

## Views on ESG risks

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**Extensive international guidelines have materialized to meet the growing demand for transparent, accountable and good governance on the part of extractive companies. As such, how these companies best interact with their stakeholders, including shareholders and their social and political environment has evolved and undergone significant changes. The approach will vary between senior producers and juniors.**

Jane Ambachtsheer, Partner and Global Head of Mercer's Responsible Investment Business, noted that investors are primarily concerned with how extractive companies are managing ESG risks. ESG are Environmental, Social, and Governance factors considered when evaluating a company's risks, opportunities and long-term returns. Application of these three core principles help align investors with broader societal objectives. Large institutional investors such as the Canadian Pension Plan Investment Board have openly adopted such a methodology and recognize that ESG factors will significantly influence the long term financial performance of every corporation in which they invest (CPPIB, Reporting on Responsible Investing, 2011).

Companies can no longer build programs to maintain their guise of being a model corporate citizen. Superficial initiatives will only be met with future distrust – programs need to parallel the longevity of its projects. Jane states that there is not a lot of consistency in terms of metrics used with CSR reporting. A lot of real underlying CSR risks are not discussed as openly as they could be in financial statements. There is a real range in terms of how well companies report on CSR. Some mention vague commitments to environmental sustainability, while others report on emissions and impact in a multitude of ways with time horizons and efficiency metrics. Hence the move towards ESG factors.

Bradford A. Mills, CEO and Director of Mandalay Resources, Chairman of the International Council of Metals and Mining in 2007 and 2008 worked with the organization for 10 years. In that time, he was responsible for developing the mining industry's best practices for corporate social responsibility reporting, including the audit framework and reporting guidelines. The organization is led by current CEOs and was designed to meet the needs of CEOs leading mining companies across the globe.

In discussions with Brad on the particular limitations of a junior producer to meet the needs of social and environmental initiatives and

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guidelines, he emphasized how challenging it is and that the resources available to them versus to those of a large senior producer are completely different and therefore the approach must be more pragmatic. While reputational risk is something a junior and senior producer will both share as a concern, how they manage this risk is different.

Brad explains that junior producers have a choice point around how they handle project development and social/environmental and safety issues - be legally compliant and gain permitting compliance or go beyond and do what investors demand to achieve buy-in at the community level. CEOs must establish how hard they go beyond permitting compliance. He further elaborates that doing the bare minimum will make those who are responsible for permitting less comfortable. However, in making the choice to proceed he advised a risk reward approach where you acknowledge the pragmatics of achieving your permit at an acceptable and reasonable cost.

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The approach he has taken at Mandalay Resources is a zero harm philosophy. Fundamentally, the company does not want to see permanent damage done to communities, the environment and it strives for a safety record similarly. The philosophy of minimizing harm while ensuring a foundation of respect is important to Brad.

Bob Walker, Vice President ESG Services and Ethical Funds at NEI Investments engages with companies to help improve their ESG performance to mitigate risks. He encourages companies to establish better relationships with communities and to establish human rights policies and systems. Obtaining a 'social licence' is critical, the idea that communities are capable of revoking that license, not in a legal sense, but in a public relations sense, or in a very real sense through protests and blockades can prevent companies from accessing the resources that they need to make their business work. Another area of focus for NEI investments is the rapidly evolving expectations surrounding human rights issues – there's been a tremendous amount of attention being paid to this matter.

From the conversations with these experts, we acknowledge a few important distinctions in ESG factors and particularly how junior producers must address the issues.

- Reviewing and understanding the implications of your choices around managing the social, environment and safety issues is more than obtaining a 'social licence' to proceed. It requires a pragmatic risk assessment of the benefits and costs to your permitting schedule, it requires a serious methodology and process which starts with the CEO and requires accountability by a community development officer on the ground. Brad Mills affirmed that the only way you can manage expectations at the project level is through serious and consistent dialogue, clear policies and a CEO who sets the tone and listens when necessary directly to community concerns. This is a different approach to a blanket acceptance of reporting standards and other global directives on what must be measured and accounted for.
- In previous commentary around practical ways to formulate community buy in of a mine, I talked about the value of partnerships (see blog A Useful Debate, please [click here](#)). Companies will continue to need to be creative and thoughtful in their community approaches; what worked at one mine may not be helpful or even required at another mine. Yet, creating goodwill is exactly that, it is something that must be earned and created, not asked for. Developing projects that require commitment from 3 parties and namely engage a government representative, a community group and the mine operators can help. Brad explained a project he was involved in which provided for a water purification plant in Jauri, Peru – involving the mine operator as project manager and provider of equipment, the government with funding and permitting and the community was there to define the need and provide 'sweat equity'. Therefore, knowing you cannot control royalty distribution and use of tax dollars does not preclude an operator from developing a philosophy of sound management at the local level, with local project management involving all stakeholders.

### Managing expectations is crucial.... the road is never linear

- Managing expectations is crucial. As Jane mentioned, what Mercer is seeing through their clients is a push by investors for more information, and non-traditional information. What operators at the junior level can do is be prepared to provide a roadmap of progress and a review of risks and benefits for each of the social, community and safety considerations – and clear guidance on what it can consistently live with and deliver on.

Managing expectations at the mine level is equally important, as the road is never linear.

We believe that the issues identified above are more than just about meeting global standards and compliance to best practice (notwithstanding their great utility to standardize reporting for senior producers). ESG factors require thoughtful and serious consideration at the local project level and clear guidance from the CEO and board of directors on strategic direction. Conceptually, operators must acknowledge that mining a resource cannot be a singular goal – it is one activity that must be measured against others and the value proposition can vary in time, in place and among people. This is the pragmatic approach we cannot lose sight of.

### Corporate Governance Update

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### A note from Belinda

The Capital Lab was a sponsor of the Bill Volk Celebration Golf Classic on September 24th, 2012 in support of Right To Play and in memory of Bill Volk. We were super excited to participate in this effort. More than \$100,000 was raised by the organizers! We played golf and sponsored hole 12 and enjoyed a beautiful (but crispy) day, certainly leaving our mark: golf balls scattered in bushes around the course.

