Finally, the Biden Administration is making it possible for the US Department of National Defense to invest in friendly nations to procure critical mineral supply as outlined in the *US Inflation Reduction Act*. Canada is a trusted neighbor, ally, and partner in the North American Air Defense Command (NORAD), so Nechalacho could be a prime candidate to receive such investment once Chinese investors depart.

On regulatory oversight, Bill C-34, a proposal to amend the *Investment Canada Act* to strengthen the detection of unfriendly foreign investment in Canada is now in the Senate awaiting a third reading. Royal assent for the updated Act can't come soon enough. Currently, China's ambitions and deep pockets are aligning nicely with the needs of Canada's junior mining companies, which are starved for investment.

“ *Intergovernmental cooperation  
is a work in progress.* ”

Intergovernmental cooperation is a work in progress. On January 18, 2024, Nunavut was finally able to secure its own devolution agreement with Canada and the Nunavut Tunngavik Incorporated. With the agreement, it joins the other two territories in being able to control its own lands and resources. Now the three territories can build a common playbook to leverage their land and resource responsibilities and manage their relationships with both land claim agreement holders and the co-management regulatory boards within their boundaries.

A territorial playbook could have three steps.



Step one, borrowed from the Yukon, is to raise the collective understanding about national security levels in the territories. CBC North reported earlier this year that the Yukon government announced the creation of an Arctic Security Advisory Committee. Premier Ranj Pillai was quoted as saying that the council will develop a report “which will include important context, considerations and recommendations for the Yukon government including both short and long term perspectives” (CBC 2024). The Yukon approach could also be beneficial for all the players involved in resource development in each territory.

Government officials at all levels have a duty and responsibility to protect Canadian citizens from harm in all forms. Budget 2024 offers an opportunity for the federal government to add modest funding for the three territories to improve their national security.

Step two can be implemented once a collective understanding of security levels has improved. It involves greater coordination between Canada’s federal government and territorial and Indigenous governments. For instance, a joint federal/territorial/indigenous mining summit akin to the annual Geo-Science Forum that will take place the Fall of 2024 could discuss how a vibrant critical minerals sector could thrive in the territories.

Step three is to coordinate the actions of all the government agencies involved to support more efficient environmental assessments and regulation of the mining sector. Removing duplication is key. Each project needs to be reviewed, but if regulators relied on common information, it would cut the review time significantly. Again, Yukon may have an example the other territories could follow. After the Yukon *Environmental and Socio-economic Assessment Act* came into force in 2006, the Yukon government established a major project office to help integrate environmental and economic considerations in the review of major projects in the territory.

Canada’s current Critical Minerals Strategy is failing to serve junior mining companies and is leaving our Arctic backdoor open and our national security exposed. Canada can address both vulnerabilities by improving access to capital, passing Bill C-34 and the new market regulation measures, and building a new, more active intergovernmental approach with territorial governments that respects national security literacy and regulatory efficiency equally. Attracting investors who support Canada’s Critical Minerals Strategy and the Nation’s national security cannot be passive. There is no time to waste. [MLI](#)

## About the author



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## Endnotes

- 1 Author interview with Colonel Pierre Leblanc (ret’d), January 14, 2024.
- 2 Author interview with Prof. Rob Huebert, January 16, 2024.

*constructive* *important* *forward-thinking*  
*high-quality* *insightful*  
*active*

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