The Mining Association of Canada | L'association minière du Canada

Canadian Mining: Down, but Never Out

Pierre Gratton's Speech to Vancouver Board of Trade
September 22, 2015

Thank you. It's a pleasure to be back in Vancouver, a major hub of Canada's mining industry.

Before I begin, I want to reflect on the past year. My speech to the Vancouver Board of Trade last September came on the heels of the tailings breach at the Mount Polley mine. At that time, the cause of the breach was unknown. I stood before you deeply troubled by the incident.

You see, until that point, MAC and its members were feeling quite confident that catastrophic tailings failures such as Mount Polley were becoming a thing of the past.

We had developed and implemented best practices in tailings management through our Towards Sustainable Mining initiative, which is mandatory for all of our members. We had also developed internationally-recognized tailings management guides, regarded as best practice around the globe.
We'd put all of this in place after a series of catastrophic failures in the 1990s – and gone almost two decades without an incident by one of our members.

On August 4th, 2014, that confidence was shaken. Immediately after the breach, we vowed that we would do everything we could to learn from the incident. It was a commitment that MAC and its members, including Imperial Metals, took very seriously.

We immediately began an internal review of our TSM tailings management components and guidance, the review led by MAC's Tailings Working Group, a team of professionals who have spearheaded MAC's tailings management work for two decades.

In January, we learned about the cause of the failure – the independent panel struck by the BC government concluded that the "dominant contribution to the failures resides in the design" which "did not take into account the complexity of the sub-glacial and pre-glacial geological environment associated with the perimeter embankment foundation."

The panel went on to say that the failure occurred notwithstanding effective regulatory oversight and found no evidence that the failure was due to human intervention.

The panel report also includes seven recommendations. One of these referred to MAC's TSM tailings management requirements and guidance, stating that corporations should be "a member of MAC – ensuring adherence to TSM – including the audit function." The report stated that compliance with TSM is an element of global best practice for the mining industry today.

Notwithstanding the panel's findings and recommendations, our Board took the view that regardless of whether TSM is global best practice or not, it can and has to be better. Therefore, we took the additional step to form an independent, multi-stakeholder expert task force to review our tailings management requirements and guides.

The task force has been working hard all year, and the MAC Board is expecting a final report and recommendations on how to improve TSM's tailings management components within the next month or so.
This report, and the MAC Board's response to it, will be public.

We will take action because we do not want to go another two decades without a catastrophic failure. We want to never have one again.

I would be remiss if I didn't also acknowledge the hard work of provincial Minister of Energy and Mines, the Honourable Bill Bennett.
He has also taken this issue by the horns and is doing his best to also ensure the safety and integrity of BC's mining industry. I look forward to the work of the industry/First Nations committee he formed to review the BC Mining Code that will also contribute to further enhancing the safety of mine tailings and the confidence British Columbians can have in its mining industry.

At the site level, Imperial's remediation work has been remarkable. Last month, I had the opportunity to tour the Mount Polley mine. I saw first-hand the significant amount of restoration work being done in the Hazeltine Creek area. Imperial staff and members of the community have worked hard over the past year to restore the area, and work remains ongoing.

That same week, the mill at Mount Polley came back online, and they now have almost 200 people at work at the mine. That's about half of the pre-breach workforce, and efforts are being made to get back to full employment levels. This has been welcome news to the communities surrounding the mine. It has been a tough year for the company and local communities, so it is especially heartwarming to see things start to turn around.

Now let me turn to the focus of my speech today – the state of the Canadian mining industry.

Top of mind for most in the room is the market – how the industry is coping through the current downturn.

It’s easy to get swept up in doom and gloom stories. But we need to remember that the global mining sector has cycles where demand and prices drop, which is inevitably followed by a correction and strengthening.

Even during a stubborn downturn in global demand for many minerals and metals, it’s no time to get down on mining. Because mining never goes away. Minerals and metals are the very foundation of virtually all of the goods we depend on in our daily lives. As the saying goes, if it’s not grown, it’s mined.

So today, I want to leave you with three main points.

1) Yes, the industry is in the midst of a significant downturn.

2) Despite it, Canada’s mining sector continues to make enormous contributions to our social and economic well-being – in BC and across the country.

3) It is during a downturn that we need to focus on future opportunities, to take steps now to position the sector for success when the cycle turns again, as we know it will.

I say this because there is a tendency for policy makers – and as CEO of MAC, good public policy for mining is my primary concern – to follow trends.

In the dot.com era, mining was abandoned, dismissed as a “sunset” industry whose time was over, as governments across Canada chased high-tech, looking to establish silicon valleys across the country.

The dot.com bubble burst just when the full force of China’s expanding economy was starting to be felt in the commodities world. Because we weren’t paying attention at the time, policy makers spent a good part of the past decade playing catch-up, looking at ways to capitalize on the resource boom that had arrived.

There are some who might say that we have spent too much time lately on natural resources, in particular on energy and pipelines.

They’re probably right, too.

Because there is just one Canadian economy, and the secret is not to chase trends but to take a consistent, whole of economy approach, recognizing the interconnectedness of it all.

And, of course, this means not making the same mistake we made a decade ago by now abandoning natural resources, whether it’s iron ore, coal, copper or oil because they’re slumping.

Because what we want is to be in a position to maximize our return when the cycle changes again.
We want to be in a position to have new mines open, to have Canada positioned as a choice destination for new exploration and mining investment.

There are lessons to be learned from the past decade. We need to make sure we've learned them.

A Look at Market Conditions

So how bad is the market? Like all down cycles, it's been tough.

Global economic growth has been volatile in recent years, with annual growth projections consistently downgraded as market conditions unfolded. The Bank of Canada downgraded its 2015 global economic growth forecast, from 3.3% in April to 3.1% in July, due to faltering US and Chinese economic growth early in the year.

Looking forward, the Bank of Canada anticipates growth to rebound at 3.6% and 3.7%, respectively, for 2016 and 2017, which is consistent with earlier projections. However, whether this forecast will have staying power in the face of recent global financial turmoil is now highly questionable.

Looking at the emerging markets that have been at the heart of the commodity boom, both Brazil and Russia forecast negative GDP growth in 2015 at 1.5% and 3.4%, respectively. Meanwhile, China's growth is forecast to shrink annually to 6.8% and 6.3% consecutively through 2015 and 2016.

This will lead to uncertainty over the strength of demand for materials given that China is currently the world's largest market for mined products. In contrast, however, India is forecast to grow by an annual 7.5% in 2015 and 2016, leaping forward from 5% growth forecasted for 2014. I should note, though, that these forecasts predate the global financial market events of late August.

Declining or weaker than expected economic growth rates, combined with increased supply of commodities that has resulted from investments over the past decade, have pushed prices downward. While, for some time, the story was mixed across commodities, trends have recently emerged to paint a gloomy picture pretty much across the board. From winter 2011 highs, the monthly average price of both nickel and copper has trended downward, losing approximately 60% and 50% of their respective value.

Similar trends with subtle variations are seen for silver, uranium and potash. And beyond gold's $700 per ounce fall, iron ore and coal have experienced the most dramatic swings, both suffering a loss in value exceeding two-thirds since 2011.

It's been especially tough for the junior miners in BC and across Canada. Declining commodity prices and falling interest in high-risk capital among investors has made it especially tough for mineral exploration financing, with global exploration budgets dropping by 30% in 2013. What's more, PDAC research indicates that more than 50% of all financings were for $500,000 or less in 2013 compared to just 13% in 2010.

SNL Metals and Mining recently calculated that the mining industry's total budget for non-ferrous metals exploration was $11.4 billion US in 2014. This contrasts with the $15.2 billion in 2013 and the record $21.5 billion in 2012. This decline is as worrisome as it is dramatic.

Sounds pretty grim, but even so, some perspective is needed.

A Bedrock of the Canadian Economy

Even in a slump, mining's contribution to Canada is enormous.

Despite some job losses at some operations, mining and mineral processing are directly employing over 375,000 Canadians, including well over 10,000 Aboriginal Canadians, and paying the highest average industrial wage in the country.

Mining accounts for roughly 20% of the overall value of Canadian exports, valued at nearly $90 billion.

Nationally, we pay an average of $3.8 billion annually in corporate taxes and royalties to federal, provincial and territorial governments. Mining is also paying significant royalties to Aboriginal communities across the country, as other jurisdictions follow BC's lead in.

This is something that BC has done well at as a result of the industry and the BC Government's commitment to share mineral tax revenues with First Nations.

We're sitting as a top five global producer of 14 minerals and metals.

We're supporting the second largest mining-supply sector in the world. More than 3,700 companies in Canada provide a wide spectrum of services to the mining industry, such as legal, financial, accounting, engineering and environmental.

We're responsible for over half of railway shipping and around half of marine shipping, making sure other commodities, like our subsidized grain sector, can ship their products economically.

And so the point I'm making is that while it's tough out there, the industry remains strong; a bedrock of the Canadian economy. Our miners, long experienced in the ups and downs of this sector, are focused on controlling costs and preparing for the next upturn.

To coin Winston Churchill, that’s some sector. That’s some slump.

The prevailing view remains that the Canadian mining industry’s economic prospects will be strong over the medium and long term. We continue to identify a substantial amount of potential new project investment in Canada. While this potential for mining growth is now more dependent on market realities, some projects continue to move forward and others will proceed with development when demand returns.

The fundamentals that drove the super cycle are still largely in place. China’s growth, while slower, is still significant and over a much larger base. Consumption of minerals and metals remains significant and is expected to accelerate over the long term as other emerging economies, particularly India, take their place behind China.

And the weaker Canadian dollar that has accompanied declining commodity prices, particularly oil, is providing a bit of a buffer for Canadian mining operations. This is helping them weather the downturn a bit better than the decline in commodity prices might suggest.

It is in light of mining’s overall strength and importance to Canada that we need to stay focused and ensure that Canada is recognized as the best place to find and develop mines, whose products the world needs.

Learning Lessons

To prepare for the next upswing, we should look at the fundamentals that drive mineral investment.

A global study by McKinsey a year or so ago ranked Canada very near the top across a wide range of indicators measuring investor attractiveness. We know what many of these are: political stability, skilled workforce, respect for the rule of law, low corruption, etc.

But the same study also showed that Canada is one of the most expensive places to build mines. There are a few reasons for this.

Cheap power used to be a Canadian advantage, but it is becoming less so. The price of diesel has doubled in a decade, while electricity rates in many regions have been increasing significantly.

The availability of skilled labour - or the lack thereof - has driven up labour costs in recent years. Innovation and investments in skills training to enhance productivity to counteract rising labour costs are crucial.

But if there’s a major challenge facing mining in Canada today, it’s lack of infrastructure. The north is our industry’s future, but the territories and the northern parts of our provinces lack critical infrastructure—roads, electricity, ports, railways—to service mines and get products to market.

According to our research, it costs about 2 to 2.5 times as much to build and operate a gold and base metal mine in northern Canada off grid than in the south.

The elimination of mining tax measures in recent federal budgets, such as the Accelerated Capital Cost Allowance, has made capital intensive projects even more expensive. This is particularly true in the north with large infrastructure components.

Moving product to market is also getting more expensive. Canada is a vast country, competing with other countries with much shorter logistical supply chains. And with what is effectively a monopoly rail system, shippers are often at the mercy of service challenges and unilateral rail pricing.

Time is money and our approval processes are complex and lengthy. Even well intended regulatory reform has been creating new uncertainties and delays for good projects, both in BC and across Canada. Additionally, governments failing to fulfil their obligations to Aboriginal governments or communities, or delays in meeting these obligations, also contribute to delayed decision making on mining projects.

We also cannot afford to forget about the industry beyond our borders. After all, Canada is just one of many attractive countries to mine, and we are competing for highly competitive – and highly mobile – mining investment dollars.

It’s been a little disheartening to see that on this front, we have been slipping lately. Last year, after an eight-year reign as the number one jurisdiction for global exploration spending, we fell to the number two spot behind Australia.

We need to remember that it’s a competitive world out there. Much of Africa, once unattractive to mineral investment and poorly explored, has a rapidly growing mining industry. Latin America, with a longer mining tradition, is also growing rapidly. Australia, closer to the Asian markets, is outmaneuvering Canada in its trade relationships.

Given that mining is one of the activities Canada excels at – indeed is a global leader in – this should concern all of us.

Fortunately, it’s not too late to turn this trend around and stake Canada’s claim in the global mining industry.

Where do we go from here?

As I said at the outset, we spent too much of the last decade playing catch-up.

Major federal regulatory reform was well intended, yet inadequate and, in some instances poorly implemented. The changes were also introduced in the last 4 to 5 years, right at the end of the commodity boom.

Too little…but not too late.

As with all major reforms, devils are in the details. In Ottawa, MAC and its members have been very active stressing the importance of certainty in the review and permitting process.

We need to use the time now to fine tune the regulatory system and approvals process to make sure it is truly efficient and effective. We have to continue to improve the efficiency of decision making on new projects and avoid duplication.

That's not all. Other areas of public policy are also key to the Canadian mining industry's competitiveness.

We also have to address our transportation supply chain at home to capitalize on opportunities abroad. Mining is the railways' largest customer, but for years companies have faced costly service issues.

A first step would be to mandate that the railways publish performance and capacity data, because without data disclosure, we cannot know the actual causes of service failures. Data disclosure would lead to improved negotiations between shippers and railways, hopefully reducing the need for lengthy, expensive court proceedings.

We need to find new and emerging markets to sell our mineral and metal products. As such, governments need to double down on our trade negotiations. Canada has made tremendous progress over the past decade, concluding a record number of free trade and foreign investment protection agreements. Canada's relationship with Latin America, home to the largest share of Canadian direct investment abroad, is stronger than ever.

The new deal with India on uranium sales is a major accomplishment. But we cannot be complacent. We need to turn our attention to Asia and Africa, get over our inconsistent attitude towards China, and secure new, open markets for Canadian products and investment.

We need to roll up our sleeves, pool our resources and collaborate as an industry on innovation, addressing key challenges such as energy efficiency, productivity and water management.

We should be looking at ways to level the playing field in the north where infrastructure is lacking. This can be done by increasing government investment in new infrastructure, or by using the tax system to offset some of the costs incurred by companies for infrastructure components that also provide a broader public good.

Many, including the Conference Board of Canada, have highlighted the potential of Canada's north to our future prosperity. But it's not enough to tour the north and talk about it. This year's federal budget made a start, by allowing for the deductibility of Aboriginal community consultations as a Canadian Exploration Expense and by increasing the borrowing limits of the NWT and Nunavut governments to facilitate infrastructure investments.

But, more can and needs to be done to ensure Canada's mining industry can remain competitive amidst the current economic climate, and to seize the growth opportunities before it.

New infrastructure will be a catalyst to our economic future. We need to find a way to get this infrastructure built to pave the way for growth.

We know this can work. Just look at the extension of BC's Northwest transmission line – a smart example of a strategic federal/provincial investment that is about to pay dividends with the commissioning of the Red Chris mine.

Elsewhere in Canada, it's well known how helpful a road to the Ring of Fire in Ontario would be. It's the same story in the NWT where an all-season road would further open up the Ring of Ice, as would a road to the world-class base metal deposits in Nunavut, such as Izok Lake.

With a federal election underway, it's a good time for all of us to be asking the contenders what their vision is for the mining industry in BC and across Canada. Taking bold steps now will help ensure that Canadians can continue benefitting from mining's vast contributions well into the future.

In doing so, Canada's cities like Vancouver, Toronto, Saskatoon, Edmonton and Montreal, will remain major hubs for mine finance, mine supply and as locations for corporate headquarters.

The opportunity is there. We can seize it, but to do so we have to act now and not make the mistakes we made last time, playing catch-up and losing opportunities to our competition.

Thank you.