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

The Canadian Public: Perspectives on Mining and Resources Extraction

Pierre Gratton's Speech to the Vancouver Board of Trade, Sept 11, 2014

Thank you. It's a pleasure to be back.

When I was here two years ago, I talked about why I firmly believe there's a prosperous future for our industry – despite volatility and price declines. I stressed that we had to remain focused on some key areas – improving trade and addressing challenges related to our regulatory system, skills shortage and infrastructure.

This is still true today.

However, there have been some developments since I was last here. Notably, a couple of decisions by the Supreme Court of Canada that some are saying have the potential to significantly affect the future of resource development in Canada.

And, here in BC, a major tailings dam failure that requires us to demonstrate to Canadians, and especially British Columbians, that we can be trusted to operate safely.

So, today, I want to talk about a few new things:

I'll start by talking about what the market's been up to over the past two years, followed by the industry's performance against some key economic indicators.

This will lead me to focus on a topic that has become very popular of late, that of “social licence.” What does it mean? Is it just another barrier to resource development, the latest wrench seized by anti-development activists to oppose projects?

And, lastly, to what extent, in a post “Williams case” world, are we at risk of squandering the opportunities before us, losing investment because of First Nations opposition?

But first, the Mount Polley tailings dam failure. Let me point out that there are over 200 mines operating safely every day across Canada.

Let me also be very clear: a failure of this sort is unacceptable. It is unacceptable to the Williams Lake and Soda Creek bands, to the people of Likely, to British Columbians. And it is unacceptable to the mining industry.

The Canadian mining industry -- and MAC and its members in particular -- have spent the better part of the past two decades working to improve practices in this area so that tailings failures never occur. We have developed guidance that has become the gold standard worldwide. Through our Towards Sustainable Mining initiative, we have a mandatory system for members to ensure adherence to this guidance and hold 4-6 workshops per year for members to support implementation.

We do not know yet what caused the breach. But let me assure you that MAC and its members are determined to learn from this event. If there are gaps in our guidance, we will fill them. If our TSM requirements are inadequate, we will improve them. If there are lessons for the Province, we want to know them. If there are questions regarding design, we need to know what they are so that we can address them. We expect effective regulation and oversight in concert with robust design, operation and maintenance practices.

When the BC government ordered a review of all active tailings facilities in the province, we welcomed the order. We must reassure British Columbians that an incident like this will not happen again.

It has been an emotional time, but we need to reduce the polarization that's emerged. When I led the MABC, I worked with Peter Robinson, CEO of the David Suzuki Foundation who is with us today, and found common ground on how to protect endangered species. I don't work for an industry that is only focused on profit and he isn't a foreign funded radical. In fact, we want a lot of the same things, including a clean, safe environment and a strong economy. So do First Nations. We need to work together to make BC a better place.

Now let me turn to an overview of the business.

A Look at Market Conditions

Like all down cycles, it's been tough, but also different from other cycles we've seen.

First, the ugliest bits. Over the course of 2013, the world's 40 largest mining companies booked record impairments of $57 billion. Aggregate net profits fell 72 percent to their lowest level in a decade, their collective market capitalization declining 23 percent.

2013 was also a grim year for mineral exploration financing, with global exploration budgets dropping by 30 percent. What's more, PDAC research indicates that in 2013 more than 50 percent of all financings were for $500,000 or less compared to just 13 percent in 2010.

Global economic growth has declined for the past four years, falling from 5.2 percent in 2010 to 3 percent in 2013. The Bank of Canada, the International Monetary Fund, and the World Bank all downgraded global economic growth forecasts for 2014, in recent July updates.

Brazilian and Russian GDP growth are forecast to shrink this year to 1.3 percent and 0.2 percent, respectively, the latter being impacted by sanctions. China’s growth remains strong, but is forecast to shrink consecutively through 2015 from 7.7 to 7.1 percent. Meanwhile, India is forecast to grow from 5 to 6.4 percent over the same 18 month period.

Notwithstanding mixed economic growth from economies in transition, mineral and metal prices have demonstrated staying power, despite volatility and downward pressure in some areas.

And this is the other side of the story, which makes this recent cycle different from many others that have come before. Fundamentally, what brought the industry into a slump was less declining demand for commodities, but pressure on the supply side, where an overheated expansion caused input costs to soar. The past two years have been largely an exercise of restoring investor confidence by bringing costs under control.

Let's look at commodity prices. Copper dropped to US$2.92 in mid-March, but rallied back to US$3.20 in mid-July. While not record highs in the $4 range from a few years ago, for many of our established copper mines, it's a very profitable level.

Lately, zinc and nickel have been climbing, the latter soaring to a two-year high of US$9.50 per pound in late April, now fluctuating in the mid-$8 range. More recently, zinc has risen to a 35-month high due to declining supply and amid speculation that increasing auto sales in China and the US will boost metal use.

In recent months, iron ore and coal prices have fallen, but after a lengthy period during which prices held up much longer than many had predicted.

Meanwhile, gold – the hardest hit of all commodity prices in the last 18 months – has ranged between monthly averages of US$1,279 and US$1,336 over the last six months, though lately has not been doing as well.

Hence, 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 proposed, planned and in place mining project investment in Canada of upwards of $160 billion over the next five to ten years. Overall, the potential for mining growth in Canada is not a lot different than two years ago.

How Have We Been Doing?

Like the commodity market, the industry's performance is also mixed. Since, the commodity boom began a decade ago, the number of major operating mines in Canada, not including industrial minerals, has grown by 25 percent from 96 in 2003 to a 122 in 2013.

The value of mineral production has soared, reflecting the rise in commodity prices. The value of copper produced in 2003 was $1.3 billion. In 2013, it was over $4.6 billion. Coal was worth almost $1.5 billion in 2003, and exceeded $4.6 billion in 2013. Similar stories for gold, whose production value more than doubled in 10 years, while iron ore's quadrupled.

These increases increased taxes paid to governments, among the reasons why Canada fared so much better than other nations during the recent years of economic turmoil. And it explains why our governments are turning their focus to growing our natural resource industries.

All of this sounds pretty good. However, despite the increased number of mines and soaring production values, our actual production of mineral resources has not increased substantially.

Actual copper production only increased by a little over 13 percent, while coal production rose by 10 percent. Lead fell almost four-fold, while gold fell by over 40 percent by 2008, recovering 25 percent four years later but still below 2003 levels.

Of all the major commodities, only nickel and iron ore tell the kind of story we should be telling, with 40 and 30 percent production growth, respectively.

The fact is, while a vast country rich in resources, Canada has lost ground. We were a top five producer of 14 major minerals and metals in 2007, but today of only 10, with mineral reserves for most commodities plummeting since the 1980s.

And that's not all. 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.

In the Fraser Institute's latest annual survey, we saw traditionally top Canadian jurisdictions lose their footings. Quebec, which held first place from 2007 to 2009, fell to 21st in 2013.

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 just introduced a super flow through tax credit, modelled on Canada's, which could draw investment from here to there.

Hence, on some fronts we're slipping. I don't like to be a pessimist, but what these numbers suggest is that we may be at risk of losing our status as a global mining leader. Why is this?

Is it social licence?

With the controversy surrounding the Northern Gateway pipeline, there is a growing concern that it is becoming too hard to develop major resource projects in Canada.

The thesis is that Canadians are losing touch with what makes our economy grow. They don't see the connection between oil, minerals and metals and the products essential to modern life.

The latest version of this thesis is that it's because of the introduction of the term "social licence", a new, amorphous standard that is ill-defined and, hence, unachievable.

It's certainly a term that's in vogue. Columnists have started writing about social licence. Some say it has become another wedge issue for radical NGOs to stop development. There is some truth to this. Some project opponents are, in their rhetoric, asserting that proponents lack "social licence," implying that full support for a project is required before it can move forward.

Some politicians, too, can't help themselves, bandying about the term to justify their opposition to one project or another. This is leading some to say we need to start defining it; we need to turn social licence into some new regulatory instrument. And it has become part of the lexicon of consultants – "hire me and I'll get you your social licence."

So what is “social licence” and is it responsible for Canada’s lost ground?

For the mining industry, social licence is not a new term. It was coined over 15 years ago by a BC miner, Jim Cooney, who at that time worked for Placer Dome. He used it to explain how, nowadays, a mining project might be able to meet all regulatory requirements, but still not get built due to broad-based community opposition to a project.

It had become clear to us that the old world where mining projects were big deals welcomed almost uncritically by governments and communities for the wealth and jobs they brought, was over. Industry came to accept that we may, at times, have to walk away from a project. The challenge was to make sure this happened as infrequently as possible.

The late 1990s was the beginning of a change in the mining industry. Miners are practical people, for the most part. We had a new problem; we had to find a way to fix it. To do it, we needed new systems, new and different skills, and a way of measuring our performance.

At the Mining Association of Canada, we launched Towards Sustainable Mining or TSM in 2004. Since then both Mining Association of BC and the Quebec Mining Association have adopted this initiative. Around the same time, globally, the International Council on Mining and Metals was formed, whose core mandate is the development of good practices around community engagement and environmental performance.

TSM is a comprehensive initiative that drives continuous improvement at Canadian mining operations through annual performance evaluations, third-party verification of performance, and community of interest, or stakeholder, oversight. Through TSM, members strive to implement best practices in key areas such as tailings management, energy use and biodiversity conservation.

A critical impetus for TSM had also been the failure in the 1990s of a few tailings dams outside Canada but operated by Canadian companies. These incidents led MAC and the Canadian industry to develop the guidance on tailings management that I referred to earlier that has become the global standard. TSM takes these guides and makes mining companies publicly accountable for their implementation.

Ten years since TSM's launch, we can show how much the industry's performance in all areas, including Aboriginal and community engagement, has improved.

One can see the results of this work on the ground. The relationship between Teck and the communities in the Elk Valley, including the Ktunaxa, is much stronger than a decade ago. In Sudbury, relationships between industry and First Nations that were virtually nonexistent are now strong and deepening. The same goes for mining regions such as Labrador, the diamond mines in the NWT, in Kamloops, and so on.

If you look at our track record, very few mining projects in the past decade have failed because of community opposition.

Social licence is a business risk. Ernst & Young, in its most recent report, places it as third on its "Top 10 Business Risks".

But I don't believe social licence is a significant obstacle to new mine development in Canada, because I believe our practices, overall, have been keeping pace with new expectations.

And our opinion research suggests I am right. Over the past three years, MAC has been asking Canadians their impressions of Canada’s mining sector, in a pretty high level of detail. Over eighty percent of Canadians have a favourable or very favourable opinion of mining, and we are held in higher esteem than other major resource sectors. Another recent survey by the Canada West Foundation also showed that the more people know about mining, the more they like it. This tells me that every new mining project starts from a strong position. If the work is done right -- and again, providing Canadians with confidence that we operate safely is part of that -- it will be welcomed by the communities where it will operate.

Ok, but what about post-Williams?

Has all this changed because of the Williams case in which the Tsilhqot’in First Nation was granted land title and the SCC invoked the term “consent” as a requirement for development on title lands?

Again, columnists have had a field day. So too have the lawyers. The Fraser Institute deemed it a “game changer,” concluding that it will result in an environment of uncertainty for all current and potential projects. I disagree.

Two weeks after the Williams Case ruling, De Beers concluded an economic agreement with the Lutsel’ Ke Dene First Nation in an unsettled region of the NWT for the Gahcho Kué project. For both parties, it was business as usual.

Some might say that BC is different, with so much of the province subject to overlapping, unsettled claims. I agree. BC is different. It is more complex. But this was the case well before Williams. In my view, the Supreme Court, if anything, has made the legal landscape clearer.

I don't know of any mining company today developing a new project in Canada that is not actively building or trying to build strong relationships with local Aboriginal groups. Many, if not all, established mining companies are also developing new relationships that did not exist previously. It is accepted as both a business reality and advantage to collaborate with communities.

Like any new relationship, mining industry and Aboriginal community relationships take time to develop. They can try the patience of all sides. Sometimes, they fail. But the evidence, with almost 260 active agreements in place across Canada, shows that most of these relationships are mature and working. That is why mining has, over the past 20 years, become a leading private sector employer of Aboriginal people, and a significant hirer of Aboriginal businesses.

The International Dimension

What many pundits also overlooked was the international dimension. Indigenous rights or concepts such as Free, Prior and Informed Consent (FPIC) are now universal. Many countries in Latin America, for example, have adopted the ILO Principle 169, which is broadly aligned with the Williams judgment as it relates to title holders. And, unlike many other jurisdictions, Canada has the benefit of strong institutions, respect for the rule of law and political stability. Those who suggest that investment will flee Canada due to uncertainty of our Aboriginal rights clearly haven't thought about where it would flee to.

But our industry understands this. The ICMM, comprising the world's largest mining companies, including BC's Teck Resources, has published a statement on Free, Prior and Informed Consent, committing its members to best efforts in the pursuit of it. The ICMM's Council has set community support as the primary goal of the association's work program. Any mining company developing a project with western bank financing today will have to meet the International Finance Corporation's FPIC commitments.

In short, there is nothing in the Williams case that is earth-shattering. It is not the end of the road for Canadian mining, but a continuation of the road we are on.

So Are We Problem Free?

Of course not. Mining is not easy. It gets more complex all the time. I agree that the Williams case has a number of important messages for us:

First, companies that do not strive to build healthy relationships with Aboriginal communities do so at their peril, though I personally doubt there are many left in our sector who don't realize this.

Second, we need to be good at relationship-building. It has to be systematic and continuous, embedded in corporate practices and culture. We have to be open about what we do and involve First Nations in parts of our business that matter to them, such as environmental protection, employment and business procurement.

Third, federal and provincial governments have to meet their legal obligations to consult and accommodate Aboriginal peoples for rights that have been infringed. They need staff that understand what is required and know how to carry out the Crown’s obligations.

Fourth, governments should accelerate the Treaty process and pursue interim measures in the meantime. Recently, Ottawa committed to do this, which is commendable. BC has been heading in this direction for a few years. I am hopeful that today's meeting between Premier Clark and the First Nations Leaders leads to positive outcomes.

Fifth, BC's Resource Revenue Sharing policy should be seriously considered by other Canadian governments. And we need to improve and expand policies and programs that take us beyond legal requirements that provide genuine opportunities for participation in mining and other sectors. Governments have to stop leaving widely successful programs like BC AMTA at risk of closure every few years through seemingly endless bureaucratic hurdles and delays.

Sixth, Aboriginal communities have to recognize capital is mobile and need to invest in understanding the mining business. Strong political rhetoric asserting rights, title and indifference to the economic opportunity a new mine offers may be a good negotiating tactic. However, unless prepared to end up with nothing, know what is reasonable and realistic in terms of what a company can do.

So Then What's Wrong?

If "social licence" and Williams aren't the reasons why Canada may be losing ground as a mining power, then what are?

Let's look again at the fundamentals.

A global study by McKinsey last year 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. 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.

The availability of skilled labour (or the lack thereof) is driving up labour costs.

It is increasingly expensive to build and operate a mine in Canada, especially in remote regions of the country where infrastructure is lacking. According to MAC research, it costs about 2 – 2.5 times as much to build and operate a 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, particularly in the north with large infrastructure components, even more expensive.

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. Recent federal reforms have had mixed effects. Changes to the Canadian Environmental Assessment Act have led to better managed, though no fewer or less robust federal mining EAs. In contrast, amendments to the Fisheries Act have created new uncertainties and delays for mining projects (for the record, we did not lobby for these changes). Governments failing to fulfill their obligations to First Nations, or delays in meeting these obligations, also contribute to delayed decision making on major projects. But this is, as I said, avoidable.

So what do we do?

Many, including Prime Minister Harper, have highlighted the potential of Canada's North to our future prosperity. Northern Canada, not just the territories but the northern regions of provinces, are rich in geological potential, with many known rich but undeveloped deposits. There is no shortage of opportunity to retain and grow our premier position as a mining nation.

But we need to act now. The re-start of Quebec's Plan Nord is encouraging. Bold moves like the extension of BC’s Northwest transmission line is a smart example, as is Ontario's $1 billion Ring of Fire infrastructure commitment. The Ring of Ice in the NWT would open up further with an all season road. New infrastructure will be a catalyst to our economic future.

Just as mines helped spur the building of much of Canada's southern infrastructure, so too can mining help build our north. 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.

We also have to make sure the symbiotic relationship between mining and railways works to the advantage of both. We have to continue to improve the efficiency of decision making on new projects and avoid duplication. Innovation and investments in skills training to enhance productivity to counteract rising labour costs is crucial.

The opportunity is there. We have to decide – and decide now – whether we seize it, or whether we slowly recede and let other countries, perhaps more desperate for the wealth mining brings, take it instead.

But if we fail, it won't be because of social licence. It will be because of a lack of vision and action. Let's make sure we live up to our potential because, if we do, we will do it in a way that I can guarantee lives up more to the principle of social licence than anywhere else in the world.

Thank you.