PACIFIC ROAD

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At the recent Argus Media APAC *Metals Live* conference, Matt Fifield and Ian Maxwell of Pacific Road Capital discussed how key mining industry constituents – investors, consumers and producers – are driving ESG adoption in an increasingly interconnected world.

In mining, formal adoption and integration of ESG criteria into company practices is generally inversely related to size. Large integrated companies already operate within robust ESG frameworks. Smaller producers, however, many of whom are at the forefront of key growth areas such as critical minerals and energy transition, are often well behind the large, diversified companies in making their intuitive ESG risk management processes systematic, and on disclosing them to outside stakeholders. Boards and managements of developers and explorers, with no revenue, necessarily prioritize raising money and near-term technical project execution, and often manage ESG criteria on an ad-hoc basis.

“We’ve worked hard to bring awareness and thought around investor and stakeholder demand for more proactive ESG risk management into the smaller end of the market,” said Matt. “A change in thought process by company leadership early in the life of a resource project can have a tremendous ripple effect as it advances, influencing success across many fronts and for us, leading to better investment prospects.”

For miners, the benefits are twofold: mitigate risk and attract better customers and strategic partners. “Miners need to embrace disclosure as a conversation starter,” said Matt, “and engage in an honest conversation about where a company stands.” He believes that it is essential for miners to communicate their material risks and state explicitly how these risks are being managed. “What that means for a lay person is they can see that the corporate body – executives and the board – is actually thinking about their material risks and talking to you about them. And the funny thing that happens with disclosure is that when you start to disclose things, you suddenly spend a little bit more time thinking about them. We have been surprised at how through the sheer act of disclosure, suddenly you say, you know, I could do better on that next year. And it is a journey. You don’t suddenly become the best in the world, you have to work at it over a period of time. A lot of it comes with framing -- and making disclosures that then enable any investor to say, all right.”

ESG can be a confusing topic as it is a broad category rather than a tight definition. “We have been through this in detail” said Ian, “and have looked at what the right ESG framework is for small- and medium-sized mining companies in a very fit for purpose way. It boils down to a less than ten core factors that if left unmanaged can develop into material risk that can sink a company or a project. If managed well, these same criteria can become a point of positive difference and a company strength.”

Matt and Ian agreed that there are several standards, and many voices. When these overlap it can be confusing, particularly for junior miners, to understand which to follow. In these cases, Pacific Road recommends that miners “go to the leading body in a particular area, look at what they are saying, and adopt that as a base case since that's what society generally will be adopting.” They also noted that different regions of the world require different areas of emphasis; bribery and corruption policy, for example, are key in less developed countries, while first nations and water are more important in others. Overall, Matt and Ian noted the impressive strides that the industry had already made on safety, and that this could be used as a blueprint for other ESG concerns, such as Aboriginal affairs and tailings. Looking ahead, they think that carbon is next up, given global emphasis on decarbonization. “What I think you're seeing in the investor community and from societal demand on the whole is just an incredible push towards carbon reduction, and you're seeing mining companies going increasingly net-zero,” said Matt.

On the demand side, consumers want to know that their goods are being sourced ethically, and producers (buyers of raw materials) will need to provide accountability to those consumers. In the very near future, “miners will need to factually verify the provenance of their goods around a wider range of metrics than they’ve ever seen,” said Ian. Customers will demand “what the carbon footprint is, what the ESG performance is, and what the human rights record or the tailings risk is. Technologies such as blockchain will be key enablers here.”

Most importantly, Pacific Road sees ESG as a key driver of value creation for miners. In their view, consumers ultimately will pay more for commodities that are sourced in ethical and high-performing ways, and as a result, investors will see premiums for companies that perform well from an ESG standpoint. Summing it up, Matt and Ian agreed that “the one thing that will drive ESG performance in mining really well is when it hits the bottom line. “

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