THE EXTRACTIVE SECTOR AND DEVELOPMENT

One of the most controversial issues facing Canada is its role in the booming extractive industries of the developing world. A rich country, but in many ways still a metaphorical hewer of wood and drawer of water, Canada has become an important player in the fast-growing global trade in minerals, and is today a mining superpower. About 70% of the world's equity capital for mining is raised on the Toronto and TSX-Venture Exchanges. Canadian mining companies operate in more than 100 countries around the world and the value of their mining assets abroad reached $146.2 billion in 2011.[1]

Some would say that Canadian mining corporations are among the best-behaved internationally, but a 2010 study found that they are "far and away the worst offenders".[2] Controversy stalks this issue. The commodities boom was accompanied by an upsurge of anti-mining protests throughout the developing world, and Canada-based corporations are often the target, embroiled in costly and damaging scandals over biodiversity, clean water and animal habitats, for engaging in corruption, environmental destruction and human rights abuses, running roughshod over local laws and supporting unsavoury despots.

Too often the issue of good practice by mining companies operating abroad – whether Canadian or otherwise – has been reduced to well-meaning but tokenistic acts of corporate social responsibility. Canada's role should be about much more than that.

The Context: The Mining Minefield

Canadian companies have a strong interest in support for anti-corruption measures, adherence to environmental laws and the ability of a developing country to create and enforce equitable taxation regimes. In fostering local institutions and laws, companies can help to secure a more stable and predictable investment climate for themselves and their shareholders. In short, doing the right thing makes for good business relations.

Development assistance agencies can also play an important role here. Canadian development assistance could help to strengthen developing countries' institutions so they can regulate extractive industries, provide benefits to local populations, and encourage respect for international conventions and industry standards. In the past, though, Canadian-supported reforms have been more financially advantageous to Canadian investors than to host countries.

The McLeod Group works to strengthen Canada's contribution to a better world.

The McLeod Group is made up of professionals with many years of experience in government, civil society and academia, working across the fields of international development, diplomacy and foreign policy. We work with others who value human rights, inclusion, equality and sustainable development to advance Canadian policy and action on international cooperation and foreign affairs.

260 Metcalfe Street, Suite 6A, Ottawa, ON K2P 1R6

McLeodGroup.ca | mcleodgroup12@gmail.com | @theMcLeodGroup

But there's more to it than that. When a bad or careless government joins forces with a ruthless and impatient company, the impact on local communities can be devastating. This is where international oversight is indispensable.

Institution-making – or in some cases effective institution-*supporting* – takes time. But the win-win situation that comes from a stable investment climate and positive development outcomes will elude the Canadian government and Canadian companies if they take shortcuts, or insist that there is no need for transparency and accountability.

A New Era?

PricewaterhouseCoopers says that the mining industry has entered a new era, and that many governments are looking to reform their mining codes, taxation and royalty regimes, and to improve their policy frameworks.[3] From an investor's point of view, stability and certainty are important. These are no less important to developing countries.

There is something else. Just like Canada, developing countries want to wring the most they can out of the mining sector. *The Economist* reminds its readers that "Resource nationalism is nothing new… Nor is the practice confined to developing countries that feel they came off second-best when negotiating resource deals in years gone by".[4] And a question arises: Who should take responsibility when a foreign firm ignores disputes over land, labour or human rights with the blessing of a weak or corrupt government?

The challenge for Canada is to ensure that our aid program is not lured away from areas where it has knowledge, history and a legal obligation – poverty reduction – into acting as a shill for companies that do a bit of development work on the side in order to acquire and retain mineral rights. In the context of Chinese investment in oil and mining, Canada has a golden opportunity to position itself as a leader in good corporate practices and accountability for abuse.

Fear that Canada is heading in the Chinese direction – using aid to gain concessions – is what has driven recent public criticism of CIDA's (now GAC's) trilateral agreements with NGOs and mining companies: the Harper government was accused of subsidizing the responsibilities and public relations of highly profitable companies. Corporate subsidies aside, such funding conveys a worrying message that Canada is prepared to help companies outsource even the most basic of civic responsibilities. In doing so it demonstrates a troubling disconnect on current debates about best practice among multinationals operating in the extractive sector.[5] Unless Canada's policy is clear in this respect, there will continue to be much more heat than light in an area where Canada really can play a useful role. Unfortunately, the government's sudden 2014 announcement that Mongolia – where Canada has large mining interests – would become a focus for Canada's international development assistance, looked very much like the Chinese model.

Canada would do well to ally itself with the principles and objectives of the African Union's African Mining Vision and the Natural Resource Charter. [6] Both initiatives are currently at the heart of efforts by developing countries to articulate how they plan to improve governance in the extractive sector and ensure that natural resources contribute to improvements elsewhere in their economies.

Even at its best, Canadian aid will face two issues where the extractives are concerned. The first is that in a time of deep cuts, any new priority – no matter how good – will encroach on existing commitments. New aid money for the mining sector will not really be "new", it will be money diverted from some other area such as education or health.

The second issue is a bigger one – it is the trade-off between spending directly on proven poverty-reducing sectors such as basic education, or betting on longer-term developmental outcomes that might arise from the economic growth to be derived from investments in the extractive industries. For two generations, development economists have understood that in developing countries, growth is a necessary but insufficient component of development. Growth and development, however, are two very different things. And unless the concept of development includes a clear focus on poverty, getting from growth to poverty reduction, as Canadian development ministers frequently do in a single sentence, is by no means assured.[7]

The Canadian International Resources and Development Institute (CIRDI)

In October 2011, Prime Minister Stephen Harper announced the creation of a Canadian International Institute for Extractive Industries and Development, now CIRDI. A partnership between UBC, Simon Fraser University and the École Polytechnique de Montréal, the CIRDI was formally launched in January 2014. The idea that the Institute can become financially self-sustaining by 2018 seems aspirational at best.

The Institute's biggest challenge will be the huge potential for conflict of interest. The Institute aims to provide services to governments in the creation of stable, developmentally and economically sound regulatory systems and tax codes. Many will ask how a Canadian institute funded by a government that on the commercial side is actively promoting Canadian mining firms abroad, can be taken seriously as an objective broker. Moreover, after the government's support comes to an end, the mining industry will be the Institute's only realistic source of future funding, further increasing the potential conflict of interest.

While the Institute has announced a variety of partnerships with industry, governments and NGOs, it remains to be seen how it will relate with escalating civil society advocacy and the vexed issues of artisanal mining, human and aboriginal rights and the need to tackle at a generic level the kinds of conflict that so often arise when mining companies come to town. If the Institute can get past the conflict of interest problem – no easy task – these are all areas where, based on its own experience and history, Canada could have much to offer.

Ways Forward

1. **Canadian aid should not be used as a promotional tool for Canadian commercial interests.** Canada can certainly contribute to the creation of a secure, stable and predictable playing field in the extractive sector. It can help build secure investment environments, good and consistent policies on environmental protection, labour rights, occupational health and safety, land tenure and rule of law. Canada could become a leader in these areas. *But if it is seen as a huckster for Canadian commercial interests, credibility will evaporate and the potential will be lost.*

2. **A strategic vision is required for the near, medium and longer terms.** Short-term grab-and-run tactics may work in some places, but they cannot be the standard to which any company or country aspires in the longer term. The objectives of efforts to improve the performance of Canadian companies operating abroad must be revisited if Canada is to be a true leader in this industry.

3. Many of Canada's biggest extractives companies have no problem in meeting the standards contained in any of a dozen voluntary codes of conduct. The problem is not the best companies, it is others that do not respect or care about the codes. Abiding by clear-cut rules and obtaining meaningful seals of approval are part of today's cost of doing business and of obtaining a *sustainable* "social licence" to operate. Here is an area where **the Canadian government could and should lead, by providing clear oversight mechanisms and ombudsman services for dispute resolution, and recourse to the Canadian judicial system where this proves impossible.**

NOTES

[1] Mining Association of Canada, *Facts and Figures 2013*, *http://mining.ca/sites/default/files/documents/FactsandFigures2013.pdf*.

[2] Les Whittington, "Canadian mining firms worst for environment, rights: Report", *Toronto Star*, October 19, 2010, http://www.thestar.com/news/canada/2010/10/19/canadian_mining_firms_worst_for_environment_rights_report.html.

[3] PwC, "Mining", www.pwc.com/gx/en/mining/.

[4] "Wish you were mine", *Economist*, February 11, 2012, www.economist.com/node/21547285.

[5] See for example, the work of Harvard Professor John Ruggie and the UN's *Guiding Principles on Business and Human Rights* or the OECD's *Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas* (www.oecd.org/corporate/mne/mining.htm).

[6] See www.africaminingvision.org and http://naturalresourcecharter.org/.

[7] Details on Canada's sustainable economic growth strategy can be found at www.international.gc.ca/development-developpement/priorities-priorites/sseg-fced.aspx?lang=eng.

Updated April 6, 2016