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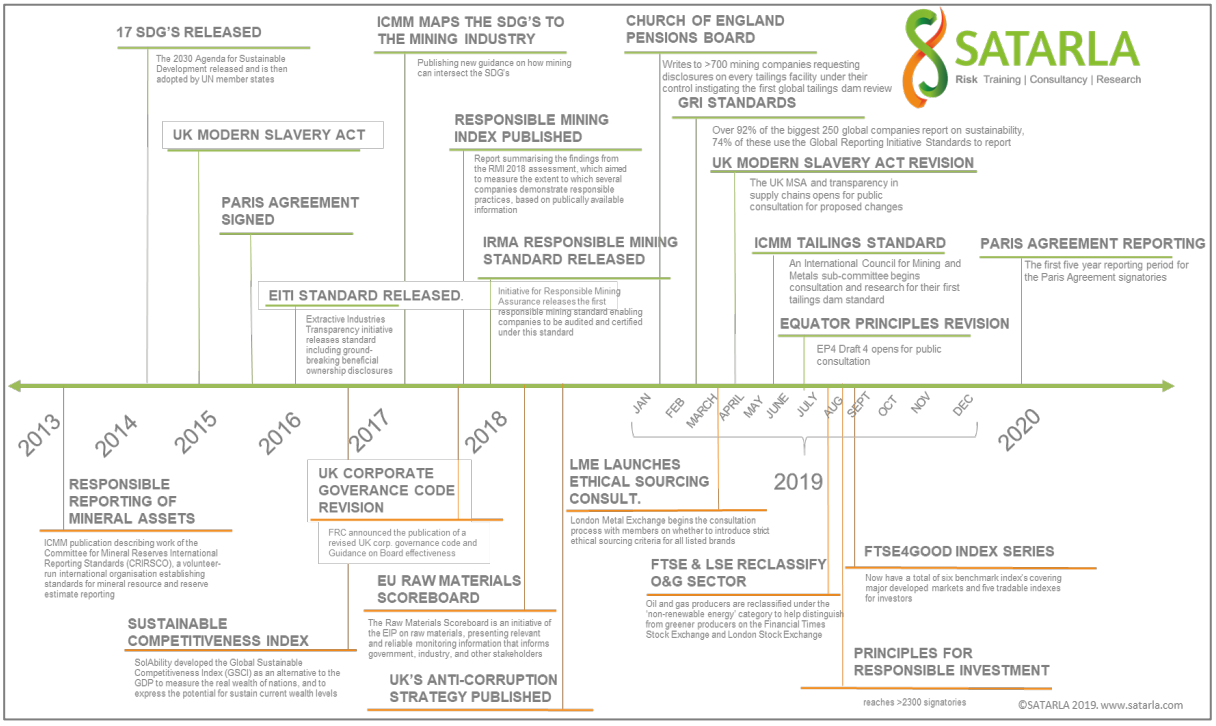
Responsible Investing in Natural Resources

By Keiran Doyle

Today's extractives sector plays a vital role in securing critical raw materials and natural resources for our growing population, which is placing increasing stress on the industry to provide sufficient supply in order to meet societal demands. Due to this continued growth in world population, mining operations are at greater risk of causing more widespread impacts, particularly on local communities and sensitive ecosystems. Therefore, it would be reasonable to say that mining investors have a growing responsibility to ensure that the company or project they intend to financially support is demonstrating a minimum level of commitment to ESG issues, and vice versa. However, a few questions remain… What exactly is 'Responsible Investing'? How can it be measured and delivered effectively? Can the UN Sustainable Development Goals (SDGs) help to drive responsibility in the mining industry? And is the role of an investor to solely consider 'responsible' companies, or should they play more of a supportive role in order to help companies become responsible?

The 'Responsible Investing in Natural Resources' Conference, held at the Burlington House on the 7th-8th October 2019, aimed to answer these questions, with several high-quality talks, panel discussions and in-depth breakout discussions which all had a focus on responsibility in the extractives sector. These talks covered a wide variety of topics, including ESG in a business context, the meaning of 'responsibility' in the extractives industry, the criteria that matter to responsible investors, framing stewardship in mining, and the use of data to inform decision-making from an ESG perspective. The breakout groups were designed to directly involve the delegates and speakers in facilitated discussions led by the conveners, based on set questions related to the primary goals of the conference.

Day 1 attempted to come to a collective agreement about what responsible investing means, and what its characteristics are, while the second day discussed what various stakeholders may expect to be asked in order for them to prove to investors that they are demonstrating responsible practices & behaviours, and what would constitute 'good' and 'bad' answers to each question so that potential best practice criteria may be gleaned.



There is a vast plethora of standards, frameworks and regulatory documents, such as the Equator Principles, the SDGs, GRI standards, the ICMM performance expectations, etc., which were produced by various NGOs, including IRMA, ICMM, TCFD, EITI and so on. These outline the minimum requirements for companies looking for assurance and accreditation in order to increase their attractiveness to potential investors. However, with the large volume and extent of cross-duplication of existing standards, it can prove difficult to determine whether one is 'better' than another, which further complicates the decision-making process for investors when faced with multiple investment options. Further complexities arise for investors when many reporting codes and standards only apply to a limited number of commodities, or aspects of mining (tailings management, mine design & safety, human rights & ethics). Therefore, the goal for industry and associated investors in terms of standardisation & regulation should be to compile 1-3 comprehensive documents of principles and practices based on existing frameworks and guidance, that encompasses the extractives sector and its associated ESG risks more broadly to streamline the investment decision-making process, creating a mutual benefit.

The subjectivity of responsible investing makes settling on a single definition challenging, due to the inherently dynamic complexities surrounding the extractives sector, including:

- Environmental issues, such as waste management, pollutants, emissions, water sanitation, wildlife and ecosystem conservation, reclamation & post-closure.
- Social issues, such as community relations, communication, human capital, occupational safety, welfare, employment, education, healthcare & human rights.
- Governance issues, such as insurance, management systems, company hierarchy, meeting compliance standards, transparency in decision-making & accountability.

Arguably, investors should play a more active role by co-ordinating more on ESG strategy with partner companies and their associated projects deliver sustained responsibility performance. For this, investors should have their own set of standards and requirements in order to facilitate those responsible practices and should be encouraged to demand more disclosure and transparency from their partner companies. Natural resource investors should also be able to access and capture relevant, useful data (e.g. biodiversity tracking, traceability, environmental life cycle assessment, whole value assessments using the SDG framework) to further justify their decision-making, and support partner companies with meeting responsibility targets.

Defining responsible investing is a complex and multi-faceted challenge, however it would be reasonable to suggest that it is about (a) enhancing returns through verifiable ESG performance, (b) creating the greatest shared value that benefits all stakeholders, and (c) driving ESG improvement by influencing the strategic direction of the company and co-ordinating accordingly to deliver on a responsible strategy.

The scale of a project will be a crucial consideration for investors; from the perspective of small-scale mining for example, on one hand ESG issues will have a reduced area of impact relative to larger, 'world-class' operations, meaning responsible strategies for continuous improvement can be focused more locally, while on the other, the profitability and productivity of the project must still be sufficient in order to attract external investment, since small, complex deposits can produce much uncertainty in terms of establishing the grade & distribution known mineral reserves, despite their higher grade relative to traditional, large-scale mining projects.

The truth remains that mineral resources are finite, with some metals and raw materials becoming increasingly critical due to current supply not fully meeting consumer demand, particularly for green technologies such as renewables and electric car batteries. Responsible

sourcing and extraction of these critical metals, as well as base and precious metals that are also important in modern society, from a range of deposit types and sizes will be vital for a sustainable future by supporting the circular economy. Increasingly, expectations from companies and investors are shifting towards a more broad approach than just addressing carbon emissions, which are informed by the SDGs. So, future responsible ESG strategies for investors as well as companies should be comprehensive but simple to use, and based on existing assurance principles and standards.

Keiran is a postgraduate research student currently based at the Camborne School of Mines with the University of Exeter, carrying out a research project investigating the safety & sustainable development of small-scale, high-grade mining operations. The aim is to assess the particular risks & hazards associated with small-scale, low-impact mining on workforces & local populations, and provide an innovative, novel approach to management of health & safety, social and environmental impacts in order to improve sustainability & responsibility in extractive operations. His PhD is being conducted as part of the 'IMP@CT' Project, which involves multiple industry & academic partners across Europe, is being funded by the EU's Horizon 2020 programme for research and innovation (Grant no.: 730411), and is developing a whole systems solution for small-scale, low-impact mining of high-grade mineral deposits.

He graduated from the University of Leicester in July 2017 with an MGeol degree with honours in Applied and Environmental Geology, in which he produced a master's thesis investigating the controls on ore mineral assemblages at the Cripple Creek Epithermal Au deposit in Colorado, USA. In addition to his PhD studies, Keiran is a Research Associate with Satarla, and is also a fellow of the Geological Society of London (FGS).