

STRIVING, SURVIVING, AND THRIVING

SUSTAINABLE DEVELOPMENT AND JUNIOR MINING AND EXPLORATION COMPANIES

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The ability to spot trends early and act quickly to take advantage of the opportunities they present is one of the big advantages of junior companies in the mining and exploration sector. It can be the difference between success and failure in a sector in which margins are often razor thin and where plenty of ventures, even when run by very smart people, fail to get off the ground, or to fly very far if they do.

There are some big things changing the way business is done that are evident to everyone in the sector: as just one example, companies have been consolidating at a breathtaking rate. This has repercussions for everyone. Those who cannot adapt fast enough to this new business environment are going to have a hard time staying afloat.

There are at the moment some real opportunities, particularly in gold. The price of gold is up, and there are some big plays in gold stocks at a time where there is precious little else anywhere in the economy to excite investors. Again, the people who are quickest to spot the trends and the opportunities will be the winners in a highly competitive industry.

These are of course two examples: there are some other very important trends that people in junior companies are starting to notice, think about, and evaluate for risks and opportunities. They are not unrelated to the two trends previously described. They go under the heading of sustainable development.

What is sustainable development and why is it relevant to the mining and minerals industry? What problems and opportunities does it present for junior companies? What are the trends?

Rocks As If People Mattered

A traditional way of looking at the industry is this: mining companies sell crushed rocks. Exploration companies sell information about rocks, particularly which rocks are worth crushing.

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If this is as far as we can see, we are wearing blinders. And people who are wearing blinders fail to see some important risks: they stumble over things. They also fail to see some real opportunities, and tend to walk right on by them.

If the junior mining and exploration sector is among the most highly competitive parts of the economy, participants who want to be successful can hardly afford to be tripping over obstacles they didn't see, or wandering blindly by opportunities they never notice.

From a business point of view, *sustainable development is a way to take those blinders off*. Or maybe it is even better than that – a powerful pair of binoculars that let the person using them *see opportunities and risks that others don't*. In a world where it is harder every day to have an edge over the competition, this is something to take seriously.

Those who see the whole business as being about rocks are missing one of the most important trends of all: as the industry changes, the human element is every day more important. It is the difference between projects that seem to sail through without major obstacles and projects that spend years in wrangling, protests and litigation, or never get done at all. It is the difference between companies that have a little extra margin of safety and the ones that are hanging by a fraying thread.

Sustainable development is an idea entirely consistent with the changing views of how business is most successful – the shareholder value revolution. This has taught us to see all industries in a new light. In the minerals sector, for example, it reminds us that:

- ❑ **All businesses depend ultimately on their customers.** The final consumers on whom mining companies depend don't want crushed rock. They don't even want coal, or copper, or potash. They want their computers and televisions to work, or their cars to be safe, or their food to cook. Companies who see their role as limited to selling concentrates or ingots, and who have little idea what anyone farther down the chain does with them are going to find themselves stumbling over some big obstacles they didn't even see --- competition from other products that better meet consumer preferences, products phased out because of concerns over metals in the environment, growing public and government demands for resource recovery. They will also miss some major opportunities.
- ❑ **The value of information about rocks depends more with every day on where the rocks are and what else is happening around them.** It might be interesting to know that there is a major copper deposit under London, or shows of gold in Yellowstone National Park, but no one is likely to pay much for the details. The mining giants and the lending banks -- the principal customers who 'buy' prospects from the exploration industry are increasingly focusing on whether prospects can realistically become producers, and the risk that the concerns of people affected by a potential project will slow or even stop its development.
- ❑ **Those who swim with the current get farther than those who swim against it.** Home teams have a demonstrable advantage in sporting events. Companies that

are seen as partners in development, who can achieve their objectives in ways that also meet the objectives of others, have a demonstrable advantage over companies that are viewed with suspicion and hostility by the people they have to deal with.

- **In the long run, people want and deserve a better life for themselves and their descendants.** The 6 billion people and 200 national governments in the world agree on precious little. But there is an overwhelming consensus – expressed at the 1992 Earth Summit of world leaders in Rio, and the recently concluded World Summit on Sustainable Development in Johannesburg² -- that people, especially the poorest people, need better material conditions of life. They also need better societies to live in: if rising incomes are accompanied by increases in violent crime and social instability, it is not clear people are better off. All of this needs to be achieved while limiting pollution and protecting the health and vitality of the ecosystems on which everything else ultimately depends.

Sustainable Development and Our Common Future

In the words of the Brundtland Commission:

“Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”³

This poses some very big issues for the mining and minerals industries. Are they helping the world to achieve these goals? Or are they holding us all back?

There are some fairly powerful voices out there saying that the minerals industries are in fact an obstacle to a better human future. These concerns are serious enough that they have led the World Bank to start a review process to determine whether the Bank should in the future refuse to finance mining and minerals projects.⁴ Concerns include:

- That worldwide, mining increases rather than reduces poverty, sinking developing countries into the ‘resource trap;’
- That minerals companies promote corruption of government that undermines the potential for development;

² www.johannesburgsummit.org

³ *Our Common Future* (1987) at page 43. A discussion of the idea of sustainable development and its origins appears in Chapter 1 of *Breaking New Ground*, the final report of the MMSD Project.

⁴ See www.eireview.org.

- That these industries cannot be part of a sustainable future because the resources on which they are based are finite and nonrenewable, and mineral-based economies collapse when deposits play out;
- That the industry is a major agent in destroying biological diversity, a major contributor to greenhouse emissions and global warming, and a major water polluter.

This is just the beginning. If this is what people think of the industry, then companies really are in trouble: Good young people will look elsewhere for careers. Banks will find less controversial ways to lend their money. Local resistance to new projects will escalate: the conflicts now happening at Tambo Grande, or Esquel, or Rosia Montana may look fairly tame compared to what may happen to future projects. The industry will increasingly be seen as a public enemy, and will be swimming against a stronger and stronger current, getting nowhere or even going backward.

If on the other hand the industry demonstrates through concrete actions that it can be a responsible environmental steward, help support stable communities that people want to live in, and help developing countries progress economically, it will have a lot of allies out there: it will be swimming with the current.

There are some in the industry who view these social factors with distaste. They want to rely on their legal rights to ‘make’ others accept what they are doing, or find some way – any way – to focus on the rocks and not have to deal with the people. We hear a lot these days about ‘operating below the radar.’

But the most important error we can make is to regard the social phenomena around projects as inherently irrational or unintelligible. This is to argue that since nothing about them can be understood, there is no point in trying to predict where they are going, and no way for a company to manage its interactions with local communities or governments effectively beyond struggling to stay invisible and finding quiet ways to keep the politicians onside.

Things are changing and changing fast. There is now a growing group of companies that believe that the social, environmental and economic issues around their operations may be complex but *can be predicted and understood*. And they are busy *increasing their own capacity* to understand and predict these critical factors that affect their business. They are also learning new ways to use that knowledge *to manage more effectively their interactions* with the people and organizations with whom they must deal.⁵

So there we have it – a growing divide between companies that are trying to hide from change by staying ‘below the radar’ and hoping for the best, and companies that

⁵ Many of the larger companies that share these views have banded together in the new International Council on Mining and Metals, www.icmm.com.

are trying to understand what is going on around them and use that knowledge to increase their chances for success.

Learning About Sustainable Development

Leaders in the mining and minerals sector have been embarked on a profoundly serious effort to increase understanding of sustainable development concepts for a number of years. Those efforts gained increased focus in late 1999 with the approval by a number of the largest industry players, through the World Business Council for Sustainable Development,⁶ of the Mining Minerals and Sustainable Development Project. Some of the characteristics of that project were:

- ❑ **Its complete independence.** The project was managed by the International Institute for Environment and Development, a non-profit research center, under the supervision of a 25 member Assurance Group composed of experienced people from unions, governments, companies, environmental organizations and other backgrounds who shared only a deep knowledge of the industry and a commitment to objectivity in looking at its problems.⁷
- ❑ **A commitment to decentralization.** The world is complex. Visions differ dramatically from rich to poor, rural to urban, north to south. MMSD therefore encouraged the development of four regional processes: North America, South America, Southern Africa and Australia, each of which managed its own process of consultation and research and published its own final report.⁸
- ❑ **A commitment to consultation.** The point of the project was not to announce a unique ‘right’ answer, but to build bridges, and in doing so to understand the views of everyone in the sector: companies large and small, labor, developing country governments, smelters, refiners, recyclers, human rights

⁶ See <http://www.wbcsd.ch/>

⁷ A list of members is available at <http://www.iiied.org/mmsd/assurgroup.html>

⁸ Among these publications are:

South America	Mineria, Minerales y Desarrollo Sustentable en America del Sur
Southern Africa	Mining, Minerals and Sustainable Development in Southern Africa
Australia	Facing the Future
North America	Seven Questions to Sustainability, Learning From the Future, and Industry in Transition.

organizations, indigenous groups, and many others. MMSD at the global level had some two dozen workshops on topics ranging from life cycle analysis to armed conflict to corruption. Over 6000 people participated in or contributed to the result. Over 100 leading researchers produced studies on a wide variety of topics.⁹

- ❑ **A finite end.** No one wanted to use the MMSD project to build an empire. Rather, its goal was to cooperate with existing research institutions, produce a final report before the September 2002 Earth Summit in Johannesburg, and go out of business. That has now happened.

There was, frankly, some concern on the part of some in the junior sector that sustainable development was an idea being promoted by and for the benefit of the larger players in industry. We do not think that has proved to be the case: the concepts developed seem useful to operations on all scales. Indeed, there are even some who argue that growing concern about energy use, particularly as it affects climate, as well as other environmental and social impacts, may put the brakes on the move toward massive low-grade open pit operations and swing the needle back toward smaller, higher grade deposits more easily exploitable by smaller operators.

Among its various activities, MMSD published a final report called *Breaking New Ground*.¹⁰ Hardcopies of *Breaking New Ground* may be ordered from IIED's bookshop [Earthprint](http://www.earthprint.com/show.htm) (<http://www.earthprint.com/show.htm>). You may also place an order by writing to orders@earthprint.com.

Alternatively, *Breaking New Ground* may be purchased from [Earthscan Publishers](http://www.earthscan.co.uk/asp/bookdetails.asp?key=3758) (<http://www.earthscan.co.uk/asp/bookdetails.asp?key=3758>) or by writing to earthinfo@earthscan.co.uk.

This intensive process of research and consultation has led to some interesting and exciting outcomes.

Conclusions of the MMSD Project

Breaking New Ground concludes that minerals development has in the past not always led to sustainable development. It also concludes that the industry has the potential to make that contribution and benefit itself in the process. The issue is how well companies can manage themselves to meet their own objectives and those of their investors and shareholders *while at the same time supporting the aspirations of others*:

- ❑ The aspirations of the world's poor for a better life and relief from the grinding desolation of unmet needs.

⁹ These background papers are available on the CD inside the back cover of the project report, *Breaking New Ground*.

¹⁰ Earthscan Publishers, London (2002). www.earthscan.co.uk

- ❑ The aspirations of developing countries for stronger economies and the things these can bring, from better health and more educational opportunity to stronger environmental management.
- ❑ The aspirations of company employees to build their own skills and opportunities, live in stable decent communities, and for a safe and healthy workplace.
- ❑ The aspirations of many for clean water, productive landscapes and to be relieved of the burdens created by past irresponsible practices.
- ❑ The aspirations of indigenous and traditional communities to be in charge of their own cultural future.

If companies are just riverboat gamblers looking for a quick hit, in ways that leave other people worse off, they will find it increasingly tough sledding, even if they are operating in the far corners of the world. They will damage the collective image of the industry in the process. If they can legitimately claim to be contributing to solutions to the problem of sustainable development, they will discover a whole range of new partners and new opportunities, and help avoid a serious and growing set of business risks. Making that contribution will require that they inform themselves and think through their operations with the help of the kind of information developed by MMSD and others.¹¹

¹¹ North American companies may be particularly interested in the booklet *Seven Questions to Sustainability*, available at http://www.iisd.org/pdf/2002/mmsd_sevenquestions.pdf - 1193k - May 6, 2002 and also http://www.iisd.org/pdf/2002/mmsd_sevenquestions_brochure.pdf - 2027k - Dec 12, 2002