



Canadian Mining: Down, but Never Out

Pierre Gratton's Speech to the Cranbrook Chamber of Commerce March 1, 2016

Thank you for having me and it's a pleasure to be here in Cranbrook, a world-class mining region and the centre of Teck's steel-making coal operations.

I've been asked to provide an overview of the mining sector's current economic prospects. Some of you may be hoping that I can tell you when this down cycle will end. If I could, I probably wouldn't be here right now.

I don't have a crystal ball, but there are a couple of things I know for certain when it comes to mining.

First, we're a cyclical industry, and cycles are predictably unpredictable.

Second, mining is here to stay. Minerals and metals are the very foundation of virtually all of the goods we depend on in our daily lives. The world will continue to need mining, and Canada can and should continue to be an important place where mining happens.

Today, I will leave you with three main points:

- 1) Yes, the industry is in the midst of a significant downturn, but it's no time to get down on mining. Even during the current economic environment, Canada's mining sector continues to make enormous contributions to our social and economic well-being.
- 2) There are actions that industry and governments can take now to seize future growth opportunities. Canada needs to work on its competitiveness to attract new mineral investment and retain its leadership in mining.
- 3) Canada's low carbon, sustainable future will be made possible by minerals, metals and energy products. That's why I believe the mining industry in BC and across Canada has a bright future.

A Look at Market Conditions

So, first, how bad is the market?

As you know, times are tough right now. Commodity prices are slumping across the board, affected by an overall slowing global economy that is being felt throughout Canada.

As residents of coal country, you know this all too well. Prices for seaborne metallurgical coal have dropped from a peak of \$330 per metric tonne in 2011 to \$81 this past January – a four-fold decrease in value.

Global economic growth has been volatile in recent years. Every time the Bank of Canada, the IMF, World Bank or others make growth projections, it seems they amend them a few months later and always downwards. With few exceptions, the global economy is not doing well at all.

The key economy for our sector is China, which has been consuming almost 50 percent of the world's minerals and metals. And China's growth rate has been slowing. Growth rates in other emerging markets, like Brazil, Mexico and several Asian and African countries, are also falling.

The one major exception is India, whose growth is around 7.3 percent. With 1.3 billion people and growing, India is seen as the next China in terms of minerals and metals consumption as it rapidly industrializes.

Declining or weaker than expected economic growth rates combined with increased supply of commodities due to investments over the past decade, have pushed prices downward. With very few exceptions—gold comes to mind—it's a fairly gloomy situation for most commodities.

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 falling by 26 percent in 2014. Across the country, exploration has fallen, although Canada remains the largest recipient of exploration spending in the world.

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, mining and mineral processing are directly employing over 375,000 Canadians, paying the highest average industrial wage in the country.

At 10,000 employed, mining is also proportionally the largest private sector employer of Aboriginal Canadians.

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 companies are also paying significant royalties to Aboriginal communities across the country, indirectly through government resource revenue sharing and, in some cases, directly.

Here in British Columbia, Teck's steelmaking coal mines contribute over \$1 billion to local communities through procurement activities alone.

Canada is sitting as a top five global producer of 14 minerals and metals. But mining contributes a lot more than the resources that we dig out of the ground.

We are a professional, high tech, and highly-educated industry vital to Canada's remotest communities and largest cities. Vancouver is the centre for the junior exploration sector, while Toronto is the mining finance hub of the world.

Canada also supports the second largest mining-supply sector. More than 3,700 companies provide a wide spectrum of services to the Canadian mining industry, extending our employment and economic reach even further.

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. Long experienced in the ups and downs of this sector, companies are controlling costs and preparing for the next upturn.

The prevailing view is 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 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 last 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 companies 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. Canada needs to continue being recognized as the best place to find and develop mines, whose products the world needs.

Where do we go from here?

Right now, mining companies are doing what they can to control costs. At MAC, we're thinking about the industry's future.

To prepare for the next upswing, we need to ensure that Canada is in position to compete for highly-mobile global mineral investment. The reality is, Canada is one of many attractive places to mine or list, so our ability to compete for those investments is key to our future.

Both industry and governments—federal, provincial, territorial and First Nation—have a role to play in retaining Canada's leadership in mining.

A good first step is to look at the fundamentals that drive mineral investment.

A recent study by McKinsey 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. As an aside, the BC Government should be commended for their recent move to allow BC mines to defer electricity costs. This will provide meaningful relief to mining companies facing escalating power costs during this downturn, allowing them to continue operations.

This was powerful recognition by government that they know that times are tough right now, but they won't always be. It is an understanding that investments made now will pay dividends in the future.

Beyond power, the availability of skilled labour - or the lack thereof - has driven up labour costs in recent years. Innovation and investments in skills training, including programs specifically geared to Aboriginal peoples, are needed to enhance productivity and increase the talent pool.

If there is one barrier to growth in Canada's remote and northern regions, it is the lack of critical infrastructure. The North is our industry's future, but the territories and the northern parts of our provinces lack the roads, electricity, ports and 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.

We should be looking at ways to level the playing field in the North where infrastructure is lacking. Canada needs a strategic collaboration involving industry and governments to get this nation-building infrastructure in place. 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.

Canada needs to expand its trade networks to new and important markets, like China, so that mining and other industries can sell their products. This can be done through free trade agreements or foreign investment promotion and protection agreements.

Trade starts at home, and moving product to market is 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.

These challenges are not insurmountable. Overcoming them will depend on governments understanding the cyclical nature of our business. It means not putting a pause on good public policy or programs just because commodity prices are low.

Canada's future in mining requires us to learn from the past. I say this because there is a tendency for policy makers to follow trends. And as CEO of MAC, good public policy for mining is my primary concern.

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.

Let's not make that mistake again.

There is an upside to a downturn in that we can use the time now to get Canada in position to seize opportunities for when the bull markets return.

Mining is Canada's Future

Today, clean tech, climate change and Aboriginal reconciliation are three things that the Government of Canada says are key to Canada's future.

I wholeheartedly agree.

What I disagree with is the notion that some may hold that mining development is somehow at odds with these goals. When, in fact, the opposite is true. Mining is absolutely integral to a low carbon, sustainable future.

Let's unpack this.

First, Canada will need minerals, metals and energy products to fuel that clean tech, low carbon future.

Minerals and metals are necessary building blocks of renewables and clean technologies. It takes approximately 100 tonnes of steelmaking coal to produce the average wind turbine. Vancouver's Canada Line, which transports some 3 million passengers a month, required 30,000 tonnes of steelmaking coal. A lower carbon economy, therefore, bodes well for the metallurgical coal industry.

That's especially true here in the Elk Valley. Teck's coal mines have among the lowest carbon intensities in the world. And additionally, their coal is among the highest quality, which allows blast furnaces to operate more efficiently and reduces GHGs associated with the production process.

This is a competitive advantage for these mines as the world moves to higher carbon pricing.

The same story is true for other commodities that BC is a major producer of. Take copper as another example. The average electric car contains 165 pounds of copper wiring – three times as much as a conventional vehicle.

For their part, mining companies are innovating to manage energy use and to reduce emissions at their sites. Direct GHG emissions from Canada's operating mines, smelters and refineries account for less than two percent of the country's total emissions. For smelting and refining, today's GHG emissions are significantly lower than in the 1990s, while emissions for mining are just slightly higher.

This is largely a result of company action and industry-wide commitment. Today, three-quarters of MAC's member facilities have a comprehensive energy and GHG management system in place that is ISO 50001 equivalent.

As mining facilities produce GHGs primarily through the burning of fossil fuels for energy, emissions can be controlled by managing energy consumption.

This is where innovation comes in.

In BC, Teck is piloting LNG as a fuel source in haul trucks at Fording River – the first time this has been tested in Canada. This innovative solution has the potential to eliminate approximately 35,000 tonnes of CO₂e annually at Teck's steelmaking coal operations. At the same time, it could potentially reduce fuel costs by more than \$20 million across its operations.

Across the mining industry, some 4,500 people work in R&D, and company investments in innovation totalled \$677 million in 2013.

To expedite the development and implementation of innovative technologies, we believe significant opportunity exists for industry and government to pool resources and address innovation priorities together. This is why we are encouraged by the new federal government's commitment to invest in mining innovation.

Let's move onto the relationship between Indigenous peoples and the mining sector.

I'd like to take a moment to reflect on Aboriginal rights and title and how they affect project certainty. Much is made of how the constitutionally-protected rights of Aboriginal peoples to be consulted and, if necessary, accommodated for activities on traditional land affects project timelines and certainty. Connected to this is the concept of social license, which in general terms defines the support earned by proponents to proceed with and operate their project.

The big question these days is whether Aboriginal communities have a right to veto development projects. That is - as you all know - a very complex issue for all of us involved.

The Supreme Court of Canada, in its recent decision on the Tsilhqot'in First Nation's claim, recognized Aboriginal title, a first in Canadian law.

It also provided clear guidance on the criteria needed to demonstrate title and on the rights and obligations that flow from that, in the process also identifying where title was found not to exist. It is a significant decision that provides us all with much more clarity going forward.

But back to the question of the veto. The Court clearly recognizes that, in some circumstances, the right to title can be limited by the Crown. So, there is no absolute veto under Canadian law, even in the case where title has been proven.

But for the Crown to place limits on Aboriginal title, it has to demonstrate both a compelling public interest for the project as well as ensure that future generations will not be deprived from the benefit of the land were the project to go ahead – a very significant test.

At its core, the decision continues a balancing act between empowering and limiting the authority of both Aboriginal peoples and governments. The Court was very wise.

So what does this mean for proponents? There is the law, and then there is reality. No proponent wants or should want to build a project that is unwelcome or opposed by local communities. This is, quite frankly, an unsustainable option and one best avoided. And, most communities are open to the opportunities mining brings, and increasingly so.

MAC and its members recognize that building respectful and sustainable relationships with local Aboriginal communities is essential to successful and responsible project development.

Last month, MAC and its members issued a statement of support for government resource revenue sharing. This is something that BC led the charge with in Canada, and many other regions are moving in that direction.

We believe that government resource revenue sharing can increase the participation of Aboriginal people, businesses and governments in the mining industry. We also believe that it can help contribute to broader reconciliation efforts.

By enhancing and clarifying the benefits that mines bring to local Aboriginal communities, it could contribute to the elimination of socio-economic disparities between Aboriginal and non-Aboriginal Canadians. It is also a powerful and symbolic recognition by governments that mining development is taking place on their traditional lands.

We also believe that government resource revenue sharing complements other initiatives between mining companies and communities, such as Impact Benefit Agreements and other arrangements.

Today, there are well over 250 agreements between mining companies and Aboriginal communities across the country.

These agreements, which have matured with time and experience, provide significant local benefits and assurances. This includes, employment and skills training, business procurement, the incorporation of traditional knowledge in mine planning and environmental monitoring, among many other benefits.

These are transforming communities in very significant ways. New Afton and Highland Valley Copper, here in BC, is one such example. The diamond mines in the NWT are others, as is Voisey's Bay in Newfoundland and Labrador. We are seeing high levels of Aboriginal participation, as high as 60 percent in the case of Voisey's Bay, increasing levels of post-secondary education and significantly improved economic and social outcomes.

Nonetheless, it is undeniable that building mining and Aboriginal partnerships takes time. Trust must be built between the parties, and Aboriginal communities rightly want to understand the nature of the physical and environmental impacts of the proposed mine prior to it proceeding.

Here in the Elk Valley, Teck has demonstrated its commitment to meaningfully consult with Aboriginal communities during the regulatory process. For example, Teck developed its Elk Valley Water Quality Plan in collaboration with the Ktunaxa First Nation. The Ktunaxa Nation Council continues to provide vital advice and insight as a member of an independent Environmental Monitoring Committee.

At MAC, we believe that trust can only be built through our performance. Our members are able to show how they are limiting environmental impacts and engaging with communities through our Towards Sustainable Mining Initiative, or TSM.

TSM is a mandatory system for our members, and requires facilities to measure and publicly report on a range of environmental and social indicators, including Aboriginal engagement practices.

It's notable that three of Teck's coal operations, Elkview, Line Creek and Cardinal River have been awarded TSM Leadership Awards. This distinction is given to operations that achieve the highest performance levels in all indicators of TSM – no easy feat. This exemplifies that Teck employees who live and work in this region are dedicated to ensuring that development is sustainable and creates real benefits for local communities.

When done right and in partnership with Aboriginal communities, mining development can generate significant opportunities and benefits for communities across the country.

That's why when we talk about reconciliation and improving the livelihoods of Aboriginal peoples, mining is—and should continue to be—part of the solution.

As the Liberal government works to fulfil its mandate in this area, it is my hope that they recognize the crucial role that resource development plays in the Canadian economy writ large and in the day-to-day lives of northerners and Aboriginals, and take critical steps to support it.

Investing in northern infrastructure and skills training, and committing to reconciliation with Aboriginal peoples are areas that can help make a big difference in securing a prosperous future for Aboriginal peoples and for our country.

Conclusion

To conclude, a downturn is not a time to forget about mining. Because there is just one Canadian economy, and the secret is not to chase trends, but to take a comprehensive approach. We need to recognize just how interconnected the mining industry is not to just the current economy, but to a future, low carbon one too.

Canada's mining sector, while going through difficult times at present, remains strong and has a bright future.

But it is not a future to be taken for granted. Industry and policymakers need to be thinking ahead to the next upswing and take the steps now to ensure we are in a strong position to take advantage of it when it comes.

Thank you.