MMSD

Finding the Way Forward

How Could Voluntary Action Move Mining Towards Sustainable Development?

Jim Walker and Steve Howard

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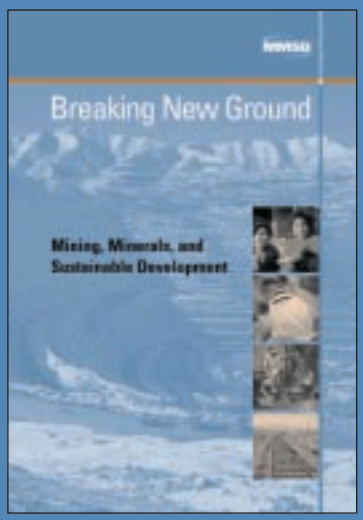
World Business Council for Sustainable Development



Breaking New Ground is the final report of the Mining, Minerals, and Sustainable Development Project (MMSD), an independent two-year process of consultation and research that aimed to understand how to maximise the contribution of the mining and minerals sector to sustainable development at the global, regional, national, and local levels. *Breaking New Ground* contains proposals for global change in the mining and minerals sector.

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Finding the Way Forward: How Could Voluntary Action Move Mining Towards Sustainable Development? is the first of several MMSD Working Papers based on the project's research findings. Further papers to be published in 2003 will cover small-scale mining, indigenous people, and biodiversity.

Breaking New Ground and the other outputs of the MMSD project can be viewed at **www.iied.org/mmsd**.

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Jim Walker and Steve Howard

Environmental Resources Management (ERM)

in collaboration with the

International Institute for Environment and Development (IIED)

World Business Council for Sustainable Development

London, 2002

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This report is accompanied by a CD-ROM which contains copies of relevant research papers commissioned in the course of the Mining Minerals and Sustainable Development Project (MMSD). Readers should note that some of the research reports included in the CD-ROM were prepared as background documents and have not been through a formal review process.

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Preface

Finding the Way Forward reviews the role of voluntary initiatives in the mining industry. Here the term 'voluntary initiative' is used to denote coordinated activities undertaken by groups of companies to go beyond the environmental and social performance requirements set by legislation. It should be noted that pressures other than regulatory scrutiny (such as consumer and investor desires) often drive voluntary activities in companies, and in this sense few such initiatives can be deemed to be truly 'voluntary'.

Voluntary initiatives for the purposes of this report are understood in two ways – first, in terms of their potential value as a tool to move the mining and minerals industry towards sustainable development, and second, in terms of their potential as a credible mechanism that can differentiate the mining companies that perform well on environmental and social issues from those that do not, as well as allow good performers to reap the benefits of their commitment.

This report is primarily based on a review of recent research into the role of voluntary activities in the sector conducted as part of the Mining, Minerals and Sustainable Development (MMSD) Project – the relevant MMSD papers are included in full on the attached CD-ROM. MMSD's two-year research programme culminated in May 2002 with the publication of its final report, *Breaking New Ground*, which drew a number of conclusions about the current state of the sector and made recommendations for change. One conclusion of *Breaking New Ground* was that the mining and minerals sector should explore the development of a global voluntary initiative (or initiatives). This theme is explored here in greater detail.

Environmental Resources Management (ERM) has prepared this publication in partnership with the International Institute for Environment and Development (IIED), which coordinated the MMSD Project.

It is addressed primarily to mining industry members and those interested in sustainable development and the mining and minerals sector.

About the Authors

Jim Walker is a consultant in the Corporate Advisory Services team at ERM in London, advising on strategic corporate social responsibility (CSR) issues. He was a contributing author to the WWF/Cable & Wireless report *To Whose Profit?*, which explores tools to assist managers in making a business case for actions in pursuit of sustainability, and he has also co-authored a number of papers on social performance and business risk management. He has extensive experience of the extractive industries through risk assessment, auditing, and public reporting work on behalf of clients. Jim has an MSc in Environmental Technology from Imperial College, London.

Dr Steve Howard has 15 years experience of working in an international environment in a wide variety of settings and is a Partner within ERM Corporate Advisory Services in London. He has advised a number of major multinationals on social and environmental strategy, corporate governance, corporate social responsibility, business risk assessment, supply chain management, strategic due diligence, stakeholder engagement, and communications. Steve has a strong appreciation of cultural diversity, be it from different sectors of society or different regions, and has worked in more than 30 countries. Steve was formerly Director of Corporate Sustainable Solutions in URS, where he led a group of senior professionals working on CSR and sustainability issues. Prior to joining URS, Steve was Director of the Global Forest and Trade Network for WWF International, where he led a team of people involved in advising 700 companies on forest and supply chain issues. He has a first-class honours degree in ecology and a PhD in agroforestry. Steve is currently Chairman of the Tropical Forest Trust.

About ERM

Environmental Resources Management (ERM) is one of the world's leading providers of environmental and sustainability services. It has over 100 offices in 35 countries and employs more than 2,300 staff. ERM delivers solutions for leading business and government clients, assisting them to manage their environmental, social, and related risks. ERM's mining clients include Rio Tinto plc, Anglo American, Newmont, and BHP Billiton.

About IIED

The International Institute for Environment and Development (IIED) is an independent, non-profit research institute working in the field of sustainable development. IIED aims to provide expertise and leadership in researching and achieving sustainable development at local, national, regional, and global levels. In alliance with others, we seek to help shape a future that ends global poverty and delivers and sustains efficient and equitable management of the world's natural resources.

About MMSD

The Mining, Minerals and Sustainable Development Project (MMSD) was an independent two-year process of consultation and research which aimed to understand how to maximise the contribution of the mining and minerals sector to sustainable development at the global, national, regional, and local levels. The process led directly to Breaking New Ground, MMSD's final report, which contains proposals for global change in the mining and minerals sector.

A number of initiatives addressing elements of the mining, minerals and sustainable development agenda existed prior to MMSD, but critical bottlenecks such as lack of trust among companies, governments, and civil society, and the absence of the necessary skills, resources, and institutional capacity to deliver were slowing progress.

MMSD tried to encourage a greater coherence in these activities, and increase their collective impact. To achieve this it aimed to draw together a wide range of actors to develop a comprehensive and intelligible agenda around which global stakeholders could come together to create change.

About WBCSD

The World Business Council for Sustainable Development is a coalition of 160 international companies united by a shared commitment to sustainable development via the three pillars of economic growth, ecological balance, and social progress. Our members are drawn from more than 30 countries and 20 major industrial sectors. We also benefit from a Global Network of 35 national and regional business councils and partner organizations involving some 1,000 business leaders globally.

Our mission: To provide business leadership as a catalyst for change towards sustainable development and to promote the role of eco-efficiency, innovation, and corporate social responsibility.

Our aims: Our objectives and strategic directions, based on this dedication, include:

Business leadership – to be the leading business advocate on issues connected with sustainable development.

Policy development – to participate in policy development in order to create a framework that allows business to contribute effectively to sustainable development.

Best practice – to demonstrate business progress in environmental and resource management and corporate social responsibility and to share leading-edge practices among our members.

Global outreach – to contribute to a sustainable future for developing nations and nations in transition.

Executive Summary

Finding the Way Forward reviews the role of voluntary initiatives in the mining industry. The term 'voluntary initiative' is used here to denote coordinated activities undertaken by groups of companies to go beyond the environmental and social performance requirements set by legislation. It should be noted that pressures other than regulatory scrutiny (such as consumer and investor desires) often drive voluntary activities in companies, and in this sense few such initiatives can be deemed to be truly 'voluntary'.

This report is primarily based on a review of recent research into the role of voluntary activities in the sector conducted as part of the Mining, Minerals and Sustainable Development Project (MMSD) – the relevant MMSD papers are included in full on the attached CD-ROM. MMSD's two-year research programme culminated in May 2002 with the publication of its final report, *Breaking New Ground*, which drew a number of conclusions about the current state of the sector and made recommendations for change. One conclusion of *Breaking New Ground* was that the mining and minerals sector should explore the development of a global voluntary initiative (or initiatives). This theme is explored here in greater detail by addressing the following questions:

- What are the key drivers for sustainable development in the mining industry?
- What could voluntary initiatives achieve in the sector?
- What voluntary initiatives currently exist?
- What form of voluntary initiative is best?

A wide range of initiatives already exist – including several under development in the mining sector to address specific issues. Many are recent: only two of those reviewed in this report were developed before 1996 and the majority were launched in 1999 or subsequently. Some of the key bases for assessing existing voluntary

initiatives are as follows:

- What issues does the initiative address?
- How are the issues addressed?
- What is the driver for the initiative?
- Who develops and convenes the initiative?
- What level of assurance is provided?
- Is the initiative sector-specific?

There are few similarities among the initiatives currently in use in the mining and other sectors – this may reflect tailoring of initiatives to their respective goals, but it may also indicate a lack of sharing or development between initiatives. In the mining sector, there are indications that a high degree of confusion exists about which initiatives are appropriate and useful; in some companies, a feeling of 'initiative overload' heightens this uncertainty.

Without independent verification of performance against standards or norms, many initiatives do little more than raise awareness. There is also often a trade-off between the stringency of action required to commit to an initiative and its attractiveness to the corporate sector as indicated by the rate of uptake. Most initiatives fall into two types. 'Broad guiding principles' require a low level of commitment and hence tend to attract many signatories. 'Differentiation mechanisms', with third-party assurance against well-defined performance standards, may require a significant compliance effort from companies and tend to receive a lower uptake rate.

Arguably, initiatives of both types are struggling to deliver real change in environmental and social conditions 'on the ground' – broad guiding principles because a significant proportion of industry makes only a negligible change in performance, and differentiation mechanisms because a real change is made by only a small proportion of industry players. A real 'net move' towards sustainable development by any industry sector can only be achieved by initiatives that require a concrete commitment from signatories to improve performance but that also attract high uptake by fulfilling a key 'need' or by linking to a significant driver for business performance. Few if any initiatives fulfil these requirements at present, although many existing schemes have only recently been developed and may yet grow to fill this role. Examples include the Forest Stewardship Council, a certification scheme for sustainably sourced forest products.

The certification approach could be a promising one for the mining industry and is currently under further investigation through a pilot scheme in Australia. There is a significant possibility of a certification scheme being developed on a global scale for mining. If carefully managed, there will be 'first-mover' advantages for the stakeholders involved in shaping the process. Yet there is no doubt that this is a significant undertaking, requiring a substantial investment.

The mining industry cannot address the challenge of sustainable development on its own; its operations are too closely interlinked with government, communities, the financial sector, and wider societal expectations. Certification is one option, however, that could draw the industry and key stakeholders together around an agreed definition of best practice. Whatever course of action the industry takes, the chances of success will be greatest if it adopts an open attitude, fosters good communication with stakeholders, and takes leadership on certain issues. The MMSD Project was one significant step in this direction, but the journey has only just begun.

The Structure of this Report

Section 1 introduces the concept of voluntary initiatives. It presents the relevant findings of the MMSD report *Breaking New Ground*, and highlights relevant developments since its publication in May 2002.

Section 2 summarizes the current state of the mining sector, and its requirements for and views on sustainable development. It draws on MMSD reports, along with supporting information where necessary.

Section 3 provides a summary and assessment of selected voluntary initiatives, and looks at the lessons learned by MMSD that could be applied to future organized voluntary activity in the mining sector.

Section 4 presents the conclusions of this review, summarizes potential criteria for successful voluntary initiatives in the mining industry, and discusses a way forward for the sector through a global voluntary initiative for mining as proposed in *Breaking New Ground*.

1 Setting the Scene

It is time to face an uncomfortable truth: the accustomed model of development has been fruitful for the few, but flawed for many. A path to prosperity that ravages the environment and leaves a majority behind in squalor will be a dead end....The world today needs to usher in a season of transformation, a season of stewardship.

Kofi Annan, United Nations Secretary-General
World Summit on Sustainable Development, 2 September 2002

The competition for access to exploration and mining opportunities is intense. So is competition for the best people, capital and community support. Poor environmental performance damages a company's ability to attract these. Quite simply, good environmental management is good business.

Hugh M Morgan AO, Chief Executive Officer, WMC Limited[1]

Objectives of this Report 1.1

The MMSD Project explored a wide range of options for moving the sector towards sustainable development. Voluntary initiatives feature prominently among such options. Alongside existing experience within the sector, MMSD drew heavily on lessons learned from voluntary initiatives in other sectors. It also attracted much debate among many stakeholders of the mining and minerals industry on the issues that might – or might not – be best addressed through voluntary action.

This report reviews the findings of the MMSD Project on options for voluntary initiatives in the mining sector and highlights potential ways forward arising from this research. Key questions that are addressed in the report include:

- What are the key drivers for sustainable development in the mining industry?
- What could voluntary initiatives achieve in the sector?
- What voluntary initiatives currently exist?
- What form of voluntary initiative is best?

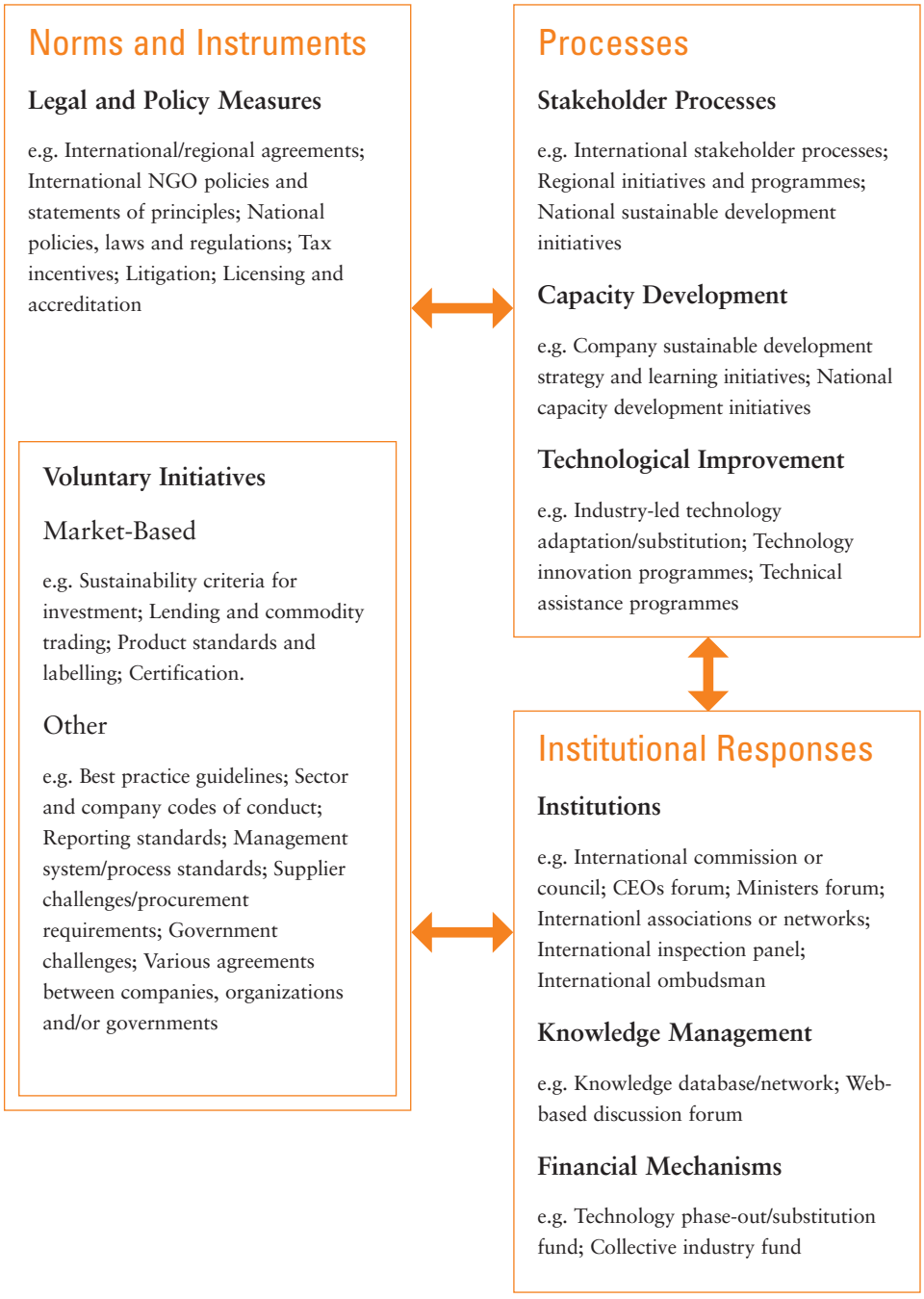
1.2 The MMSD Project

The MMSD research and stakeholder engagement process resulted in a wide range of outputs, including more than 150 research reports, 13 background documents, 23 workshop and meeting reports, 21 project bulletins, four regional reports, and the final summary report, *Breaking New Ground*, which was published in May 2002. It also helped to bring together a large community of stakeholders intending to help the industry take further steps towards sustainable development. One key area of research was the role of voluntary initiatives. The key papers addressing voluntary initiatives are summarized briefly in Annex 1.

The first MMSD report[2] – the project's 'opening shot' on the issues to be addressed – laid out a framework of options for moving the mining and minerals industry towards sustainable development. The framework suggested that voluntary activity alone would not be sufficient – rather, it forms part of a 'policy landscape' that could also feature other instruments, processes, and institutional responses (see Figure 1.1). The paper outlined a range of voluntary initiatives that could be adopted by companies within the sector, including the setting of best practice guidelines, adoption of company codes of conduct, responding to government challenges, and the drawing up of negotiated agreements with local communities and non-governmental organizations (NGOs). Other mechanisms were identified that also involve a significant degree of voluntary activity on the part of industry. These included responses to market pressures and, in particular, involvement in certification and product-labelling schemes and the initiation of stakeholder and investor engagement processes.

Various criteria are used to judge the effectiveness of voluntary action (that is, when does it 'work'?). Different stakeholders will inevitably have differing views on both the priority criteria and the judgements. For industry, the key criteria focus on

FIGURE 1.1 **The 'policy landscape' for achieving sustainable development – where do voluntary initiatives fit in?[3]**



the extent to which a voluntary initiative allows a company to improve competitive advantage or better manage risks through a more responsible or sustainable approach to doing business – broadly termed the 'business case'. (The pressures and drivers acting upon the sector are discussed in more detail in Chapter 2.) For the financial sector, a key criterion for evaluating a 'successful' initiative is its capacity to deliver more robust liability management and to protect the reputation of the financer throughout its association with mining. For other players – local communities, pressure groups, end consumers – the key criteria relate to whether the initiative delivers real improvement in social or environmental performance 'on the ground'.

Some of the key conclusions of the MMSD Project are summarized below. These are particularly relevant when looking for a way forward for the sector through organized voluntary initiatives:

1. **Win–win solutions are not always possible.** The MMSD Project concluded that voluntary approaches alone are insufficient when there is a compelling social priority but no business case to justify the additional expenditure required. Two options remain: collective action on a voluntary basis (enforced internally by a collective) or government intervention. On collective action, difficulties with the design of *market-based incentives* were pointed out, with current discussions with stakeholders based on the company-specific issues of risk management, enhancing shareholder value, and achieving a marketing advantage. Heterogeneity within the industry was also cited as a potential barrier to devising a system of *customer-driven certification* since there is no 'generic' production process and supply chain on which to devise performance criteria and a product tracking system.

2. **Lack of vertical integration[4] can be an obstacle to effective product stewardship** and can only be overcome through greater collaboration within the industry, including communications systems, restructuring, and alliances.

3. **Local issues should be solved locally** as local endowments and priorities differ from place to place. While international action and solidarity remain crucial, decentralizing decision-making to a point as close to the impact as possible should be the norm (that is, 'subsidiarity').

4. **'Best practice' should be defined by decentralized and iterative processes,** not by a fixed set of parameters that can be 'read out of a manual'. This and the previous conclusion present particular problems to be overcome when devising an internationally recognized initiative within the industry. Universal performance standards cannot be too rigidly defined lest they lose relevance at the local level (and thus prejudice the situation against local stakeholders), and the standard-setting process needs wide buy-in even at regional and local levels.

5. **Collective action must include companies of all sizes in order to produce positive results**. Performance in the minerals sector is variable. Action by companies, individually and collectively, is clearly required. A 'rush to the bottom' caused by 'free riders' was identified by MMSD as a real danger. If projects near closure are simply sold by multinationals to private, less visible entities, other routes are opened to avoid obligations.

6. **Existing organizations should be encouraged to continue facilitating collective action**. Institutions such as national and international chambers of mining and regional governmental organizations currently offer the best opportunity for collective action to move forward.

Recent Developments in the Sector 1.3

The World Summit on Sustainable Development (WSSD), convened in 2002, marked the culmination of much preparation by industry, government, and civil society[5] of their respective cases for moving towards sustainable development (a paradigm that has become almost as difficult to define comprehensively as is to achieve in practice). The Main Committee's statement on mining is summarized in Box 1.1.

BOX 1.1 Extract from the draft report of the Main Committee of the World Summit on Sustainable Development 2nd September 2002 – agreements on mining

Mining, minerals and metals are important to the economic and social development of many countries. Minerals are essential for modern living. Enhancing the contribution of mining, minerals and metals to sustainable development includes actions at all levels to:

(a) Support efforts to address the environmental, economic, health and social impacts and benefits of mining, minerals and metals throughout their life cycle, including workers' health and safety, and use a range of partnerships, furthering existing activities at the national and international levels, among interested Governments, intergovernmental organizations, mining companies and workers, and other stakeholders, to promote transparency and accountability for sustainable mining and minerals development;

(b) Enhance the participation of stakeholders, including local and indigenous communities and women, to play an active role in minerals, metals and mining development throughout the life cycles of mining operations, including after closure for rehabilitation purposes, in accordance with national regulations and taking into account significant trans-boundary impacts;

(c) Foster sustainable mining practices through the provision of financial, technical and capacity-building support to developing countries and countries with economies in transition for the mining and processing of minerals, including small-scale mining, and, where possible and appropriate, improve value-added processing, upgrade scientific and technological information, and reclaim and rehabilitate degraded sites.

Although the precise mechanisms for taking the Summit declarations forward are as yet unclear, the requirements of the Committee's agreements are broad reaching. In effect, they invite all sections and levels of society to address the 'environmental, economic, health and social impacts and benefits of mining, minerals and metals throughout their life cycle' through, among other mechanisms, enhanced stakeholder participation and broad capacity building.

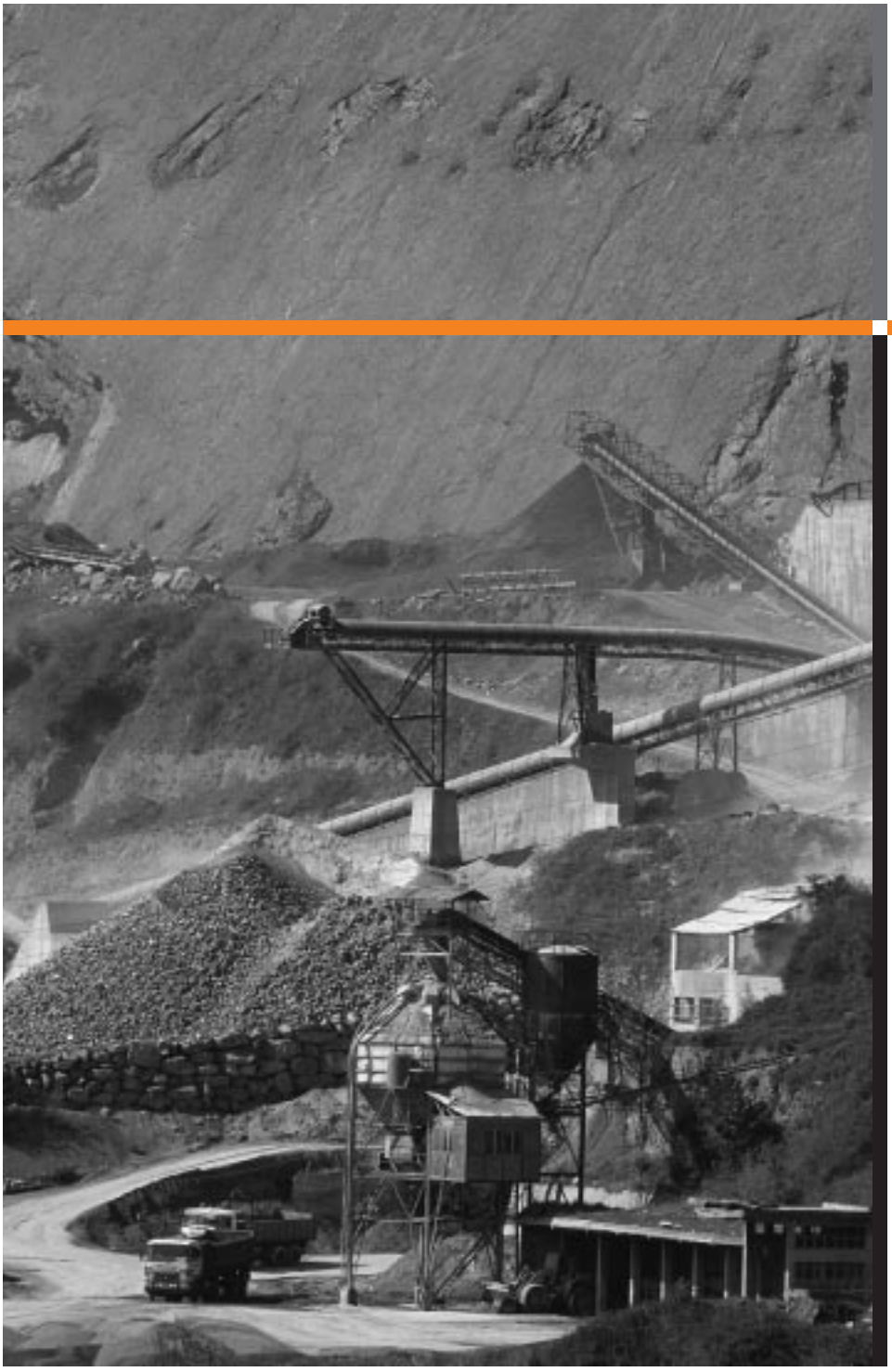
Since the publication of *Breaking New Ground*, there have been two key developments that could assist the mining sector in the next stage of the journey towards sustainable development. First, the International Council on Mining & Metals (ICMM) has taken up the task of developing the findings of MMSD into concrete actions through its member companies. An ICMM Declaration on Sustainable Development was launched at the Global Mining Initiative conference in Toronto in May 2002 (Box 1.2).

BOX 1.2 ICMM Toronto Declaration commitments[6]

ICMM will:

- Expand the current **ICMM Sustainable Development Charter** to include appropriate areas recommended in the MMSD Report.
- Develop best-practice protocols that **encourage third-party verification and public reporting**.
- Engage in **constructive dialogue** with key constituencies.
- Assist Members in **understanding the concepts** and application of sustainable development.
- Together with the World Bank and others, seek to enhance effective **community development management tools** and systems.
- Promote the concept of **integrated materials management** throughout the minerals value chain wherever relevant.
- Promote sound **science-based regulatory and material-choice decisions** that encourage market access and the safe use, reuse and recycling of metals and minerals.
- Create **an emergency response regional register** for the global mining, metals and minerals industry.
- In partnership with IUCN–The World Conservation Union and others, seek to resolve the questions associated with **protected areas and mining**.

Second, WWF Australia is partnering with several Asia-Pacific mining companies to pilot a mining certification scheme. This aims to meet the requirements of the financial sector and lower the cost of capital for companies demonstrating best practice. (This is discussed further in Section 3.4.1 on page 31.)



2 Pressures and Drivers The Current Challenges for Mining

Many companies…have concluded that sustainable development is of overarching importance, and have begun to take some specific measures to integrate [the key] concepts into corporate practice, but most companies are far from developing a detailed vision of all the steps necessary to adapt to a business environment in which sustainable development is the dominant paradigm.

One major finding is that most of the companies surveyed are still struggling with the question of how good business in the sustainable development framework translates into good business in the more traditional financial framework: should companies which manage sustainable development problems well…anticipate some kind of financial dividend from this success?

Mining & Minerals Sustainability Survey 2001[7]

Problems, Problems, Problems… 2.1

The mining industry suffers from a range of problems associated with real or perceived poor environmental and social performance, which have been well documented, both through the MMSD process and elsewhere. In brief they include the following:

- Public opinion of the sector as a whole is poor.
- Pressure groups have consistently targeted the sector at local and international levels, challenging the industry's legitimacy.

- The financial sector is increasingly focusing on the sector from both risk management and social responsibility perspectives.
- Many companies have invested significantly in improved environmental and social performance, yet cannot demonstrate significant added value.
- Maintaining 'a licence to operate' is a constant challenge.

In addition, companies face the challenge of understanding what the right standards are and what is the right level of investment in social and environmental performance. This section reviews the relevant MMSD research and investigates the problems facing the mining industry in greater detail.

2.2 The Industry Now

Mining represents a small proportion of total global investment in industry. Mining companies constitute only 0.7% of the total market capitalization of the Morgan Stanley Capital International World Index.[8] Furthermore, in terms of institutional funding, the mining sector represents just 3% of the World Bank's operations and 11% of the International Monetary Fund's.[9] And combined direct investment in the mining, oil, gas, and chemical sectors represents only 3.2% of the International Finance Corporation's (IFC's) commitment for 2002.[10]

Although the industry is small in comparison with others when measured in financial terms, it is nonetheless central to the global economy as a supplier of essential raw materials to almost all other sectors. It is particularly important to developing nations where mining is an expanding activity – for example, one-quarter of developing states now derive 10% of their gross domestic product and more than 40% of their foreign exchange earnings from minerals exports.[11]

Profitability in mining is markedly lower than in many other industries. Investments in steel, non-ferrous metals, and gold mines all returned significantly less than the market average during the period 1979–2000.[12] The production of a tradable commodity with a fixed price presents little opportunity for product differentiation in the sector, with companies forced to compete through cost cutting. Within this already lean sector, there is serious concern about the ability of companies to meet the added cost of improving environmental and social performance while remaining financially viable.[13]

Public opinion of natural resource extraction industries is influenced more by concerns over environmental performance than by performance in areas such as

product pricing, quality, and safety.[14] Many companies and mining sites have already made significant efforts to improve environmental and social performance, and some have adopted environmental policies that go beyond regulatory compliance.[15] It is widely believed, however, that despite the best efforts of these 'leaders' the public's perception of the mining industry is shaped by the poor performance of the 'laggards'. In addition, the efforts of the sector leaders go largely unrecognized and unrewarded in the absence of a mechanism that can differentiate 'good' from 'poor' performers in ways that are credible to civil society.[16]

Drivers for Change 2.3

The long-term survival of mining companies depends on their response to the range of drivers acting upon them. These drivers include competition for access to resources,[17] ever-stricter government regulation, rising insurance premiums, and falling numbers of investors and lenders willing to finance the industry.[18]

Many drivers are a result of the changing context of corporate performance and sustainable development as viewed by civil society. The terms 'sustainability' and 'sustainable development' are widely used in academic and policy circles. They have been adopted to varying degrees by industry[19] but have arguably made little impact on wider public understanding. Despite this, there is no doubt that a number of trends during the last decade have brought the issues associated with sustainable development to the fore in public consciousness.

MMSD research[20,21] identified the following key drivers for the mining and minerals industry to move towards sustainable development, broadly grouped into stakeholder expectations, policy and market incentives, changing contexts, and business imperatives.

Stakeholder expectations 2.3.1

- **Poor reputation of the industry** with civil society for performance on issues including climate change and human rights.
- The emerging expectation of **'people first' approaches and multistakeholder involvement in decision-making processes**, albeit accompanied by a struggle with the mechanics, costs, and politics of this process.
- A **growing consensus** on what constitutes 'sustainable' management practice in many sectors.

2.3.2 Policy and market incentives

- **Emergence of consumer awareness** and ability to discriminate between production processes.
- **Access to mineral resources** that is becoming increasingly difficult due to competing values over the best use of land and is subject to increasingly stringent demands by stakeholders and conditions by governments.

2.3.3 Changing contexts

- **A move towards eclectic national approaches** rather than global solutions for sustainable development, and towards processes or systems for improvement rather than 'master plans'.
- **Access to markets for metals** that is no longer assured, given regulatory pressures at the national and international levels and consumer concerns related to environment and health issues.
- **Changing market conditions**, involving market globalization and shifts in consumer demand towards alternative materials.
- **Change in the approach to environmental 'clean-up' by companies** from defensive approaches, and sometimes 'greenwash',[22] to integration of environmental performance targets into business objectives. The challenge remains to replicate this progress for corporate social performance.

2.3.4 Business imperatives

- **Ensuring a continuing social and political 'licence to operate'**.[23] It could be argued that the clearest drivers for mining voluntary activity on a company-by-company basis are at the site level, specifically around managing relationships with local communities and minimizing the environmental impact of exploration and mining operations, particularly related to tailings management.
- **Operational efficiency**. More efficient industrial processes and environmentally friendly use of inputs have been shown to minimize capital and operating costs and to maximize resource productivity.
- **Increased shareholder value**, as measured by stock price over time, has been shown to be correlated with environmental and, to a lesser yet detectable degree, socially responsible corporate performance.

- **Access to capital** is linked with a company's environmental performance most directly through terms of capital where financial analysts and investors see poor performers as more risky.

The challenges perceived by the industry in responding to these drivers are discussed in the next section.

Challenges Perceived by the Industry 2.4

Part of MMSD's extensive consultation process featured a survey of managers from 32 mining companies.[24] This survey canvassed opinion on the challenges facing the industry in the realm of sustainable development. The key findings are summarized in Box 2.1.

The survey revealed that the majority of mining companies are locally focused in their attempts to address sustainable development. In addition, management of environmental issues is better developed than social, economic, or ethical performance. This is to be expected, since environmental impacts have been under greater scrutiny from regulators and the public over a longer period of time, and their management can result in direct cost savings.

Interestingly, although the majority of survey respondents cite enhancing shareholder value as the primary reason for pursuing sustainability-related activities, most companies also identify the lack of a business case as the main barrier to implementation of these initiatives. The problems with identifying the business case for sustainable development are discussed in Section 2.5. 'Business case' elements identified through the survey include improved risk management, enhanced local community relationships, and improved opportunities to explore areas of interest through gaining better reputations with governments and regulators. However, a lack of understanding or agreement on the issues and a lack of recognition of sustainable development as a strategic priority appear to be holding back the industry's performance.

Survey respondents felt that the quest for cost-saving and competitive advantage within the industry would remain prominent. Perhaps related to this drive to cut costs, few of the companies interviewed adopt a 'best practice' approach for issues beyond a few elements of core performance, with most focusing only on achieving local legislative compliance.

Despite these apparent constraints to moving forward, there is a widespread call for uniform codes of practice, standards, and metrics, and perhaps for certification schemes. Investment fund manager Storebrand[25] reiterates the call for increased third-

BOX 2.1 Key findings of the MMSD Mining Survey[26]

Perception

The main sustainable development focus of mining companies is on the local environment and community and rarely stretches to issues such as the supply chain and company contractors.

Drivers

Shareholder value is cited as a primary driver for sustainable development, but most companies also cite the lack of a business case as a key obstacle to implementation.

More than half of respondents are aware that market analysts use elements of their sustainable development performance in supporting valuation – less weight is placed on pressure from the socially responsible investment community.

The top five drivers for sustainable development initiatives include risk management and improved reputation, leading to better relationships with local community and improved standing with government and regulators (particularly access to areas of interest).

Implementation

The most effective tools for embedding sustainable development and achieving cultural change are identified as consideration in corporate strategy, change management programmes,[27] and formal risk management procedures. Incorporation of sustainability elements into brand image or employee appraisal programmes is less widely used and not frequently cited as being an effective approach.

Environmental issues are better developed than social, economic, or ethical ones, at both policy and management system levels.

Few respondents apply the highest standards for performance regardless of location – most focus on legislative compliance, with best practice applying to some core elements of performance only.

Barriers

The lack of a concrete business case – most organizations do not measure direct costs and benefits associated with sustainable development performance. The need for improvement is highlighted by most of the respondents.

Lack of understanding or agreement on issues.

Lack of recognition of sustainable development as a strategic priority.

Stakeholders

Local stakeholder engagement is generally encouraged, especially around project development and the issue of mine closure.

Wider consultation by companies is limited, and this factor could be adversely affecting the sector's reputation.

The Future

Those surveyed felt that the drivers would remain the same, with increased prominence of the quest for cost savings and competitive advantage.

There is a widespread call for uniform codes of practice, standards, and metrics, and perhaps for certification schemes. One respondent called for 'a global organization to represent interests in the international stage'.

party verification or certification in the social and human rights field with its 2001 survey of environmental and social performance of 12 mining companies. Storebrand's survey, conducted independently of MMSD, supports some of the findings of the MMSD survey, particularly regarding engagement being limited to local communities and performance management being more advanced on environmental than social issues. The Storebrand survey calls for increased reporting of quantitative environmental data. While recognizing that public reporting in the mining industry has come further than in many sectors, there remains room for improvement.

2.5 The 'Business Case' for Voluntary Sustainable Development Initiatives

What elements of a business case for sustainable development can be identified for the mining sector? Since the mid-1990s, when Harvard professor and business strategy guru Michael Porter co-authored *Green and Competitive: Ending the Stalemate*,[28] significant funding and efforts have been directed at research into the business case for sustainable development in industry. Initially work focused on the business case for implementing environmental ('green') activities, while more recently the focus has been on wider ranging corporate actions in pursuit of sustainable development. The business case has become somewhat of a holy grail – the quest for a definitive argument that will persuade business to move towards a more sustainable model driven purely by self-interest rather than regulatory pressure. At the very least, the existence of a business case serves to persuade CEOs that responsible business can represent something other than a bottom-line cost – that doing what is morally 'the right thing' will at least not lose money.

Some key recent reviews of business case research include SustainAbility's '*Buried Treasure*' report,[29] *The Business Case for Sustainable Development – Making a Difference toward the Johannesburg Summit and Beyond*[30] by the World Business Council for Sustainable Development (WBCSD), the Association of British Insurers report *Investing in Social Responsibility – Risks and Opportunities*,[31] and the report by the World Wide Fund for Nature (WWF) called *To Whose Profit?*[32] The MMSD research programme reviewed the available business case research in *Financial Incentives for Improved Sustainability Performance: The Business Case and the Sustainability Dividend*.[33]

The theory in support of a general business case for sustainability-related initiatives centres on the three main arguments presented in Box 2.2, namely cost reduction, competitive advantage, and reputation enhancement. The MMSD *Financial Incentives* research paper argues that while all the elements of the cost-reduction argument could

BOX 2.2 A review of generic business case arguments for more sustainable or responsible business[37]

Cost Advantages

- **Increased efficiency** – 'clean technologies' reduce emissions, waste, and use of raw materials.
- **Enhanced worker performance** – improved working conditions and employee satisfaction can result in higher productivity, reduced incidence of union disputes, and increased ability to attract and retain employees.
- **Anticipating regulation** – companies that can prepare for costly regulatory change will have a competitive advantage over those with a purely reactive approach.
- **Management of community risk** – investment in environmental quality and in community social services will improve community relations and reduce the risk of compensation and damage suits.
- **Reduced cost of capital** – as financial markets will perceive companies with good environmental and social performance as less risky, the cost of capital and insurance premiums will be reduced.
- **Reduced transaction costs** – contract negotiation and dispute resolution costs may be reduced.

Market Advantages

- **Improved access to environmentally sensitive markets.**
- **Customer retention** – if buyers adopt stricter purchasing standards, they will stay with companies that have anticipated the change.
- **Price premium** – companies may secure higher prices for their products.
- **First mover advantage** – companies may derive 'first mover' advantages if they can capture environmentally or socially sensitive markets ahead of their competitors.
- **Emerging role in emerging and 'survival' economies** – as Hart and Milstein[38] and WBCSD[39] argue, poverty is one of the single largest barriers to sustainable development and, over the long term, investment in the survival economy will be good for company financial performance.

Reputation Advantages

- **Maintain market share** – loss of reputation can affect sales particularly where there are NGO campaigns urging consumer boycotts.
- **Maintain the company's social 'licence to operate'** – maintaining good relationships with regulators and the local community has financial benefits in reducing time required for securing government approval of and community support for new developments or expansions.
- **Attracting and retaining employees** – the company's commitment to corporate social responsibility and its overall reputation may be important motivating factors for current and prospective employees.
- **'Stakeholder insurance'** – once established, a company's reputation frames the way its key stakeholders detect and interpret events associated with it. In the event of a problem, a company with a good reputation can induce more supportive responses from stakeholders.[40,41]
- **Influence on market valuation** – a company's stakeholder relationships may be viewed as an intangible asset. Intangible assets – the 'factors of production or specialized resources that allow the firm to earn profits over and above the return on its tangible assets'[42] – in 2000 constituted some 55% of the market valuation of publicly traded companies in the US and the UK.[43] This proportion had grown rapidly over the last 40 years, reflecting a change in focus towards services rather than products. Profits in this 'new business model' depend less on physical assets than on the skills, motivation, and inventiveness of the people in the network and hence the relationships between them. The contribution to these relationships may be argued as business case justification for the implementation of corporate social responsibility activity.[44]

apply to the mining industry, there is at present a much weaker case for using the other two arguments. This is because of the following attributes of the sector:

- The complex nature of mineral supply chains and weak vertical integration within the sector mean that most mining companies are far removed from the end consumer. Hence consumer pressure arises only in the case of a few high-value niche products such as diamonds and, to a lesser extent, columbite-tantalite ('coltan'), which is used in the manufacture of electronic devices. It is alleged that the extraction of these minerals has in some instances funded armed conflict in some African states.[34,35] The prospect of their purchase implicating the consumer in a scandal broadens the scope of concern beyond that of mere local environmental impacts.
- Although the wider business world may be moving away from a physical asset–based model towards dependence on intangible, reputation-linked assets, the reverse is almost certainly true in mining, where companies are focusing on physical assets and outsourcing more and more of their service-based elements.[36]

What Does the Financial Sector Want? 2.6

Access to capital is a key concern for the mining sector. The 'external costs' of mining can expose investors in the sector to greater risks and hence lower expected returns on their investment.[45] This raises the question of why financial markets are not better at distinguishing between companies according to their performance on sustainable development issues. The financial sector is in fact becoming increasingly adept at handling and valuing risk – but access to appropriate information is key to this process. Mining companies with a good track record on environmental and social issues should, in theory, have access to capital at lower cost because they are exposed to lower risk. But in practice this does not always materialize.

The January 2002 MMSD/UNEP workshop on mining, finance, and sustainability[46] concluded that although the mining industry had effectively incorporated environmental issues into its due diligence procedures, the financial sector needed to do more to support mining sustainability performance. Differentiated financial instruments were called for, from both government and the financial sector, to reward good sustainability performance, with possible examples including reduced taxes and insurance premiums for good performers.

Some lessons may be learned from the World Bank, whose role in financing mining projects is to achieve investments that contribute financially to lenders, to

governments (through tax revenue), and to local communities that want to see long-term, tangible improvements in their lives. The World Bank is currently reviewing its role in financing extractive industries.[47]

From the financial sector's point of view, there is a need to improve the efficiency of financial reporting mechanisms: financial markets need to differentiate effectively between good and poor performers on environmental and social risk criteria. By considering mechanisms such as codes and assurance schemes aimed at improving the flow of financial information, mining companies with good records should be able to gain access to cheaper capital. Furthermore, the financial sector will benefit from improved efficiency.

The MMSD finance workshop reports also warn against 'initiative overload'; if there are too many initiatives, this can have the effect of undermining the credibility of each. Some mining companies are already feeling the pressure of 'audit overload' at the site level from multiple external and internal checks on performance.[48]

MMSD's engagement with the financial sector resulted in calls for the project to develop benchmarks, to help in developing a certification scheme, and to help in translating good ideas into government and investment policy. The challenge for the sector will be to address these clear needs while balancing them against the threat of 'initiative and audit overload'.

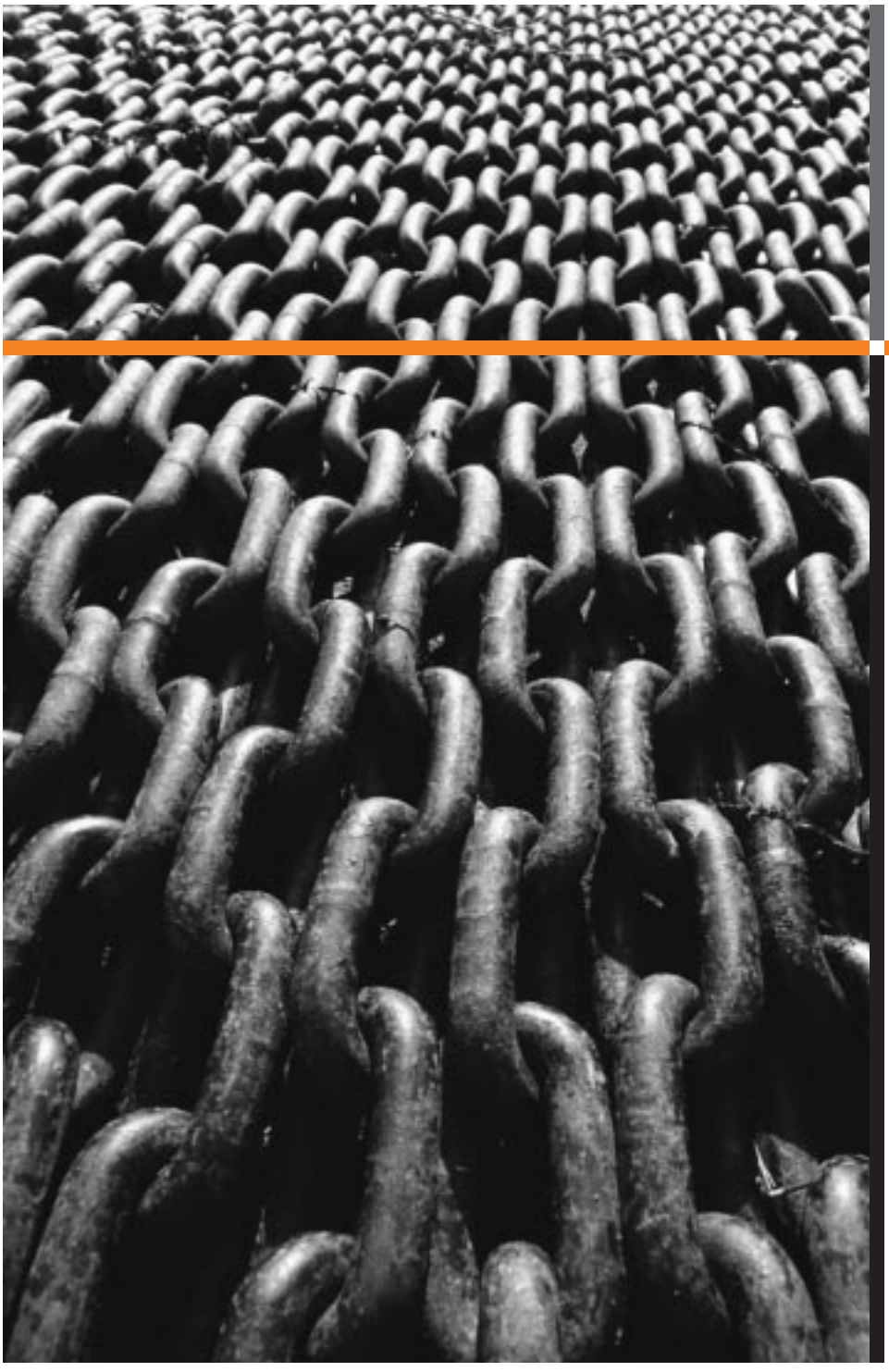
2.7 Summary

There is a range of performance on sustainable development issues within the mining sector. At present the poor performers are dragging down the reputation of the industry overall, and the good performers are not able to reap the rewards of their commitment.

Public reputation is less important to mining companies at present than the perceptions of governments, regulators, and the financial sector.

The sector is very lean and focused on cost-cutting to maintain competitive advantage. Companies are concerned that they will not be able to meet the costs of improved performance on social and environmental issues.

There are signs that the sector is already suffering from initiative and audit overload, and there are widespread calls for a global uniform code of practice and a representative body.



3 Voluntary Initiatives An Overview

'Voluntary initiatives' is a misleading label for activities that are rarely voluntary in the usual sense. Virtually all such initiatives are undertaken because the relevant actors have been effectively pressured to act. The distinguishing feature of 'voluntary' initiatives is that the pressures are not directly from regulatory obligations.

Robert Gibson, in *Encouraging Voluntary Initiatives for Corporate Greening*[49]

Defining 'Voluntary Initiative' 3.1

The term 'voluntary initiative' could be used to describe an extremely broad range of industry activity, potentially covering all actions not required by legislation. MMSD research in Australia[50] looked at a myriad of reported voluntary activities in the public environmental reports of mining companies. The majority of these were 'one-off' initiatives – social programmes like employee counselling and contributing food for disadvantaged school students, as well as environmental actions beyond legislative requirements (such as a 90% reduction in sulphur dioxide emissions over four years). The reader is referred to the report from Australia for an overview of the range of voluntary activities applicable to mining companies (Sinclair Knight Mertz, no date). Clearly, the success of any independent initiative will depend on the specific circumstances surrounding the company or mine site, as well as the quality of management of the activity. Potential voluntary initiatives identified for the purposes of this report are at the sector or industry-wide and national or

international level. For a list of the voluntary codes and initiatives applicable to the mining sector, see the UN Mineral Resources Forum website.[51]

3.2 What Makes a Voluntary Initiative Successful?

3.2.1 Pointers to success

Participants at the July 2001 MMSD workshop on voluntary initiatives in the mining sector[52] called for a 'straw' proposal outlining a set of options for practical voluntary initiatives. These options would draw on existing national-level programmes and 'pre-feasibility' studies, and would outline pre-feasibility elements for new initiatives. The workshop also called for a timeline and milestones for a new cross-cutting voluntary initiative for the sector, possibly in the form of a voluntary code, plus a range of voluntary initiatives to address specific issues beyond environmental management (such as social and ethical performance, and labour rights and relations). The broad conclusions of the workshop on attributes of a successful voluntary initiative are presented in Box 3.1.

BOX 3.1 Summary of conclusions from the July 2001 MMSD Workshop on Voluntary Initiatives for the Mineral Sector

- **Objectives should go beyond legal requirements**: Voluntary initiatives should be designed to improve industry/sector performance over and above requirements set by international agreements and by national law and regulation. They should strive for continual improvement and provide incentives for participation.
- **Flexibility in application is needed**: Flexibility should be allowed in the way companies achieve sustainable development objectives, although common norms are required for guidance.
- **Consistent principles are important**: Consistency in approach across the sector is needed to improve performance. This could be achieved through sustainable development principles and a code of conduct setting out process, management, and performance norms. A wide range of local economic, social, and environmental conditions, the diversity of company size, and the issue of impingement on the right to development for developing countries need to be balanced against this, however.
- **The scale of application should be appropriate**: Voluntary initiatives also need to be designed at the appropriate level, from global down to local.
- **Voluntary initiatives should complement other instruments**: Voluntary initiatives can form only part of the picture for improving performance in the sector. International cooperation, national policy, law and regulatory instruments, and other approaches are necessary to complement or parallel voluntary initiatives.
- **Voluntary third-party verification should be used**: A key element of voluntary initiatives, including an industry code, will be the design and application of some form of third-party verification and possibly certification of adherence to the norms and process provisions of the code. This is essential to gain the widest possible acceptance of the programme by both companies and stakeholders, and to provide public legitimacy to its implementation.

In selecting appropriate ways forward, five criteria are proposed by MMSD research on the application of voluntary initiatives to the mining and metals sector:[53]

- feasibility,
- effectiveness,
- efficiency,
- measurability, and
- acceptability to stakeholders and legitimacy in the eyes of the public.

Additional guiding factors are identified for selecting or developing appropriate initiatives: ensuring useful linkages between initiatives, applying or adapting existing mechanisms to mining, using 'packages' of mechanisms, and the clear establishment of stakeholder roles and responsibilities in the process.

The role of the World Trade Organization 3.2.2

A further requirement for an effective voluntary initiative on a sector-wide scale is that it should not conflict with World Trade Organization (WTO) agreements preventing barriers to international trade. Under current WTO rules, governments cannot impose barriers to the entry of imported products based on the methods by which they are produced unless these methods have an impact on the products themselves. Such barriers are called non-product-related processes and production methods (NPR-PPMs) by the WTO. WTO rules should not, however, preclude the development of an international mining voluntary initiative. MMSD research[54] concluded that:

- An NPR-PPM-based mining voluntary initiative could be justified under the WTO agreements and, accordingly, a mining voluntary initiative should not be presumed to conflict with WTO obligations on these grounds alone.
- Government participation in a mining voluntary initiative will make the initiative, and the implementation of measures that rely on it, more susceptible to WTO scrutiny. However, the initiative could survive this if it did not discriminate between 'like' products on the basis of country of origin, or if its objective were construed as 'environmental protection' within the meaning of the relevant exceptions laid out in the WTO agreements.
- A mining voluntary initiative developed and implemented by non-governmental actors alone might also be indirectly made subject to WTO

obligations. This could occur if WTO signatory governments moved to ensure that the non-governmental actors under their jurisdiction complied with WTO obligations when developing and implementing the initiative.

3.2.3 Categorization of voluntary initiatives

The potential for organized voluntary action within the mining sector was addressed extensively throughout the MMSD research and engagement process. The key questions for industry have been:

- What type of voluntary initiative would work for mining and minerals?
- Are there lessons that can be learned from existing initiatives in mining and other sectors that could help to point the way?

In order to learn from existing voluntary initiatives (see Box 3.2), it is first necessary to categorize them, so that some generalized conclusions can be drawn. Some of the key bases upon which initiatives can be categorized are as follows:

- What issues does the initiative address? Is it issue-specific (such as tailings management or performance reporting) or cross-cutting across a range of sustainable development indicators?
- How are the issues addressed? Does the initiative focus on broad guiding principles only (such as the UN Global Compact), on processes and management systems (ISO 14001, for example), or on 'ground-level' performance (like some certification schemes)?
- What is the driver for the initiative? Does the initiative address requirements of key stakeholder groups, such as end-consumers or investors, or does it aim to address a wide range of expectations from society?
- Who develops and convenes the initiative? Is the initiative led by industry, NGOs, governments, or institutions – or by partnerships between these stakeholders? Who sets the norms and standards on which the initiative is based?
- What level of assurance is provided? Is the initiative based on sign-up to principles only, or is there an element of independent verification or certification of performance? What happens to companies that fail to meet the requirements of the standard?
- Is the initiative sector-specific? Or is it intended to apply across many types of activity?

BOX 3.2 Potential models for a mining industry voluntary initiative[55]

1. The ombudsman model
This involves the development of norms enforced by an independent and credible ombudsman body, such as the IFC's series of guidelines for mineral projects. Complaints regarding non-compliance with the guidelines are investigated by the IFC's independent ombudsman office, which also undertakes conciliation and mediation. For each complaint, the ombudsman reports publicly on its verdict.

2. The industry code of conduct model
A statement of 'best practice' may be formulated or endorsed by the industry, such as the Minerals Council of Australia code, the industry-initiated ICMM/ICME Sustainable Development Charter, or the UN Global Compact.

3. The 'responsible care' model
The chemical industry's Responsible Care© programme incorporates a set of policies, guiding principles, and specific codes of conduct for environment, health and safety, social performance, and community relations, together with a verification system and industry-enforced compliance mechanism. Although outside stakeholders are involved throughout the programme, it is industry-led and administered and overseen by industry associations.

4. Certification tied to customers – the stewardship council model
The Forest and Marine Stewardship Councils are similar shared processes, under which a governing entity selected by industry and other stakeholders makes the fundamental decisions in creating and administering a set of standards on which certification is based. Certification is verified through independent audits by entities accredited by the Council.[56] The principal incentive is based on the desire of customers to purchase certified products. A pilot project by WWF Australia and Placer Dome Asia Pacific is under way to explore this model in the mining industry. There is also an existing process for certification of the origin of diamonds, based on concerns over their possible role in funding political and military conflict in some regions.

5. Certification tied to finance
Mineral products may be difficult to trace as they make their way through various complex transformations into consumer products. Large mineral consumers may not have the incentives to insist on certification. For this reason, it has been suggested that the basic incentive for participating in some form of certification process in the minerals industry might not be customer acceptance but acceptance by financial institutions: lending banks, brokerage houses, 'ethical investment' funds, individual shareholders, insurance companies, ratings houses, or others. It is conceivable, of course, that a system could be acceptable both to the financial community and to customers.

Strengths and Weaknesses of the Voluntary Approach 3.3

The United Nations Environment Programme (UNEP) has carried out a considerable amount of research into voluntary initiatives across all sectors. In 2000, in *Encouraging Voluntary Initiatives for Corporate Greening*,[57] it highlighted a number of strengths and weaknesses of pursuing the voluntary approach to performance improvement. Although such initiatives were assessed from a government rather than a corporate point of view, they nonetheless provide some insight into the challenges involved in designing effective initiatives for industry.

Strengths

- Voluntary activity is more flexible than regulation, encouraging continuous improvement, in particular through the example set by the more innovative companies.

- Voluntary initiatives can be more efficient – the added flexibility in implementation means companies can choose activities that fit with their own operations and strategies.
- Voluntary initiatives create savings for governments as the costs of implementation and regulation are shifted to other players.
- Voluntary initiatives highlight the 'business case' – opportunities to create profit from environmental solutions – and persuade companies that environmental improvements can serve economic self-interest.
- Voluntary initiatives are supported in their implementation by a broad range of drivers not dependant on regulatory demands – particularly risk and reputation management.
- There is some evidence to suggest that some 'well-designed and seriously motivated' voluntary initiatives have delivered environmental improvements.

Weaknesses

- The evidence for broad effectiveness in delivering environmental improvements is poor, mainly due to difficulty in separating out the influence of external factors such as regulatory pressure. This is a common criticism of the voluntary approach – if an initiative merely serves to highlight existing good practice, then it has done little to deliver real change.
- Selective adoption can be a problem – 'free riders' undermine the credibility of voluntary initiatives. This is particularly an issue for voluntary initiatives with little or no external assurance. The 'broad guiding principle' approach typical of many industry codes of conduct may result in a wide uptake by companies, but unless there are credible checks that those who signed up to initiatives are actually improving performance, the reputation and impact of the initiative can be significantly eroded.
- The voluntary approach becomes progressively less attractive once the more profitable, easy, and inexpensive improvements are taken up and more difficult changes are required to maintain improvement.
- Voluntary initiatives may be viewed by government as a substitute for regulation and as justification for dismantling regulatory capacity. This then reduces the threat of regulation, often seen as a key driver for voluntary initiatives in the first place.

- Voluntary initiatives may be viewed as less participatory than regulatory processes – or as excluding wider civil society through sidestepping regulatory processes. This is particularly true for voluntary initiatives where performance norms or standards are not developed through wide consultation outside industry.

As with other research reviewed in this report, UNEP found that voluntary initiatives cannot address environmental problems in isolation but require a framework of regulation in support. The UNEP study stated that many of the perceived advantages of the voluntary approach 'appear to rest on forgetfulness about pre-regulatory times'[58] – in other words, if the majority of environmental problems in the past can be attributed to ineffective or absent regulation, then voluntary activities in isolation cannot be relied on to improve the situation.

Existing Voluntary Initiatives 3.4

This section reviews voluntary initiatives already implemented or under development in the mining and other sectors. It draws heavily on reviews undertaken in MMSD-commissioned reports on voluntary initiatives, in particular *Voluntary Initiatives and Their Application to the Mining and Metals Sector*[59] and the MMSD workshop on *Voluntary Initiatives for the Minerals Sector.*[60]

The review includes a scorecard for each initiative (summarized in Table 3.1). Each scorecard provides an overview of some of the issues discussed earlier, namely:

- the initiative *type* (based on broad guiding principles, process standards, or performance standards);
- *focus* of the initiative (on a specific issue or cross-cutting);
- the *convenor* (industry, NGOs, multistakeholder organization, and so on);
- the extent to which the initiative encourages *participation* (purely voluntary versus mandatory for membership of an industry association);
- whether *standards* are rigorous or at the discretion of each participant company;
- whether the initiative provides third-party *assurance*;
- whether it requires or encourages public *reporting*; and
- the extent to which it has attracted *uptake* by industry.

It should be noted that the assessments made are qualitative and intended to give only an indication of the relative attributes of each scheme.

TABLE 3.1 Summary of selected voluntary initiatives in mining and other sectors

INITIATIVE (LAUNCH DATE)	TYPE	FOCUS	CONVENED BY
MINING			
ICMM Sustainable Development Charter (1999)	Broad guiding principles	Cross-cutting	Industry (ICMM)
Australian Minerals Code for Environmental Management (1996)	Broad guiding principles	Cross-cutting	Industry (Minerals Council Australia and external advisory group)
Mining Certification Evaluation Project (2003)	Performance standard	Cross-cutting	Multistakeholder (WWF and mining companies)
Towards Sustainable Mining (TSM) Initiative (under development)	Broad guiding principles	Cross-cutting	Industry (Mining Association of Canada)
International Cyanide Management Code (under development)	Performance standard	Issue specific	Multistakeholder, supported by UNEP and ICMM
Kimberley Process / International Diamond Certification System (under development)	Performance standard (origin of product)	Issue specific	Multistakeholder, supported by the UN
MULTISECTOR			
The UN Global Compact (1999)	Broad guiding principles	Cross-cutting	United Nations
CERES principles (1999)	Broad guiding principles	Cross-cutting	Multistakeholder (CERES – NGO and investor-led)
ISO 14000 (1996)	Process standards	Issue specific	ISO (industry-dominated)
OTHER SECTOR SPECIFIC			
Forest Stewardship Council (1993)	Performance standards	Cross-cutting	Multistakeholder, (initiated by WWF)
Marine Stewardship Council (1996)	Performance standards	Cross-cutting	Multistakeholder, initiated by WWF and Unilever
Fairtrade (1999)	Performance and process standards	Issue specific	Fairtrade (NGO-led)
Responsible Care© (1985)	Hybrid – principles, process guidance, and standards	Cross-cutting	Industry (industry associations, some with external advisory panels)

	PARTICIPATION	STANDARDS	ASSURANCE	PUBLIC REPORTING	UPTAKE
	Voluntary for ICMM members	Discretionary	No	Not mandatory	Limited
	Mandatory for Council members	Discretionary	Self-assurance	Included in code	Wide within Australia
	(Pilot phase only)	Likely to be rigorous	Third-party certification	(Under development)	(Under development)
	(Under development)	(Under development)	(Under development)	(Under development)	(Under development)
	(Under development)	(Under development)	Third-party certification	Audit reports	(Under development)
	Voluntary, supply chain-driven	Rigorous (origin of product)	Likely to be external certification	(Under development)	(Under development)
	Voluntary	Discretionary	No	Case studies encouraged	Wide
	Voluntary	Discretionary	Self-assurance	Required	Limited: 70+ companies, mainly US
	Voluntary (often supply chain-driven)	Process-based	Third-party certification	Not required	Wide
	Voluntary, supply chain-driven	Rigorous, locally set	Third-party certification	Via assurance	Reasonably wide: over 20 million hectares certified
	Voluntary, supply chain-driven	Rigorous	Third-party certification	Via assurance	Some fisheries
	Voluntary, supply chain-driven	Flexible standards, principles locally set	Third-party certification	Not required	Moderate
	Usually mandatory for membership	Flexible standards, principles locally set	Some third-party certification	Encouraged	Wide

3.4.1 Mining initiatives

ICMM Sustainable Development Charter

(International Council on Mining & Metals); see www.icmm.com

Type:	Broad guiding principles
Focus:	Cross-cutting
Convened by:	Industry (ICMM)
Participation:	Voluntary for members
Standards:	Discretionary
Assurance:	No
Reporting:	Not mandatory
Uptake:	Limited

Devised in 1999 with the assistance of the World Bank by ICMM's precursor, the International Council on Metals and the Environment, the charter is an international code of conduct for the mining and metals industry and consists of 32 broad-ranging management principles to guide sustainable corporate policy and practice. Implementation of the Charter by ICMM member companies is discretionary, and furthermore no provision is made for independent verification or reporting of performance against it. As such, there is no direct evidence that the Charter has had an impact on company performance. Some leading member companies, representing a small proportion of the industry, have adopted policies and implemented management systems that reflect elements of the Charter. But it is currently some way from achieving international acceptance or uptake.

Following completion of the MMSD Project, ICMM has committed to implement MMSD recommendations and, as part of this process, to update the Charter.[61]

Australian Minerals Code for Environmental Management

(Minerals Council of Australia); see www.minerals.org.au

Type:	Broad guiding principles
Focus:	Cross-cutting
Convened by:	Industry (with external advisory group)
Participation:	Mandatory for Council members
Standards:	Discretionary
Assurance:	Self-assurance
Reporting:	Included in code
Uptake:	Wide within Australia

This was launched in 1996 by the Minerals Council of Australia in response to NGO pressure on the minerals industry to demonstrate a commitment to improving environmental management, openness, and transparency both in Australia and overseas. The Code underwent substantial consultation and review in 1999, and now covers approximately 90% of Australian minerals production. In 2002, adherence to the Code became a condition of membership of the Council and has been extended to cover international operations of Australian mining companies.

As with the ICMM charter, the goal is continuous improvement. While it contains some specific requirements, for example on environmental reporting, individual companies also set their own performance standards on most issues. This flexibility has been identified as a reason for broad uptake within the industry. The updated code now features an element of self-assurance to encourage consistent monitoring of progress: an accredited auditor must verify the results of the Code implementation survey at least once every three years. An independent External Environmental Advisory Group has also been established to advise members on how their performance is perceived and to invite external comment. The Code has been successful in driving public environmental reporting by companies – more than 45 companies now produce public environmental reports in Australia.

Mining Certification Evaluation Project

(WWF Australia and others); see www.wwf.org.au

Type:	Performance standard
Focus:	Cross-cutting
Convened by:	Multi-stakeholder (WWF and mining companies)
Participation:	(Pilot phase only)
Standards:	Likely to be rigorous
Assurance:	Third-party certification
Reporting:	(Under development)
Uptake:	(Under development)

The possibility of initiating a certification scheme based on the Stewardship Council model is currently under serious consideration by the mining sector. WWF Australia, in partnership with Placer Dome Inc., BHP Billiton, WMC, Newmont, and the Commonwealth Scientific & Industrial Research Organisation, is piloting a certification scheme for the mining sector. The project will seek to develop measurable and auditable on-ground performance standards for a mine site that are acceptable to the project participants and to stakeholders. The initial focus is intended to be certification of the mines for investors, with potential for a product

chain of custody to be added at a later stage for consumer-driven certification.[62] Work has only recently begun in earnest on this project following publication of the MMSD final report.[63]

Towards Sustainable Mining (TSM) Initiative
(Mining Association of Canada); see www.mining.ca

Type:	Broad guiding principles
Focus:	Cross-cutting
Convened by:	Industry (Mining Association of Canada)
Participation:	(Under development)
Standards:	(Under development)
Assurance:	(Under development)
Reporting:	(Under development)
Uptake:	(Under development)

The TSM Initiative is under development, led by The Mining Association of Canada. A set of draft Guiding Principles[64] has been developed through an initial round of consultation. These will serve as the basis for both continuing stakeholder dialogue and a 'gap analysis' with company practice in 2002. The Guiding Principles cover a broad range of performance issues under the umbrella of sustainable development. The Association has also developed Environmental Emissions Reporting Guidelines that have been mandatory for its members since 2000.

International Cyanide Management Code for the Manufacture, Transport and Use of Cyanide in the Production of Gold
(UNEP, ICMM, certain mining companies, and NGOs); see www.cyanidecode.org

Type:	Performance standard
Focus:	Issue specific
Convened by:	Multistakeholder, supported by UNEP and ICMM
Participation:	(Under development)
Standards:	(Under development)
Assurance:	Third-party certification
Reporting:	Audit reports
Uptake:	(Under development)

This code is also under development, administered by the International Cyanide

Management Institute. The Code is an industry voluntary programme for gold mining companies, focused on safe management of cyanide, cyanidation mill tailings, and leach solutions. The objective is to assist in protecting human health and reducing environmental impacts. Signatory companies to the code will be audited on performance by an independent third party. Operations meeting the Code's requirements will be certified, with all audit reports to be made publicly available.

Kimberley Process International Diamond Certification System
(governments, companies, and NGOs); see www.kimberleyprocess.com

Type:	Performance standard (origin of product)
Focus:	Issue specific
Convened by:	Multistakeholder, supported by the UN
Participation:	Voluntary, supply chain-driven
Standards:	Rigorous (origin of product)
Assurance:	Likely to be external certification
Reporting:	(Under development)
Uptake:	(Under development)

The Kimberley process on conflict diamonds is an ongoing initiative supported by the United Nations and based on the 2001 UN Resolution on Conflict Diamonds.[65] Initiated in May 2000 by African diamond producing states, it aims to break the link between diamond production and armed conflict in areas such as Sierra Leone, Liberia, and Angola through an international certification scheme for rough diamonds. Thirty-eight governments, the World Diamond Council, the Southern African Development Community, the European Community, the World Customs Organization, representatives of the chairmen of the UN Sanctions Committees for Angola and Liberia, and representatives from civil society have taken part in a number of plenary meetings in 2001 and 2002 to discuss standards and procedures. Supported by a further UN Resolution[66] and a final declaration from participating ministers and delegates in November 2002, the scheme is due to be launched in January 2003.[67]

3.4.2 Multisector initiatives

The UN Global Compact

(United Nations); see www.globalcompact.org

Type:	Broad guiding principles
Focus:	Cross-cutting
Convened by:	United Nations
Participation:	Voluntary
Standards:	Discretionary
Assurance:	No
Reporting:	Case studies encouraged
Uptake:	Wide

The Global Compact is an initiative of the Secretary-General of the United Nations, launched in 1999 and put into operation following a meeting of 50 business leaders and heads of labour organizations and NGOs at the World Economic Forum in 2000. The Compact represents a commitment by a network of organizations to support a global set of high-level principles for corporate social responsibility. It is based on nine principles drawn directly from international declarations – the Universal Declaration of Human Rights, the International Labour Organization's Fundamental Principles on Rights at Work, and the Rio Principles on Environment and Development.

Companies join the scheme by means of a letter of commitment from their CEO. They are expected to incorporate the Principles into their corporate policies and operations and to report annually on concrete steps they have taken to act on them. To date, the Global Compact has been signed by hundreds of companies; 17 international business associations; 17 environment, human rights, and development NGOs; and five international labour union organizations. This rapid acceptance demonstrates that there is a demand for a global platform where companies can demonstrate their commitment to corporate social responsibility. Although it has only been in existence for a relatively short time, it seems possible that the Compact could serve merely as a platform to publicize actions taken for other reasons. Whereas some international NGOs have supported the initiative for its role in awareness-raising and as a forum for dialogue and learning, others are sceptical about whether it will result in 'on the ground' performance improvement.

CERES Principles;
see www.ceres.org

Type:	Broad guiding principles
Focus:	Cross-cutting
Convened by:	Multistakeholder (CERES – NGO and investor-led)
Participation:	Voluntary
Standards:	Discretionary
Assurance:	Self-assurance
Reporting:	Required
Uptake:	Limited: 70+ companies, mainly US

The Coalition for Environmentally Responsible Economies (CERES), a US-based group of environmental, investment, and campaign organizations, launched these principles (initially called the Valdez Principles) in 1999 in response to a number of high-profile industrial incidents and issues, including the Exxon Valdez disaster. The 10 principles focus on protection of the biosphere, sustainable use of natural resources, reduction and disposal of wastes, energy conservation, risk reduction, safe products and services, environmental restoration, informing the public, management commitment, audits, and reports. As with the Global Compact, endorsement of the principles is voluntary – but signing on to CERES involves an explicit commitment to continuous improvement, dialogue, and reporting. In comparison with the Global Compact, uptake of the CERES principles by companies has been limited, with approximately 70 committing to date. By virtue of CERES' location, uptake by companies has been highest in the US, although the principles have attained some international profile through companies like the UK-based Body Shop International.

ISO 14000
(International Organization for Standardization); see www.iso.ch

Type:	Process standards
Focus:	Issue specific
Convened by:	ISO (industry-dominated)
Participation:	Voluntary, (often supply chain-driven)
Standards:	Process-based
Assurance:	Third-party certification
Reporting:	Not required
Uptake:	Wide

ISO 14001 is designed to provide organizations with the elements of an effective environmental management system. The standard was developed through a lengthy process of consultation, primarily with industry, and is structured as a certification scheme, with certificates awarded on a site-by-site basis by third-party, accredited auditors. Since its launch in 1996, more than 31,000 certificates have been issued worldwide, over 7,000 of which have been issued in Japan.

Uptake of ISO 14001 has been driven largely by supply-chain requirements. The accreditation and certification process is in fact not overseen by ISO but has been developed through national accreditation agencies (such as UKAS in the United Kingdom). The certification process has received some criticism for being overly focused on a 'paper-trail' audit without seeking evidence of real environmental improvement. Social issues are outside the scope of the standard but can be accommodated to some extent. It is worth noting that many large forestry companies have combined ISO 14001 with performance-based schemes such as Forest Stewardship Council certification (described in the next section).

The ISO Committee on Consumer Policy is currently investigating the potential for a global ISO standard for corporate social responsibility.[68,69]

3.4.3 Sector-specific non-mining initiatives

Forest Stewardship Council

(multistakeholder, initiated by WWF); see www.fscoax.org

Type:	Performance standards
Focus:	Cross-cutting
Convened by:	Multistakeholder (initiated by WWF)
Participation:	Voluntary, supply chain-driven
Standards:	Rigorous, locally set
Assurance:	Third-party certification
Reporting:	Via assurance
Uptake:	Reasonably wide – 25 million hectares certified

The most significant impact of product certification has been in forestry. The FSC, formed in 1993, has certified some 25 million hectares in nearly 50 countries, and thousands of product lines have been certified. A global set of 10 principles and related criteria (P&C) of good forest stewardship is translated by multistakeholder national working groups into national or subnational standards, taking account of local conditions. Special approaches exist to allow group certification of several

producers who follow the same management plan, to ease the cost burden. Independent certification proceeds according to these standards (or through certifier interpretation of the global P&C where there are no national standards applicable).

Larger retailers, with sensitive public brands, such as the Home Depot, B+Q, and Ikea, have all backed the FSC, and to date demand has largely been retailer-driven. After 10 years this is significant progress but, as studies by IIED have shown, the impact in areas with the lowest standards of forestry has been limited. So far, the high, single threshold has had the effect of identifying and rewarding existing good producers rather than acting as an incentive for 'ordinary' producers to improve. There is discussion of a 'step-wise' approach to encourage such improvement.

The FSC market share can be best estimated as 2-5% of the forest products sector.[70] Recent developments in the UK, Denmark, and France, with governments adopting pro-certification purchasing policies, are likely to act as a significant catalyst. Some institutional investors are including FSC certification as an investment criterion that may prove another powerful driver for performance improvement.

Marine Stewardship Council

(multistakeholder, initiated by WWF and Unilever); see www.msc.org

Type:	Performance standards
Focus:	Cross-cutting
Convened by:	Multistakeholder (initiated by WWF and Unilever)
Participation:	Voluntary, supply chain-driven
Standards:	Rigorous
Assurance:	Third-party certification
Reporting:	Via assurance
Uptake:	Some fisheries

The Marine Stewardship Council (MSC) was established in 1996 by WWF and Unilever. The MSC developed principles and criteria for sustainable fisheries management through an extensive consultation process with stakeholders, including fishers, industry associations, NGOs, fisheries regulators, scientists, and government representatives. To achieve certification by an accredited third party, marine fisheries are required to meet agreed management standards based on the MSC principles and criteria, which take into account the environmental, social, and economic values of fisheries. Certified fisheries may use the MSC logo on their product, which is backed by 'chain of custody' certification from fishery via distribution and packaging to the retail point of sale, enabling market recognition of fish from sustainably managed

sources. The MSC has certified six fisheries, and a further 20 fisheries worldwide are in various stages of MSC assessment. Certified fisheries have tended to be the better-managed, developing-country fisheries, and the MSC has been criticized for failing to have an impact on the fisheries that are under the most pressure.

Fairtrade

see www.fairtrade.net, www.fairtrade.org.uk

Type:	Performance and process standards
Focus:	Issue specific
Convened by:	Fairtrade (NGO-led)
Participation:	Voluntary, supply chain-driven
Standards:	Flexible standards, principles locally set
Assurance:	Third-party certification
Reporting:	Not required
Uptake:	Moderate

Fairtrade was initiated in the UK by a coalition of development NGOs led by Oxfam and has enjoyed modest success. The scheme certifies production of a range of foods, including coffee and bananas, that are grown in developing countries and exported to western consumers.

There are two sets of generic producer standards: one for small farmers and one for workers on plantations and in factories. Criteria include adequacy of wages, guarantee of the right to join trade unions, and provision of good housing when relevant. On plantations and in factories, minimum health and safety as well as environmental standards must be complied with, and no child labour or forced labour is permitted.

By 2000, a 7% share of the UK coffee market was reported. The prospect for a far greater penetration of the market has become a significant possibility. Recent campaigns by Oxfam have focused on the plight of developing-country coffee farmers and have led to commitments by UK government departments to purchase Fairtrade coffee. The Fairtrade concept is networked internationally through a number of related national schemes including Transfair (US and Canada) and the Max Havelaar Foundation (Denmark, Norway, and the Netherlands).

Responsible Care©
(national chemical producers associations); see www.ccpa.ca

Type:	Hybrid – principles, process guidance, and standards
Focus:	Cross-cutting
Convened by:	Industry (industry associations, some with external advisory panels)
Participation:	Usually mandatory for membership
Standards:	Flexible standards, principles locally set
Assurance:	Some third-party certification
Reporting:	Encouraged
Uptake:	Wide

Probably the best-known voluntary industry initiative, Responsible Care was launched by the Canadian Chemical Producers Association in 1985 in response to the crisis facing the industry after high-profile chemical disasters, including the Bhopal accident. It has since been adopted in 45 countries through national industry associations. The goal is for signatory companies to demonstrate continual improvement in a publicly responsive manner. Six codes of practice cover community awareness and emergency response, research and development, manufacturing, transportation, distribution, and hazardous waste management. The codes, activities, and administration vary according to country, and performance levels are discretionary, being set by signatory companies on an individual basis. However, reporting is encouraged.

In Canada, a National Advisory Panel has influenced the evolution of the initiative and the codes of practice. Here, as well as in Australia and a small number of other countries, Responsible Care programmes now require external compliance audits conducted by teams with external industry representatives and experts or stakeholders from the community. Over the past decade, Canadian companies in the programme have improved their environmental and workplace health and safety records, reduced workplace injuries and transportation incidents, and cut total emissions by over 60% (excluding carbon dioxide emissions). Although some observers have criticized its administration by industry bodies that also lobby government, a key aspect of Responsible Care has been its ability to promote continuous improvement through peer pressure, information-sharing mechanisms, and input from external stakeholders. While this trend has left public perception of the chemicals industry largely unchanged, pressure for more stringent regulation of the sector appears to have been reduced.[71]

3.5 Lessons Learned from Forestry

One element of the MMSD research programme on voluntary activity by industry was an investigation of lessons learned by the forestry sector, which has some broad similarities with the mining industry. Developments towards sustainable management in the sector centred on stakeholders promoting their own values, with their associated rights, resources, and responsibilities – and then finding common ground. A key factor has been the many national and international initiatives of the 1990s, for example:

- defining criteria and indicators of sustainable forestry (finding a common vision and language), leading to
- pilot schemes, trials, and 'model forests' (to find optimum mixes of such criteria in working conditions), leading to
- development of certification standards (recognizing and rewarding progress), leading to
- moving forest policy from static, normative government documents to live processes driven by multistakeholder (national) forest fora and informed by pilot programmes, and thus leading to
- a mutual redefinition of rights and responsibilities through various decentralization, privatization, and empowerment programmes.

Although overlapping in time and lacking a formal 'coordination', at best these achievements have had a tremendous impact in improving forest stakeholders' mutual understanding, leading to changes in governance and focused partnerships for sustainable development.[72]

It could be argued that, given the MMSD Project and related initiatives, mining's current status in relation to such an evolution is that of a 'pre-pilot' stage of debate, analysis, and some initial definition of standards. (The pilot certification scheme under way through WWF Australia and several mining companies is discussed elsewhere in this report, together with emerging issue-specific certification schemes in the gold and diamond mining industries.)

Summary 3.6

- A wide range of organized voluntary initiatives is available to industry – including several under development in the mining sector to address specific issues.
- Many initiatives are recent developments – only two of those reviewed in this report were developed before 1996 and the majority were launched in 1999 or subsequently.
- Initiatives with more stringent requirements for performance tend to attract lower uptake from industry.
- The ICMM's Sustainable Development Charter has to date had limited uptake within the mining sector, but it is a recent initiative and is also to be updated to reflect MMSD recommendations.
- There is little similarity between initiatives currently in use – this may be viewed as a positive aspect, reflecting tailoring of initiatives to their respective goals, but it may also reflect a lack of learning or development between initiatives – leading to a high degree of confusion and a feeling of 'initiative overload'.
- In the absence of independent verification of performance against standards or norms, initiatives are limited in their utility to industry or third parties beyond an awareness-raising function. Any initial reputation benefit gained from signing up to such an initiative is destined to wear thin over time unless the initiative itself evolves to include a greater degree of rigour.

4 Next Steps

Whilst individual companies and mine sites have made significant advances in environmental and social performance, these advances have largely gone unrecognized and unrewarded by the market and the public because of the absence of a credible mechanism that can differentiate companies on the basis of their environmental and social performance.

Michael Rae and Andrew Rouse, WWF-Australia[73]

4.1 Commitment Versus Uptake – The Voluntary Initiative Dilemma

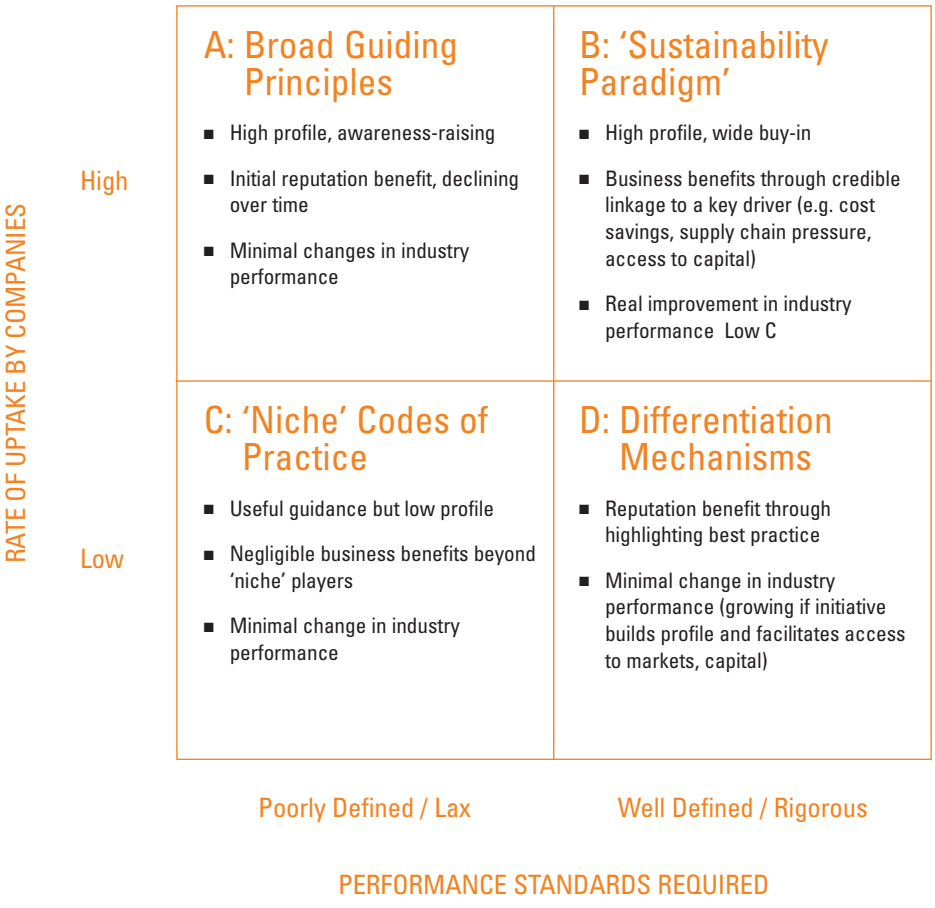
This report has reviewed MMSD research into the pressures facing the mining and minerals sector, the challenges of moving towards sustainable development, the advantages and disadvantages of voluntary initiatives, and the possibilities that might exist for voluntary action to make a tangible contribution to sustainable development without disadvantaging the mining companies that sign up.

The review of existing voluntary initiatives has revealed that there is often a trade-off between the stringency of action required to commit to an initiative and its attractiveness to the corporate sector, as measured by the rate of uptake. The Global Compact and the current ICMM Charter for Sustainable Development (which is under revision) are both voluntary initiatives from the 'broad guiding principles' school. Signing up to these indicates a Board-level 'agreement in principle' with the spirit of the initiative and presents signatories with the opportunity to report on their association with the initiative as a means of affirming this commitment.

While these undoubtedly make a significant contribution to awareness-raising within industry, from the point of view of external parties (whether financial-sector players, pressure groups, or consumers) such initiatives provide little assurance that companies are improving performance. This lack of credibility of 'broad guiding principle' initiatives ultimately limits the benefits accrued to signatories – the easier it is to sign up, the lower are the reputation, risk management, and access-to-capital benefits to be achieved. The converse is also of course true – there is little net benefit in devising a voluntary initiative whose standards are so stringent that few companies can realistically achieve them.

The problem is illustrated in Figure 4.1 – most initiatives tend to fall into types 'A' and 'D'. Type 'A' represents broad guiding principles, such as the Global Compact, requiring a low level of company commitment and resources to sign up to

FIGURE 4.1 Voluntary initiative matrix



and hence tending to receive wide support and a high level of uptake. Type 'D' represents differentiation mechanisms – initiatives where well-defined performance standards and a requirement for third-party assurance mean that a significant effort may be needed to comply but that as a result there is a lower uptake rate. Examples could include the Marine and Forest Stewardship Councils, which to date have been criticized for supporting existing best practice only.

Arguably, initiatives in each of these two areas of the matrix are struggling to deliver 'real change' (that is, in environmental and social conditions 'on the ground'): Type A initiatives struggle because a significant proportion of industry makes only a negligible change in performance, and Type D initiatives struggle because a real change is made by only a small proportion of industry players. A real net move towards sustainable development can only be achieved by initiatives that fall into Type B, the Sustainability Paradigm, requiring a concrete commitment from the signatories to improve performance but attracting high uptake by fulfilling a key need or linking in to a significant driver for business performance in that sector. Not surprisingly, such initiatives are thin on the ground if they exist at all at present. Potential candidates moving in this direction, however, include the following initiatives, which also represent some of the longest-standing of those reviewed:

- **ISO 14001** has enjoyed broad uptake through supply-chain pressure, although it is still questionable whether its standards have been rigorous enough to demonstrate real environmental improvement.
- **Responsible Care** has also enjoyed wide uptake in the chemical sector as a result of the sector's recognition of a need to conserve reputation as well as the requirement to comply with the initiative as one condition of trade association membership, with an element of assurance adding credibility to performance improvement.
- The **Forest Stewardship Council** has built a high level of credibility through broad buy-in from a wide range of stakeholders, linked to supply-chain pressure through retailer-driven requirements. The initiative's currently limited uptake is likely to increase as the FSC's profile builds and as certification becomes a prerequisite for government purchasing in some countries.

The two main keys for developing a successful voluntary initiative appear to be making the link to a key driver or drivers for the sector and wide consultation on acceptable process or performance standards. A middle ground can exist between overly flexible and overly stringent approaches, where a credible initiative can be constructed to include independent assurance against mutually agreed principles and criteria.

The first MMSD paper to address voluntary initiatives[74] advocated several approaches:

- an integrated mining code of practice involving various stakeholders;
- specific issue-based codes, such as the existing cyanide process;
- the testing of specific schemes, possibly including the UN Global Compact (with an elaboration of sector-specific principles), mining certification (building on the FSC model), and a sector-specific version of ISO 14001;
- a bilateral agreement on labour standards between ICMM and the International Federation of Chemical, Energy, Mine and General Workers' Unions (ICEM);[75] and
- a series of multistakeholder regional initiatives focusing on priority sustainable development concerns.

Many of these initiatives could be addressed through a single, well-constructed, well-managed global assurance ('certification') scheme for the mining sector. The third-party performance assurance approach could therefore be a promising one for mining sector. It is further explored in the remainder of this section.

4.2 Can Third-Party Certification Work?

Sector- or product-specific certification schemes are now active across a range of industries. In addition to those already covered in this report, in forestry there is the Pan-European Forest Certification (PEFC) Scheme, the Sustainable Forest Initiative (SFI), and various national schemes. In addition, schemes are in various stages of development for live aquarium fish (the Marine Aquarium Council), sustainable tourism, and carbon offsets, and one is under discussion for palm oil.

In addition to the sector-specific schemes, there is a growing number of generic eco-labels, including the EU Eco-label Award Scheme, the Nordic Swan, the Swedish Environmental Choice Programme, the Canadian Environmental Choice Programme, the Blue Angel (in Germany), the Green Seal (in the US), the Japanese Eco-Mark, and the French NF Environnement. An Organisation for Economic Co-operation and Development study[76] maintained that successful eco-labelled products often cover more than 30% of the market share in a particular product category. In such circumstances, the study observed, 'eco-labels then no longer selectively identify a sub-set of products which are environmentally preferable to other products in the same product category, but tend to become a *de facto* voluntary standard.'

One of the longest-running examples of such a scheme, the Forest Stewardship

Council, enjoys significant support from many stakeholders, but the wider industry and many forest owner organizations still remain sceptical. This lack of collective industry action has lead to the proliferation of parallel schemes (the PEFC and SFI being two) and a degree of confusion in the market-place. Overall, forest certification has yet to fulfil its potential in transforming the market, despite some significant local progress in Western Europe, notably the Netherlands, Sweden, and the UK. In the UK a consensus was reached amongst all stakeholder groups on a local performance standard[77] now recognized by the FSC. The following attributes made this local success possible:

- sufficient common ground between the stakeholders;
- champions on 'both sides of the fence';
- a facilitating organization that engendered sufficient, if not complete, trust from all sides;
- skilful facilitation;
- a process that gradually built common ground, progressing slowly from broad issues to specifics 'one bite at a time' and dealing with procedural blockages through parallel sub-groups;
- a process that was consensus-based with the effective right of veto;
- a process that was not owned by any one stakeholder group;
- a willingness to listen and compromise on all sides; and
- significant pressure for a result.

What Could Mining Certification Look Like? 4.3

A certification system could play a role in promoting sustainable development within the mining and minerals sector, and this concept has been widely discussed beyond the MMSD Project.[78,79,80,81] The success of such an initiative would naturally depend on its design and rollout. For a mining certification system to work (see also the final section of this report), it should:

- be based on existing codes of conduct, policies, and procedures;
- provide a *global* framework, which is elaborated at a *local* level – to make it both specific and reflective of local stakeholder needs;
- provide a structure for stakeholder consultation;

- focus on addressing business needs;
- be initiated as an internal process;
- facilitate integration with ISO assessments and internal management systems in a streamlined way;
- be piloted at a number of sites in a low profile way; and
- be gradually rolled out to include a wide group of stakeholders.

The precise governance structure could take several forms but should:

- involve the industry but not be dominated by it;
- promote effective and timely decision-making;
- ensure effective and consistent certification (possibly via accreditation); and
- have clear procedures covering decision-making processes.

A key issue for many initiatives has been funding. It is clear that for an initiative to succeed it must have funding to match the scale of the challenge. The industry itself would have to be the primary source of funds.

It may be worth considering a step-wise approach to certification that would allow companies to engage with the scheme while progress is still being made and to receive appropriate recognition in line with their performance.

4.4 Product Labelling?

There are limitations within the sector associated with the lack of vertical integration and complicated supply chains; these suggest that a global mining voluntary initiative based around certification should initially focus on the clearly stated requirements of the financial sector (see Section 2.6) for a transparent and understandable performance reporting system. However, the potential for extending third-party performance assessment to a product labelling scheme should not be ruled out; various systems have been developed for products with similarly challenging supply chains (such as 'green' electricity). Percentage labelling schemes have been used with some effect in the forest products sector (where the percentage of raw material originating from a certified source is acknowledged on a product label). Although such labelling may not initially affect consumer behaviour, the linkage with responsible production can serve to enhance customers' brands and relationships with the mining and metals sector.

As increasing focus is given to corporate social responsibility, companies are looking

to the environmental and social impacts of their supply chains. 'Ethical auditing' of suppliers is increasing dramatically. There is a related trend to focus on traceability of products. In coming years the lack of vertical integration and complexity of supply chains will be increasingly less valid as excuses for absence of product labelling. Mining certification could prove a highly effective way to address these issues.

4.5 Benefits and Risks for Companies

Third-party certification could provide an effective management tool and achieve the following benefits for companies:

- a powerful assurance tool with independent assessment of site compliance with company policy;
- an effective driver of change within the company;
- a clear benchmark for environmental and social performance;
- a solid basis for reporting;
- the potential to rationalize auditing;
- company-wide risk management;
- strengthened relationships with stakeholders locally and internationally (particularly investors, but also governments and pressure groups);
- improved reputation;
- improved access to capital; and
- product differentiation.

The key risks could be:

- pressure to raise standards to unrealistic levels;
- the inclusion of too many issues from too many stakeholders;
- lack of buy-in from key stakeholders;
- failure to secure sufficient funds; and
- failure to develop effective decision-making processes.

Despite the risks, there is a significant possibility of such a scheme being developed. If carefully managed, there will be a 'first-mover' advantage for those

stakeholders – not limited to sector representatives – who are involved in shaping the process from the start. There is no doubt, however, that this is a significant undertaking requiring a substantial investment.

Should the WWF-Australia pilot study provide favourable results, it would seem sensible to widen the scope of participation to include ICMM, IUCN, ICEM, and other interested parties to investigate the possibility of initiating an independent organization to take the process of developing standards and certification procedures forward. Close attention to the needs of the financial sector will be required to ensure that the scheme addresses the information requirements to support mining finance decisions.

4.6 The Challenge for the Mining Sector

The problems of 'initiative and audit overload' in the sector present a clear challenge to developing a voluntary initiative on a global basis, based on clear requirements and run by a credible organization. The following generic characteristics of any successful voluntary initiative should apply:

- **Multistakeholder buy-in:** Schemes will only be truly effective when they have wide support from the major stakeholder groups. Schemes dominated by the industry will lack credibility, whereas schemes dominated by NGOs will lack uptake, impact, and linkage to key business drivers.
- **Third-party evaluation:** A robust system for independently evaluating the performance of potential and existing members is required.
- **Independence:** Schemes should be independent and not too closely aligned to any one stakeholder group.
- **Governance:** To be effective, there must be clear governance structures with the involvement of all major stakeholder groups. A participatory approach should be balanced with timely, efficient decision-making. Multistakeholder processes require significant emphasis on clarity of roles, rules, and decision-making procedures. Governance structures should reflect the nature of the level and location at which decisions are made. Third-party evaluation of the organization and its procedures for running the initiative is desirable.
- **Transparency:** There must be a clear definition of membership requirements. Credibility can be built through transparency. As much as possible, information should be placed in the public domain.

- **Communication**: comprehensive communication is a key part of building trust amongst stakeholders. Mapping out all stakeholders at the start of a process and actively engaging them will enhance buy-in.
- **Time frame**: Multistakeholder processes dealing with complex issues and widely differing viewpoints take a great deal of time, which must be acknowledged and allowed for.
- **Funding**: Sufficient funding and expertise must be available to define these requirements and assess industry members' performance against them.
- **Flexibility yet consistency**: Stringent standards must be implemented consistently by accredited auditors; however, a balance must be struck between international frameworks, consistency, and local circumstances.
- **De-listing**: To retain credibility, a mechanism must exist for 'de-listing' non-performers.

There can be no doubt that the mining industry cannot address the challenge of sustainable development on its own; its operations are too closely interlinked with the expectations of government, communities, the financial sector, and the wider society. As the World Summit on Sustainable Development declaration points out, 'minerals are essential for modern living'. The MMSD process was intended to be the starting point for change, however, and the challenges laid down in *Breaking New Ground* have been taken up by the International Council on Mining & Metals, whose Toronto Declaration provides a framework for ongoing consultation and action.

Our recommendations support those made by MMSD in *Breaking New Ground* and discussed in the opening chapter of this report. It would be an encouraging development should the ICMM – in meeting the commitment made in Toronto – seek to build the necessary partnerships to convene a global sustainable development initiative for the sector.

Companies must ask themselves two questions: Do stakeholders trust or distrust them? And what is it worth to move from a default position of distrust to trust? Certification is one option that could draw the industry and key stakeholders together around an agreed definition of best practice. There are also other options that could prove effective. Whatever course of action the industry (or an individual company) takes, the chances of success will be greatest if it adopts an open attitude, fosters good communication with stakeholders, and takes leadership on certain issues. The MMSD Project was one significant step in this direction, but the journey has only just begun.

ENDNOTES

[1] in Rae and Rouse (2001).

[2] Greene et al. (2001).

[3] Based on ibid.

[4] 'Vertical integration' within a sector refers to the extent to which individual companies operate through the supply chain from extraction and/or production through to retail or end-use. The oil and gas sector is an example of an industry with a high degree of vertical integration – a company like Shell operates in oil exploration and extraction as well as refining, petrochemicals, distribution, and retail.

[5] 'Civil society' is used in this report as defined by the World Bank: 'the web of associations, social norms and practices that comprise activities of a society as separate from its state and market institutions'. As such, civil society includes the general public and non-governmental organizations.

[6] ICMM (2002).

[7] PricewaterhouseCoopers (2001).

[8] MMSD (2002a).

[9] McPhail (2001).

[10] IFC (2002).

[11] WWF International and IUCN (1999).

[12] Morgan Stanley Capital International, cited in MMSD (2002b).

[13] PricewaterhouseCoopers (2001).

[14] Rae and Rouse (2001).

[15] In 2000, BHP and WMC announced a commitment not to develop mineral deposits that would rely on riverine tailings disposal.

[16] Rae and Rouse (2001).

[17] Ibid.

[18] Palmer (2001).

[19] It could be argued that the concepts of corporate social responsibility, corporate responsibility, and corporate citizenship are now coming to the fore as paradigms within industry since these concepts are more readily assimilated, dealing only with the manner in which business operations are conducted and to a certain extent side-stepping the more 'difficult' and less well-defined issues associated with sustainability, which can in some cases be construed as fundamentally at odds with the characteristics of shareholder-driven capitalism and hence a matter requiring government intervention.

[20] Bass (2001).

[21] Greene et al. (2001).

[22] 'Greenwash' is the communication of a positive environmental image by a company in the absence of adequate evidence to justify such an image.

[23] Greene et al. (2001) define *licence to operate* as 'the continuing acceptance of companies and their individual operations by communities, other stakeholders and governments'.

[24] PricewaterhouseCoopers (2001).

[25] Skancke (2002).

[26] PricewaterhouseCoopers (2001).

[27] Including incorporation of sustainable development into vision and values, objectives and targets, employee awareness, and communication programmes.

[28] Porter and van der Linde (1995).

[29] SustainAbility (2001).

[30] WBCSD (2001).

[31] ABI (2001).

[32] WWF and Cable & Wireless (2001).

[33] Grieg-Gran (2002).

[34] United Nations www.un.org/peace/africa/Diamond.html.

[35] Montague (2002).

[36] Luke Danielson, MMSD, personal communication.

[37] Grieg-Gran (2002).

[38] Hart and Millstein (1999) cited in Grieg-Gran (2002).

[39] WBCSD (2001).

[40] Srivastava et al. (1997) cited in Grieg-Gran (2002).

[41] Fombrun (2000) cited in Grieg-Gran (2002).

[42] Konar and Cohen (2000) cited in Grieg-Gran (2002).

[43] Fombrun (2000).

[44] ABI (2001) cited in Grieg-Gran (2002).

[45] MMSD (2001a).

[46] MMSD/UNEP (2002).

[47] World Bank Extractive Industries Review www.eireview.org.

[48] Fiona Nichols, Rio Tinto, comment at AccountAbility conference, Cable & Wireless, London July 2002.

[49] Gibson (2000).

[50] Sinclair Knight Merz (no date).

[51] www.natural-resources.org/minerals/generalforum/csr/volinitiative.htm.

[52] MMSD (2001b).

[53] Greene et al. (2002).

[54] Palmer (2001).

[55] MMSD (no date).

[56] The Council is a body representing stakeholders involved in the respective organizations and is intended to feature a mix of NGOs and private sector, North and South, and environmental and social interests.

[57] Gibson (2000).

[58] Ibid.

[59] Greene et al. (2002).

[60] MMSD (2001b).

[61] ICMM (2002).

[62] Rae (2001).

[63] Michael Rae, WWF Australia, personal communication.

[64] Mining Association of Canada (2001).

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ANNEX 1: KEY MMSD RESEARCH

THE INFORMATION BASE – MMSD reports reviewed

A number of MMSD's research reports have specifically addressed the issue of voluntary initiatives in the mining and other sectors. These are summarized briefly in this Annex and are available in full and unedited form (together with other relevant MMSD research) on the CD-ROM attached to this report.

MMSD Report 5
Change Towards Sustainability in Resource Use: Lessons from the Forest Sector

This paper investigates the development of initiatives to move the forestry sector towards sustainable practice against the backdrop of changing expectations from society. Lessons learned from this process that may be applied to the minerals sector are discussed. Five tentative transitions in the concept of sustainable development during the last 10 years are identified, together with five major trends and five challenges for the future.

MMSD Report 26
Industry Codes of Practice and Other Voluntary Initiatives: Their Application to the Mining and Metals Sector

This comprehensive paper reviews lessons learned from a range of voluntary initiatives both in the mining sector and other sectors, focusing on the UN Global Compact, the ICMM Sustainable Development Charter, the Australian Minerals Industry Code for Environmental Management, ISO 14001, the World Commission on Dams decision-making process guidelines, the Forest and Marine Stewardship Councils, and Responsible Care. An analytical framework for assessment of voluntary initiatives is also proposed, together with options for next steps for the sector. The paper argues for 'an overall, integrated approach for setting international and national-level norms on a voluntary basis, for clear incentives for broad participation, and for an effective mechanism for verifying adherence to the resulting programme.'

MMSD Report 29
Voluntary Initiatives and the World Trade Organization

This research paper investigates potential barriers to the implementation of an international mining voluntary initiative arising from conflicts with the agreements of the World Trade Organization.

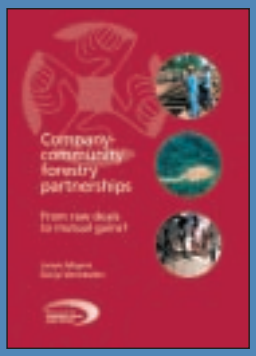
MMSD Report 92
AMEEF Research Project Industry Based Initiatives: Final Report

This study investigates the capacity of voluntary initiatives at industry and company levels in Australia to promote sustainable development in the minerals industry, focusing on publicly reported activities by the signatory companies to the Australian Minerals Industry Code of Environmental Management. The paper considers 'voluntary initiatives' in their broadest sense, encompassing all activities undertaken by mining companies beyond legislative requirements and not restricted to 'organized' initiatives convened by industry associations or other bodies.

MMSD Report 206
Workshop Report of Voluntary Initiatives for the Minerals Sector
(Santa Fe, 18 July 2001)

A one-day workshop attended by 26 participants from the mining industry, labour, NGOs, research institutions, government, and natural resources law. The meeting had three main objectives:

- to review the experience with the past and current voluntary initiatives and consider their applicability to the mining and minerals sector;
- to discuss the considerations, drivers, constraints, concerns of stakeholders, general design features, and options for the global voluntary initiative to improve industry performance in support of sustainable development in the mining and minerals sector; and
- to determine possible actions that might prove useful next steps in the assessment of optional approaches and the development of a voluntary initiative that could be taken up when MMSD ends in 2002.



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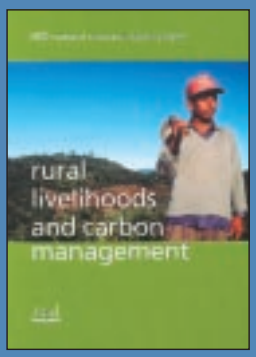

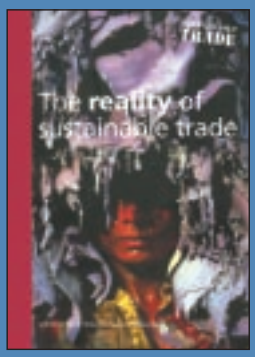

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Finding the Way Forward looks at the role in the mining industry of voluntary initiatives: coordinated activities undertaken by groups of companies to go beyond the environmental and social performance requirements set by legislation.

Recent research into the role of voluntary activities in the sector conducted as part of the Mining, Minerals and Sustainable Development Project (MMSD) formed the basis of this report, and the relevant MMSD papers are included in full on the enclosed CD-ROM. MMSD's two-year research programme culminated in May 2002 with the publication of its final report, *Breaking New Ground*, which drew a number of conclusions about the current state of the sector and made recommendations for change. One conclusion of *Breaking New Ground* was that the mining and minerals sector should explore the development of a global voluntary initiative (or initiatives). *Finding the Way Forward* assesses a wide range of existing voluntary initatives and explores the idea of a global voluntary initiative by asking:

· What are the key drivers for sustainable development in the mining industry?

· What could voluntary initiatives achieve in the sector?

· What voluntary initiatives currently exist?

· What form of voluntary initiative is best?

The mining industry cannot address the challenge of sustainable development on its own; its operations are too closely interlinked with government, communities, the financial sector, and wider societal expectations. If carefully managed, there will be 'first-mover' advantages for the stakeholders involved in shaping voluntary initiatives, yet there is no doubt that this is a significant undertaking, requiring a substantial investment. Whatever course of action the industry takes, the chances of success will be greatest if it adopts an open attitude, fosters good communication with stakeholders, and takes leadership on certain issues.

Finding the Way Forward: How Could Voluntary Action Move Mining Towards Sustainable Development? is the first of several MMSD Working Papers based on the project's research findings. Further papers to be published in 2003 will cover small-scale mining, indigenous people, and biodiversity.

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