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‘Sustainability’…who are we kidding?

‘Sustainability’ is a contrived rhetorical facade adopted by the mining industry to feign pursuit of an unattainable goal, in a misconceived attempt to stave off public criticism.

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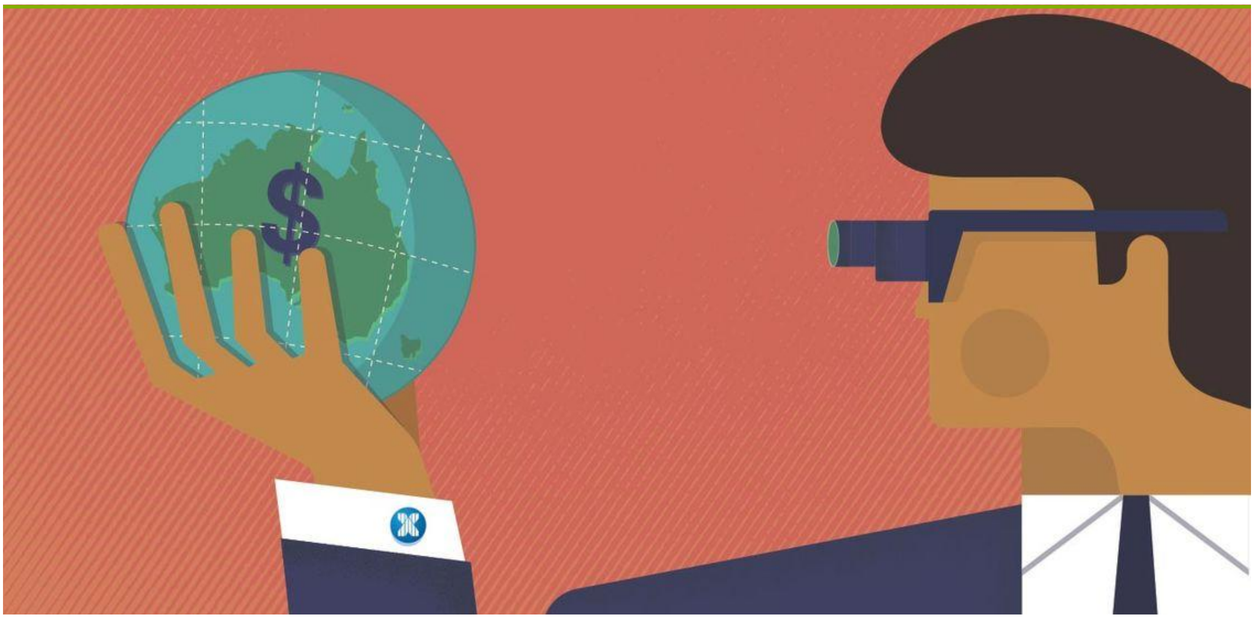

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Mining executives have been stung by the industry's critics who paint them as careless and callous in their dealings with the communities in which they work.

At the same time, the industry has found itself having to arbitrate between national aspirations for sustainable development and the demands of global markets for raw materials.

Sustainable development at the national level has always meant industrial rotation. An evolving succession of industries adding impetus to growth just as others lose momentum - all within a supportive policy framework - is its distinguishing feature.

The mining industry is necessarily engaged in depleting non-renewable resources, often in bursts of activity within just a few years. Only a very small number of mining projects has made a permanent or multi-decade contribution to local communities. Exploration results suggest a dimming chance of that happening.

Badgered into accepting the language of sustainable development as a ticket to enter, the industry is misguidedly taking responsibility for something it is incapable of delivering.

Urged on by a plethora of external advisers and enthusiastic insiders, references to the transformative role of sustainability policies abound in industry publications, conferences and the speeches of its highest profile executives. More mundanely, in practice, sustainability is about products, services and approaches that make operations more efficient or more agile in adapting to changing business conditions.

At a company level, genuine sustainability - as distinct from performance excellence - is becoming a tougher demand as competitive pressures, evolving policy settings and technological change are conspiring to shorten all corporate lives.

> **“ Cyclicality dictates many of the behaviours for which the industry is criticised**

In a recent speech to an industry conference, Rio Tinto chief executive Jean-Sébastien Jacques urged the industry to look to Silicon Valley for inspiration, though using it as an alarm bell rather than a muse might have been more apt.

The 1990s status-conscious executive kitted out with a Nokia 3310 in one hand and a PalmPilot in the other has lost track of how many once market-dominating products have since supplied his communications hardware. Blackberry has similarly slipped from memory.

No-one asks any more whether a personal computing device is ‘IBM compatible'. MySpace embarrassingly flopped after being at the top of the social media pile. Facebook is reportedly shedding young users at an alarming rate while regulators demand changes to its business practices.

Beyond Silicon Valley, the auto manufacturing giants of yesteryear are on the verge of saying goodbye to the internal combustion engine as the future of the motor vehicle is transformed. Energy production and delivery is being redefined. Corporates like General Electric and Kodak, with deep historical roots in regional America, are proving how illusory sustainability has become for the communities that had counted on their longevity.

With business models now having lives measured in dog years, the most sustainable industry, after all, might be mining.

Jacques, in his speech, referred to the mining industry as being one of the least trusted on the planet. This longstanding refrain among industry leaders blissfully neglects the benefits of survival. MySpace, on which Rupert Murdoch optimistically outlayed US$580 million in 2005, is no longer in the surveys. Does anyone really want to swap places?

A guilt-ridden mining industry is allowing itself to be bullied into using obviously unsustainable businesses as its ideals. At the same time, the industry (and its detractors) has turned a blind eye to the one feature that is at the heart of the tension between miners and their stakeholders, namely, how to cope with commodity price cycles.

Cyclicality dictates many of the behaviours for which the industry is criticised and, therein, must also lie the route to any improvement in its standing.

Fearful of their dependence on global markets, miners are wary about pledges to share benefits with local communities. Their reluctance to make full throated commitments fosters suspicions about their intentions.

Cycles impose constraints on capital access aggravating animosity about development delays. As expensive drilling for resource definition is curtailed to conserve hard-to-get funding, the chance of inefficient development strategies and suboptimal fiscal outcomes become more likely.

Governments, thwarted in their attempts to budget, look for more certain taxing opportunities. Disagreements about whether levies should be based on output or profitability could be more easily bridged if the industry was less vulnerable to commodity price cycles.

Investors, too, are more than happy to look elsewhere as development timeframes are lengthened by the onset of cycles. The resulting higher opportunity costs compromise the chances of the industry offering competitive returns.

Among the industry's most trenchant critics, ironically, are many parties with a hand in the cyclicality which hinders the industry's capacity to play a more positive development role.

National pension funds, for example, have eschewed mining and its large-scale infrastructure needs while working to produce innovative financing structures in other industries. In Australia, this neglect has come despite these institutions and a handful of gatekeepers being gifted management of a growing pool of national savings arising from the efforts of the mining industry.

In eroding the share of capital going to mining (development projects as well as exploration), these institutions and those urging their abandonment of mining investments are adding to the severity of cycles.

Many downstream beneficiaries of mining, including large well-known corporations paying lip service to sustainable national development, are happy to stall mining projects - or oblivious to the impact of their decisions - until prices get out of hand. They then contribute to a subsequent production glut and a repetition of the economic disruption forced on mining industry stakeholders.

Eradicating cyclicality might be pie in the sky but the industry risks perpetuating discontent about its role as long as it pretends there is another route to reputational rehabilitation.

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