

# SPECIAL REPORT

June 2010 — Issue 32

## A case for collaboration

Enhancing the development outcomes of Australian resource companies' operations overseas

Report of an Independent Task Force



**FDC**

THE FOUNDATION FOR  
Development Cooperation



### Chairs' introduction

The Australian Strategic Policy Institute and the Foundation for Development Cooperation (FDC) recently convened an Independent Task Force to consider the development impact of Australia's resource companies operating overseas, and the relationship between these companies' operations and Australia's international policy. The names and profiles of the members of the Task Force are at the end of this report.

We are pleased with the new light that this report sheds on the important role, influence and impact of Australia's resource companies abroad, particularly in developing countries. When resource companies operate abroad, apart from exporting technology, capital and know-how, they also become important players in the development of their host economies, paying taxes to treasuries and earning foreign currency revenues, creating employment, transferring skills, and demonstrating leadership. Indeed, in many economies, the development impact of resource companies of Australian origin far outweighs the effects and presence of official and non-official development assistance. Thus it is critical that we develop the best possible understanding of how the benefits of the operations of Australia's resource companies are maximised, and the costs—for example, environmental degradation—are minimised.

We also hope that this report, which benefited enormously from strong private sector

contributions via the Task Force, will better inform the Australian public sector, especially aid, diplomatic and finance officials, of how they might seek to collaborate with resource companies to achieve their own objectives.

We would like to thank the Task Force members for their expert, constructive input and dedication; the two project managers, Anthony Bergin from ASPI and Mélanie Aubé from FDC; and the Rapporteur for the group's work, Richard Parsons.

We would also like to acknowledge the hard work of Jane Higgins and Peter Demura from PricewaterhouseCoopers, who worked closely with FDC in producing an excellent preliminary discussion paper that informed the Task Force's deliberations.

The Task Force makes a number of recommendations aimed at advancing collaboration between the Australian Government and Australia's resource companies operating overseas. A key theme of this report is that Australian companies, by being socially and environmentally responsible in their overseas operations, can assist the Australian Government's public diplomacy efforts.

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**Task Force Chairs**

## Executive summary

Resource extraction contributes as much as 5% to Australia's annual gross domestic product (GDP), and directly advances the domestic economies and social development of many nations internationally. By collaboratively supporting development-oriented activities and initiatives, the Australian Government could leverage the international presence of its resource companies further, and enhance the security and prosperity of Australia.

Australian resource companies undertake extensive development work around their overseas operations. In developing countries, they often take on responsibilities traditionally associated with governments and aid agencies, particularly in health, education, community, and local business development. Many companies demonstrate a genuine commitment to social and environmental responsibilities and perceive that they must secure not only formal licences to operate but also social licences. However, some companies do not always see a business case for building social licences. Sometimes companies' aspirational statements and their practices are different, creating the potential for considerable damage to the reputation of both the industry and the Australian Government.

By collaborating where appropriate, the industry and the Australian Government can achieve outcomes that benefit Australia, host communities, and the industry. Numerous international bodies, such as the United Nations, the International Finance Corporation, the International Labour Office, the Organisation for Economic Co-operation and Development, and the International Council on Mining and Metals, have published extensively on the social dimensions of mining. Many of those publications are identified and discussed in this report.

The following recommendations constitute a unified strategy for advancing Australia's national interests by promoting responsibility among Australian resource companies operating overseas.

### **Recommendation 1: Leverage the resources sector to advance public diplomacy.**

The Australian Government should leverage the activities of Australian resource companies, who already engage with local community organisations, business groups, and non-government organisations (NGOs), to complement its public diplomacy efforts. The Australian Government should develop the pathways, practical guidelines, and governance structures needed for greater effective collaboration.

### **Recommendation 2: Develop a corporate social responsibility compact with the resources sector.**

The Australian Government should work in closer collaboration with the resources sector, and with host governments, to help Australian companies identify and fulfil their social responsibilities, and should develop a corporate social responsibility (CSR) compact with the resources sector.

### **Recommendation 3: Promote the implementation of the most useful impact assessment frameworks.**

The Australian Government should promote the implementation of the most comprehensive and respected assessment frameworks. It should not impose a universal approach, but should help companies determine what does and what does not work in various contexts.

**Recommendation 4: Enhance support for industry-related teaching and training centres.**

*The Australian Government should extend its support for education and training activities in CSR, mine safety, and environmental responsibility, particularly to build capacity among junior and mid-tier companies operating overseas.*

**Recommendation 5: Review options for transparent and independent grievance mechanisms.**

*The Australian Government should work with the resources industry to improve grievance mechanisms and to strengthen trust in the accountability of Australian resource companies.*

**Recommendation 6: Strengthen high-level engagement between the resources sector and AusAID.**

*Since resource companies and the Australian Agency for International Development (AusAID) often have similar development objectives and complementary skills, the Australian Government should facilitate greater collaboration between the two. This collaboration should promote sustainable economic self-reliance, for example by developing business models that prioritise long-term community-development objectives and linkages into local businesses. Deeper collaboration would also support efforts to promote international human rights initiatives and, in climate change, mitigation and adaptation.*

## Introduction

Much of Australia's economic strength is built on the success of its mineral resources sector. Since the late 1980s, resource extraction has contributed around 5% of Australia's annual GDP. The Australian mining industry has been very successful in exploiting mineral resources not just in the Asia–Pacific region, but beyond. For example, Stephen Smith, Australia's Foreign Minister, noted in September 2009 that Australian resource companies had approximately \$20 billion worth of current and prospective investments in Africa and were active in nearly 30 African countries.<sup>1</sup> On latest figures, ASX-listed companies have 928 mining projects located overseas, of which 335 are in Africa and 126 are in Southeast Asia.<sup>2</sup>

Through this activity, the resources sector contributes directly to the Australian economy, and to the domestic economies of host nations. Further advantage can be realised by strengthening the relationship between the sector and the Australian Government. Australia now has a significant opportunity to benefit from the increasing presence of Australian-owned resource companies operating overseas, particularly in the implementation of positive social and environmental initiatives. A number of factors have coincided to produce this opportunity:

- **Support for Australian resource companies.** The Australian Government has actively encouraged Australian investment in the mineral resources sector in developing countries.
- **Economic recovery.** Australia is emerging from the 2008–09 global economic downturn in relatively good shape, thanks in large part to the international demand for its mineral resources.
- **Social expectations.** Society has increasingly high expectations that

mineral resource companies operating overseas will not only minimise any adverse impacts associated with their presence but also maximise positive impacts.

- **Social and environmental responsibility.** Resource companies are leading global practices in social and environmental responsibility, typically undertaking voluntary initiatives beyond legislative and regulatory requirements.

Despite these trends, the Australian Government has not fully capitalised on the development work of its resource companies operating overseas. A resources sector that leads the way in innovative development practices can enhance Australia's national interests by encouraging economic self-sufficiency, improving political stability, and demonstrating leadership on critical issues such as climate change. Indeed, by collaboratively supporting activities and initiatives that advance peace, stability, and social and economic development, the Australian Government and the resources sector can significantly enhance the security and prosperity of Australia.

This report identifies several ways in which the resources sector and the Australian Government can work together to achieve those objectives.

## **Background: Australia's resource companies operating responsibly overseas**

Australian resource companies operating overseas are undertaking considerable social, environmental, and economic development work in the vicinity of their business operations. To support efforts in this area, in 2004 the Minerals Council of Australia (MCA) launched *Enduring Value: The Australian Minerals Industry Framework for Sustainable Development*.

This framework requires signatories to assess the systems used to manage key operational risks and to publicly report sustainability performance. Concurrently, many Australian resource companies are members of the International Council on Mining and Metals (ICMM), the international peak industry body that promotes good practice in sustainable development. In early 2010, ICMM launched *Mining: Partnerships for Development*<sup>3</sup>, a global initiative to enhance mining's contribution to development and poverty reduction.

Australian resource companies have long invested in the economies of regional states, providing revenue to governments, infrastructure and employment for thousands of people, developing the skills of their workforce, assisting in local business development, and empowering local communities. They have often taken on responsibilities traditionally associated with governments and aid agencies, particularly in the realms of health, education, community, and local business development. They are working in broadly cooperative ways with local communities in areas around resource operations to achieve lasting positive impacts, beyond the life of the operations themselves. Indeed, in many cases, the line between company and community is blurred, as local community members are often a significant proportion of the workforce.

In short, Australian resource companies are making a vital contribution to economic prosperity and poverty alleviation overseas. More generally, Australian resource companies have a solid reputation for integrity and for leading efforts towards sustainable development and corporate social responsibility (CSR). In most cases, they don't need government to persuade them of the need to act responsibly, as they perceive a business case for maximising sustainable development impacts as part of their CSR approach.

### Box 1: International development in practice

The PNG Sustainable Development Program Ltd (PNGSDP) was created in 2002 through an agreement between the Independent State of Papua New Guinea and BHP Billiton, after BHP Billiton divested its 52% shareholding in Ok Tedi Mining Ltd (OTML). This followed concerns about the long-term environmental impact of the mine, and the social and economic repercussions of this impact. PNGSDP's objective is to support selected projects and initiatives to benefit PNG. When OTML operations end around 2013, PNGSDP aims to ensure that ongoing and lasting benefits remain with the people of the Western Province and PNG.

Source: [http://www.pngsdp.com/index.php?option=com\\_content&view=article&id=2&Itemid=51](http://www.pngsdp.com/index.php?option=com_content&view=article&id=2&Itemid=51)

Australian resource companies on the whole have demonstrated a genuine commitment to their social and environmental responsibilities. However, anecdotal evidence suggests that this may be more applicable to larger companies than to smaller companies, which sometimes lack the capacity to take a broader view of their responsibilities. Some do not see a business case for building a social licence to operate, believing that they can better compete with larger companies by limiting their non-core business activities. With a growing number of small resource companies pursuing opportunities in developing countries, the potential for serious damage to the reputation of the industry increases substantially, especially if there is insufficient collaboration between industry and development players. The Australian Government would also risk damaging its

international reputation by association with the resources industry.

While resource companies generally are leaders in CSR initiatives, a 2006 Australian Parliament Joint Committee inquiry<sup>4</sup> found that Australian companies on average lag behind international standards in implementing and reporting on CSR. More recently, the Australian Centre for Corporate Social Responsibility found that CSR management capabilities in the mining industry declined from 84% in 2008 to 79% in 2009.<sup>5</sup> In addition, a gap sometimes exists between the aspirational statements in industry and corporate documents and company practices. This has led to ongoing debate on the extent to which practices have substantially changed, and the extent to which the industry has just become more proficient in communicating CSR activities.

On occasions, the activities of Australian companies are called into question. In particular, non-government organisations (NGOs) have sometimes challenged Australian resource company operations that have not adequately respected local communities or the environment. When this happens, it is not simply a concern for the local communities who are affected or for the companies and the industry whose reputations will suffer; it is also a concern for Australia because its international image will be damaged. If Australian companies are, for example, responsible for environmental damage or social dislocation, the result can have negative consequences for Australia's bilateral and, possibly, regional relations.

Resource operations that leave communities worse off are counterproductive to future developers, and most companies acknowledge the business case for acting responsibly. In addition, adverse social outcomes may result in wealthier countries, such as Australia, being called on by host

states to provide additional development assistance. Even in the absence of clearly adverse outcomes, companies always have the opportunity to make greater contributions to local communities.

It is important to note, however, that Australian resource companies often face real challenges in meeting their corporate social responsibilities, especially when they operate in countries where law and order is unstable, where legal and regulatory infrastructure is inadequate, where high levels of corruption exist, or where capacity constraints prevent them from achieving the best outcomes for local communities. By collaborating where appropriate, our resources industry, the Australian Government, and host nation governments and communities can achieve outcomes that benefit all parties.

This paper outlines how the Australian Government and the resources sector might explore those challenges. The recommendations are not presented in order of priority, and they should not be seen as isolated points: they are interdependent

### **Box 2: Corporate social responsibility**

CSR is typically understood as the notion that corporations have responsibilities beyond those towards shareholders, and beyond those prescribed by law or contract; i.e., beyond compliance and beyond business interests. However, there are varying degrees of CSR, depending on whether it is motivated by enlightened self-interest or a sense of moral obligation. There is also debate regarding the relative merits of voluntary CSR and regulated CSR.

aspects of a comprehensive strategy for advancing Australia's national interests by promoting responsibility among Australian resource companies operating overseas.

## **Recommendations**

In the past 10–20 years, social expectations about the behaviour of transnational corporations have broadened beyond the legal and fiduciary, leading to the widespread view that these corporations are responsible to their stakeholders for a broad set of social obligations (see Box 2). These shifting expectations have particularly affected the resources sector, as company operations have had substantial social and environmental impacts. When major resource projects are implemented in poor regions, companies are confronted with a variety of complex social issues. The huge influx of capital and labour, combined with an enormous increase in wealth to some local landowners, severely strains the institutional capacity of host governments and their public services to govern effectively. Communities are left looking to resource companies to take a lead in developing social institutions alongside their business operations.

In response to the expectations of communities, resource companies have often led the corporate world in developing ethical and responsible initiatives. Today, resource companies largely propose that they must secure not only operational and environmental licences but also *social licences* from local communities, and sometimes from the wider society, in order to operate. Indeed, the Australian Parliament Joint Committee inquiry (noted earlier) heard evidence that integrating broader community interests into core business strategies is central to the success of CSR.

### *1. Leverage the resources sector to advance public diplomacy.*

The purpose of Australian public diplomacy is to project a positive and accurate image of Australia internationally; to identify and counter misleading perceptions of Australia; and to promote Australia's foreign and trade policies to diverse audiences. Public diplomacy, however, need not be left to the Australian government alone. The varied activities undertaken by Australia's resource companies abroad may complement or support the Government's public diplomacy objectives and, in some cases, may detract from these objectives. The Australian Government has an interest in monitoring the influence that Australia's resources sector has on Australia's public diplomacy and its potential to influence Australia's image abroad.

Australian resource companies have a significant impact on how other countries perceive Australia and their overseas activities provide an opportunity to present a positive view of Australia to the rest of the world. They can be vital partners in collaborating with Australian Government public diplomacy activities. This is a potentially important national security issue. In regions with significant levels of social unrest, the presence of Australian resource companies can have a stabilising effect in the host community. A corollary of this function is the improved image of Australia in these areas. The exploration by Intrepid Mines in East Java offers a typical example of the potential for this type of public diplomacy collaboration. In short, by engaging with local community organisations and business groups, and by undertaking social initiatives and forming constructive partnerships with NGOs, our resource companies can help to strengthen relations with host states and build trust across cultures.

Through greater cooperation with public diplomacy officers at the Department of Foreign Affairs and Trade, Australia's resource companies can develop business practices that strengthen Australia's international public diplomacy. This is not, however, a unilateral responsibility. It is important for Australia's overseas missions to coordinate and integrate the relevant activities of Australia's resource companies into Australia's public diplomacy strategies. In particular, an effort should be made to establish practical guidelines for cooperation and for developing the pathways and governance structures needed to make such cooperation possible. In this way, on-the-ground actions can be made consistent with the government's public diplomacy goals.

### *2. Develop a corporate social responsibility compact with the resources sector.*

In a key United Nations report<sup>6</sup>, John Ruggie, the Secretary-General's Special Representative on business and human rights, noted that the concept of 'social licence to operate' can become just as significant as legal compliance, particularly where systems of law are weak. Thus, most companies today acknowledge that they should not infringe upon the prevailing social norms of each region and industry. This implies a near-universal constraint on corporate behaviour, and is reinforced in other international frameworks. Examples include the United Nations *Global Compact*, the OECD *Guidelines for Multinational Enterprises*, the International Labour Office's *Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy* and the ILO's *Convention 169 on Indigenous and Tribal Peoples*.

This constraint has been reinforced by modern electronic communications, which make it increasingly likely that breaches of responsible conduct will be exposed via the websites of organisations such as Oxfam<sup>7</sup>

and Mines and Communities.<sup>8</sup> Indeed, anyone using these websites as their principal source of information on the mining industry could be forgiven for thinking that the industry's impacts constitute little more than a series of human rights abuses and environmental destruction. Clearly, the reality is more complex. As noted above, there are occasions when actual practice falls short of society's expectations, and sometimes short of the law's requirements. It is important to recognise, however, that a number of factors may preclude companies from fulfilling their CSR responsibilities. Such factors include a lack of local government capacity or willingness to provide infrastructure and services.

The Australian Government, therefore, should be working in closer collaboration with the resources sector, and with host governments, to help Australian companies identify and fulfil their corporate social responsibilities. This collaboration need not be universal, but should apply where required. It could do this via a CSR compact—a joint strategy shaped in collaboration with the industry.

The CSR compact strategy should first assess existing government efforts to work with resource companies—and other companies—to meet their responsibilities in overseas operations. The strategy should consider what gaps currently exist in the management of the social and environmental challenges and what measures are needed to close those gaps. The strategy should draw heavily from existing examples of good practice to provide a benchmark for the rest of the industry.

The CSR compact might also try to raise the overall importance of CSR within multilateral bodies, highlighting the role of the resources sector as part of Australia's overall international policy agenda. This is consistent with the 2006 Australian Parliament Joint Committee report, which recommended that

the Australian Government should facilitate and coordinate the participation of Australian corporations in international CSR initiatives to protect Australia's interests.

In raising these issues, the government would need to be mindful of perceptions that it is lecturing in areas where it does not have expertise. In practice, Australia could discuss these issues through various multilateral forums, such as:

- the APEC Business Advisory Council
- the OECD Global Forum on International Investment
- the IFC social responsibility program
- the G20 Working Group on Enhancing Sound Regulation and Strengthening Transparency
- the Pacific Islands Forum.

Wherever Australia is promoting CSR issues as they relate to Australia's extractive industries, it will be critical to involve the companies themselves to ensure that mutual interests are considered and maximum expertise is applied.

### *3. Promote the implementation of the most useful impact assessment frameworks.*

In practical terms, the CSR compact should examine impact assessment frameworks and frameworks that are already available, and promote the most useful and relevant ones. This promotion would be catalysed by the launch of the CSR compact, and should comprise overarching principles and practical examples of implementation. It should be available from appropriate government websites and from industry bodies, such as the MCA.

The principal frameworks that are freely available are listed in Box 3. Most companies find a choice of frameworks to be an asset,

as it allows them to select whichever framework(s) will most effectively add value in specific contexts. It is rare that one framework will encompass all relevant considerations. For example, some companies have undertaken genealogy studies to understand stakeholder relationships and the local culture in each area of operation, an approach that may not suit all companies. A new, ‘universal’ framework is therefore problematic unless it can be easily tailored to multiple contexts.

However, in some cases, companies may appreciate some guidance in selecting the most useful frameworks—that is, frameworks that will most effectively facilitate good social, environmental,

economic, financial, and political/governance outcomes. The Australian Government should promote the most comprehensive and respected assessment framework, ensuring that company actions are in line with Australia’s broad national interests. While all frameworks have strengths and weaknesses, many focus on specific dimensions and cover those well. Only three frameworks encompass all the dimensions assessed in the Task Force’s background discussion paper (social, environmental, economic/financial, and governance), although no one framework covers all dimensions thoroughly.<sup>9</sup>

Given the comprehensiveness of the three recommended frameworks, the CSR compact should promote them, while also acknowledging their limitations. This promotion should not be overly prescriptive and must be carried out in consultation with the resources sector and CSR specialists. The compact should provide support and guidance to assist companies in selecting and customising frameworks for their specific contexts. The three frameworks are:

### Box 3: Selected impact assessment frameworks

- Extractive Industry Transparency Initiative
- Measuring Impact Assessment Framework
- GRI G3 Guidelines and Mining and Metals Sector Supplement
- Socio-Economic Assessment Tool
- Developing a Community Impacts Monitoring and Management Strategy: A Guidance Document for Australian Coal Mining Operations
- Enduring Value: The Australian Minerals Industry Framework for Sustainable Development
- Development Outcome Tracking System
- A Guide to Social Impact Assessment in the Oil and Gas Industry
- Ministerial Council on Mineral and Petroleum Resources Strategic Frameworks

- **Measuring Impact Assessment Framework.** This framework, created by the World Business Council for Sustainable Development and the International Finance Corporation, assesses the impacts of a business’s operations on the development of an area or country. The framework uses an input/output methodology that measures the direct and indirect impacts of the business activities on development and social outcomes.
- **G3 Guidelines and Mining and Metals Sector Supplement.** The G3 guidelines are the basis of the Global Reporting Initiative’s sustainability reporting framework. They outline the core content for reporting and disclosure. Thus, they are not so much an assessment

framework as a set of indicators. Nevertheless, the flexibility of the G3 format allows organisations to plot a path for continual improvement in their sustainability reporting. The guidelines comprise six indicator protocols: society, environment, economic, human rights, labour, and product responsibility. They also comprise sector supplements, including frameworks for the mining and metals sector.

- **Socio-Economic Assessment Tool (SEAT).** The SEAT has been developed by Anglo-American, a UK-based transnational mining company, to help mining sites benchmark and improve the impacts of their operations. It has also been adopted by other companies. The company uses SEAT to identify and assess the impacts of a particular operation on the community's development needs. It then tests this assessment through stakeholder engagement and develops a management plan to improve community impacts. Finally, the company works with stakeholders to produce a report that forms the basis for ongoing engagement. The SEAT process is intended to increase accountability; to improve the company's understanding of the needs, priorities, and concerns of local people and the dynamics within the community; to enhance the development opportunities created by the core business; and to build the capacity of staff with community development responsibilities.

The CSR compact should therefore incorporate a user-friendly guide that includes case studies of successful implementation of these frameworks in the resources sector. It should explain the strengths and weaknesses of each framework and clearly demonstrate the factors that made

implementation successful in each case. It should help companies ascertain what does and what does not work in various contexts. Finally, it should also be flexible enough to accommodate new frameworks being developed.

#### *4. Enhance support for industry-related teaching and training centres.*

The Australian Government can also assist by further supporting education and training activities that aim to enhance the capacity of Australian companies operating overseas. A number of Australian universities offer postgraduate courses focusing on CSR issues, although these are not necessarily tailored to the resources sector. In addition, many universities offer units in CSR as part of broader courses, such as Master of Business Administration courses.

The University of Queensland's Centre for Social Responsibility in Mining, for example, delivers education and training focused on the social and community aspects of the resources sector. It offers short courses and workshops in professional development, postgraduate coursework, and research studies.

The Australian Government should provide support aimed directly at building capacity among junior and mid-tier resource companies operating overseas, focusing not only on CSR but also on mine safety and environmental responsibility. These companies rarely have the resources to engage in these areas to the same degree as large companies, yet the impacts of their activities can affect Australia's reputation just as acutely. Support could be provided by funding the development of educational and training materials, subsidising attendance at training courses, funding case studies of good practice, and sponsoring industry briefings to

disseminate latest CSR practice, safety news, and information on key issues.

### 5. Review options for transparent and independent grievance mechanisms.

While the operations of the resources industry have long been associated with tension in civil society, the first objective of most companies has been to secure local consent for their activities in order to avoid disputes and conflict. Company codes of conduct aim to influence behaviours so that decisions are ethical; for example, by stating clearly that bribery and corruption are unacceptable. In many cases, this puts Australian companies at a short-term competitive disadvantage. They usually recognise, however, that ethical behaviour is beneficial for business in the long term. Nevertheless, codes of conduct are written and enforced by the companies themselves, and there is always the risk that 'doing the right thing' may conflict with business interests. In order to safeguard the long-term success of their overseas operations, therefore, Australian mining companies must address any grievances put forward by local communities with genuine respect.

Australian companies already work hard to understand the concerns of local communities, and many have developed collaborative grievance mechanisms through which genuine dialogue may be used to resolve conflict. Nevertheless, this form of self-policing may sometimes be seen as insufficiently impartial, or skewed in favour of business interests. Similarly, the absence of an independent 'umpire' leaves companies vulnerable to unsubstantiated, unwarranted, or trivial claims against them. If grievance mechanisms are to be trusted and respected by companies and communities, it is important that they are seen to be independent of vested interests.

In October 2009, Canada appointed a CSR counsellor as part of a strategy for its extractive sector. The counsellor helps extractive companies fulfil their social and environmental responsibilities when operating abroad. While the counsellor does not formally mediate disputes or have any decision-making powers, the role involves providing support to both companies and stakeholders in the resolution of disputes.

It is too early to gauge the effectiveness of this Canadian initiative, but the Australian Government should pay close attention to its progress. However, there would be little point in establishing a scheme that compromises the competitiveness of Australian-based companies. In this current age of globalisation, transnational corporations can easily relocate their headquarters in order to operate under more attractive jurisdictions. Moreover, in practice, many companies adopt CSR initiatives that go far beyond the legal and regulatory requirements of their host countries, suggesting that industry is often ahead of the public sector in developing CSR practices.

Ultimately, any grievance mechanism must be seen as transparent and independent if it is to have any credibility. The Australian Government should work collaboratively with industry partners to improve grievance mechanisms and to strengthen trust in the accountability of Australian resource companies. It can draw on international resources, such as:

- *Human Rights in the Mining & Metals Sector: Handling and resolving local level concerns & grievances* (International Council on Mining and Metals, 2009)<sup>10</sup>
- *Local Conflict Management tool* (Oil, Gas and Mining Sustainable Community Development Fund (CommDev))<sup>11</sup>

- *Addressing Grievances from Project-Affected Communities: Guidance for projects and companies on designing grievance mechanisms* (International Finance Corporation, 2009).<sup>12</sup>

To promote further accountability and transparency, the government should consider further ways of supporting international programs such as the Extractive Industries Transparency Initiative (EITI). The EITI increases transparency and accountability in the revenue payments to governments from oil, gas and mining companies. It is a coalition of governments, companies, civil society, investors, and international organisations. Its aim is to ensure that revenues from resource extraction contribute to the wellbeing of host countries, supporting poverty reduction and sustainable economic growth. Companies benefit from greater international credibility, competitive advantages, and better relations with local communities. Australia has already committed \$1.45 million to the World Bank – administered Multi-Donor Trust Fund to support this initiative. EITI lists several ways in which countries can further support the initiative, such as promoting it in international and multilateral forums, and encouraging resource-rich countries to implement it through diplomatic and commercial channels.<sup>13</sup>

### ***6. Strengthen high-level engagement between the resources sector and AusAID.***

The Australian Government is a major aid provider to many countries where Australian resource companies operate. For example, the government will provide \$346.9 million over the next four years to increase development assistance to Africa. Overall, Australia will provide \$4,349 million in official development assistance in 2010–11.

Alongside government efforts, resource companies often undertake similar initiatives and work towards similar goals.

Their presence in developing countries inevitably brings substantial opportunities for sustainable community development (see Box 4). Indeed, they often have a relatively long-term focus, since their plans may assume a presence of 20 years or longer, whereas host country plans often operate on three- to five-year funding arrangements. Resource companies often play a particularly significant role in communities where government infrastructure and capacity are weak, at times performing a de facto government role. In many countries, regions and communities, resource companies have worked hard to develop economically sustainable community programs. These programs are intended to help communities sustain themselves over the long term, beyond the life of mining operations.

While this work has a similar objective to much aid work, it maintains a different focus, typically concentrating on developing business and management skills and local supply chains. In some ways, therefore, these company programs go beyond the type of assistance traditionally provided by aid agencies, leveraging the technical expertise of transnational companies (or their appointed consultants) in the management of natural resources and other initiatives.

A major issue for Australian resource companies operating in developing countries is how to ensure that local economies and communities do not simply collapse when the company leaves. This issue obliges companies to develop long-term plans. Most major companies today start planning for post-closure activities at the beginning of a project. They may encourage locals to take ownership of facilities and to manage these facilities themselves. Companies can easily spend money on building amenities, but locals must be able to use those amenities and have pride in them. In many cases, companies have set up trust funds to

#### **Box 4: Papua New Guinea liquefied natural gas project**

Two major Australian companies—Santos and Oil Search—are among a consortium of resource companies jointly investing in the PNG LNG Project, the lead operator of which is ExxonMobil. The project’s initial development costs are around A\$16 billion and this single project is expected to triple PNG’s gross domestic product within its 30-year life. The project promises to produce enormous human development improvements in PNG. Aside from the rents to be paid to PNG’s treasury, royalties to communities, employment, training, and capacity building for local people and organisations could have a profound, inter-generational influence on physical and human security in PNG. The scope for AusAID to leverage official development assistance off this significant private sector-led project is self-evident.

facilitate long-term viability. For example, the gold mining company Barrick has trained land owners around the Porgera mine in PNG to manage a trust fund, while the company provides technical assistance, thereby building management capacity in the community. By nurturing institutions that enable local communities to be self-reliant, companies also play their part in facilitating political stability and reducing demands on Australia’s aid budget.

Just as resource companies are increasingly taking on some of the traditional roles of aid agencies, aid agencies are increasingly focusing on how business practices can help in achieving development objectives. AusAID has acknowledged that private

business and broad-based economic activity can help to reduce poverty. In a sense, the distinction between corporate business and development aid is becoming blurred. The time is right, therefore, to enhance collaboration.

Resource companies and the Australian Government should acknowledge their mutual capacity in implementing international development initiatives. There should be regular exchanges to discuss sustainable development goals and how the achievement of those goals can be accelerated through greater collaboration. Collaborating in workable partnerships could maximise the beneficial outcomes for all parties, and promote the long-term economic self-reliance of developing countries.

It is important that any collaboration leverage the particular skills of both resource companies and AusAID, rather than expecting parties to take responsibility for areas in which they have little or no expertise. In addition, if the relationship is to deepen, AusAID may need to strengthen its internal capacity, perhaps by hiring a resources sector adviser. In practice, collaboration could take several forms, drawing on the capacity and experience of the resource companies and AusAID:

- exploring ways to use AusAID small grants (available to community groups) to strengthen those development efforts already being undertaken by Australian mining companies overseas
- sharing business experience and technical expertise, and providing technical support to local communities and local government
- enhancing local supply chains that enable resource companies to source materials and labour locally and boost the local economy

- building industry-related skills and capacity among graduates within host countries
- developing and implementing business models that explicitly prioritise long-term community-development objectives (a ‘pro-poor’ approach) rather than simply profit maximisation
- facilitating the development of a broad range of strong and long-lasting partnerships between various stakeholders.

In the long term, it is unsustainable for foreign-owned companies to perform de facto government roles, and doing so may act as a disincentive for host country governments to develop their own public and community institutions. The effective functioning of a state’s institutions is central to development, and it is governments that provide a regulatory environment that is conducive to private sector investment. Through Australia’s aid efforts focused on promoting good governance in developing countries, Australia is already working with aid recipients to develop governance systems that can ensure that natural resources are managed responsibly. These efforts should be extended to promote self-reliance, a task that can be achieved more effectively by leveraging the expertise and experiences of resource companies, who maintain everyday contact with local communities and often possess a thorough understanding of local cultures.

Finally, it’s worth noting two specific areas where the resources sector and AusAid could derive potential benefits from greater engagement: collaborating to promote international human rights initiatives and supporting existing efforts in climate change mitigation and adaptation.

Most transnational resource companies have well-developed human rights policies and

practices. However, human rights initiatives are often articulated as broad conceptual principles, which can prove difficult to apply for company practitioners, especially within smaller companies (see also Box 5).

The Office of the United Nations High Commissioner for Human Rights has jointly published *Human Rights Translated: A business reference guide*.<sup>14</sup> It provides extensive case study examples and suggests practical steps for observing human rights in a business context. The Australian Government, through AusAID, should actively promote this document to the Australian resources sector. Where necessary, it should also provide guidelines for its application to Australian companies operating overseas.

### Box 5: The role of boards

Disparities between companies’ corporate statements and actions have external and internal repercussions. Boards and corporate management are concerned with ‘high-level’ matters, while operational staff must manage on-the-ground realities. The different priorities of each level can often lead to internal conflict. Corporate CSR statements, written for an external audience, can make for a poor business case internally. The language used may avoid the hard questions on which operational staff seek leadership and clear direction. Boards and corporate management ought to be encouraged to reflect on, and make clear statements about, the specific social outcomes for the communities in which they operate. A ‘this-is-what-we-mean-when-we-say ...’ document should be produced, containing the detail behind aspirational statements.

Additionally, AusAid could promote the *Guide for Integrating Human Rights into Business Management*<sup>15</sup>, produced by the Business Leaders Initiative on Human Rights. This guide is designed to enhance understanding of human rights in business practice, and to provide practical guidance on how to take a proactive approach to human rights within business operations.

Australia should also consider endorsing the *Voluntary Principles on Security and Human Rights*, a set of non-binding principles that provide guidance for companies on identifying human rights and security risks. These principles were developed through multi-stakeholder participation from various governments, the extractive industry and NGOs. The Netherlands, Norway, the United Kingdom, Canada, Colombia, and the United States are signatories. Several resource companies and NGOs are also signatories to the agreement.

As far as climate change is concerned, AusAID is helping countries to develop policies and programs that support sustainable development and reduce carbon footprints. The 2010/11 federal budget increased aid by over half a billion dollars, \$350 million of which is going towards climate change financing and adaptation from 2011–12.

The resources industry has already demonstrated that it can play a significant role in assisting these efforts. Companies are highly aware that they are significant emitters of greenhouse gases. Many resource companies have made considerable efforts to reduce their energy use and to adapt their operational processes. Despite the efforts of many operators, the resources industry has a poor reputation as a ‘big polluter’. However, this unfavourable reputation provides companies with a profound opportunity to play a constructive role in achieving a safe climate. In collaboration

with the government’s official development assistance programs, the resources industry can demonstrate global leadership in implementing low-emissions technologies.

Australian resource companies often operate in locations that are highly exposed to the adverse impacts of climate change. As adverse impacts become more pronounced, resource companies can play a valuable collaborative role in humanitarian assistance. As many mining operations already provide essential services in communities, they are strategically placed to help communities adapt. For example, Lihir Gold Limited has encouraged local residents to build infrastructure on higher ground on Lihir Island in PNG, in order to build resilience against extreme weather events.

AusAid’s development assistance in adaptation planning, therefore, would benefit from leveraging the special strategic role of many resource companies. This does not mean that AusAID should involve itself in every operation, or be wholly responsible for adaptation in entire regions. Rather, efforts should be part of a coordinated strategy based on rigorous risk assessments of the specific threats posed by climate change.

## Conclusions

The Australian resources sector is a major contributor to the Australian and international economies, yet further advantages can be secured by strengthening the collaborative relationship between the sector and the Australian Government. Specifically, strategic and reputational benefits can be gained from leveraging the presence of Australian resource companies operating overseas. The resources sector and the Australian Government need to work together to ensure that the practices of Australian companies are consistent with Australian and local values that place a premium on transparent business

practices, human rights, and positive social and environmental outcomes. While many larger companies have the capacity to adopt leading practices, there are other cases where government support and leadership would be beneficial.

This report has identified several ways in which the resources sector and the Australian Government can work together to advance Australia's national interests by delivering international development dividends. Collaboration can achieve mutually beneficial outcomes by promoting and supporting CSR, transparent grievance mechanisms, human rights initiatives, climate change mitigation and adaptation, community self-reliance, and public diplomacy.

CSR should play a central role in promoting good practice among companies operating overseas. Most companies do not need to be persuaded of the need to act responsibly; the business case for CSR is widely recognised. By supporting the needs and aspirations of the local community and ensuring the sustainable management of resource extraction and processing, companies can acquire and maintain their social licence to operate. The Australian Government should support and promote such responsible behaviour among companies operating overseas, and look for ways to extend it. The benefits to be derived from this collaboration include enhancing Australia's international reputation, improving international political stability, achieving social development goals, and complementing the government's aid program.

## Endnotes

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- 7 <http://www.oxfam.org.au/media/releases/campaigns-and-advocacy/mining>
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- 15 <http://www.integrating-humanrights.org/home>

## Task Force members

### Major General Peter Abigail (Retd) AO

became Executive Director of the Australian Strategic Policy Institute (ASPI) in 2005, having previously served for 37 years in the Australian Army in a wide range of command, operational and policy appointments.

**Mélanie Aubé** is Senior Operations Officer at the Foundation for Development Cooperation. Melanie has extensive experience on business development projects, focusing mainly on capacity building, business development,

and structured finance. She combines formal training in international finance and strategic consulting in enterprise with practical experience to help solve problems of business management, development, and growth; to implement market research; and to assess financial potential/opportunities. She applies a participatory leadership style when leading large project teams. She has worked successfully in different settings, such as Latin America, Asia, and the Pacific; and industries, including mining, fishery, agriculture, and microfinance. She also combines rigorous scientific training with cultural acuity and fluency in four languages (French, English, Spanish, and Bahasa Indonesia). Mélanie has a degree in International Finance from the University of Montreal – HEC (Canada), and holds a postgraduate master’s degree in Strategic Consulting from Complutense University (Spain).

**Dr Anthony Bergin** is Director, Research Programs, at the Australian Strategic Policy Institute. Before that he was an Associate Professor of Political Science at the University of New South Wales, Australian Defence Force Academy. He has published widely on Australia’s external relations in the Pacific and more recently on the role of business and national security.

**The Hon Jim Carlton AO** is a Director of the PNG Sustainable Development Program Limited, a company established jointly by the Government of Papua New Guinea and BHP Billiton Limited to apply the dividends from the Ok Tedi mine formerly flowing to BHP Billiton for the benefit of the citizens of Papua New Guinea. He is also a senior adviser to the Boston Consulting Group.

After a career in manufacturing industry, and as a consultant with McKinsey and Company, Mr Carlton spent over 20 years in politics. He was Minister for Health in the Fraser Government, and held various shadow

portfolios in opposition. After politics, he spent seven years as head of the Australian Red Cross, reorganising the Blood Service, and expanding its role in overseas development and war-zone support. During this period, he served on the Foreign Minister's Aid Advisory Council.

In recent years he has been a Council Member of the Australian Strategic Policy Institute, a Member of the Board of the Australia and New Zealand School of Government, a Professorial Fellow in the Centre for Public Policy at the University of Melbourne, and Chair of the Advisory Council of the National Archives of Australia. Mr Carlton is a science graduate of the University of Sydney, and has completed the Senior Managers in Government Program at the John F. Kennedy School of Government at Harvard University.

**Nick Currey** is currently employed as the General Manager Sustainable Development for Lihir Gold Limited. The role includes assisting business units implement corporate policy and meet external and internal obligations in health and safety, environment, community and government affairs. Mr Currey has worked in the resources sector for over 25 years in various roles across a number of continents. He currently represents LGL on the executive working group of the International Council for Mining and Metals, and is on the Advisory Board of the University of Queensland's Centre for Social Responsibility in Mining.

**Suzanne Davis-Hall** is the Sustainability Development Manager with Lihir Gold.

**Peter Demura** has over two decades of experience in advising global companies of trends in commodity and financial markets, the global economy and investment locations. Since joining PricewaterhouseCoopers in May 2007, Peter has provided economic, strategy, and public policy advice to Australian and global companies. Prior to joining PwC,

Peter was Chief Economist at BHP Billiton, the world's largest resource company, where he advised the company on developments in key countries, global commodity markets, and public policy issues and their likely impact on strategy and projects. He holds a degree in Economics and a master's degree in Finance from the University of Melbourne and an MBA from Monash University.

**Matthew Foran** is Group Manager – Stakeholder Relations with MMG Group.

**Brad Gordon** was appointed to the Board of Intrepid Mines Limited on 11 March 2008 after being the CEO and Executive Director of Emperor Mines Limited from April 2006. He is a mining engineer and has more than 15 years experience in senior management positions in the gold industry in Australia, Papua New Guinea and Fiji. Employed as Managing Director of Placer Dome Niugini Ltd and prior to that as General Manager of the world-class Porgera operation, Mr Gordon has also held General Manager or Operations Manager roles at Kalgoorlie West for Aurion Gold, Kanowna Belle for Delta Gold, Leonora for Sons of Gwalia, Vatukoula and Tuvatu for Emperor Mines Limited.

**Jane Higgins** works in PricewaterhouseCoopers' Economics and Policy practice. Her areas of expertise span economic impact assessment, policy review and advice, and country risk assessment in relation to the resources sector.

**Kym Livesley** has practised as a corporate lawyer for over 25 years. He graduated from the University of Adelaide and has practised widely in Australasia and Southeast Asia. He has substantial expertise in mergers and acquisitions, acting for buyers, sellers and financiers. He provides corporate and commercial advice, particularly in the energy and resources industries, for listed and private corporates in the Asia-Pacific region. He also has extensive experience in capital

raising, initial public offerings, takeovers, directors' duties, dual listings (AIM, TSX) and corporate governance.

He established and lectured in the mining law course at Darwin University, and has been a guest lecturer at the University of New South Wales. He is a member of the Australian Institute of Company Directors and is former national president of AMPLA Limited. He has also advised on native title, Aboriginal land rights and cultural heritage issues in relation to specific projects for various public and private sector clients. He has a particular interest in the resources sector and how that affects and interplays with local communities within which it operates.

**Dr Richard Parsons** acted as Task Force Rapporteur. He is an independent social scientist specialising in the social dimensions of mining, climate change, and energy policy. He applies qualitative research techniques to address critical contemporary issues. Currently, he is working with the CSIRO's flagships, Wealth from Oceans and Minerals Down Under, particularly to investigate the social issues relating to sea floor exploration and mining. Previously, he has worked in several roles in the public, private, and community sectors, both in Australia and the UK.

Richard completed a PhD in organisational communication at the University of Queensland in 2008, studying relationships between large resource operations and local communities. He also has a Master of Business Administration (Queensland University of Technology) and BA (Hons) Economics and Public Policy (Leeds Metropolitan University, UK). Richard is author of the book *Constructions of Community Engagement*, and has written peer-reviewed journal articles and book sections on corporate social responsibility, stakeholder theory, and community engagement.

**Stephen Rogers**, the CEO of Nautilus, joined the company in January 2007 as Chief Development Officer responsible for the development of the Solwara 1 Project. He was appointed President and CEO in June 2008. Stephen has over 30 years experience in corporate and project management in the offshore sector. Prior to joining Nautilus, Stephen worked with Clough Limited, one of Australia's largest multidisciplinary engineering firms, where he was CEO for oil and gas. Before his role at Clough Limited, for six years Stephen was regional Managing Director for Technip, formerly Coflexip Stena Offshore, where he established a number of successful joint ventures and delivered consistent profitability in a cyclical market.

Stephen is a graduate civil engineer from King's College London, a Member of the Institute of Marine Engineering, Science and Technology (MIMar EST) and a Fellow of the Australian Institute of Company Directors.

**Dr Ila Temu** is Director, Corporate Affairs, for Barrick's Australia Pacific Region, which covers both Australia and PNG. He took on this role in May 2008. In this role, Ila has responsibility for government relations, public affairs and community relations in the region. He reports to the Regional President and is the only member of the regional leadership team located outside their corporate headquarters in Perth. Prior to this he was the Country Manager for Barrick PNG.

Ila previously worked for Placer Dome, a company he joined in 2000. He was the General Manager of Government Relations for Placer Dome Niugini and has also held the position of General Manager (Tanzania) with the company. Prior to joining Placer Dome, Ila was Managing Director of Mineral Resources Development Company (MRDC), a state-owned organisation that works with landowners and major mining and petroleum interests throughout PNG.

He has also held senior positions within a number of public organisations, including a term as the Director of the National Research Institute in PNG; Research Director for the Pacific Islands Program at the Australian National University, Canberra, and Senior Lecturer at UPNG, Port Moresby.

Ila has also held a number of board directorships/memberships in PNG, including Dome Resources Ltd, MRDC, Kina Finances Ltd, PNG Incentive Fund, National Economic Fiscal Commission, Independent Public Business Corporation and the Employers Federation of PNG. Currently, he is Chairman of PNG Ports Ltd, Director of BSP Capital Ltd, Director of Bank of South Pacific and council member at the Divine Word University.

**Craig Wilson** took up the position of Executive Director of the Foundation for Development Cooperation (FDC) in Australia in January 2007. Craig is an economist with extensive economic policy and business experience. He has worked with numerous international organisations, including the World Bank, the International Finance Corporation, the United Nations Development Programme, United States Agency for International Development and others. During the 1990s he served as a diplomat in the Australian foreign service. Craig has authored books that focus on opportunities for private sector involvement in poverty reduction. Craig has a Bachelor of Arts degree in Asian Studies from Griffith University, Brisbane, and a master's degree in International Affairs, specialising in Economic Policy Management, from Columbia University, New York. He serves on various committees. With offices and staff in multiple countries, under Craig's leadership FDC is currently progressing a number of major initiatives designed to improve the lives of poor people in developing countries.

## About the Organisations

### The Foundation for Development

**Cooperation** is an independent, not-for-profit international development organisation which seeks to improve the lives of poor people in developing countries.

**ASPI** is a leading Australian think tank in the fields of strategic, defence and security affairs.

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