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Vivian Danielson

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COMMENT

Sunrise or sunset? Mining's place in the new economy¹

Vivian Danielson
Editor, *the Northern Miner*
1450 Don Mills Road
Toronto, Ontario M3B 2X7
tmm@southam.ca

Ralph Goodale, the federal minister of Natural Resources, recently articulated a vision for Canada to become the smartest natural resources steward, developer, user and exporter — the most high-tech, the most environmentally friendly, the most socially responsible, the most productive and competitive — leading the world as a living model of sustainable development.

Cut to its bare bones, his message challenges the mining industry, which has just entered a new century, to act more decisively to leave the old one behind. It challenges one of this nation's oldest industries to find its place in the New Economy by emphasizing technical achievements and intellectual talent as much as tonnes and grade. It challenges companies to promote societal benefits and environmental stewardship as much as profits and cash flow.

The minister is not the only one delivering the message that the mining industry must adapt to changing times and expectations. I daresay you will hear this message repeated many times during the next few days. Yet it is a tall and expensive order for an industry already stumbling under a load of challenges, including ones that didn't exist 20 years ago. It is a tall order for an industry under

siege. And make no mistake, this industry is under siege. To pretend otherwise is to be in a state of denial: a wonderful mechanism that helps us keep our sanity sometimes, but always at a price.

The industry is still taking public lumps for promotional excesses of the last bull market. Newspaper photos showing promoters on their way to answer insider trading charges are doing to investor confidence what tailings spills and dead fish have done to environmental confidence. The land-use debate is heating up, not cooling down. A new law being proposed, namely the Endangered Species Act, threatens mining's existence in all but established camps, because it will give radical green activists a powerful new obstructionist tool. If the experience south of the border is any indication, the law courts will be increasingly called upon to decide whether new mines move forward. On the social front, the demands placed on new projects are increasing, rendering many of them uneconomic. Even some robust projects remain undeveloped because they are unable to provide both profits to shareholders and generous benefits to an expanding list of stakeholders. On the exploration front, the picture at home is gloomy, with spending slumping to sustainable levels. While there are pockets of activity in Argentina and Peru, the global exploration boom has also gone bust.

This industry has had deep troughs before, but what's happening now goes beyond the boom-and-bust cycle that has been the miner's constant companion throughout time. What's different now is that economic uncertainty is being compounded by social,

environmental, political and technological uncertainties, or, as some have called them, the four horsemen of the new millennium. Some companies have tried to escape by going offshore, only to find the horsemen there too. The demonstrations that rocked the World Trade Organization meeting in Seattle last year, and the World Economic Forum at Davos, Switzerland this year, are a wakeup call to corporations, whether they produce running shoes or copper wiring, that the global village has truly arrived. Experts say we can expect more protests against perceived exploitation of the environment, labor laws, and natural resources of the Third World in years to come, unless something is done to educate the public about the benefits of trade and investment to developing nations.

To some degree, the mining industry has become a victim of its own success, as well as its own complacency. In bygone eras, it was easier to recognize the direct connection between the resource produced by mining and the end use. Today, it's less obvious, and the products mining produces are taken for granted, if they are thought about at all. This has led to the perception that mining isn't as necessary as it once was, particularly in the context of the New Economy. No less than Sherry Cooper, chief economist at Nesbitt Burns in Toronto, has urged Canada to move away from its traditional resource and manufacturing base and put its faith in the dot.com revolution. Environmentalists have joined the chorus, arguing that we no longer need sunset industries that scar and pollute the land when there are jobs and opportunities

¹ This contribution is the text of a talk given at Mining Millennium 2000, Toronto, Ontario, 6 March 2000, as part of a session titled "The Mining Industry at 2000." Vivian Danielson has been editor of the *Northern Miner* since August 1994. She is co-author with James B. Whyte of *Bre-X: Gold Today, Gone Tomorrow: An Anatomy of the Busang Swindle*, published by the *Northern Miner* in 1997.

aplenty in the New Economy.

At first glance, the New Economy really does look like the greatest thing since sliced Wonder Bread. Its two cornerstones — high finance and high technology — are both booming. Everyone is looking away from the past to the future, to new technologies that have revolutionized commerce and communication, and the myriad of derivatives and other financial instruments that now propel financial markets. Even currency speculation and shorting and hedging commodities are important and welcome contributors to the New Economy, notwithstanding their real and considerable risks. But we are told not to worry, because the old rules of economics no longer apply.

While this view can be challenged, the perception is entrenched enough to have contributed to a major shift in the financial strategies of institutional and retail investors away from the resource sector to technology ventures. For proof of this, we need look only at the United States, which is experiencing the longest expansion in the country's history and one of the most buoyant stock market booms ever. Investors have fled tangible assets to invest in technology stocks by the droves. Almost half of American households own equities, up from about 30% a decade ago. The boom isn't confined to the United States. The new Canadian Venture Exchange is positioning itself to be the NASDAQ of the north for technology ventures. Junior miners are turning into dot-com companies by the droves, not just here, but in Australia as well. Brokerage firms, including several Canadian houses that once focussed almost exclusively on the resource sector, have reduced their mining teams and greatly increased their technology research departments. For the first time in many decades, the mining industry faces new and formidable competition for venture capital.

While junior companies have been hardest hit by this change in investor sentiment, acquisition-hungry majors should be concerned as well. If exploration is the lifeblood of the mining industry, and if money is the lifeblood of exploration, current spending levels suggest the rate of discovery will slow dramatically in the years ahead. Majors

and juniors may have to join forces or flounder. To keep the pipeline of projects flowing, majors may have to directly fund juniors. To survive, juniors may have to focus on programs that match the objectives of potential senior partners, or they may have to consolidate and pool their properties and talent to attract investors. In the New Economy, survival of the fittest means survival of the smartest. If Sherry Cooper is to argue — as she had done convincingly — that the most important commodities in the New Economy are not physical assets such as mineral deposits, but rather human talent and intellectual capital, mining companies must show that they have the right mental properties, as well as the right physical ones.

I realize some in this audience will bristle and point out that the mining industry has been a global leader in technology for decades. It's true, and it's wonderful, except that nobody knows it. This must change if mining companies expect to compete for venture capital against the industry sectors powering the New Economy. The only other option is to tread water until the high-tech boom goes bust, but that could be a long and expensive wait. The market boom is soon to enter its 10th year and economists are already marvelling that there is no end in sight. Growth of more than 4% has been recorded over the past few years south of the border, yet this has been accompanied by falling, not rising, core inflation. It's not a miracle, the cheerleaders say, but a function of new paradigm shifts and other buzzwords I don't understand. A new economic model is powering the New Economy they say, one that allows boundless growth and low inflation, perhaps even indefinitely.

Grayer, wiser heads aren't buying the story. A few brave souls have said, wait a minute, there is a logical explanation for how it is possible to have strong growth and low inflation. And that reason is low commodity prices for everything from copper and wheat and pork bellies, to low-cost imports of televisions and computers and textiles from Asia. Much of the decline in commodity prices can be blamed on the Asian crisis. As those countries fell into recession, their demands for raw materials dropped precipitously. The glut of raw materials was in

turn a boon to business, which churned out more goods at cheaper prices than ever before.

The new economic model has cracks other than being long on hype and short on breadth. Allan Greenspan has pointed out that a full percentage point of the 4% annual growth in GDP recorded since late 1996 can be attributed to consumption coming out of investors' stock winnings. In other words, some of the prosperity is coming from prosperity itself. Soaring stocks appear to be driving many of the positive economic forces at work, rather than the other way round. What happens if this wealth effect goes into reverse is an interesting question, but not one party-goers want to think about. Euphoria and hype are contagious, as the mining industry well knows. There are other disturbing signs south of the border too, including record levels of consumer debt, high-risk borrowing to fund stock purchases, and concerns about the long-term viability of the many high-tech companies. The parallels to the 1920s, or to Japan in the 1980s — rapid technological innovation, booming stock markets and dizzy asset prices — are intriguing, if not worrisome.

For the time being however, strong stock markets are fuelling consumer spending and padding corporate profits. There are also signs that the real economy — as distinct from the virtual one driving the major stock markets — is on the road to recovery. And not just in the United States, but in the industrialized Pacific Rim, where the real economy is still more important than the virtual one. Base metal demand has improved and large resource companies have seen a definite recovery in their share prices. Investor sentiment is changing too, particularly in light of inflation fears and growing nervousness about the stratospheric price multiples of technology stocks. Investors are starting to realize that the economy must have a real-world foundation, or the entire superstructure of cyber-finance and cyber-technology could collapse like a giant pyramid scheme.

While it is a mistake to think that the technology boom is a flash in the pan, the outlook for metals and minerals is better than it was a year ago. Economic uncertainty is beginning to ease and there is room for optimism. Unfortunately, the

other horsemen — political, social, environmental and new technology — are running wild. The Voisey's Bay nickel deposit in Labrador has been sidelined by all three, with political uncertainty being the strongest. The Diavik diamond project in Canada's North is finding the road to production rocky and strewn with potholes put there by some of its own stakeholders and potential beneficiaries. The costs of social and environmental compliance have escalated. High costs make it difficult for smaller producers to become larger. They hasten industry consolidation and make our companies less competitive at home and abroad.

Unfortunately, as the debate about resource development moves from the technical and economic spheres to social, environmental and ethical ones, the waters get muddy, because corporate responsibility runs headlong into political ideology and the great divide between right and left. Since the collapse of the Iron Curtain in 1989, environmentalism has replaced communism as the new instrument of social change. Environmentalism offers first a diagnosis — that rampant dysfunctional consumerism is leading us to ecological disaster — and a cure, namely that we can save this endangered world by rejecting exploitation of nature for human uses. It is a deconstructionist philosophy that has taken hold in the collective consciousness, with serious consequences for the mining industry. It is a potential tyranny too, because it requires drastic measures to achieve its noble ends.

What's troubling about all this is that the business community has been reluctant to wade into the philosophical fray, which means environmental activists are winning policy battles by default, as well as by subterfuge and stealth. Perhaps the time has come to draw that proverbial line in the sand. If massive social change and restoring settled lands back to wilderness are the real objectives of green activists, why not put these issues on the table and give them a thorough public airing? The environmental community should be challenged to take its agenda to the public and win acceptance for it at the polling booth. At present, their power is undemocratic, disproportionate and undeserved. Just ask the folks from British Columbia.

As distasteful as it may seem to some, perhaps the solution is to become activists too. Richard Lawson, president of the National Mining Association in Washington DC, has argued that mining needs at its disposal an audience of potential supporters every bit as large and influential as those employed by its opponents. To support this mining activism, NMA has developed a new grassroots program, Mining for Victory, which brings together mining associations, employees, investors, retirees, vendors, suppliers and local businesses and communities to support or oppose regulations and policies that have an impact on the mining industry. Perhaps Canada needs to follow suit.

If this industry can't sell the simple message that it is providing the world with the raw materials and energy necessary for conquering hunger, poverty, disease, and ecological and economic problems, then something is wrong. If the industry can't challenge the assumption that profit is a dirty word, that it is somehow noble to leave the world's poor to their poverty, and that governments know best how to manage the economy, then it might as well fold its tent. If this industry can't reach out to its employees, suppliers and its communities to add new voices to the land-use debate, then it will be overwhelmed by a coalition of forces opposed to its very existence.

Our system of mineral tenure has also come under siege, based on the perception that natural resources belong to everyone. Some politicians seem to forget that natural resources already have a broad public ownership through pension plans and mutual funds. While it's good business to allow all stakeholders to participate in the mine planning process — and even better business to ensure that jobs and benefits flow to those most affected by development — it's not good business to ignore those who invest both intellectual and financial capital to find a mine. Exploration is a capital-intensive, high-risk effort that requires the participation and goodwill of investors. If their rights are not respected, and if the permitting process for mine approvals is perceived as not being transparent and fair, their capital can go elsewhere overnight. Our system of mineral tenure has provided great wealth to this nation and it

deserves to be respected. I'm not talking about its golden-oldie contributions either. We have a brand new industry in Canada — diamond mining, cutting and polishing — because of it. And we have that new industry in a part of Canada with the youngest population and the fewest jobs, exactly where it is needed most.

In conclusion, the mining industry has what it needs to promote itself as a high-tech industry and position itself as an integral part of the New Economy. All it needs now is the will to sell that message to a broader audience than it has in the past.

It needs to replace the old image of breaking rocks to one where mines are found using sophisticated technology, including non-obtrusive methodologies such as geophysics and satellite imagery. It must promote metals of the future — the ones that will take us to outer space and cyberspace — and stress the health and societal benefits of metals. It needs to defend its right to access land by pointing out that it provides society the most for the least, almost 4% of GDP from a mere one-tenth of 1% of the nation's land mass. It needs to make better use of the Internet to promote its social and environmental achievements. The Internet is the most empowering force for environmentalists since the first Earth Day in 1970. It should become an empowering tool for the mining industry too, as well as a positive window on the world.

The challenges of the future are considerable, but if mining's past achievements tell us anything, they can be met. Limits exist only when people stop trying, when they believe high goals and standards exceed their intellectual capabilities. Times may be challenging in the mining industry, but, as my mother used to say, what doesn't kill you makes you stronger.