

MINING

Cost containment is mining sector's biggest worry this year: survey

Industry moves from facing labour shortages when commodities fetched top dollar to cutting costs as commodity prices plummet

OTTAWA — Cost containment, industry consolidation and access to capital are the major challenges facing mining companies this year, according to an Ernst & Young survey published Thursday.

“Last year, capacity constraint issues — including a projected skilled labour shortage and infrastructure bottlenecks — dominated the sector’s Top 10 strategic risks, whereas this year’s focus is on funding and cash flow,” said Tom Whelan, leader of Ernst & Young’s Canadian mining practice.

Cost containment presents the greatest risk for mining and metals companies, the global accounting firm said in its industry analysis.

Falling commodity prices, which have regained some lost ground in 2009, have decimated the operating margins of many companies — and in some cases wiped them out — and as a result many companies are left scrambling to contain costs, said Tom Whelan, leader of Ernst & Young’s mining practice.

Getting swallowed up by a larger player is the industry’s second greatest worry, as depressed share prices provide opportunities for buyers, led by Asian mining and metals companies.

At the same time, the global credit squeeze has severely restricted access to capital and the ability to fund operations and



Canada's mining sector is struggling with a lack of capital, says a new report from Ernst & Young, threatening the survival of some companies.

new projects, making access to capital the industry’s third greatest concern, the study said.

“It’s clear that the financial crisis has created some new risks that threaten the near-term survival of a number of mining and metals companies,” said Whelan, citing other issues such as climate change concerns, skills short-

ages and resource nationalism as some of the potential pitfalls this year.

“At the same time, as we begin to see signs of recovery in commodity prices, it’s clear that there are significant opportunities for well-capitalized companies to position for the upturn.”

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ENERGY

Drilling falls across North America as natural gas prices bottom out

OTTAWA — The National Energy Board expects the supply of natural gas in Canada to see a “significant” decline in the next two years due to the lack of drilling activity.

In a report released Thursday, the NEB said a lack of drilling, as a result of current market conditions, will create a 17 per cent decline in the ability to produce gas from existing and new wells by 2011. While there is growth seen in less conventional gas projects, such as shale plays in northeast

British Columbia, it won’t be enough to offset the decline in conventional drilling, the Calgary-based NEB said.

The NEB said the price of natural gas has dropped from highs of \$13 per million BTUs in July 2008 to less than \$2 this month. As a result, drilling activity in North America is about half of what it was in previous years.

The board said there were 199 active natural gas wells in Western Canada at the start of this month, down from 412 a year be-

fore. The NEB’s report shows that gas prices could rise to almost \$7 per million BTUs by 2011 — still well short of last year’s peak.

It also stated that, despite the decline in supply and a six per cent rise in demand over the next two years coming mostly from Western Canadian oilsands operations, there will be a sufficient amount of natural gas to serve Canadian markets.

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OPINION

Universities will play vital role in driving B.C.’s recovery

BY DAVID TURPIN
and ERIC SAGER

British Columbia is caught in the gales of a global economic storm. How can we position ourselves for recovery and future success? How can we make short-term actions consistent with our long-term goal of social, economic and cultural prosperity?

History shows that big economic transformations begin with innovative applications of new knowledge and ideas.

Today, it is widely recognized that investments in education, research and development are strongly correlated with competitiveness and standard of living.

Around the world, governments are trying to leverage university education and research to stimulate economic recovery and social prosperity.

Clearly, universities have a key role to play. In B.C., recovery from the current economic downturn will require a stronger partnership between universities, government and the private sector. To achieve this, we must take three important steps.

First, to succeed in the knowledge economy, B.C. will need a well-educated and innovative workforce. At the start of this decade, B.C. suffered an education deficit with fewer university spaces per capita than any province in the country.

The recent provincially funded expansion of post-secondary education has greatly increased our province’s capacity to educate our own students.

We now need to work together to expand university access for previously under-represented groups, particularly aboriginal youth and students from low-income families.

And we face another challenge: The coming demographically driven decline in high school graduates. To provide the skilled workforce that B.C. needs, we must attract more talented students from across Canada and around the world. International students enrich the learning environment, and many will stay in Canada after graduating. International scholarship programs and competitive funding will help meet this goal. This educational focus will be critical for our future success.

Secondly, we need to attract, train and retain the best researchers in the world. We must invest in graduate studies and in advanced research, recognizing that many research outcomes cannot be predicted. History

We are seeing growing success in patent applications, innovation disclosures, and spin-off companies, and our technology parks, such as Discovery Parks and the Vancouver Island Technology Park, are fast-growing centres for the commercialization of university research. Fostering a new level of R&D collaboration between universities and the private sector is a critical element in building private sector R&D in our province.

tells us that great innovations — penicillin, lasers, insulin — emerge from basic research often of an interdisciplinary nature.

Recently, B.C. universities’ share of federal health research funding has shot upwards, fuelled by provincially supported agencies and foundations. The resulting innovations and discoveries can now be commercialized here in B.C. We can repeat this success with similar support in other areas of research.

Finding solutions to the problems of the 21st century also requires the human sciences. Responding to climate change is not for scientists and engineers alone; adaptation to global warming also requires the work of psychologists, sociologists, historians, philosophers and artists.

Equally important is the need to support research that will yield answers to the immediate questions our society faces. This will require an unprecedented level of collaboration with government and the private sector. Universities must champion civic engagement and become more active in supporting the

private sector and in providing policy analysis to government in areas of public interest.

Business and government can collaborate more intensively with university based researchers and students. Through cooperative education, thousands of students take jobs as part of their education. By taking full advantage of these programs, business and government can further leverage the talent in our universities.

Finally, private-sector investment in R&D in Canada and B.C. is low in comparison to our global competitors.

This undermines our global competitiveness and must be remedied. Part of the solution is for the private sector to take advantage of B.C.’s universities’ track record in research. We have a pool of exceptionally talented researchers: B.C. ranks second among the 10 provinces in terms of federal research funding per professor.

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The economy of the future will not displace our resource-based industries; rather it will require us to add value as we work with nature’s elements.

Our geography and our location on the Pacific Rim encourage innovations in the areas of energy, transportation and communications.

As we move forward, our economy will increasingly rely on innovation in health and medical sciences, in IT, digital media, marine technologies and electronic infrastructure — major pillars of our economy.

A renewed partnership between universities, government and the private sector will create a society with a passion for knowledge and innovation and position B.C. for success and future prosperity.

David Turpin is president and vice-chancellor of the University of Victoria, and Eric Sager is a professor of history there. This article is a summary of their paper to be presented at the second of four economic summits hosted by the Business Council of B.C. in Vancouver on Tuesday. The full version of this paper can be found at www.vancouversun.com/business