FROM THE CAPITAL

Valuing the social dimension

Investors should be assured companies are rigorously appraising risks on all fronts

John Robertson*

Sustainable mining is an impractical oxymoron. A generally accepted way to measure the non-financial impact of a mining company would suit all parties.

Almost by definition, mining is an unsustainable pursuit. That does not mean the industry is blind to the impact of its activities on local people and their physical environments. Nor does it mean it should be stymied and capital deterred from supporting it.

Historically, miners have behaved badly. Nasty scars extending across parts of the North American landscape show the callous indifference of an earlier generation. Mutilated bodies in colonial-era Africa and hundreds of deaths in the pursuit of gold for the wealthy and privileged mean the industry's historical record is hardly unblemished.

The mining industry has been on a multi-decade learning curve to appreciate more fully what qualifies it to exercise a right to mine. Despite evident advances and a willingness to engage more fully, progress is made difficult by differing and continually changing interpretations of what is acceptable.

Sustainability lacks definition. Australia's Oxfam representatives say "without a commitment to human rights and sustainability *[mining companies]* can cause people to lose their land and way of life". The Oxfam view extends well beyond how a mining company behaves while it is in production. It wants to see companies contribute to the long-term living standards of those whose ground is being mined, beyond the life of a mining development.

Today's miners accept the merit of dealing openly and honestly with local communities and landowners as a foundation on which to build a successful project. A commitment to provide local jobs is recognised as a dual benefit. More often than not, companies will also strive to use local suppliers to help solidify links with local communities. Schools, roads, power and water are also benefits they now typically receive.

Oxfam says it is lobbying Australian mining companies to make sure people come before profits. The choice between endangering life and profits is clear. The trade-off between small variations in the quality of life and variations in profit, on the other hand, is less clear-cut. On this point, Oxfam and others going down this track are contributing little.

Oxfam and fellow NGOs also need to rethink their approach to sustainable mining

Asserting the secondary importance of profits in all circumstances is not, to use the word, sustainable.

The remote possibility of sustainable mining depends very much on the size of the orebody being mined. Mount Isa Mines built a town and fostered a community around its Queensland mine, recognising that its unusually long-life asset would allow it to reap superior business outcomes with a more contented, community-focused work force. But even the economic future of Mount Isa can be threatened by the possible closure of the mine or any scaling back of its production.

The so-called 'triple bottom line' approach highlighted the complex challenge of bringing together objectives without any common measures. A triple bottom line, it turned out, was no bottom line at all.

A plethora of sustainability criteria, social responsibilities, required governance practices and environmental regulations make it increasingly difficult for a company to measure results and to convey progress in an uncomplicated manner to an investment audience. Some investors will revert simply to profitability as their principal guidepost as the most likely and largest single driver of investment returns. Others will eschew the sector entirely, especially if they are managing funds on behalf of investors with strong views about the responsibilities of mining companies.

Even companies near the leading edge of what could be described simply as good corporate behaviour, such as Base Resources, have not been able to measure the benefit they have created and, therefore, the impact on their corporate worth.

Base Resources is operating the Kwale mineral sands mine in Kenya with an estimated life of 13 years. This is a long-life project by some standards, but not sustainable. Base Resources has been working with a non-governmental organisation experienced in commercialising agricultural projects in developing countries to foster cotton production in the area around its operations. When Base eventually has to leave, it will have bequeathed an economically sustainable business to the locals it leaves behind.

This undoubtedly virtuous work remains on shaky ground as long as it depends on the philosophical leanings of current executives and is not embraced fully by the wider investment community. Only in the latter instance will the Base behaviour be widely replicated and become a sustainable feature of the industry.

The valuation of a company is normally thought of as a function of its future cash flows but, for accuracy, should also reflect the full gamut of development. Mining companies must achieve results on four potentially discrete fronts: financial, environmental, social and operational. All four dimensions should be included in a genuine business valuation, either through their cash flow impacts or the risk assessments leading to the choice of a discount rate.

Companies are required to measure risk when valuing their assets but, in the mining space, few treat this as a serious concept. Most are in permanent risk denial. This afflicts achievement of their financial outcomes as well as fulfilment of broader responsibilities to the communities in which they operate. This is where advocacy groups could valuably put some emphasis.

Building proper risk assessment into valuation methodology would be a gain for all stakeholders. Companies would get value for their social and environmental endeavours. Investors could be assured companies were appraising their risks as rigorously as possible. Advocacy groups would move closer to achieving their targeted outcomes.

Rather than being at odds with companies, Oxfam could turn the debate in its favour. Getting companies to do what is in their best interests within prevailing laws could be so much simpler than getting them to change otherwise entrenched prejudices about how they should behave. Let's get directors to meet existing obligations to value their businesses – taking account of risks across all fronts.

Who could object to that? ▼

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