

Teck

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Rail Freight Service Review/

Examen des services de transport ferroviaire des marchandises

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**SUBMISSION OF TECK RESOURCES LIMITED
TO THE RAIL FREIGHT SERVICE REVIEW PANEL**

We are pleased to present our Submission to the Rail Freight Service Review Panel. We look forward to the results of the Panel's work and determinations and express our best wishes to the members of the panel in this important assessment of the adequacy of rail freight service by Canada's major railways, which has such important ramifications for Canada's economy. As Canada's single largest shipper, Teck Resources Limited ("Teck") places significant importance on the adequacy and suitability of railway service. We are particularly pleased at the level of expertise represented by the Panel and the Secretariat appointed to make recommendations to the Federal Government, and trust that their efforts to accomplish objectives of improving rail freight service will be implemented to the benefit of the Canadian economy generally. We would be pleased to attend to the Panel's requests for such information as may assist in the panellists' deliberations.

1. Teck Resources Limited

1.1 Teck has 14 major operational facilities in the Western Hemisphere, of which nine are located in Canada, with seven in British Columbia and one in Alberta that are dependent on rail transportation.¹

1.2 These operations include:

- (a) the Highland Valley Copper mine near Kamloops, BC, which ships copper concentrate and molybdenum concentrate via Canadian Pacific Railway (“CP”) to export position at North Vancouver, BC;
- (b) a lead-zinc smelter in Trail, BC, which receives zinc and lead concentrate from Teck’s Red Dog mine in Alaska, which is shipped by vessel to North Vancouver, BC, transferred to Canadian National Railway (“CN”), interchanged to the Burlington Northern Railway (“BN”) near New Westminster, BC, for carriage to Trail, BC, via a US routing, or via CP to Trail, BC, via a Canadian routing – the smelter also ships a variety of precious and specialty metals, chemicals and fertilizer products from Trail, BC to various destinations in Canada and the United States;
- (c) five coal mines, including the Coal Mountain mine, the Fording River mine, the Line Creek mine, the Elkview mine² and the Greenhills mine³ in Southeast BC (“SEBC” or the “Elk Valley”), which in the aggregate ship about 90% of their coal production to export position at Vancouver, BC, primarily via CP direct, with some via CP/CN; another 5% of shipments go to Thunder Bay for transloading onto laker vessels for furtherance to steel mill customers in the Great Lakes region via CP, and another 5% goes to steel mill customers in the Chicago area, primarily via CP, with some via CP/BN; and
- (d) the Cardinal River coal mine in west central Alberta, which ships its production to west coast ports via CN.

¹ Teck’s other Canadian facility is the Duck Pond copper/zinc operations in Newfoundland.

² The Elkview mine is owned by Teck (95%), Nippon Steel (2.5%) and Posco (2.5%).

³ Posco owns 20%.

1.3 In 2009, the five coal mines in SEBC shipped approximately 20 million tonnes of coal, of which more than 95% is coal used for making steel. Of that amount, the vast majority is hard coking coal. Teck typically supplies 15-16% of the world's seaborne hard coking coal.⁴ This makes Teck, and by extension Canada, the largest supplier of steelmaking coal in the Western and Northern hemispheres and the second largest supplier in the world. All of Teck's⁵ coal mines play a significant part in the global steel supply chain, with shipments made throughout the world. Put in context, Canada's participation in the global steel supply chain now consists primarily of iron ore operations located in Labrador⁶ and Teck's steelmaking coal operations.

1.4 Most of this submission, and what follows, pertains to the westbound coal logistics chain, but many of the comments made herein also pertain to Teck's rail shipments of its eastbound coal, to the shipments of Teck's other commodities, and to the shipments of other shippers.

2. Coal and the Global Value Chain

2.1 Metallurgical or steelmaking coal is extremely important to Canada; it accounts for approximately $\frac{2}{3}$ of direct employment for the entire Canadian coal industry. Moreover as a significant industry in Canada, coal mining accounts for approximately 10% of all Canadian mining employment.⁷

2.2 Taken together, Teck's mining operations in British Columbia alone (coal, copper and zinc) made up approximately 5,500⁸ of the 7,600 mining jobs in BC in 2008. Of Teck's 6,500 employees based in Canada in 2009, 3,340 were employed in its coal mining operations,

⁴ Steelmaking coal and metallurgical coal are synonymous terms, while coking coal is a category of steelmaking coal that produces metallurgical coke when heated in the absence of oxygen. Steelmaking coal is produced in various grades and, while not all of it is coking coal, it is all used in the process of steel making. The qualities of steelmaking coal vary as do the requirements of steel mills throughout the world. Thermal coal, on the other hand, is used for its heating value, primarily for electric power generation.

⁵ Teck Coal Limited, a wholly-owned subsidiary of Teck, operates the coal mines.

⁶ Largely represented by Iron Ore Company of Canada is owned by Rio Tinto (58.7%), Mitsubishi Corporation (26.2%), and the Labrador Iron Ore Royalty Income Fund (15.1%).

⁷ Canadian Minerals Yearbook - 2008, Statistical Report: Section 5 Principal Statistics, Table 16.

⁸ 5,770 in 2009

almost exclusively in BC and Alberta. Teck's Canadian operations (coal and non-coal) provide direct and indirect employment for about 15,000 Canadians.

2.3 In 2008, Teck's revenues from coal alone were equal to 0.37% of Canada's GDP.⁹ In the same year, the total revenues for all Canadian steelmaking coal producers were equal to 0.43% of Canada's GDP.

2.4 Like many industries, Teck relies on rail transportation for its shipments to export or domestic terminals and directly to customers; however, coal is entirely dependent on rail transportation. In 2009, Teck's coal shipments represented approximately 28% of the total tonnage handled by the Port of Vancouver. In 2009, the Port handled more than 220 ships loaded with Teck's coal.

2.5 Teck produces about 85% of all steelmaking coal produced in Canada and supplies two Canadian-based steel mills with a significant portion of their coal requirements to produce products used in Canada and around the world. Its top four competitors are all foreign based and include some of the largest mining companies in the world (all larger than Teck), including: BHP Billiton (Australia), Anglo American (England/South Africa), Xstrata (Switzerland) and Rio Tinto (England/Australia). In addition, US exporters of Appalachian steelmaking coal taken in aggregate also represent significant foreign-based competition to Teck.

2.6 Through mining and handling activities, the steelmaking coal industry makes a major economic contribution to Canada. For example, ignoring sales of thermal coal used for generating electricity, Canadian steelmaking coal mines:

- (a) provided export earnings in the order of \$4.2 billion in 2009 and \$5.8 billion in 2008, which originated in BC and Alberta;
- (b) provide highly paid and stable employment in many rural and urban communities; for example, Teck's coal operations yield total average annual compensation in excess of \$100,000, and Teck expects that Canada's other steelmaking coal producers yield similar wage levels;
- (c) enjoy a safety record that compares favourably with any industry in Canada;

⁹ Statistics Canada valued Canada's Expenditure Based GDP in 2008 at approximately \$1,321 billion

(d) support the communities of those who supply the industry directly with goods and services from across the country;

(e) supply steel mills in Ontario that, along with the supply of coal to steel mills around the world, support the manufacturing industries of the country.

2.7 Steelmaking coal is also an important facilitator and contributor to Canada's international trade and helps to diversify Canada's export base around the world. It represents the single largest export product from Canada to such countries as Japan, Korea, Taiwan, and Brazil. In past years, approximately 45% of Teck's production was shipped to customers in Asia, 35% to Europe, 10% to South America and another 10% was shipped within North America. After the economic downturn of late 2008, Teck's export mix has changed to 70% Asia, 20% Europe and 10% Western Hemisphere; however, Teck expects the proportion of exports to Asia to fall somewhat as demand recovers in its traditional markets.

2.8 To be clear about the significance of these exports, Teck alone is the largest exporter in Canada to each of Japan, Korea, Taiwan and Brazil. In light of Canada's efforts to diversify the destinations of its exports and to increase the value of alternate sources of export earnings, it is proper to say that Teck's and Canada's trade objectives are complementary, if not synonymous.

2.9 The global steel industry not only acts as one of the foundations of Canada's economic system but is vital to the developing economies of the world. While global coal production amounts to about 5.8 billion tonnes annually, the market for high quality, seaborne steelmaking coal is approximately 220 million tonnes. Of that amount, approximately 140 million tonnes consists of hard coking coal – the kind produced by Teck in Canada. Hard coking coal is a comparatively rare commodity and Canada is in a strategically advantageous position in the steel production value chain where the cost and competitiveness of production in turn affects the cost and competitiveness of the global steel industry.¹⁰ However, the bulk of this seaborne

¹⁰ Approximately 70% of the world's steel is produced using blast furnace technology that requires steelmaking coal as one of the main raw materials. Different types of coal are used in that technology with the lowest grade material used purely to provide energy and hot reaction gases. The highest quality coals, including most of the steelmaking coal exported from Canada, are used to produce lumps of metallurgical coke which is mixed with the iron ore in the blast furnace and is critical to furnace operation.

steelmaking coal comes from Australia, which has mining and transportation conditions favourable to those of Teck.

3. Terms of Reference and Objectives of Teck

3.1 The breadth of the Final Terms of Reference of August 12, 2008 allow for a consideration of issues that refer to many shippers' concerns. The Objectives of the Review invite a review of the rail-based logistics chain as well as recommendations. Teck was compelled to conduct an extensive review of its westbound coal logistics chain to assess a significant rail service shortfall over an 18 month period, beginning in October 1, 2006 and ending March 31, 2008, that resulted in tens of millions of dollars in direct damages and hundreds of millions of dollars in consequential damages. Although it is not up to the Panel to provide redress for Teck in any claims it may have for the damages it suffered, Teck seeks to prevent a recurrence of the service failures it experienced during that period. It is hoped that the Review will assist in that regard.

3.2 The Panel Objectives of the Panel Terms of Reference of September 17, 2009 focus on recommendations:

The panel will propose recommendations to address problems and issues with respect to service within the rail-based logistics system. The recommendations may include both commercial and, if necessary, regulatory solutions. The recommendations will be aimed at improving the efficiency, effectiveness, and reliability of service within the system, facilitating economic growth and trade expansion, and improving accountability among stakeholders.

In undertaking its work, the panel will be guided by the general Terms of Reference for the review.

3.3 Teck's objectives are consistent with and complementary to the Panel Objectives:

- (a) steelmaking coal is a significant part of the global value chain relating to the production of steel used around the world, including in Canada;
- (b) Teck's unwavering focus is built around creating a business that can compete globally, continue to contribute to the growth of the national economy, preserve existing jobs and create new jobs, as we seek to expand the business;

(c) Teck has sought, where available, commercial solutions to its service issues and prefers regulatory solutions only as a last resort (for example, rather than seeking regulated rates under the Competitive Line Rates process under the *Canada Transportation Act*, Teck has obtained rates from CP and CN for a small part of its westbound shipments in a process that was partially disclosed by the parties in news releases, but which essentially involved a negotiated rate with CN from Kamloops to Vancouver, BC, and an arbitrated rate with CP from its mines to Kamloops);

(d) Teck prefers the establishment of competition to drive commercial solutions, rather than surrogates for competition, on the theory that competition leads to improvements in the efficiency, effectiveness, and reliability of rail service, with a view to facilitating economic growth and trade expansion;

(e) Teck is also of the view that shippers and carriers should be accountable for the levels of service in the logistics chain, at least over those parts they each control, and believes that competition imposes the most discipline in that regard.

3.4 Teck is keenly aware of global competition. Domestic and foreign competition for labour, customers and the products we sell is intense in the markets in which we participate. Those markets are global. Producers in Australia and elsewhere compete for the same international markets as we do, and U.S. and other producers compete for the same North American, European, and South American markets we serve. We also compete in the same global capital markets as our competitors when it comes to attracting capital into our business. Management is charged with convincing Teck's Board of Directors that it makes sense to invest in Canada rather than internationally. We are particularly encouraged by that part of the Panel Objectives that focuses on the importance of service to allow for economic growth and trade expansion. To meet this objective, Canadian companies like Teck must be able to compete in their respective markets.

3.5 Teck seeks to compete vigorously in world markets, capitalize on existing opportunities to expand production and increase sales and to decrease the risks associated with the investment required to do so, but is constrained by the lack of competition in Canada that is built into national transportation policy. That policy constrains the level of competition in respect of rail transportation, which is Teck's single largest cost for the shipment of coal, which in turn compromises the competitiveness of Canada's steelmaking coal industry.

3.6 Teck wishes to significantly expand its Canadian operations over the coming years. The degree to which those expansion plans may be compromised by the lack of

