LOWY INSTITUTE
FOR INTERNATIONAL POLICY

PERSPECTIVES

Middle-Power Approaches to Resource Politics in the Pacific

Outcomes Report

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Executive summary

A Lowy Institute forum on 10 May 2011 examined middle-power approaches to resource politics in the Pacific. The forum brought together participants from industry, government and civil society with experience in the Pacific, Canada and globally.

The forum explored corporate social responsibility and the operational approach of resources companies from middle-power countries ï primarily Australia and Canada ï to integration with local communities in developing countries. Discussion also focused on corporate social responsibility in Papua New Guineaôs current resources boom and considered the approaches of newer players. Papua New Guineaôs economy is in a sustained period of growth, thanks to voracious demand for its resources. But it faced significant challenges in managing this demand and converting the revenue into better social services.

The principles of corporate social responsibility have become an international business norm. They relied not just on moral altruism, but were backed up by a strong business case. Resources companies with vast experience in developing countries were increasingly implementing these principles to improve their partnerships with communities and deliver mutual gains. Long-term partnerships with governments were also important so that companies did not create parallel services which competed with the responsibilities of governments. The input of third, disinterested parties with relevant experience which could bridge the divide between different parties to improve social outcomes could be valuable.

A serious commitment to corporate social responsibility coupled with transparency gave companies a competitive advantage and helped demonstrate the value of mining to national revenues and to communities.

Reporting on the outcomes of corporate social responsibility programs was important to build trust and maintain good relationships with local communities. Although there were a number of international standards the mining industry had to observe, the interests of local communities were a critical driver of the social responsibilities of companies.

The implementation of corporate social responsibility principles in Papua New Guinea was improving, with a number of demonstrable benefits for communities. The arrival of newer investors from the United States and China, with less experience of operating in Papua New Guinea, posed some challenges for the Papua New Guinea government as it worked to extend the benefits of the current resources boom to the whole country.

Although operating in Papua New Guinea posed some difficulties for resources companies, there were significant opportunities for both companies and communities to benefit from constructive partnerships. Improving corporate social responsibilities across Papua New Guinea would deliver lasting value to individual communities, the nation and companies.

Canadian initiatives to promote corporate social responsibility

Canada established the Office of the Extractive Sector Corporate Social Responsibility Counsellor in October 2009, as one element of the Government of Canada's CSR Strategy for the Canadian international Extractive Sector. In addition to the Office, Canada's CSR Strategy has three other pillars: to support host country capacity building for resource governance; to support the awareness and use of the standards; and, to create a CSR Centre for Excellence.

The CSR Strategy endorses the International Finance Corporation's Performance Standards, the Voluntary Principles on Security and Human Rights, and the Global Reporting Initiative. The Office of the Extractive Sector Corporate Social Responsibility Counsellor has two mandates: (1) to review the CSR practices of Canadian extractive sector companies operating outside Canada in the context of these standards; and 2) to advise stakeholders on the implementation of above three endorsed performance standards.

The Office's review mechanism, a dispute resolution process, responds to the interest of many stakeholders for a safe space for constructive problem-solving. Canadian mining, oil or gas project-affected communities, groups or individuals, as well as Canadian companies which are of the view they are the subject of unfounded allegations, may bring a request for review before the Office.

As the Office's mandate only covers activity undertaken by Canadian companies outside Canada, the Office has had to remain cognisant of óforum shoppingô in other institutions such as the OECD and the United Nations. While its defined mandate reduces the scope for overlap, there are formal protocols in place to handle overlaps if they arise.

The Office was one model for addressing the best way for communities, companies and governments to move forward following disputes over extractive sector projects. Resource companies were also in the process of developing corporate social responsibility policies. Some companies have chosen to build their own policies drawing on a wide variety of sources such as the World Bank, the International Finance Corporation, and International Organization for Standardization (ISO) standards, in the absence of an established off-the- shelf product. While these policies were relatively new, there was a general sentiment that they were working well. Disputes were still taking place, but there was at least now a mechanism in place for dealing with them effectively. Policies were evolving to integrate various new initiatives. The United Nations Global Compact was one such example.

Moral case versus business case for CSR

While there may be a clear moral case for CSR, the forum questioned whether the business case was as compelling. Industry representatives pointed out that securing the social licence was a key pillar to any project, as important as establishing the presence of resources to begin with and assessing the ability of companies to extract those resources. Establishing a strong track record in CSR provided a competitive advantage when approaching new projects in the future. This increased the importance of transparency and performance.

Three distinct performance challenges were identified. First, mining companies must not circumvent the host country governmentôs social contract responsibilities. This was particularly sensitive when dealing with indigenous populations with their own formal or informal governance mechanisms. The second challenge lay in seeking to impose Australian or Canadian standards on less mature regulatory environments. The third was how Australian or Canadian companies should deal with local interests or the broader national interests of countries and develop resources for longer-term sustainable development, particularly when they were competing with the growing presence of state-owned enterprises.

It was also important that all parties ï community, government and company ï were in broad agreement on their approach to long term sustainability.

Taking CSR seriously was important not only for reducing the stigma for the mining industry as a whole, but also assisted in managing the brand of the country of origin and the company itself. But performance overrode branding. Mining companies must remember they are renters of, not owners of resources. Transparency would assist not only with stigma and branding, but would also demonstrate how mining can add value to local communities as well as help manage special interests.

Reporting

Company reporting on the development outcomes of CSR programs was an important function in the process of maintaining good relationships with local communities. The measurement of results was an ongoing project. In the past, companies have relied on measuring inputs, describing their activities based on the amount of cash they are pumping into local economies. But there has been a shift towards measuring outcomes, which brought its own complications. Outcomes and other less tangible measures such as capacity building were more difficult to measure, but could bring better results for sustainable development. The industry was working with external partners-such as consulting firms, academia and civil society representatives to figure out how best to measure these outcomes.

Further complicating the reporting situation was the proliferation of standards and guidelines. The mismatch between the Global Reporting Initiative and Millennium Development Goals was one example of the difficulties facing companies reporting on their outcomes. The fourth generation of Global Reporting Initiative guidelines was under development and may address some of these problems. Mechanisms such as the Canadian CSR Counsellor could also assisting companies in navigating the various standards. Despite the many standards and guidelines, the primary driver should be the local community and what information it required. Companies also needed to be conscious of maintaining sight of the detail in the data, which often got lost in the aggregation process of corporate reporting to executives and boards.

Cultural difficulties

There were significant cultural differences between companies and the communities within which they are operating. In the past, this has led to claims that companies operated with double standards: one set of standards for developed countries and one set for developing countries. There was recognition within the industry of these cultural differences and the difficulties that arose as a result.

For example, freehold ownership was rare in many developing countries ï just three per cent in Papua New Guinea ï creating difficulties with the concept of mineral ownership. Even the concept of consent could be different, with contracts at times constrained by the interests of longstanding personnel in positions of authority ï both in the community and in the company. Other highly sensitive issues included resettlement and environmental care. Notable was the problem of water availability. Sometimes there is too much water, as in tropical climes, sometimes there is too little, as in South America. There is also the push for clean energy, as mining operations can be huge consumers of energy. At times, company policies did not align with government policies and services, and there could be clashes between national and local government aspirations. It was important for all to understand the risks and the cost to the community and to work towards ensuring that benefits reach all parts of the community.

Community development

Speakers encouraged the industry to focus more on the opportunities to make long-term partnerships with governments. The time horizon for mining projects is often measured in decades so the mining industry could have a major positive impact on the social development of local communities. Public private partnerships (PPPs) have yielded positive results in communities in, among other places, Papua New Guinea and Mongolia. Finding the point of intersection between the goals of the public and private sectors was crucial to the success of these projects. In some cases a third, disinterested party intermediary with relevant expertise could be successful in bridging the divide between these two partners, given their different objectives and, in some cases, mutual distrust. Even when trust was not an issue, the private sector often did not have the public policy expertise to implement successful programs. Social policy programs could make use of existing government infrastructure, rather than creating a parallel service. This became crucial when mining companies eventually pulled out, thus leaving behind a stronger public service. This was part of communities learning how to harness the legacies from the mining industry for development beyond the mining project.

Companies struggled with managing perceptions of exploitation. On questioning whether companies should be investing in capacity building so that community leaders are on a level playing field when entering into negotiations with giant multi-national companies, one participant responded that they are ódamned if they do and damned if they donôtõ. If the company paid for capacity building, there could be a perception that they were paying off governments or community leaders. In one project, the company involved the World Bank as a disinterested mediator, but they found this process to be painfully slow. In another model, both the company and the government paid into a fund which is then run independently. Other instances have seen companies sign terms of reference, which stipulated the integration of traditional knowledge in environmental impact assessments among other things.

Papua New Guinea as a case study

As a result of the current resources boom, there is unprecedented economic and social change currently underway in Papua New Guinea, which was bringing together communities which have not worked well together in the past. Papua New Guinea had a poor record of converting the wealth of its natural resources into better social outcomes across the country. As new projects promised to deliver significantly more revenue to Papua New Guineaøs government and stakeholders, expectations for improved management and governance of benefits were high. The new LNG project alone promised US$32 billion in direct revenue to the Papua New Guinea government and landowners over a 30-year period, more than three times what had already been earned in direct revenues from resources investments.

Just as in other countries, there was a need for better reporting, greater transparency and better relationships between levels of government, which have suffered from mutual suspicion. There have, however, been positive developments in Papua New Guinea. The implementation of trust funds has been a good step, but required greater transparency. Corporate social responsibility was becoming more mainstream, with the CSR department in one major player forming the biggest department in the corporate organisation, covering government and community affairs as well as whistleblowing.

The mining boom in Papua New Guinea has coincided with corporate social responsibility being accepted as an international business norm. Views were mixed on how the CSR situation was evolving across the country, with the entry of corporate China into the PNG market seen as adding some complexities and inviting criticism. Chinese investments in social goods such as infrastructure were welcomed, but there was some nervousness with the inflow of individual Chinese entrepreneurs alongside the Chinese mining companies. These so-called ónew Chineseô were sometimes perceived as having arrived in PNG illegally with little knowledge of local culture or language, and focused on profit over integrating with the local community. The Papua New Guinea government had granted significant tax holidays for Chinese companies, provided indemnities and was perceived by some as being weak on illegal immigrants from China. Concerns about the behaviour of Chinese companies in Papua New Guinea were similar to those often expressed about Chinese investors in Africa.

There was, however, evidence that Chinese companies were learning from their operational experience in Papua New Guinea and making efforts to implement some CSR principles. The challenge for the Papua New Guinea government was to ensure that every company operating in the country, including the newer investors, implemented CSR principles and respected the rights of landowners and workers.

There was some optimism about the overall situation in Papua New Guinea. Communities were being given the opportunity to participate in decision-making and most mining companies were going to great lengths to ódo the right thingö. Mining companies were heavily involved in health and social development policy, in one case working with the World Health Organization in disease eradication. A number of companies were working on skills development. This was far from being a new phenomenon as mining companies had invested in skills training since the 1970s ï training thousands of tradespeople, setting up technical colleges and establishing a Future Generations Trust. The tax credit scheme (established in 1992) could also create some policy space for social services to be delivered by a partnership between mining companies, government and communities.

A major difference between Papua New Guinea on one hand and Canada and Australia on the other was that Papua New Guinea communities were not disenfranchised in the way that Australian and Canadian indigenous communities were, which meant that landowners were part of the process of decision-making. This was seen as a very positive point of difference.

Papua New Guinea posed big challenges but also offered significant opportunities. Papua New Guinea was topographically challenging, with high rainfall and limited transport and communications infrastructure. There were many different cultures and languages without much history of cooperation and in some cases, a history of conflict. For companies employing the right business model, however, Papua New Guinea provided many opportunities. It was politically democratic and open, which offered developers operating stability. On this score, it compared favourably with other resource-rich developing countries.

Conclusion

Corporate social responsibility has become an international business norm that relies not just on moral altruism, but is backed up by a strong business case. Establishing the social licence set out expectations between the companies and communities and created a track record of responsible mining which companies could leverage for future projects.

It was important for mining companies to be transparent and open. Mining companies should report not just on cash inputs into programs, but on actual development outcomes that were achieved and be mindful of the information that the communities themselves want. Good corporate social responsibility policies must take account of the different features of different countries, being mindful of local customs and cultures.

It is crucial for the success of the social development, and for the mining project itself, that mining companies work with communities and different levels of government to manage social change. The challenge was for all these parties to find the best model of cooperation that suited individual circumstances and adhered to best international practice.

Australia and Canada are both prosperous Western liberal democracies with significant resources wealth. They are both serious middle-power players and have a common need to understand what is driving great-power interests in regions where their companies operate and what impact those activities will have on their national interests. Australia and Canada have much experience to share to prepare to maximise gains from the resources boom and ensure developing countries, including in the Pacific, benefited from the boom.

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Note

The forum was held under the Chatham House Rule to encourage frank discussion.

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