MiningJournal

PwC wants more ESG

Professional services group PwC has self-servingly exaggerated the role of ESG principles in releasing its fifteenth annual review of Australia's mid-tier mining sector.

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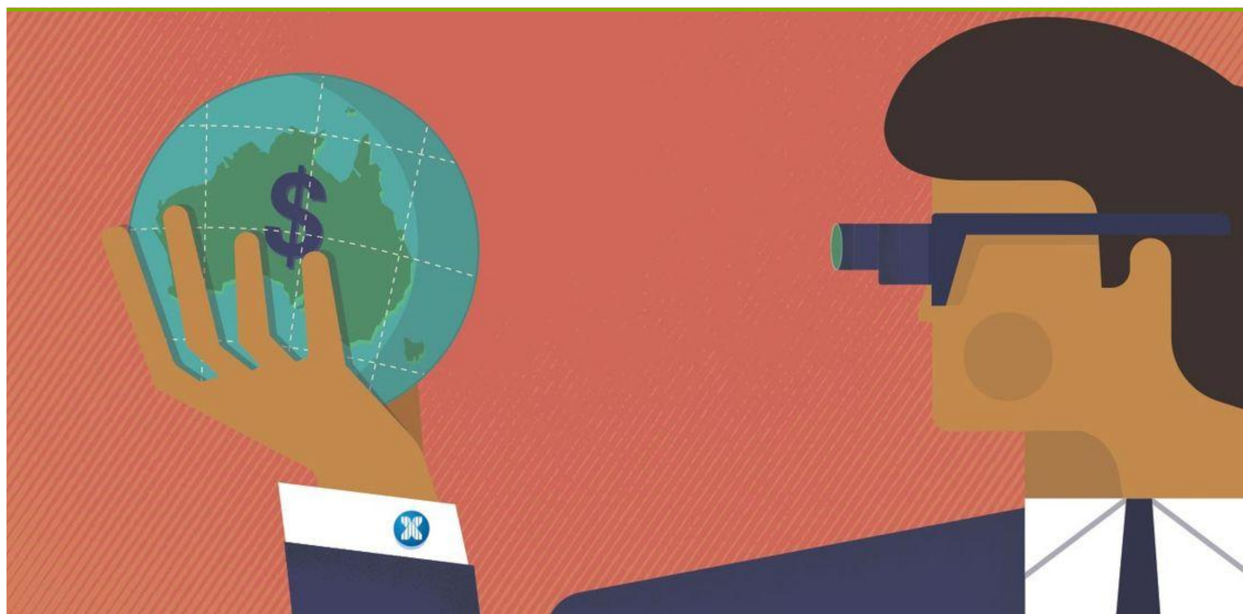

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'Aussie Mine 2020: Resourcing the recovery' canvasses the financial and operating performance of the 50 largest ASX-listed mining companies with a market capitalisation of less than A$5 billion at June 30. These companies could hold the key to Australia's economic recovery, according to the report authors.

The COVID-19 pandemic response has already sliced over A$90 billion from the value of Australia's GDP. PwC estimates that its 50 second-tier miners had a combined profit before tax of A$5.3 billion. Even an improbable immediate doubling in their profitability would contribute little more than 5% of the income needed for economic recovery.

Industries such as education services, tourism, hospitality and retail, which have taken the brunt of policies to contain the COVID-19 virus, will be more important than mining in recapturing lost ground.

PwC seems to have simply conjured from hot air the idea that 50 listed miners, including some well short of production and others operating outside Australia, will play an important recovery role.

Among PwC's 50 stocks is Orocobre, a leader in the global lithium industry. But its production efforts are focused on Argentina where the benefits of its spending on employment, materials and construction will be felt.

Legend Mining is one of nine explorers in the 50. The company could eventually contribute meaningfully to Western Australian growth, but not in the coming 12 months when it is only going to spend $11-12 million on more drilling.

Sandfire Resources is, if anything, scaling back its impact on the Australian economy. Its next big investment spends will be in Africa and possibly North America. Australia will be poorer for its strategic redirection.

Talk of economic recovery is a red herring. ESG is what PWC really wants to push. Being a "legitimate" contributor to recovery depends on satisfying community concerns about ESG performance, says the provider of ESG consulting services.

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There is no evidence proffered that the Australian community is keenly trading off recovery for better ESG scores from companies like Legend Mining. Off the back of nothing more than a wild assertion, PwC has joined the effort to bully Australian executives into something their commercial instincts say makes no sense.

PwC calls for better reporting on what is being done "to ensure all human beings can enjoy prosperous and fulfilling lives". One could easily imagine an explorer's blunt retort that finding an orebody would be the best way to contribute to that goal.

PwC says miners with a strong ESG focus are on the right track to long-term value creation. In truth, value creation for the likes of Legend, and hundreds of others at a similar development stage, depends on their geological nous. Overwhelmingly, resource building within the bounds set by market regulators is the source of value.

PwC says that ESG is increasingly recognised as both a differentiator and a driver of long-term shareholder value. Authors of the PwC report, along with other promoters of ESG, display little grasp of even recent industry history.

Environmental, social and governance issues were pre-eminently important among Australian and US mining companies in the 1980s. Industry leaders who came out of mining towns like Broken Hill and Mount Isa were keenly aware of the interaction between purely financial metrics and corporate social obligations within those connected communities.

At no time in the past 40 years have serious investors accepted shoddy environmental practices. Substantial publicly listed companies in Australia and north America no longer exist because they were unable to satisfy investors about what are today called ESG practices.

For decades, equity analysts have been making judgements about company environmental, social and governance credentials as part of their evaluations. Organisations like PwC are late arrivals on the environmental, social and governance scene. In pretending to have something novel to contribute, they have done little more than invoke an ill-defined acronym.

The alleged "exponential rise of responsible investment" is a myth. A gradual build over forty or fifty years is a better description of the analytical evolution.

PwC quotes studies, not specific to the mining industry, showing that ESG contributes to a better operational performance, dubiously claiming that miners are recognising the connection.

Unsurprisingly, PwC finds that those companies in the upper part of the mid-tier 50 are more likely to report ESG analytics. The data are consistent with companies adopting ESG trappings after being successful not as a precondition of their business progress.

Ironically, the most enthusiastic drivers of the ESG bandwagon are contradicting themselves by urging companies to strip out their ESG activities for separate quantification while simultaneously demanding that ESG habits should become an inseparable part of ordinary business conduct.

In urging explorers to adopt more comprehensive social benefit reporting, ESG analysts should ponder the role of the market regulator. ASIC aggressively discourages exploration companies making claims about their future economic and social impacts. Explorers are shackled to the reporting dictates of ASX

and ASIC. Greater freedom of reporting would be a precondition for meeting ESG expectations.

Among exploration and development companies, the transparency demanded by ESG governance guidelines is already strictly policed with one vital exception, namely, claims about personnel or management skills.

There are no pressures to monitor, let alone report on, corporate skill bases despite investors consistently pointing to people quality as the single most important attribute determining the sustainability of mining exploration and development efforts.

Consistent with a longstanding unwritten rule among analysts, PwC consultants also refrain from demanding public reporting on the quality of people leading corporations. Coincidentally, they also pay PwC for its services.

PwC has crossed a line in its ESG proselytising. A long history of measuring corporate performance is morphing into a new self-styled role. With like-minded advocates, PwC is behaving more like a corporate regulator trying to define the public interest and dictate how companies should conduct their businesses.

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