Shared value in energy and minerals sector: Australian context and implementation

EMI Lunch and Learn
Perth, November, 2014
Outline
DIMENSIONS OF SHARED VALUE AND HOW TO REALISE

- Australia’s potential shared value footprint
- Energy, minerals and developing countries – plus Pilbara
- Need for new development models
- Shared value in energy and minerals
- Realising shared value
- The education and training imperative
Potential shared value footprint of Australian minerals sector
IN AUSTRALIA

Maiden resources announced by ASX companies 2008-2013

$556bn in-ground value
Potential shared value footprint of Australian minerals sector

IN AUSTRALIA....AND GLOBALLY
Generating value globally: Australia’s mining-related investment and trade interests

- Number of ASX-listed mining companies operating in region (Source: SNL Mining and Metals)
- Percentage of Australian-based METS companies identifying region as a key market (Source: Austmine)
- Value as at August 2014 of ‘maiden resources’ announced by ASX-listed companies 2008-2013 by region (Source: SNL Mining and Metals)
Australian energy and minerals project construction 2010 –2016: the largest investment wave since the 1800s gold rushes*

RESULTING IN DECADES OF WORLD-LEADING PRODUCTION

WA & NT projects to 2016: USD220 billion+

Offshore petroleum basins

Pilbara Region
LNG, iron ore, infrastructure

Mid West Region
Iron ore, gold, uranium, nickel,

South West Region
Alumina, mineral sands, gold

Goldfields Region
Gold, nickel, iron ore
gold

Copper, uranium, mineral sands, petroleum

Gladstone and North West Economic Triangle
Base metals, bauxite-alumina

Bowen, Surat and Galilee Basins
Coal, CSG, LNG

New South Wales
Coal, gold, base metals

Victoria/Tasmania
Coal, gold, base metals, oil & gas

South Australia projects to 2016 USD10 billion+

Queensland projects to 2016: USD100 billion+

*Reserve Bank of Australia
Discovered mineral and coal resources 2008 – 2013

POTENTIAL *SHARED VALUE* FOR HOST COUNTRIES, COMMUNITIES AND INVESTORS

Value of discoveries by Australian (ASX) companies $2,100bn
Value of discoveries by other companies $?4,000bn – $?5,000bn

How to turn potential to actual shared value?

‘Maiden resources’ discovered and delineated by ASX companies 2008 – 2013
Minerals and energy development: unmet potential

**THE CHALLENGE**

81 countries are **driven by resources** — up from 58 in 1995

**BUT** 69% of people in **extreme poverty are in resource-driven countries**

80% of resource-driven countries have per capita income levels below the global average; more than ½ of these are **not catching up**

90% of **resources investment** has been in middle- and high-income countries

Global resources revenues =~$3.5 trillion

= 5% global GDP

Mining-related **conflict** is increasing

Sources: McKinsey Global Institute, *Reverse the curse: Maximizing the potential of resource-driven economies*, December 2013, and others
Minerals and energy development: unmet potential

...AND THE OPPORTUNITY FOR SHARED VALUE

$\frac{1}{2}$ of the world’s known mineral and oil and gas reserves are in developing countries – investment needs to increase at >2X historic rates

$11-$17 trillion of resources investment could be needed by 2030—more than double the historical investment rate

540 million people in resource-driven countries could be lifted out of poverty, triggering economic and social transformation

Opportunities to share $2 trillion of investment in resource infrastructure

50%+ improvement in resource-sector competitiveness possible through cooperative action

Source: McKinsey Global Institute, Reverse the curse: Maximizing the potential of resource-driven economies, December 2013
Australia: Pilbara case study

2006 STUDY: THREE PILBARA ECONOMIES

Weak connections between them...

Energy and minerals economy

Local service economy

Aboriginal economy

Perth
Resources companies need a new approach to the changing landscape

PARTNERSHIPS WITH GOVERNMENTS, COMMUNITIES and NGOs IN ECONOMIC & SOCIAL DEVELOPMENT TO BUILD *SHARED VALUE*

Source: McKinsey Global Institute, *Reverse the curse: Maximizing the potential of resource-driven economies*, December 2013
Resource-driven countries need a new growth model

TO TRANSFORM THEIR POTENTIAL RESOURCE WINDFALL INTO LONG-TERM PROSPERITY

- Building institutions and governance of the resources sector
- Developing infrastructure
- Ensuring robust fiscal policy and competitiveness
- Supporting local content
- Spending resources windfall wisely
- Transforming resource wealth into broad, inclusive economic development

Skills and institutional capacity are key.

OECD: "Skills have become the global currency of the 21st century. Without proper investment in skills, people languish on the margins of society"
Energy, minerals and shared value

Unique characteristics

- ~ $3.5 trillion in annual revenues (~5% of global GDP)
- Large local impacts
- Long life operations but depleting reserves
- Multiple points of interaction with communities
- Often in remote areas with major societal needs, poor infrastructure and inadequate governance

- Economic value of resources can transform lives of millions and economies of nations
- But energy & minerals companies – and governments – have made little or patchy progress using current approaches, with conflict increasing

Shared value is a pathway to address the underlying causes of community concerns and unlock economic opportunities for companies, communities and nations

Source: Adapted from Michael E Porter, Shared Value Leadership Summit, May 2014
Shared value is a strategy through which companies address social needs and improve their competitiveness.

Shared Value is:
Policies and practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates.

Shared Value is NOT:
- Sharing the value already created (philanthropy)
- CSR by another name
- Personal values
- Balancing stakeholder interests
- Compliance

Tying business success to the prosperity of host communities and countries

Source: Adapted from Shared Value Initiative, Extracting with Purpose, October 2014
Why is shared value different from current approaches?

MANY COMPANIES ARE ALREADY PURSUING SHARED VALUE ACTIVITIES

Evolving role of business in society (Michael E Porter)

- Donations to worthy social causes
- Volunteering

Corporate Social Responsibility (CSR)
- Compliance with community standards
- Good corporate citizenship
- “Sustainability” initiatives

Creating Shared Value (CSV)
- Addressing societal needs and challenges with a business model
  - At a profit

- In energy and minerals, creating value for both companies and others is not a new concept – companies have been doing parts of it for years
- But few companies have overarching strategies for shared value, and what they do usually falls short of potential
The social engagement portfolio

SHARED VALUE INITIATIVES ARE DESIGNED TO: 1) PROVIDE A BUSINESS RETURN; 2) ADDRESS A SPECIFIC SOCIAL NEED; 3) LEVERAGE CORPORATE ASSETS

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<tr>
<th>Motivation</th>
<th>Philanthropy</th>
<th>Strategic CSR</th>
<th>Shared Value</th>
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<tr>
<td>Be generous</td>
<td>Be responsible</td>
<td>Be more competitive</td>
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<tr>
<th>Issue selection</th>
<th>Community needs</th>
<th>Stakeholder wants</th>
<th>Strategic positioning</th>
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<tr>
<th>Resources</th>
<th>Funding, volunteer</th>
<th>CSR budget, staff skills</th>
<th>Corporate budget</th>
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<th>Corporate “home”</th>
<th>Foundation</th>
<th>CSR department</th>
<th>Cross-functional</th>
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<tr>
<th>Look &amp; feel</th>
<th>Projects/programs</th>
<th>Programs/initiatives</th>
<th>New business models</th>
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<th>Social value</th>
<th>More resources</th>
<th>Better resources</th>
<th>Enduring solutions</th>
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<th>Business value</th>
<th>Goodwill</th>
<th>Reputation</th>
<th>Long-term profitability</th>
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Some shared value opportunities in energy and minerals
ACROSS THE THREE SHARED VALUE PILLARS

<table>
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<tr>
<th>Reconceiving Products and Markets</th>
<th>Redefining Productivity in Value Chains</th>
<th>Creating Enabling Local Environment</th>
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| • Build local markets for intermediate products created by extractive activity (e.g., water, electricity, transport, housing) | • Improve local workforce capabilities  
• Strengthen suppliers in the value chain  
• Increase local disaster and emergency preparedness, response and recovery capabilities  
• Improve utilisation of water, energy, and other resources used in operations | • Develop the local cluster supporting the extractives sectors  
• Invest in shared infrastructure and logistics networks  
• Partner with other local clusters and government in building community infrastructure  
• Play an active role in broad-based economic and community development  
• Improve local and national governance capacity |
## Shared value is different than traditional corporate social responsibility or philanthropy

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<tr>
<th>Area</th>
<th>CSR approach</th>
<th>Shared value approach</th>
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<tr>
<td>Infrastructure</td>
<td>Set up drinking wells for local communities</td>
<td>Develop sustainable water utility leveraging business processes</td>
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<td>Technical training</td>
<td>Provide broad-based skills training with no link to employment opportunities</td>
<td>Create training program based on business and supplier needs and link it to jobs</td>
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<td>Health care</td>
<td>Fund construction of local clinic</td>
<td>Develop program to reduce disease burden among population living in mine catchment area</td>
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Adopting a shared value framing changes the approach to engaging with communities

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<th>From</th>
<th>To</th>
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<tr>
<td>Focusing social engagement strategies on strengthening communities</td>
<td>Focusing social engagement strategies on supporting the emergence of prosperous communities</td>
</tr>
<tr>
<td>Viewing the social licence to operate as the outcome of investments in communities</td>
<td>Viewing solving societal issues as the outcome of investments in communities, with the social license to operate as a byproduct</td>
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<tr>
<td>Societal issues as something delegated to social impact teams</td>
<td>Societal issues as something at the core of the management process</td>
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<td>Focus on short-term societal outputs</td>
<td>Focus on long-term improvements in business competitiveness and economic development</td>
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<td>Project-by-project risk mitigation</td>
<td>Holistic approach to overall impact of company operations on region / country</td>
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<tr>
<td>Extractives companies seen as part of the problem</td>
<td>Extractives companies seen as critical part of the solution</td>
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Creating shared value requires shared effort

EVERY STAKEHOLDER HAS A ROLE TO PLAY, FOR EXAMPLE:

- **Governments**
  - Implement policies and regulation that encourage and facilitate shared value
  - Shift relationship with energy and minerals companies from a contractor model to a development partner model
  - Co-invest with companies and communities

- **NGOs**
  - Become centres of excellence for shared value and disseminate best practices to their members & clients
  - Balance holding sectors accountable with engaging them constructively to advance their mission

- **International development community**
  - Support developing country partners to maximise the development potential of mining

Governments, business bodies, and education and training institutions need to invest time and effort, political capital, internal capacity building, and often finances.
Stakeholders can co-create effective shared value strategies by blending existing and new talent

NEW WAYS OF WORKING TO INTEGRATE WITHIN AND ACROSS ORGANISATIONS

Making the business case for others

Shared value stakeholders may not see or be capable of making the business case for investment.

Business investors, NGOs and governments can help make the case for others to collaborate by demonstrating the shared value return on investment, e.g.

- collaboration in education and training, and workforce development
- pre-investment in community infrastructure in advance of demographic shifts driven by mining
- collaborative investment in energy, water and transport infrastructure.

Resource-constrained governments and other stakeholders may need support to work out how deliver their part of the shared effort necessary to create shared value.

- Such as new generation public-private partnerships for infrastructure and creating alternative markets for infrastructure and services.
Australia’s Economic Diplomacy: open economy, private sector growth, investment, trade & economic growth

GOAL IS TO DELIVER GREATER PROSPERITY FOR AUSTRALIA, THE REGION & GLOBALLY – A FORM OF SHARED VALUE

MINERALS, ENERGY & DEVELOPMENT WORKS ACROSS ALL PILLARS

MINERALS, ENERGY & DEVELOPMENT WORKS ACROSS ALL PILLARS
IM4DC activities facilitate shared value across all parts of mining lifecycle

- Acquisition and exploration
- Construction and development
- Mining and concentration
- Transport
- Trading, marketing and sales
- Closure, rehabilitation and monitoring

- Precompetitive geodata
- Community engagement
- Indigenous agreement-making
- Negotiations and agreements
- Occupational health & safety
- Regional development

- Environmental & water management
- Mine closure and post mining land use
- Mineral economics & policy
- Local content & enterprise
- Education & training
- Revenue design & administration
- Infrastructure planning & delivery
- Mine waste management
IM4DC delivery
GLOBAL CAPACITY-BUILDING OUTPUTS TO END OCTOBER 2014

2163 participants from 50+ developing countries

12480 participant training days
80 short courses

31% female participation

1400+ in mining & development alumni network
50 research projects