OPINION

It’s time to put a price on the risk of mining disasters

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Four years ago, the Mount Polley disaster reminded us that mining comes with risks. On Aug. 4, 2014, a tailings dam at Imperial Metals’ Mount Polley copper and gold mine ruptured, spilling 24 million cubic metres of water and tailings into several lakes and rivers in British Columbia’s Interior. It was the largest tailings-dam rupture in Canadian history.

The best way to minimize the hazards of mining isn’t simply to reject every mining project. The resource sector is an important part of the Canadian economy and mining firms already take risk management seriously. Events such as Mount Polley are the exception, not the rule.

Debris flows into Quesnel Lake after a tailings pond breach in 2014.

JONATHAN HAYWARD/CP

But we can do more to manage risk to help ensure taxpayers don’t end up paying for disaster cleanups. For one thing, governments could put a price on the inherent dangers of mining.

There is currently no financial value placed on the risk of mining disasters in Canada. And there is no guarantee that a company responsible for a mining disaster will pay the associated cleanup costs. If a company goes bankrupt following an accident, Canadian taxpayers would get stuck with the bill. Not only is this unfair, but it can actually make mining more of a threat to the environment. When a company knows it might not have to bear the cost of its environmental damage, it has less incentive to reduce the riskiness of its activities and processes, thus making disasters more likely.

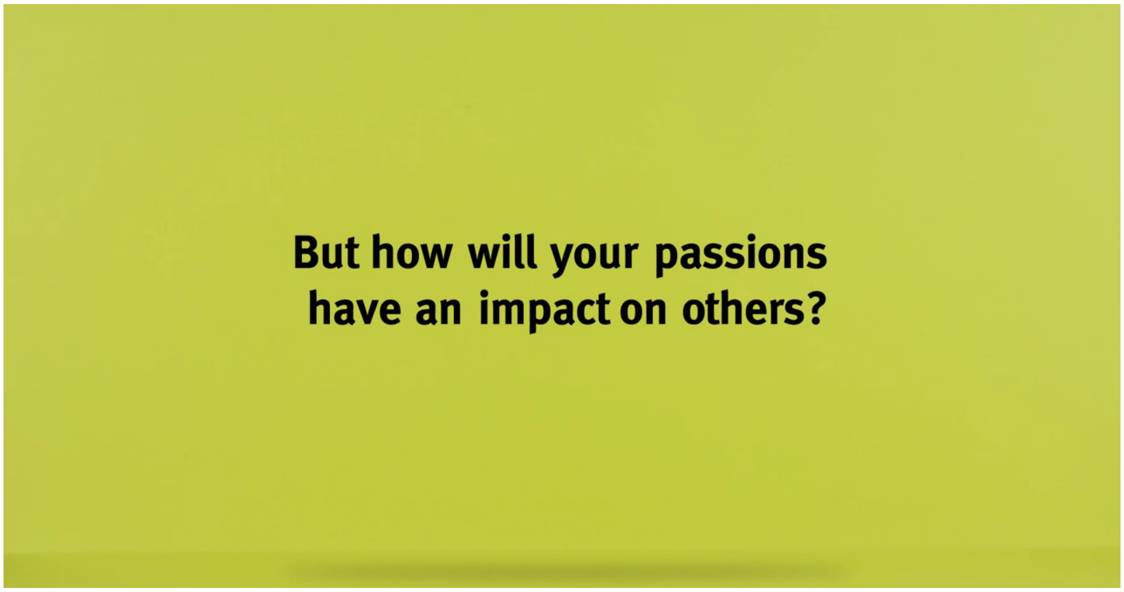
Putting a price on risk changes these incentives. As Canada’s Ecofiscal Commission points out in its recent report, Responsible Risk, we can put a price on these dangers by using financial assurance.

Financial-assurance policies require companies to promise or commit funds against the possibility of environmental perils – the higher the risk, the more money they commit. Bonds, third-party insurance and industry funds are examples of different kinds of financial assurance. By addressing potential gaps in companies’ liability, financial assurance strengthens their incentives to reduce threats to the environment.

Pricing risks in the mining sector doesn’t just make sense for the environment and for

Using financial assurance to put a price on risk isn’t just a nice theory, it is a proven policy approach. Across Canada, governments already require financial assurance against the perils of mines not getting cleaned up when they cease production. Historically, this was a significant problem: As many as 10,000 orphaned and abandoned mine sites exist across Canada with varying degrees of environmental risk. Over the past decades, Canadian governments have brought in financial-assurance requirements to address the hazards of mine abandonment. These policies help ensure that mining companies bear the cost of cleanup and provide an economic incentive to limit environmental damage on mine sites. We have come a long way when it comes to mine abandonment, and financial assurance is a major reason why.

It’s time to extend our use of financial assurance to the dangers of mining disasters in general, and we have several options. Mining companies could pool their liabilities in an industry fund, which would help keep costs low. Or Canada could put together a “Superfund” to share risk across different industrial sectors, as is done in the United States. Or hybrids of these options could be used. By making financial assurance smart and flexible, we could both reduce the risk of mining disasters and help Canada’s resource sector stay competitive.



If another disaster like Mount Polley were to occur today and the company responsible for the damage was bankrupted, the cleanup costs would fall on taxpayers. Luckily, this was not the case with Mount Polley; Imperial Metals is in business and bearing the costs of the disaster. But there is no guarantee the same thing would occur next time – and there will be a next time.

Canadian governments have done a lot to address the dangers of mining. But when it comes to mining disasters, much more work remains to be done. That work begins with using financial assurance to put a price on risk.