Deadline looms for smelter in Asbestos

DECEMBER

Mothballed plant to be razed if not sold

STEPHEN McDOUGALL
SPECIAL TO THE GAZETTE

ASBESTOS – Ten years ago, Canadian mining company **Noranda Inc.** announced it would build a $720-million magnesium smelter in the depressed town of Asbestos.

After years of layoffs at its Jeffrey open-pit asbestos mine, local residents rejoiced that a major company would recycle their mountains of waste tailings into magnesium ore. The "metal of the future," they said, would bring wealth back to the town.

But the dreams of wealth were shortlived.

By 2003, the Magnola complex, comprised of 13 buildings and spread over seven square kilometres of land, was shut down.

Noranda realized too late that Chinese producers had cornered the world's magnesium markets with cheaper prices.

More than 350 jobs were lost and hundreds of local service contracts were cancelled.

Magnola president Bob Sippel said the smelter would not restart unless magnesium prices rose above $1.20 U.S. a pound.

Within two years, the price rise came, but officials for Noranda (by then merged with Falconbridge) still would not commit to a restart. They argued the new price could not be sustained over time.

Now, Xstrata, the European miner that bought Noranda-Falconbridge last year, says it will demolish the mothballed plant if no one buys it by December.

The Quebec government, which sunk $253 million into the project, also is ready to walk away from Magnola smelter in Asbestos.

MAGNOLA 'No future for production,' SGF says

CONTINUED FROM B1

"Whatever the offer, it must be economically viable" said Louis-Philippe Gariepy, Xstrata corporate affairs manager.

"If we get no serious offers, then we dismantle and sell the equipment and demolish the buildings."

The Quebec government, which sunk $253 million into the project through its investment arm, Société Générale de Financement (SGF), is also ready to walk away from Magnola.

"There is no future for magnesium production in Quebec," SGF's Marie Claude Lemieux said.

"When the Norsk Hydro magnesium operation in Bécancour closed its doors last year, we knew there was no chance for the Magnola operation."

Local economic development president Mario Morand said no one in the Asbestos area is interested in taking on the smelter, which presently costs $9 million annually to maintain.

Still, his office will revise old plans it made up soon after the Magnola shutdown that could recycle the complex for other uses.

Morand said the plans were always rejected by Noranda in the past.

"We had proposed renting some of the buildings for small projects that would have created a handful of jobs," Morand said. "But Noranda kept telling us, 'hands off.' It was not ready to pull the plug completely on the smelter."

Now that Xstrata has decided to get out of magnesium altogether, Morand hopes to convince the multinational to delay the demolition order for one more year while they try to find an interested buyer.

+++

The Magnola story reflects an economic problem in the rural asbestos mining area of Quebec's Eastern Townships, where

THE GAZETTE

large projects to revive the economy have failed.

A local study in 2005 indicated that because of the smelter shutdown, the Asbestos area had lost 43 per cent of its industrial jobs.

Morand said that when the Jeffrey mine shuts down for the winter, unemployment rates rise from eight per cent to 13 per cent.

In Thetford Mines, the asbestos industry has seen its 13 mine operations reduced to two in the past 30 years. The number of corresponding jobs went from a high of 5,000 to 800.

And by spring 2008, one of the two mines, the underground Bell operation, will be closed permanently, putting 150 employees out of work.

In the past few years, the asbestos mines have faced stiff competition from foreign producers that has led to a sustained fibre price drop. But while the town of Asbestos suffers, Thetford is recovering.

Local economic development officer Marc Alexandre Brousseau said the local economy has diversified in the past decade and believes most of the 150 Bell miners will soon get new jobs in the area.

He said the diversification was created by local entrepreneurship along with continual support from the Quebec government.

Morand said his economic office has also worked toward creating and expanding local businesses since the Magnola shutdown. But he admits the population difference between the two municipalities will make economic progress harder for Asbestos.

"Asbestos only has about 6,000 residents vs. the 27,000 for Thetford, which means a lot less investment capital," he said.

"But we have no choice. We have to set up local companies because large mega-projects have been nothing but a costly disaster for us."

Brousseau said Thetford's future is with such small and medium-sized operations as tile- and countertop-maker **Granirex Inc.,** with 175 employees, and steel truss-maker **Canatal Inc.,** with 200 employees.

"They make their money by concentrating on exports to the United States," he said.

"Thetford is only one hour's distance from the border."

But he added the investment capital that helped set up some of these companies is limited and dependent on government help.

A local risk-capital fund, combining local long-term investors with government loans, is only worth $5 million.

Brosseau said the fund has helped keep the jobless rate down to six per cent, whereas it was almost 10 per cent in 1996.

Morand said the Asbestos area has a similar fund, along with a $2-million industrial loan fund given by Quebec in 2003. He said it has helped create 180 jobs and safeguarded an equal number of existing jobs.

But finding local investors is slow, he said.

The industrial fund requires local companies to invest in their own expansion. In the past four years, $600,000 of the fund is still unused.

"Most of the companies we are trying to create or help grow are cottage size and will be based mostly on local agriculture products rather than manufacturing or mining," he said.

One large project his office helped finance has already been a disappointment. **Polylab-Experts,** a company set up in 2005 to test soil and water for government agencies and farmers, went bankrupt earlier this year.

Morand said the Polylab closing cost the area 15 jobs and more than $1 million in local investments and government aid.