

# *Navigating the 'Boom-Bust Cycle' in a Remote Mining Community*



John Thistle, PhD  
Research Associate, Labrador Institute  
Adjunct Professor of Geography  
Memorial University

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# The difference a week makes?



## Commodities 'supercycle' will last another 15 years: JP Morgan

Anthony Halley | March 7, 2013



JPM Natural Resources Fund manager Neil Gregson is confident that a "third great [commodities] supercycle is underway."

The basic idea is that the emerging world still has a lot of commodity intensive growth ahead.

Countries like India and China have closed the gap considerably between themselves and the developed world over the past generation. Despite recent slowdowns in emerging market growth, this catch up process,

according to Gregson, will last at least until 2030.

Urbanisation in India is projected to double over the next 15 years. If this happens, a total of 590 million Indians would be city dwellers by 2030.

[Gregson says](#) that in order to accommodate this rural exodus, "India would have to build between 700 million and 900 million square metres of residential and commercial space and around 350-400km of subway every single year – 20 times the rate seen over the past decade."

Forecasts by Scotiabank commodity market specialist Patricia Mohr support Gregson's claim, at least for the near future. Mohr lists a number a market factors that will support a general upward trend in base metal and agricultural commodities prices over the next two years:

- Increased momentum in global economic growth in the second half of 2013.
- Massive infrastructure investment, particularly in China. China is also on track to meet its ambitious public housing construction targets.
- China's shift towards greater domestic consumption, in particular of motor vehicles.
- Restocking of raw materials after widespread liquidation and deferred orders in 2012.
- Strong oil prices underpinned by geopolitical risk in the Middle East and maintenance of North Sea oil.

March 7, 2013

# Forbes



**Tim Treadgold**, Contributor  
I cover stories in the mining and oil industries.

ENERGY | 3/13/2013 @ 1:02PM | 7,886 views

## Iron Ore Price Crash Looms, Signalling An End To The Commodities Super Cycle

Three of the world's biggest mining companies are heading for a rough ride over the next few years as the once heavily-promoted commodities super-cycle enters its end game. The price of iron ore is tipped to be the next mineral to suffer a sharp price correction as demand for steel in [China](#) dries up.



The glut of iron ore developing in the international market is good news for steel consumers such as car makers and builders but will hit the profits of [BHP Billiton](#), [Rio Tinto](#) and [Yale](#), the big three of the seaborne iron ore trade.

Between them those three miners account for about 70% of the iron ore imported by China, which has been both a prolific producer and consumer of steel during its hectic construction boom of the past 20 years.

But, over the past few days a string of gloomy steel production and iron ore price forecasts has trimmed the share prices of all iron ore miners with the potential for worse to come if the price projections are accurate. This seems likely given recent falls in the prices of other industrial minerals, including copper, nickel and zinc.

Rio Tinto, the London-based miner with its best assets in [Australia](#), will be hit hardest by the prospect of the iron ore price falling by up to 50% if gloomy economists outside the industry are right, or a slightly less damaging 33% if one of Rio Tinto's own senior staff is correctly reading his crystal ball.

Vivek Tulpule, Rio Tinto's chief economist, raised eyebrows in Australia last week when he told a meeting of investment analysts in Sydney that he expected the price of the best quality iron ore to drop from around \$150 a ton

March 13, 2013

# Overview of Presentation



1. What is the boom-bust cycle?
2. What are some of the adverse socioeconomic effects associated with the boom-bust cycle?
3. Are there policy means for mitigating any of these adverse effects?

# 1. What is the Boom-Bust Cycle?



- Pattern of expansion and contraction in market-based economies
- *Shaped* somewhat by local factors but driven mainly external economic processes
- Uneven Effects – both in time and space

## Three Big Commodity Booms (and Busts) since the 1950s

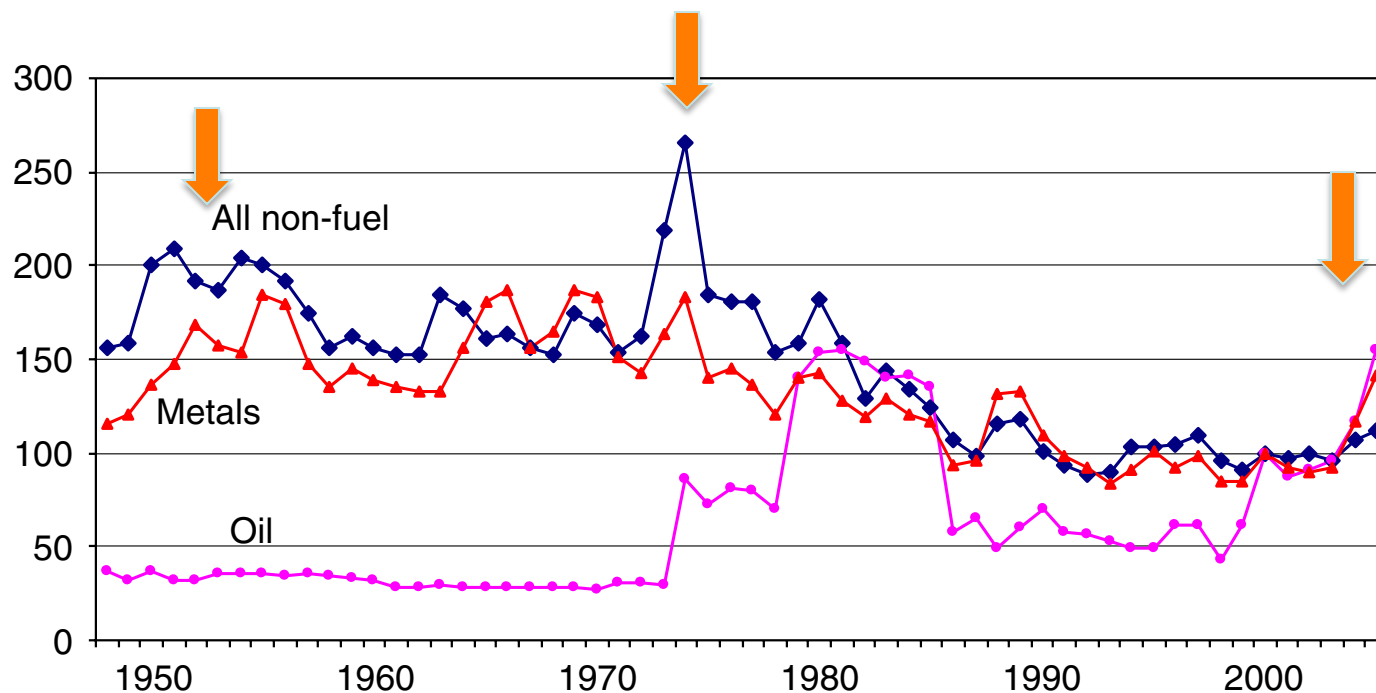
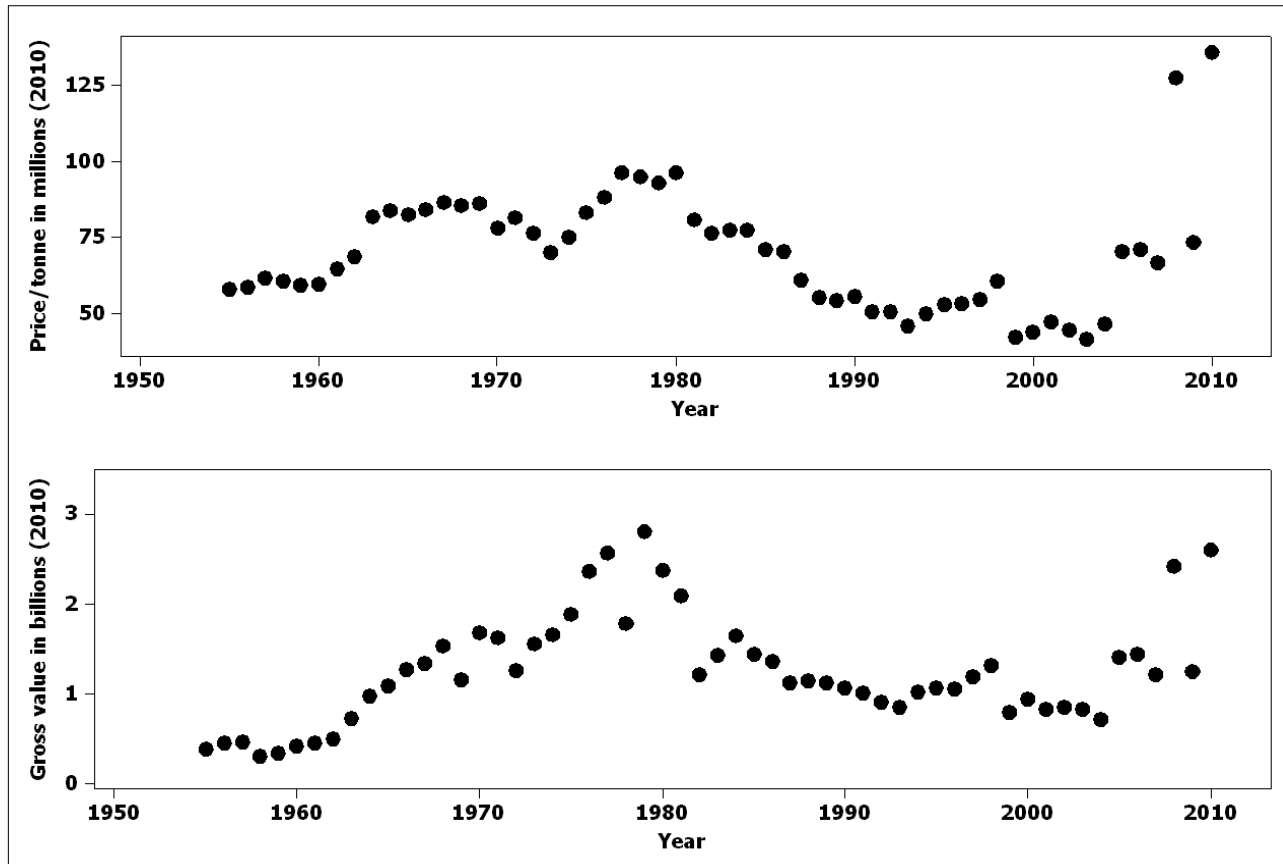


Fig. 1. Commodity price indices in constant US\$. 2000 = 100.

Source: Marion Radetski, "The Anatomy of Three Commodity Booms," *Resources Policy* 31 (2006): 57

# Ups and Downs of Iron Ore in Labrador West



## 2. Effects of the Boom-Bust Cycle

### **Boom**

- New jobs
- Migration of people and money into a community or region
- Increased Revenue for province from royalties and taxes

### **Bust**

- Loss of jobs
- Outmigration of people and money
- Decreased Revenue from royalties and taxes



# Effects of the Boom-Bust Cycle cont.



## Boom

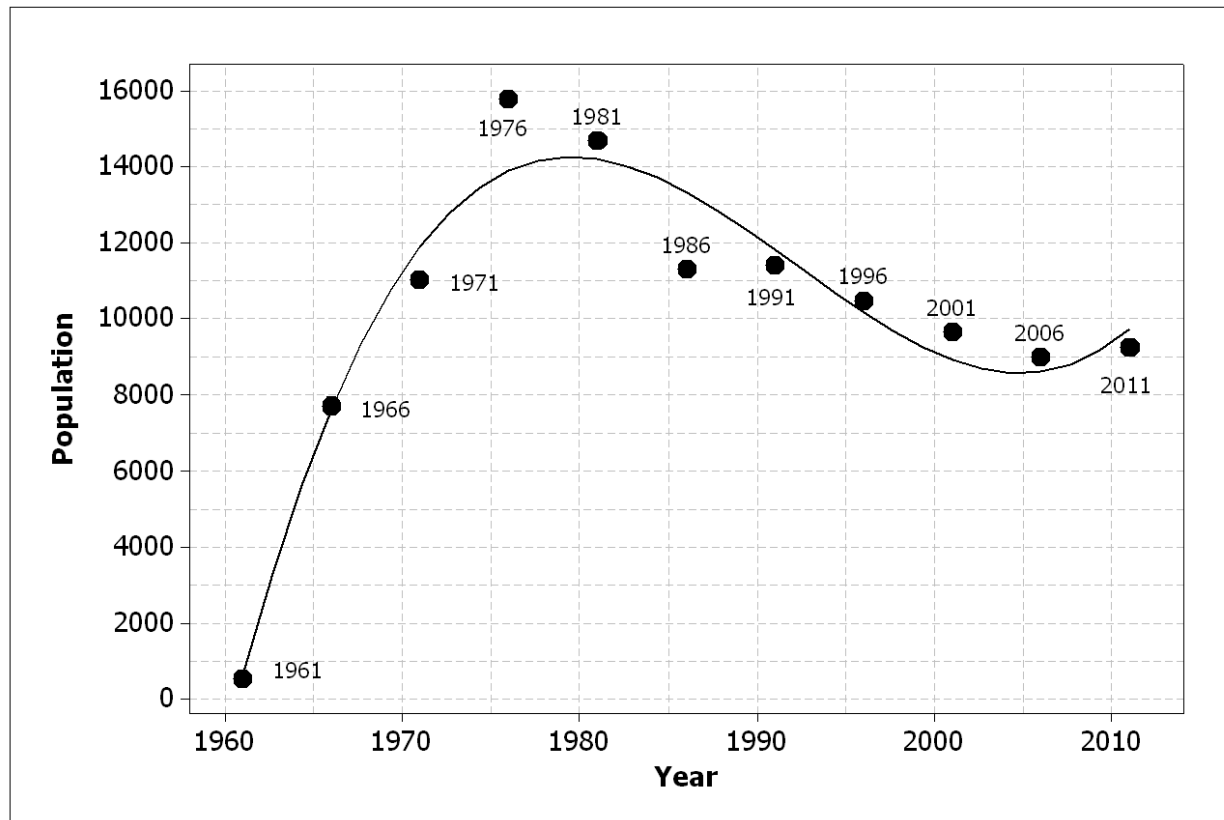
- Housing prices increase and homes can be hard or impossible to find
- Pressure on existing infrastructure and community services
- Can be a range of social problems around the influx of people and money

## Bust

- Housing prices fall leaving some with mortgages they can't pay
- Problems maintaining services and infrastructure
- Often a range of social problems associated with loss of people, loss of jobs, and loss of money

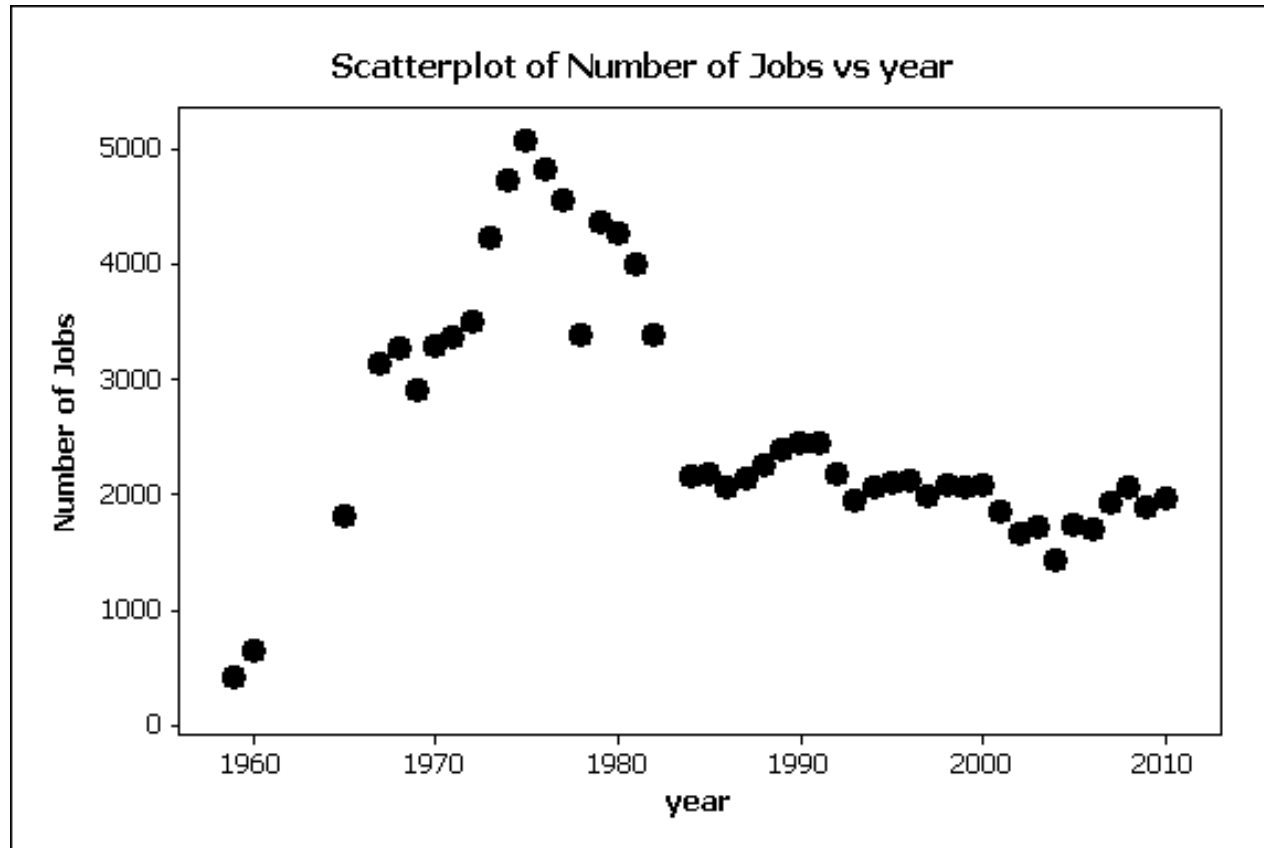
Host of environmental issues cut across both phases creating short and long term problems

## Focus on Population in Labrador West

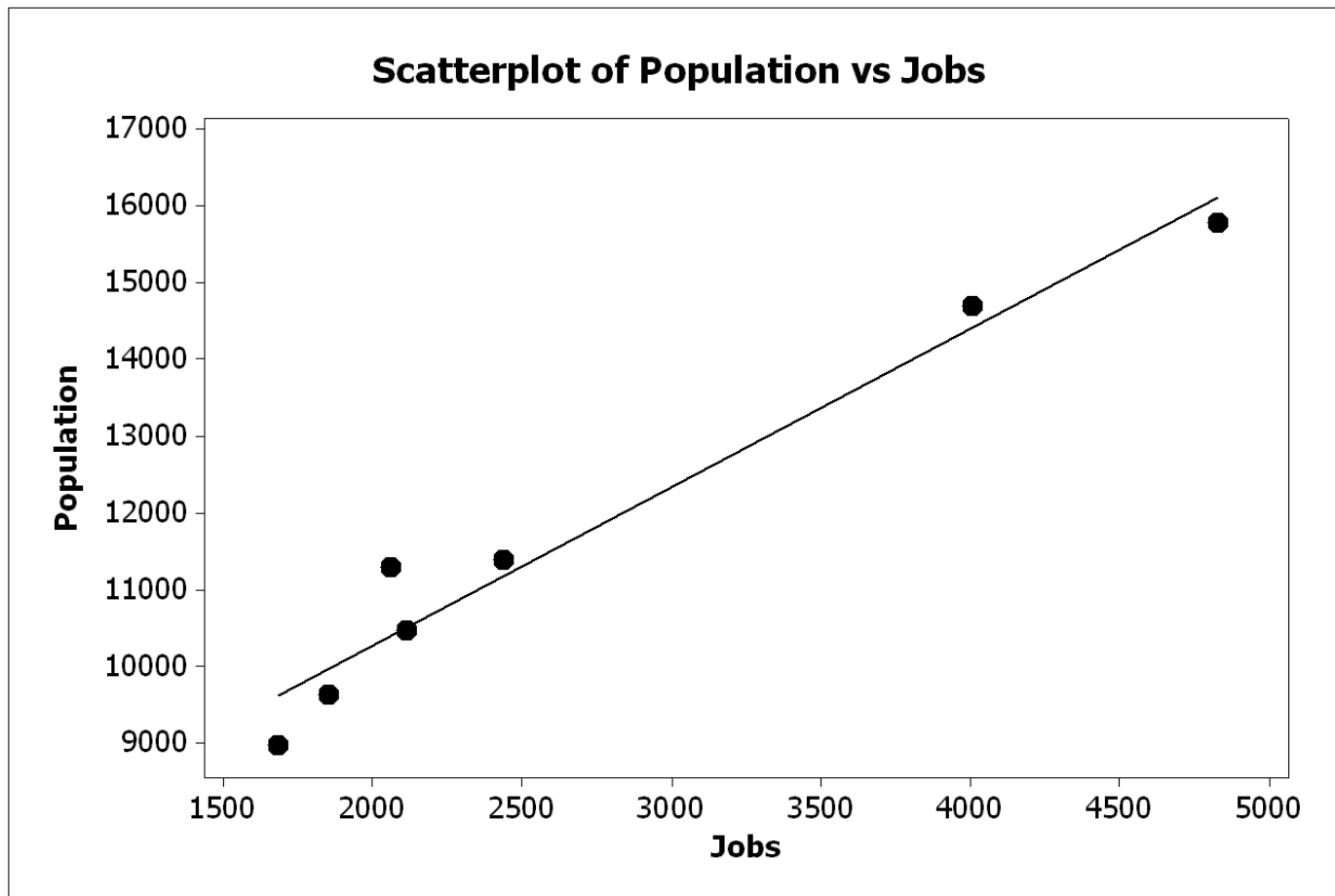


Doesn't include  
contract-based  
workforces

Real pop. of  
Lab West on  
any given day  
during a boom  
is higher.



# Population and Mining Jobs in Lab West



# Current Iron Ore Boom



Iron Ore

Photos provided by Iron Ore Company of Canada.

## "The TROUGH"

### LABRADOR'S IRON ORE GOES GLOBAL

Special Report

The world-class Labrador Trough iron mining district has long been a bastion of stability in the often uncertain world of mining. Having produced more than 2 billion tonnes of ore over 50 years of continuous production, "The Trough" can claim a prominent place in the Canadian mining sector.

Currently, with new mine openings, major expansions at existing operations, and key port and rail upgrades, the district is being reinvigorated with investment capital from around the globe. In the current planning cycle, at least \$15 billion of new investment in Labrador may be realized if projects advance to development.

At present, there are three iron ore operations located in the Labrador section of "The Trough": Rio Tinto IOC (Carol Lake), Cliffs Natural Resources (Wabush Mines), and Labrador Iron Mines (Schefferville/Memick DSO project).

The Rio Tinto IOC operation alone has produced in excess of 1.3 billion tonnes of iron ore. Its Carol Lake operation, which accounts for approximately half of Canada's total iron ore output, produces both pellets and concentrates. Iron ore products from all operations are transported by a common carrier rail network to port facilities on the Gulf of St. Lawrence, for transshipment via bulk carriers to domestic and world markets.

**Mining and Development Highlights**

Rio Tinto IOC is progressing with a staged expansion of its Carol Lake Operation that could bring annual concentrate / pellet feed production to 26 million tonnes annually. The company is also studying the feasibility of raising longer term production to 30-plus million tonnes.

Cliffs Natural Resources is increasing production at its Scully Mine to a target annual rate of 6 million tonnes, and is continuing with mill improvements to reduce the manganese content in its pellet products, which could extend mine life.

Labrador Iron Mines is increasing production at its Memick operations to a planned 2 million tonnes for 2012. This will be achieved in part through the Phase 3 expansion of its Silver Yards processing plant and developing additional ore bodies.

Tata Steel Minerals Canada, a joint

22 | Canadian Mining Journal • April 2012

## project profile



The plant is located one kilometre from the first deposit to be mined.

## Future growth built on iron ore legacy

by | Correy Baldwin

Sixty years ago, the town of Schefferville, Quebec, was built to support the nearby mine in the Labrador Trough. Thirty years later, mine operations ceased. The management at Labrador Iron Mines has scraped the rust from the once-thriving projects – complete with roads, rail connection and power station – and added new life to the iron rich region.

"The best place to look for a new mine is beside an old mine," says John Kearney, CEO of Labrador Iron Mines (LIM). Following this strategy, LIM is developing the Schefferville Projects, an area operated by the Iron Ore Company of Canada (IOC) for over 25 years.

The Projects lie in the iron-rich Labrador Trough that runs through western Labrador and northeastern Quebec. The Trough region has long been the centre of iron mining in

Canada and is one of the major iron ore-producing regions of the world.

IOC moved into the area in 1950 and over the next four years completed one of the largest civil construction projects in Canadian history. They developed a mine site and the company town of Schefferville, constructed the Sept-Îles shipping terminal on the Gulf of St. Lawrence, and built a 565-kilometre rail line connecting the two sites.

### 3. Are their Policy Means for Mitigating any of these adverse effects of the boom-bust cycle?

- Powerful disincentives to do much more than than weather the storm
- Also been a shift in attitude over the years among corporations and governments about the purpose of resource development

## Resource Extraction as Settlement and “Northern Development”

“A self contained community must be established with houses, buildings, hospitals, water, sewage, recreation, and other facilities”

- J.R Timmins, 1946



Town Building in Labrador West ca. 1959

*Some general reflections based on the resource policy research literature...*



Recurring theme is importance of resource royalties as distinct from corporate taxes

“Heritage” and “Legacy” funds: “intergenerational equity”

Subset of these arrangements: regional royalty arrangements such as the *Fair Share Agreement* in British Columbia’s Peace River region