



Implications of COP26 for Africa's mining industry

Due to the importance of critical minerals in the energy transition, the mining industry has a significant role to play in the pursuit of a net-zero future. At the same time, critical minerals mining is an environmentally damaging process, often occurring in jurisdictions with poor labour and environment standards, compounded by political instability risk. The recently concluded 26th Climate Change Conference of the Parties (COP26) shows that Environmental, Social and Governance (ESG) integration must play a larger future role in the mining industry.

Obtaining a net-zero future in the mining industry

Executive Summary

In the wake of COP26, the private sector will attract increasing attention in relation to the pursuit of a net zero future.

- More than 100 countries and several private firms, for instance, pledged to end deforestation by 2030 and to reduce methane emissions by 30% by 2030.¹
- Targets to phase out coal were agreed through multilateral deals between developing countries and developed countries.²
- Demand for critical minerals is expected to increase in tandem with growing demand for low carbon technologies (including electric vehicles, and renewable energy).
- The African continent hosts rich deposits of critical minerals needed for a low carbon future and several opportunities for mining companies operating in the region.
- There is a growing push from industry bodies such as the International Minerals and Metals Council (ICMM) for the mining industry to include sustainability related issues in their decarbonisation strategies.

Net-zero

Net zero refers to a state in which the greenhouse gases produced by human activities are balanced by removal of emissions out of the atmosphere.

“What Is Net Zero?” Net Zero Climate. Oxford Net Zero, March 2, 2022. <https://netzeroclimate.org/what-is-net-zero/>

¹ United Nations Climate Change (UNCC) (2021). Glasgow Climate Pact. [online] Available at: https://unfccc.int/sites/default/files/resource/cop26_auv_2f_cover_decision.pdf
² Pickard, J., Hook, L. and Cotterill, J. (2021). Western nations agree \$8.5bn deal to help South Africa decarbonise. Financial Times. [online] 2 Nov. Available at: <https://www.ft.com/content/d3ace7e6-5cdf-4dcd-8e5f-1be54e1969d7>.

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Recommendations

- African governments must put into place incentive platforms for a just decarbonisation process.
- To reduce future regulatory and social risks, mining companies should integrate sustainability in their business strategies, particularly with respect to decarbonisation.
- The integration of Environmental, Social and Governance principles into business practice of mining companies offers a framework for effective contribution to the energy transition.
- To avoid conflict cycles emerging from grievances by communities, more investment decisions need to prioritise good governance and the wellbeing of these communities. Additionally, efforts should be made to reduce environmental damage from mining operations, as this a major area of community grievances in the extractives industries. New technologies increasingly render this an economically viable strategy.³

Call to Action

Mining companies operating in Africa will be expected to play a leading role in the energy transition. Genuine commitment to ESG performance criteria must inform the mining industry's contributions, not only towards realising the Paris Climate Agreement but also to secure its own future.

³ Ross Harvey, "Greening South African Mining through the Fourth Industrial Revolution," in *The Future of Mining in South Africa: Sunset or Sunrise?*, ed. Salimah Valiani, 1st ed. (Johannesburg: Mapungubwe Institute for Strategic Reflection (MISTRA), 2018), <https://www.amazon.com/Future-Mining-South-Africa-Sunrise/dp/0639923828>.

Demand for critical minerals is shaping Africa's mining industry



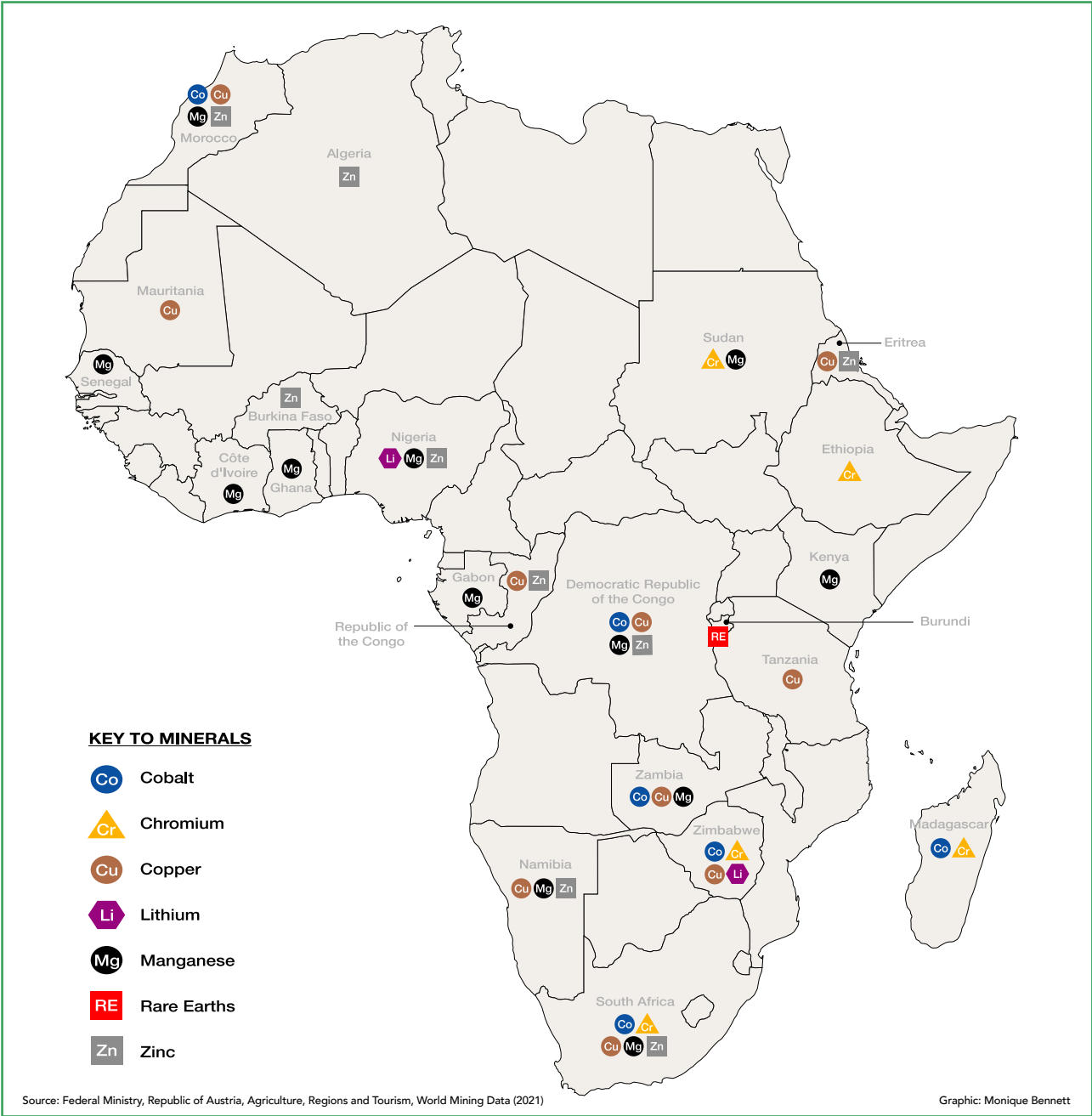
30 Countries and 6 major car manufacturers pledged to end the production of fossil fuel vehicles globally by 2040.⁴ Simultaneously, four of the five largest vehicle manufacturers (Toyota Motor Corp., Volkswagen AG, Renault-Nissan-Mitsubishi Alliance and Hyundai-Kia) refused to commit to said action.⁵ Toyota, in particular, sees its future in the development of plug-in hybrid vehicles (which produce less emissions than standard fossil fuel vehicles), as well as hydrogen vehicles. This approach could result in some of these companies suffering reputational damage and decreased market share in the future. **Mining companies will be affected by vehicle manufacturing decisions as they will be a key driver of mineral and metals demand dynamics.**

137 countries signed a pledge to end deforestation by 2030. CEOs from 30 financial institutions committed to the elimination of activities linked to deforestation within their value chains.⁶ A further \$12 billion in public funding from developed countries, as well as \$7.2 billion in private funding, was committed. By doing so, companies are internalising some of the negative externalities created by deforestation in the process of producing goods and services. **Mining companies will increasingly have to show a commitment to deforestation if they are to access climate-conscious funding in the future.**

4 Milman, O. (2021). COP26: carmakers agree to end sale of fossil fuel vehicles by 2040. [online] The Guardian. Available at: <https://www.theguardian.com/environment/2021/nov/10/cop26-car-firms-agree-to-end-sale-of-fossil-fuel-vehicles-by-2040>.

5 Luckhoff, P. (2021). COP26 emissions pledge: Some of world's biggest car makers join, others refuse. [online] CapeTalk. Available at: <https://www.capetalk.co.za/articles/431951/some-of-the-world-s-biggest-car-makers-refuse-to-join-cop26-emissions-agreement>.

6 Shankleman, J. (2021). 100-Nation Pledge to End Deforestation Backed by \$19 Billion. [online] Bloomberg. Available at: <https://www.bloomberg.com/news/articles/2021-11-01/100-nations-pledge-to-end-deforestation-backed-by-19-billion>.



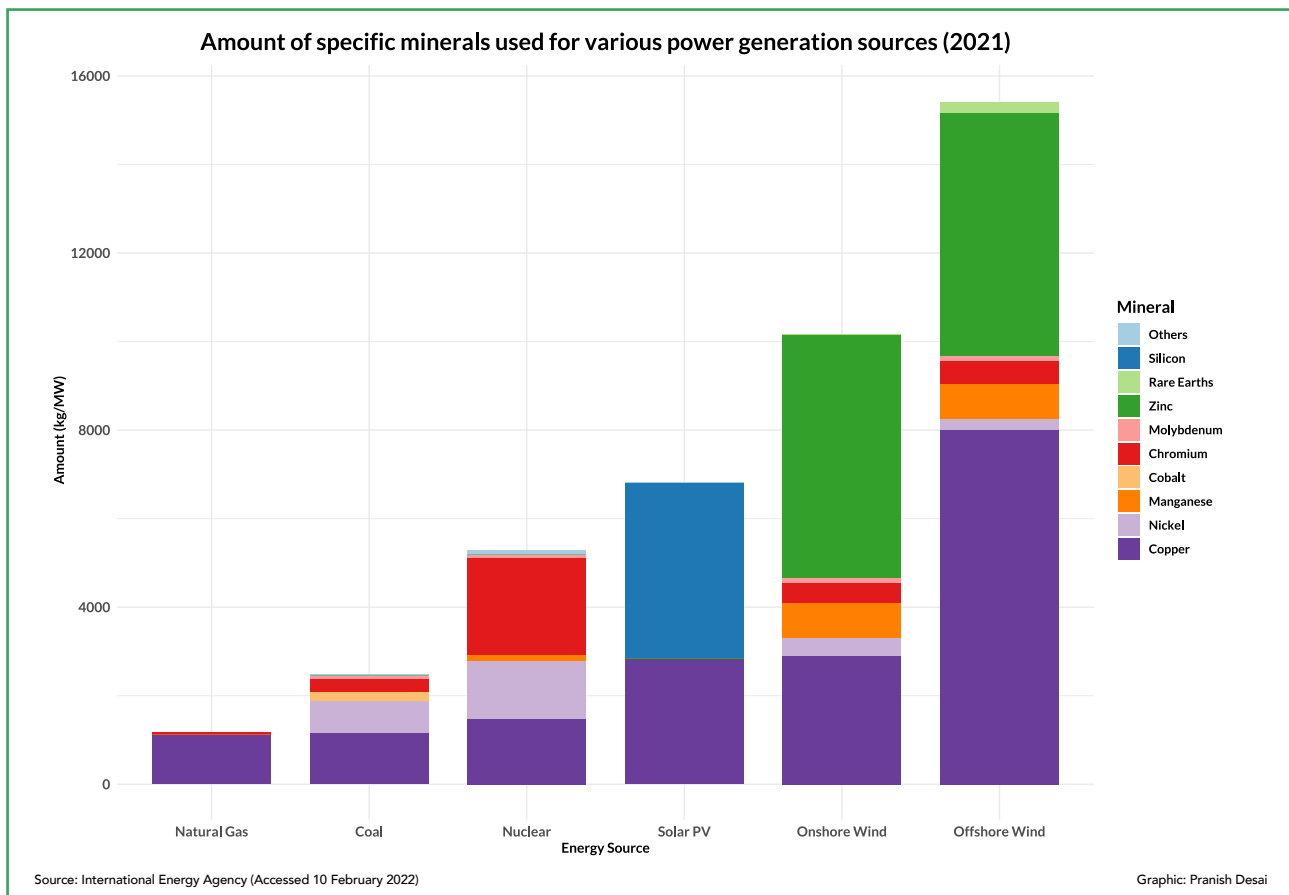
Map indicating critical mineral deposits demanded for the energy transition

Analysis

Copper, lithium, cobalt, nickel, chrome, manganese, rare earth metals and platinum group metals (PGMS), among other minerals and metals, are essential to the production of the technologies required for the net-zero future, including electric vehicles and renewable power generation. Demand for critical minerals is expected to increase significantly as countries and companies increasingly move towards this net-zero vision. This presents countries which produce critical minerals with the opportunity to participate more

integrally in the renewable energy and electric vehicle value chains. New investments will now need to be made in the infrastructure required to facilitate these revolutions, and governments will need to create policies that promote domestic markets for cleaner technologies.

Mining companies will play an increasingly important role in this transition, as well as in the necessary phasing down of coal production and burning (and the phasing out entirely of new coal exploration).



Amount of specific minerals used for various power generation sources

The integration of ESG criteria by mining companies and investors can lead to mining companies pursuing more sustainable business practices. Additionally, according to a report from PwC Africa, mining companies with higher ESG ratings outperformed the market during the peak of the COVID-19 crisis.⁷ This suggests that despite criticisms of ESG as a placebo for systemic issues,⁸ and the fragmented nature of ESG data,⁹ it makes business sense to address ESG risks.¹⁰

The mining industry, for instance, can benefit from investing in community infrastructure, local government institutions and capacity building to equip mining communities for the energy transition and the Fourth Industrial Revolution (4IR). Mining will become

increasingly less labour-absorptive than in the past, and mining companies can serve host communities by funding skills acquisition and 4IR-competitive enterprise development programmes. Finally, improved corporate governance, entailing increased transparency on how companies intend to execute on the ambitions presented at COP26, will minimise the risk of being charged with [greenwashing](#).¹¹

A study by McKinsey & Co advising the mining industry on the creation of an effective climate and decarbonisation strategy argues that climate mitigation and adaptation strategies will be essential. Risks to mining assets that need to be considered include flooding and water stress.

7 Martin Cremer, "Mining Firms with Higher ESG Ratings Outperform Market – PwC," Mining Weekly, June 8, 2021, <https://www.miningweekly.com/article/mining-firms-with-higher-esg-ratings-outperform-market-pwc-2021-06-08>.

8 Armstrong, Robert. "The ESG Investing Industry Is Dangerous." Financial Times. Financial Times, August 24, 2021. <https://www.ft.com/content/ec02fd5d-e8bd-45bd-b015-a5799ae820cf>.

9 Eccles, Robert G. "A Critique of Tariq Fancy's Critique of ESG Investing: An Interview with Clara Miller." Forbes. Forbes Magazine, October 8, 2021. <https://www.forbes.com/sites/bobeccles/2021/10/01/a-critique-of-tariq-fancys-critique-of-esg-investing-an-interview-with-clara-miller/>

10 Obisie-Orlu, Vincent. "Vincent Obisie-Orlu: ESG: Smoke and Mirrors or a Way for Markets to Help Save the World?" BusinessLIVE. Business Day, November 25, 2021. <https://www.businesslive.co.za/bd/opinion/2021-11-25-vincent-obisie-ortu-esg-smoke-and-mirrors-or-a-way-for-markets-to-help-save-the-world/>.

11 Busisipho Siyobi, "Greenwashing under Growing Regulatory Scrutiny," Good Governance Africa (Good Governance Africa, May 28, 2021), <https://gga.org/intelligence-report-greenwashing-under-growing-regulatory-scrutiny/>.

CASE STUDY

How can the International Council for Minerals and Metals continue steering the mining and metals industries in a more sustainable direction?

A month before COP26, the International Council for Minerals and Metals (ICMM), an international mining body, announced that 28 of its members had committed to net-zero scope 1 (direct) and scope 2 (indirect) greenhouse gas emissions by 2050.¹² However, scope 3 emissions present a major challenge to the mining industry's push towards decarbonisation, while largely lying beyond the control of these companies.¹³

Speaking at COP26, Rohith Dhawan, CEO of the ICMM, highlighted the need for the industry to move towards decarbonisation.¹⁴ To do so, mining companies and their investors will need to integrate the United Nations Sustainable Development Goals (SDGs) framework into their core business strategies to ensure a just decarbonisation process. This is because conversations around decarbonisation tend to exclude concerns about the social development of mining-dependent countries and communities, which will bear the brunt of changes to current policy.

The ICMM's attempt to shift the mining industry towards a more sustainable path has been lauded, while also aligning with the ongoing efforts by mining companies towards decarbonisation and sustainability. Sustainability-minded investors and analysts will be closely watching how the mining industry implements its commitments to emissions reductions, as well as the integration of ESG criteria into business practice.

- **Scope 1 Emissions:** direct greenhouse (GHG) emissions that occur from sources that are controlled or owned by an organization
- **Scope 2 Emissions:** indirect GHG emissions associated with the purchase of electricity, steam, heat, or cooling. Although scope 2 emissions physically occur at the facility where they are generated, they are accounted for in an organization's GHG inventory because they are a result of the organization's energy use
- **Scope 3 Emissions:** result of activities from assets not owned or controlled by the reporting organization, but that the organization indirectly impacts in its value chain
- **From:** US EPA (2015). *GHG Inventory Development Process and Guidance*. [online] United States Environmental Protection Agency. Available at: <https://www.epa.gov/climateleadership/ghg-inventory-development-process-and-guidance>.

¹² Shabalala, Zandi, and Clara Denina. 2021. "World's Top Miners in Landmark Pledge to Achieve Net Zero by 2050." BusinessLIVE. October 5, 2021. <https://www.businesslive.co.za/bd/companies/2021-10-05-worlds-top-miners-in-landmark-pledge-to-achieve-net-zero-by-2050>.

¹³ Hoyle, R. (2021). Miners Have a Pesky Pollution Problem: Their Customers. Wall Street Journal. [online] 10 Nov. Available at: <https://www.wsj.com/articles/miners-have-a-pesky-pollution-problem-their-customers-11636540201>.

¹⁴ Liz, Ana de. 2021. "Industry Must Move from ESG into UN's SDGs to Achieve Sustainable Decarbonization - ICMM Chief Executive | Metal Bulletin.com." FastMarkets MB. November 10, 2021. <https://www.metalbulletin.com/Article/4015969/Base-metals/Industry-must-move-from-ESG-into-UNs-SDGs-to-achieve-sustainable-decarbonization-ICMM-chief-executive.html>.



Conclusion

COP26 confirms the important role that the mining industry plays in achieving the objectives of the Paris Climate Agreement and keeping the “below 1.5 degrees” ambition alive. Mining companies are currently pursuing projects towards decarbonisation and integrating climate risk into their risk management processes. However, they will need to increasingly focus on the social factors of the energy transition and their decarbonisation journey, to ensure a smooth and efficient transition in which they act as development partners as opposed to resource extractors.

African governments must put in place incentive platforms to support a just decarbonisation process. Additionally, mining companies must be aware of the growing potential for regulatory risk around carbon emissions, namely a carbon tax.

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