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Lessons From The Development of Northeast Coal in BC

By

**Graham Kedgley
BC's former Coal Co-ordinator**

A Peer Reviewed Publication

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Description of the Author

Mr. Graham Kedgley was born and educated in New Zealand. He holds a Master's degree in Commerce and is a New Zealand Chartered Accountant and a member of the Chartered Institute of Transportation.

In 1979, Mr. Kedgley was appointed by the Government of British Columbia to be British Columbia's Coal Co-ordinator. This involved the co-ordination of all the components of a three billion dollar coal development including securing the sales agreements, organizing the mines, the new town of Tumbler Ridge, the connecting infrastructure and services, and a new port. Mr. Kedgley also served as the Chairman of the North Fraser Harbour Commission from 1979 to 1985.

Until his recent retirement, Mr. Kedgley was the Executive Director of the Northwest Corridor Development Corporation. Mr. Kedgley continues his work as a private consultant specializing in transportation, international marketing, intergovernmental relations, and finance.

Lessons from the Development of Northeast Coal in British Columbia

ABSTRACT

Through this discussion I hope to communicate some of the lessons learned from a major resource development project in northern BC. My comments are based on my four years of experience (1978 to 1982) as BC's Coal Coordinator. Through the Northeast Coal project, we wanted to realize all of the spin-off economic impacts from creating a new mining centre in the province. Building on the host of infrastructure, support industries, telecommunications, education, labour, goods and services, transportation, fabricating, equipment, energy, international trade arrangements, and associated economic activities, the Government of BC used Northeast Coal as the focal point for a larger vision of regional development. My part of the project was to focus on three components: marketing, the infrastructure development plan, and the transportation plan.

Based on my experiences, I think there are three main lessons that are especially relevant today:

- The first one is that it is time the government of today identified a few major northern opportunities (creating 1,000-1,500 jobs each in the north) so as to set a development foundation for the future.
- The second point is, having identified a few important opportunities, we can then appoint a provincial coordinator (an expert or "point person") who really understands the opportunity and has experience. Give them some good goals, a high level connection to the provincial government, and give them about 4 years to work through the effort.
- The third point is more general in that government has to be proactive in its encouragement of economic activity in the north. The pace of economic opportunity is so fast in today's globalized economy that we simply do not have time to work from a reactive position.

Lessons from the Development of Northeast Coal in British Columbia

Introduction

Thank you for this opportunity to communicate some of the lessons learned from a major resource development project in northern BC. The lessons, I hope, will stimulate thinking about big ideas and big projects for the next decades in northern BC. The comments I will offer are based on my experiences with the Northeast Coal project – where I was the Coordinator on behalf of the provincial government. The subtitle, however, is really about the wonderful and wide ranging opportunities that develop when we think about, and bring to life, large scale projects.

My focus in this paper is on mining, but we need to think of this sort of project as much more than “just a hole in the ground”. But it is not just about that. The mine is one part (certainly a central part) of a mining/industry support structure that involves much more when we connect a host of infrastructure, support industries, and spin-off economic impacts. By its nature, mining involves many of these additional “bits and pieces”, including telecommunications, education, labour, goods and services, transportation, fabricating, equipment, energy, international trade arrangements, and a host of others. So when one is talking about mining, we are really talking about a huge additional component of associated economic activities. It is through these many other opportunities and activities that economic benefits to communities and regions can be realized.

Background

I want to write about, and base my comments on, my experience of four years as BC’s Coal Coordinator. This covers the period from 1978 to 1982. From this story, and the lessons we can take from it, you will hopefully get some ideas about the ways and means by which you can move forward in the north.

I want to start first with some background on why I ended up as BC’s Coal Coordinator. In 1977, the Hon. Don Phillips was BC’s Minister of Industry in the provincial government of the day. Don was from Dawson Creek in northeastern BC. The Hon. Bill Bennett was the premier of the province at the time and together they decided that it was time to open up Northeast Coal to grow both the provincial as well as regional economies.

This was not a new idea. A number of different people and groups had been working on this idea quietly for some time. We were, for example, working in conjunction with a

coal loading company that was working out of North Vancouver. We had come together around an opportunity to take a lease out on some land in the Prince Rupert area for a coal terminal. So for a number of years there were many interests working away on various components of this idea.

The BC government, including Don Phillips, the premier, and the cabinet made the decision to move forward with the Northeast Coal project. That became the focal point for a larger vision of regional development. They were, in effect, using Northeast Coal to achieve a host of associated and connected development initiatives across northern BC. Once we got our marching orders, we were told not to come back until “we’ve done it”. That was the challenge we faced.

We set up an office in Vancouver (on the 25th floor of the Scotia Tower). To get to work, the provincial government opened access to all of the relevant ministries so that I could go to them and work with them to get this coal project going.

While the project had a lot of parts, my focus was strictly on three components. The first was marketing; the second was liaison with the coal companies, the government, and associated private sector interests to put together the infrastructure development plan; and the third was putting together the transportation plans. Ron Bassford and his team came on later, in about 1981-1982. It was Ron’s team that actually took on the task of building the project. By doing so, Ron’s team was charged with looking after all the other many components and tasks that would be needed to bring this huge project to fruition.

Marketing

I want to start first with the issue of marketing and my experiences with marketing. My role in marketing was twofold:

- The first part was to pursue the Japanese contract that we needed a guaranteed purchase agreement for 5 million tons of coal per year for 15 years. We needed that scale of sales agreement to justify all of the expenditures that were going to be involved in the project’s development.
- The second part was to continue to tell the Japanese companies, and the Japanese government, that in fact we were serious in British Columbia. I was an ambassador for BC whose task was to go over to Japan to keep them informed, to let them know that we were on track to deliver the coal project, and keep in touch on the other activities that would happen.

So that was the focus of my responsibility on the marketing side. It seems so simple today – that if you have a product, you have to have a buyer. Without the Japanese, we were not going to have a coal project. Without a buyer you could not carry through on the project – you would have nothing. This is so fundamental to developing large scale resource projects. It is, therefore, one of my key messages – know that you are connecting a product with a customer to bring certainty before you invest. My job was about connecting the product to the customer and thus building the solid foundations for the undertaking.

I had previous experience working in Japan. I was also familiar in working with Japanese business and government interests. I knew the importance of long-term relationship building as part of the Japanese business world.

We had three potential major coal mines in the early years of the project. The three were Denison Mines, Teck, and British Petroleum. All three of these mine proposals had coal sales opportunities. My key message here is listen to what the customer says. Again, it seems so obvious, but without the buyers in Japan we would not have had a project.

I would go to Japan, and the Japanese would tell me that they only wanted a million tons of coking coal. British Petroleum, for example, was pushing for a minimum of two million tons of coal in the sales agreement. I even went to London to talk with senior British Petroleum executives – but they were absolutely closed in their minds that two million tons was their bottom line. So guess what – that mine never opened.

So always listen to the buyer. I think this is a problem – I think it happens quite often in a lot of business activities, particularly ones where we try to sway overseas countries or businesses to do things for us (or our way). Based on my experiences in Japan, and now with China, they have their own ways of doing things and may or may not want to fit with our ways.

My message here is that it takes time to develop the business relationships so that you can know when things can be worked out and when the buyer's needs are the ones to be followed. Too often we underestimate the enormous amount of time that this can take.

People needed to have experience with, and keep in mind, the marketplace in Japan if they wanted to open a coal mine to serve that market. I can recall a meeting in about 1980. A very significant mining company arrived at my office in Vancouver. It concerned a southeastern BC coal mining opportunity. This company was talking about opening up a new coal mine. I said that you really need to understand that the government was focused at the time on northeast coal – they really wanted that project. While the provincial government did want other coal opportunities developed, they didn't want to lose the northeast. I invited the company to tell me about their experiences in Japan and in that marketplace. They told me they had not been over there yet. Well I told them that it takes time to get to know people, to make arrangements, etc.. It can take at least 5 years. Needless to say – that mine did not open either.

Connected to this point is that it takes a lot of time to open up a coal mine. It takes time to cultivate buyers and understand the markets. My next big message in resource development projects is that “you can't just turn on the light bulb” and have it happen. In the future in northern BC, we need to work to be ready. It takes time to move some of the things that we are starting to dream about into action.

Building from this is the next key message – that windows of opportunity open and close very fast in the marketplace. This is a very appropriate message today in our even faster

paced commodity economies. Windows open and close today with both frequency and speed. In the coal industry, if you read the recent newspaper coverage, prices have gone up to something like CAN\$300 a ton. This is up from CAN\$100 per ton not that long ago. This is a window that is opening. Everyone is getting excited about it. But those prices may not hold and that window can close as quickly as it opened. So we need to be cognizant that some opportunities are short term. In this case, we need to know that some areas of Australia have had very bad floods this summer, and this has really disrupted coal supplies from this region – which in turn has affected global coal prices and demands.

You really have to be prepared for the window to open and close. When prices are high – it doesn't make lots of sense to think about starting a mining proposal – by the time you get close to production that pricing window will be a lot different. Take gold, for example, it may be trading at CAN\$900 an ounce and it could go up, but it could also go down. You need to be ready to open that gold mine when the price is \$900 an ounce, and going up, to take advantage of as much profit and sales as possible; rather than starting it now and finding that your opening coincides with prices falling and you cannot afford to open because you cannot justify the operating costs.

In mining, as in most large scale resource development projects, you have to be prepared. You have to take time and understand what the market is doing. I think there is a very important message here about being ready for the marketplace, doing your homework, and knowing exactly what is happening in the commodity markets. You need to know about prices and demands over time to know which side of a bubble you are on. I don't think that enough time and energy is spent on these matters today in terms of keeping track of these things and really appreciating what the market is signaling.

Liaison

The second part of my job was about liaison with the coal companies themselves, the federal, provincial, and local governments, and some associated private sector interests in terms of developing the infrastructure plan. The critical issue in working with mining companies is that they are really focused on the mine itself. As a for-profit business, they are working to “make a buck.” The companies know that they need people, infrastructure, services, and a host of other associated investments and supports to allow the mine to function efficiently, but they really don't see it as *their* job to take responsibility for any of this. They see their job as focused on the mine itself and the production of the minerals/ores for export.

But you have to have those other components to ensure that the whole structure is in place (not just the mine alone). For example, in the case of Tumbler Ridge, this included the creation of a whole town. So this is the role that government plays – can and should play – and did play in the Northeast Coal project – of ensuring that all the other parts of the development plan are in place. Frankly, if you are missing key features, the mine will not be able to operate and will have to shut down. You must have all the needed pieces ready. You have got to have the whole infrastructure in place for it to be a success.

In the 1980s, that investment in supporting infrastructure ran to around CAN\$3 billion. You have to make sure that you have a town in place when the mine opens (infrastructure) – we built Tumbler Ridge. We had to have infrastructure, services, and supports in place for when the mines opened – equally – we didn't want the infrastructure to be in place too long before the mine opened as that would cost money without any return coming in to pay for it all. A key role for government was also in coordination of the 'pieces' coming together when they were needed. It was a balancing act and only government was in the position to do this – to make sure things were ready at the right time. We did this with Northeast Coal.

The example that is very appropriate today in that regard is the Hwy 37 electrification project. I realize that there was a plan and that things change. It is a large project and a large cost. People are talking about CAN\$300 to 400 million to put power up the Hwy 37 corridor. Interest costs can run to CAN\$40 million per year. So, if no one is using the power then it is a costly undertaking. The government's role in coordinating is very clearly shown. The timing is extremely critical in all resource industry infrastructure investments. Should the timing be now or later? I want to be diplomatic and careful on this one because it isn't an easy decision by government; but if push comes to shove, I think at least a positive message should be coming from the minister – an approach that suggests the government is still looking at the idea, still working on it.

Transportation

My third role was with the transportation component. This was very complex. Buyers obviously want as low of a price as possible for the commodity that they are purchasing. The coal companies also want to make money. Transport costs, particularly for minerals, are a major component of product costs. It can be about 40% of the selling price that is bound up in transport costs (shipping, rail, and associated costs). You really have to pay attention to transport costs. In the case of Northeast Coal, we knew that it had to be organized the right way.

For Northeast Coal, there were many complicating factors. We had to buy locomotives and put in rail lines. We also had to do all of the associated works (including bridges, tunnels, sidings, loading facilities, maintenance facilities, and crossings). It was a huge undertaking unto itself. There was a significant amount of capital involved in terms of just this transportation component. My role was to work on the organization of this transport component – to work between the buyers, the mining companies, the BC government, and the transportation companies.

It was especially complicated in those days. We had to deal with two railway companies – BC Rail and CN. Dealing with two railway companies is more complicated than dealing with one. We had to find ways to get BC Rail and CN to work together as partners – in everything from logistics to pricing. There was also competition between the two railways, and there were debates about how much they should get for their work. Today of course we only have CN, but that complicates things in a different way.

I had to work between the mining companies, the railways and other transport companies, and the buyers to make sure the pricing arrangements fit all their needs and kept the project alive. A little insight for you – a piece of history that might be forgotten otherwise. We needed a coal terminal. The coal terminal was to be built by the federal government, and so we were negotiating quite seriously with the federal government. We sometimes think that the government doesn't work too hard, but I can attest to the fact that at 3am Ottawa time we were in Ottawa – in the then Ray Perrault's office (who was a Senator at the time) – and we were working on ways to negotiate and put together this coal port. Throughout the process we were very lucky to have Senator Perrault helping out on behalf of the federal government – we would not have that coal shipping facility without him. But such work does take its toll on the people who try so hard to move these projects forward.

Our ability *today* to start new coal mines in a relatively short time span to take advantage of currently high prices is based on the fact that in the early 1980s we collectively put in place an infrastructure to move coal to markets. Without the prior investment, new coal mines could not take advantage of the 'windows' of opportunity created by booming commodity prices.

Lessons

The background for this paper has come from my experiences as BC's Coal Coordinator from 1978 to 1982. Now I want to turn to "what have we learned from all of this?" There are really three main things that I think we have learned and that I would like to pass along.

The first one is that I think its time the government of today identified a few major northern opportunities. What do I mean my major opportunities? I mean opportunities that would create 1,000-1,500 jobs in the north. I think we need to spend time to identify, and make a priority, opportunities that will create this scale of new employment. This was roughly what we did with the Northeast Coal example. We said "this is a good opportunity to create many jobs in the north and to grow the rest of the economic and development infrastructure alongside that new opportunity – to set a foundation for future opportunities".

We should focus on identifying major northern opportunities that will create 1,000-1,500 jobs. I use this large figure because those 1,000 jobs then have a tendency through the multiplier effect to create an additional 3-4,000 jobs. For every direct job there are a wide range of indirect or spin-off jobs that result. This is even more critical due to recent job losses in some resource sectors. This is the part that terrifies me – for every job we lose in the north, we also lose those indirect employment opportunities.

I think it's very important to come up with around 5 opportunities to create roughly 1,000 to 1,500 jobs. We need about five such projects to really develop northern BC like we

had in earlier periods. Some people have heard me talk about this before. I will share with you some of my thoughts on this:

- We ship all of our oil and gas out of the north, yet we do not have a fertilizer plant, we do not make plastics, and we do not do anything with the oil and gas – it is all shipped out. The petrochemical industries are all located elsewhere. We need a petrochemical industry. They create lots of jobs.
- My second suggestion used to be to set up something like a whiskey distillery. We have the water, we have the barleys and other grains. In fact, in the Peace River area we grow the best malting barley in the world. Some entrepreneurs are trying this on Vancouver Island now. I now call this second suggestion “value-added agricultural products”. This lets us talk about a wider range of products and markets – like cereals to meet the needs of the US breakfast market. As an example, we can look to the Okanagan wine industry. It started off small and has grown into a world class industry of which we are all proud.
 - And in some ways, it is just like “the mine”. The key is not just about the farm or the agricultural product itself. It is about all of the surrounding and associated economic opportunities like packaging, printing, and tourism that are also needed and which create other opportunities. We have got to get value-added agriculture in the north.
- My third one is aluminum. Let’s make aluminum rivets for airplanes, let’s make aluminum wheel rims for cars. Let’s do some manufacturing. We simply ship out our aluminum, and yet we don’t make a single value-added aluminum product in the north. We have Alcan in Kitimat making aluminum bars and shipping them away. We don’t make one pot or pan in the north. This of course is not the job of companies like Alcan, but we can grow a manufacturing industry around it if we choose. We do not make one aluminum product in northern British Columbia. It’s time we did. We have got to look at this one seriously.
- The fourth one is a bit like the aluminum one. We have mineral industries, but we don’t manufacture with metals. Copper or zinc processing are obvious examples given our mines and geology. A last one is a “coke making plant” to send a value-added product to the steel industry. In British Columbia, our coal is steel coal; it is not used for making power. There are opportunities associated with coke ovens – where they take the coal and they actually cook it and push off the chemical impurities leaving a pure carbon residue called “coke”. In the steel industry, they take that coke and they throw it into a caldron with Iron Oxide so that the carbon and the oxygen join together to form steel. The Japanese have worked with coke ovens technology to take care of pollution and even to capture and use the chemical products that are heated off the coal.

So there are some ideas from me to feed into the debate. Other places in the world are looking at some of these opportunities as well.

As for next steps in the process of making northern BC competitive, let's figure out some serious and doable opportunities. Let's think about big opportunities. We need to be "brave and bold" and focus on that. If we are ready, we will be able to seize those opportunities when they arise.

My second point is, having identified a few important opportunities (five, six, or seven), we can then appoint a provincial coordinator (an expert or "point person") who really understands the opportunity and has experience. Give them some good goals, connect them with government and industry, and give them about 4 years to work through the effort.

For example, if we want to explore an agricultural opportunity, let's find someone who is experienced in that area. We need to find the right people for this, employ them, and charge them with the task – tell them "not to come back until they've done the job." This is a lesson that we can take directly from the Northeast Coal project.

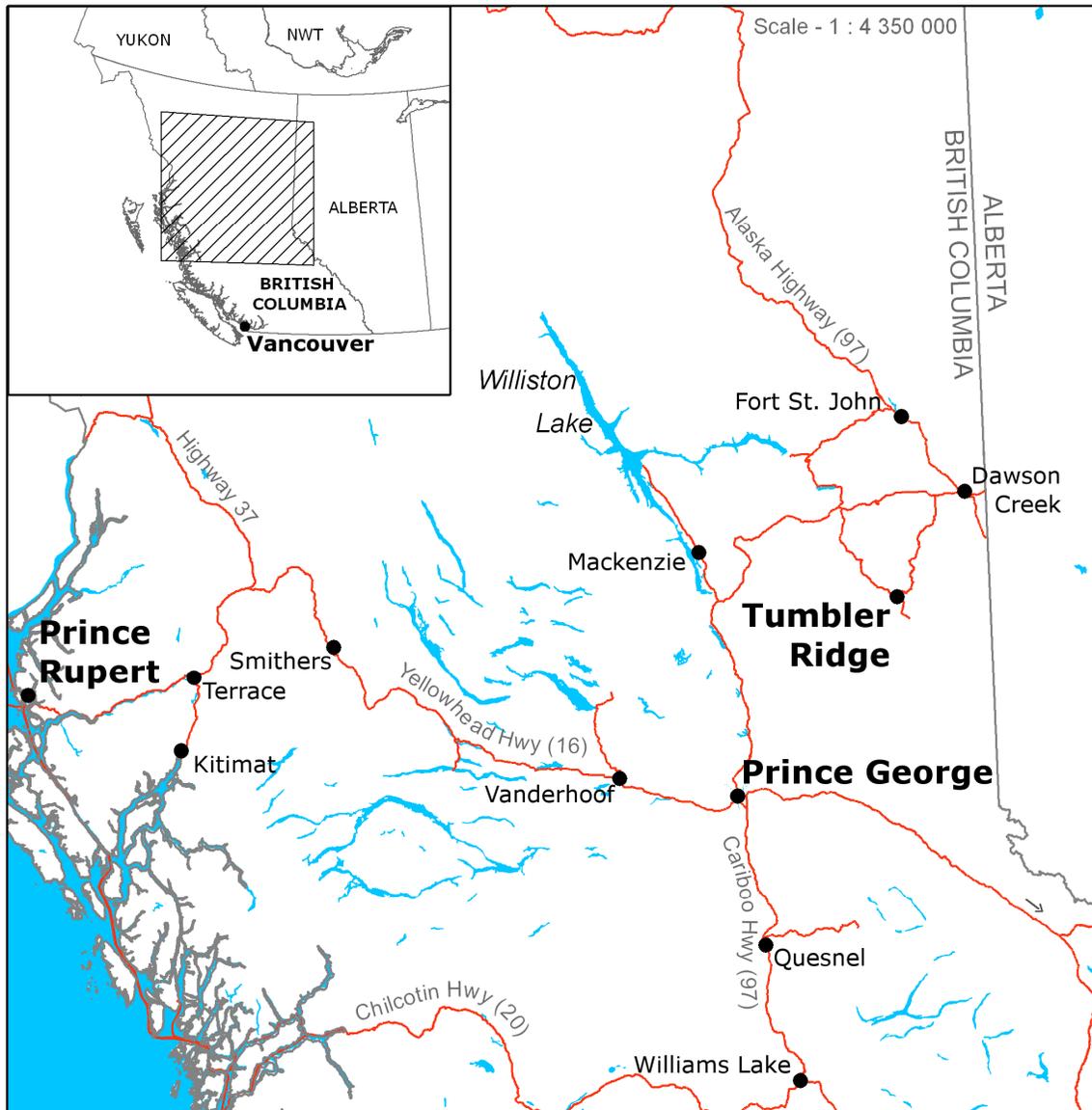
My third point is that the government has to be proactive. I do think the government has to be proactive – the government needs to encourage activity in the north.

That lesson is again so clear and so positive from the Northeast Coal project. Premier Bill Bennett and Industry Minister Don Phillips were proactive and the results were of benefit to the people of BC for decades and beyond. Too often we hear now that we are "waiting for the private sector", or we want to "let the private sector take the risks." Well I tell you, the private sector sometimes needs prodding and sometimes needs partners. You have to encourage them. This is a very important issue, and it is my point about Highway 37. If we are not going to build the power line right now, let's at least signal that we are still moving ahead with planning and will be ready when the private sector partners are also ready. I think that there is a very strong lead that the province needs to take to encourage economic and regional development activity. We need it in the north. I think that there is a lot to be done.

Closing

So coming back to my topic in closing, the discussion focused on mining – but the message is that a mine is not just a hole in the ground; it involves all sorts of things. All of these associated activities are an integral part of making the project a success. They all have to be in place, they all need coordination, and they need to be organized. There are huge opportunities that arise like this, and they all have positive impacts.

Figure 1: Northern British Columbia



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