Investment shortfalls could delay miners shift to net-zero

ESG still a valuable commodity in mining

Could global skepticism lead to miners stalling on operational ESG commitments?

By Jax Jacobsen

In the last few months, the ESG – Environmental, Social, and Governance – benchmarks have been the subject of furious debate within global investor communities, with many arguing that the time has come to retire this measurement from consideration.

Investor discontent with ESG-focused investments first made itself clear in June, when BlackRock leader Larry Fink said the label had become "too politicised", in the wake of US Republicans targeting the measure as liberal. The uproar about ESG from this political group caused the world's largest asset manager to lose approximately US$4 billion in assets it held under management due to this stance, Fink said in January.

Though Fink's comments were directly related to US investments, investors in other corners of the world have been voicing their concerns.

UK investors have been pulling money from responsible funds at record rates, the *Financial Times* reported on 4 November. These funds reported a drop in investment of £544 million in September, indicating that investors have withdrawn more than £1 billion from responsible funds since the start of the year.

Performance of ESG-labelled stocks and bonds in the EU has also lagged behind non-ESG-associated funds, Deutsche Bank detailed in a July note. "The debate about whether sustainable investments do outperform non-sustainable investments in terms of returns remains unsettled and likely dependent on selected time periods and subject to exposure nuances," they wrote. The bankers pointed to "surging [interest] rates and the energy crisis" as factors in the underperformance of EU ESG funds.

The mining industry has embraced ESG standards wholeheartedly, with these commitments becoming increasingly important within the last decade. Despite investors cooling on the term, investors and the industry are unlikely to back-pedal from this benchmark, several sources in investment and mining told *Mining Magazine*.

London-based private equity house Appian Capital Advisory has doubled down on its mining investments, with $2 billion ready to deploy in mining operations and an additional $3.6 billion in assets undermanagement. This year, they've entered into a joint venture with Osisko Metals and acquired the Rosh Pinah zinc mine from the now-bankrupt Trevali Mining.

"ESG is directly connected to our ability to actually have a mining business," Appian Global Head of Corporate Affairs, ESG, and Community Engagement Silvio Lima told *Mining Magazine*. "Having good ESG management is integral to mining operations."

With all the risks related to ESG issues, failing to perform to a high standard on these metrics will lead to a downgrade in mine operation valuations, he said. "Being connected to ESG is the only way for a mine to remain open and operational. This is core and central Appian since its inception" in 2012, he added.

Appian Capital's commitment to ESG principles is so deep that it has developed its own standards to meet the social component of the measurement. It has abandoned the mining industry's use of the Social Licence to Operate in favour of what it says is a superior metric, which it calls Social Integration.

"As long as you need to ask for a social licence to operate, it means you are lagging behind and you are a foreigner to the environment you are in," Lima said. "It means you are not integrated into nor part of the socioeconomic system or landscape you operate in."

Appian's Social Integration means mining operations should strive to be completely fused into the surrounding community, putting the needs of the community ahead of the immediate business needs of the mining community. It leaves behind the "transactional nature" of obtaining the social licence to operate, Lima said.

Lima expects ESG to become even more important to mining in the coming decades.

"More greenfield mining operations will be required to mine the metals needed for the energy transition," he said. This will require the relocation of hundreds of people and the increased use additional resources such as water.

"Environmental and social matters are intrinsically connected, and there is no way that any mining operations can exist without taking very good care of these social and environmental elements."

MINING'S INTEREST ROOTED IN ESG

The current investor conversation around ESG is not so much about the futility of ESG itself, Vancouver-based Deloitte partner Henry Stoch told *Mining Magazine*.

"I think there is some frustration from capital markets around not being able to very clearly quantify, in a simple 1-to-1 relationship, what the impact of ESG is on shareholder return," he said.

This type of discussion is not unusual in times of market stress, such as periods of high inflation.

Stoch sees two challenges for mining companies in this regard.

"First, the ability to measure how ESG drives shareholder return and value in the short term, that is still challenging for companies to articulate," he said. Secondly, he believes that investors would like to see companies develop adjacent or new lines of business which are meeting demands from the emerging energy transition.

"I think it's key that ESG investors want to see [ESG compliance] drive new opportunities and new revenue streams."

Though the debate over the usefulness of ESG metrics is still raging, this doesn't mean companies can ease up on ESG compliance. Mining assets will still be judged – by both mainstream and mining investors – on how well they meet ESG metrics, he said.

"There is no way you'll be able to develop assets in the future if you're not managing relations with Indigenous groups, not maintaining good standards of land and water," Stoch said. "If you're in repeated noncompliance with the government [over these issues], you will have problems.

Stoch believes a period with high levels of disclosure is coming, and that will reassure many investors.

Mining's international image is beholden to its troubled past

"We're in this pre-ISSB [International Sustainability Standard Board] period, and we're not quite seeing the level of disclosure [on meeting ESG metrics] that we know is coming," he said. "Once that starts, there will be a much higher degree of visibility and standardisation. This will enable investors to say this is a longer-term, deeper investment improvement that could lead to better, longer-term outcomes."

Though most attention has been on ICMM-member companies and how they pursue their ESG-related goals, Stoch emphasised that smaller mining companies are also compelled, albeit in different ways, to pursue higher sustainability standards.

"Smaller companies do have limited capital, so they don't have as concrete comprehensive end-to-end ESG programs [as major miners]," he said. But minors will still need some form of ESG programmes to satisfy banks.

"It's very difficult for a bank to isolate itself from exposure to an unchecked mining operation," Stoch said. "They cannot afford to lend money to a mining operation that isn't responsible and measuring their progress. We're seeing smarter mid-cap mining companies implement ESG measurement, because they have bank loans, and banks require them now to have some form of ESG targets."

For Sean Capstick, an ESG and Climate Change Fellow at global engineering firm WSP, miners will always need to align their projects with ESG guidelines to manage risk.

"These ESG frameworks were developed in response to real risks, and those risks aren't going away," Capstick said. Every aspect of ESG metrics represents a risk for mining projects, including the careful handling of community and Indigenous relations to ensure the project isn't scuttled at the last moment.

Capstick said that the 'ESG' term has become overused, but that it doesn't change the foremost concern in mining companies and investors alike: minimising all aspects of project risk to ensure the project moves into operation.

"Investors want some global standard that our risks are managed," he said. "They are very clear in what they want for their projects and become very involved in our reports."

Emerging jurisdictions would be the first to feel backpedaling on ESG

THE OTHER RISK FOR MINERS: RECRUITMENT

For miners, finding investment dollars is just as important as replenishing its stocks of workers.

The industry for years has been facing a staffing shortfall, as more workers come of retirement age and young workers steer clear of mining operations.

ESG is an important tool for mining companies to use when presenting themselves to young workers looking for an industry, mining consultancy SOOP Strategies founder and CEO Sabrina Dias told *Mining Magazine*.

"According to multiple studies, this next generation of workers want to work for a place with purpose," she said, adding that sustainability is top of the list of this generation's concerns.

Mining still has a reputation of being a dirty industry, and companies will need to work harder to convince new workers that it has changed.

"For mining, it will come down to the data, the transparency of the data, what the company is reporting," Dias said. "That generation wants to know that companies are contributing to net-zero."

For mining consultancy Resourcing Becoming's founder and Executive Director Peggy Bell, ESG is a major driver of any new recruitment of younger workers.

"ESG is a huge, huge piece for bringing in talent," Bell said. Canada in particular is in dire need of mining workers, and is projected to miss its recruitment targets in 2030 by 14%.

"ESG will allow kids working in mining to be able to say, 'I work for a company that I'm proud of,'" Bell added.

One area where mining companies need to improve, she adds, is in ensuring all departments are on board with ESG targets.

"We don't always have our sustainability groups [within a company] talking to our HR groups," Bell said. Human resources departments need to put more effort into developing an employee value proposition, and enable new workers to confidently say that their company successfully upholds key ESG metrics.

Though reluctant to connect the industry's recruitment woes to the ESG conversation, Mining Industry Human Resources Council Executive Director Ryan Montpellier has been sounding the alarm on the broken talent pipeline for mining in Canada for years.

"The youth are not choosing to pursue careers in the mining industry," he told *Mining Magazine*. "When we look at how mining stacks up compared to other sectors – such as manufacturing – mining ranks last in terms of level of interest," he said, citing a poll conducted by MiHR with Abacus in October.

Many youth still associate the industry with hard work, physical labour, and dangerous, dirty jobs, Montpellier said. Also concerning is the falling enrolment in mine engineering programmes across universities in Canada.

"We don't have a healthy supply pipeline to replace the existing workforce," he said. Canada is now investing heavily in critical minerals development, he said. "One of the key challenges is that we don't have the workforce to develop some of these mines."

When students and young workers are shown that the mining industry now works with advanced technologies, interest in working in the industry does go up, Montpellier said. MiHR is working on a variety of campaigns and programmes to generate more interest.

"ESG is an important tool for mining companies"