Tracking the trends 2023
The indispensable role of mining and metals
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The world is at a critical point in time, socially, environmentally, and economically. The latest projections by the United Nations suggest that the global population could hit 8.5 billion in 2030 and 9.7 billion in 2050. With a growing population comes a growing demand for the metals and minerals that underpin societal progress. From civil infrastructure to transportation, and technology to agriculture, the products that the mining and metals sector produces, support and enable virtually every sector globally.

The paradox is that, while the need for mined products has never been greater, public opposition to mining activities has never been higher. The green energy transition is expected to be a mineral-intensive one—the International Energy Agency estimates that the demand for minerals used for electric vehicles and battery storage will grow tenfold by 2040. Yet, at the same time, approvals for projects that could become important providers of critical minerals, such as lithium (see Rio Tinto’s Jadar project in Serbia), are being hampered due to protests. The juxtaposition between need and want is stark, and the gulf between them creates a very real threat to global climate change mitigation.

For too long, the stories told about the mining and metals industry have centered on the negatives. However, the opportunities that mining and metals companies can offer to provide for and enhance the prospects of the population, as well as the environments they reside in, are vast. Mining underpins approximately half of the global economy and therefore, it has the greatest potential of any industry to positively influence social, environmental and economic development.

This year, Deloitte Global’s Tracking the trends 2023 focuses on the indispensable value that mining and metals companies can deliver, with the emphasis on taking action now for a better tomorrow. In each of these 10 trends, our network of Mining & Metals sector professionals globally offer up expertise, insights, and examples to spark conversations about how mining and metals organizations can make a difference in the world.

Changing perceptions of the industry by putting people and natural capital front and center in strategies; designing organizations and products for circularity; creating safer, more respectful places of work; and innovating together to make the possibility of ultra-efficient mines a reality will be key to creating a healthy, regenerative ecosystem inclusive of people, planet and industry.

We’re excited to discuss these trends with you and explore how they will shape your company’s future. Thank you for your ongoing support.

Endnotes


Trend 9

Transparency equals trust

Using tax and economic contribution reporting to change perceptions of mining

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While mining and metals organizations have long played an important role contributing to emerging economies around the globe, intensifying resource scarcity means that companies are more often finding themselves drawn to projects in less developed or higher-risk jurisdictions. This has the potential to make them a key component in the socioeconomic development of areas that might otherwise struggle to secure foreign investment.

With this power comes responsibility, and organizations can expect close and ongoing scrutiny of their tax and wider economic contributions from a range of stakeholders in the years to come—among them, tax authorities, investors, civil society and local communities.

Governments seeking to repair their balance sheets as they emerge from the COVID-19 pandemic and attempting to navigate the global supply constraints and inflationary pressures exacerbated by the Russia-Ukraine conflict may critically assess the share of economic returns they receive from their domestic extractive sectors. Due to the very direct impact of the conflict on global oil and gas prices, it is in that sector where windfall taxes and other government revenue-raising measures have been most discussed lately, but the prices of many mined commodities have also retained their strength through the recent economic turmoil.

For mining and metals companies, building and reinforcing trust throughout their stakeholder communities has rarely been more important. A recent report from the Organization for Economic Co-operation and Development (OECD), *Tax morale II: Building trust between tax administrations and large businesses*, cites openness, communication, and transparency as some of the key foundations for building a trusted relationship between businesses and tax authorities.²

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**The positive power of mining and metals**

Mining and metals can be a powerful catalyst for socioeconomic growth provided that this is done in the right way. Through their investments, these organizations have the potential to generate critical revenue for building infrastructure; employment and educational opportunities for local and Indigenous communities; and, through shared values and local procurement initiatives, a mechanism to create regional prosperity that outlasts resource extraction.
Meeting mandatory reporting requirements

In defining tax morale as the intrinsic willingness of multinational enterprises to pay tax, the recommendations in the OECD report should not come as a surprise to a sector where the payment of taxes has long been part and parcel of mining and metals groups’ social license to operate in their host countries. When it comes to transparency, the mining and metals industry (as part of the wider extractives sector) has a strong record of publicly setting out its tax and other economic contributions into government coffers.

Formed in 2003, the Extractive Industries Transparency Initiative (EITI) has been implemented in more than 50 countries and, for many years, has required mining groups to report payments of corporate income taxes; royalties and dividends to host country governments, disaggregated by company; and project and recipient government agency, among other things. After being independently reconciled and assured, collated country reports are then periodically published by the EITI for public scrutiny.

Furthermore, from the mid-2010s, large extractive groups parented or listed in the European Union, Canada, and Norway fell within broadly equivalent reporting regimes, which again required the public disclosure of taxes, royalties, dividends, and other payments to host country governments at both a project and government agency level and in every jurisdiction where extractive operations were undertaken.

Part of the rationale for these payments to governments transparency regimes was to shine a light on the level of revenues being received by host country governments from their domestic extractive sectors, and in that respect, they were not designed to capture the complete picture of any single mining and metals group’s full tax and economic contribution across its entire geographical footprint, along its whole value chain, or throughout its various projects’ life cycles.

Offering up voluntary data

To give this broader perspective for their increasingly sophisticated stakeholder communities, many of the world’s largest diversified mining and metals groups have, for a number of years, supplemented these mandatory payments to governments disclosures with bespoke and stand-alone tax and economic contribution reports.

From filling in certain data gaps not covered by the scope of mandatory reporting regimes, these voluntary transparency reports have expanded beyond the numbers to help address matters where there may be at least a perceived risk of mistrust or misinterpretation—for instance, explaining a group’s ongoing presence in low-tax jurisdictions, or articulating their policy in relation to accessing certain government incentives.

Those OECD-cited fundamentals of openness, transparency, and communication are also apparent as transparency reports have increasingly explained an organization’s overall approach to tax (sometimes informed by The B Team’s Responsible Tax Principles). This covers tax strategy, governance, risk and control frameworks, as well as providing links and reconciliations to other corporate reporting, such as tax payment disclosures in audited group financial statements, or to Global Reporting Initiative (GRI) 2015 economic value data in sustainability reports.

Indeed, that link between tax transparency and sustainability reporting has now been fully bridged by the introduction of a specific GRI Sustainability Reporting Standard on tax—GRI 207. Tax is now firmly and formally an intrinsic part of the environmental, social, and governance (ESG) agenda.

Industry bodies, such as the International Council on Mining and Metals (ICMM), are firm supporters of such transparency initiatives. ICMM’s Social and Economic Reporting Framework, published in May 2022, includes, as one of its core indicators for public disclosure, OECD or GRI 207-aligned country-by-country (CbyC) reporting on business activities, revenue, profit, tax and other financial data.
Filling in the gaps

For mining and metals companies, navigating and complying with this growing array of mandatory and voluntary transparency regimes may not be enough to fully inform stakeholders in their host countries of their economic contributions as part of their efforts to build trust and improve perceptions of the industry.

Valeria Vazquez, Partner, Mining & Metals Leader, Deloitte Mexico, explains: “Just as there are certain data gaps in the mandatory payments to government transparency regimes, the OECD and GRI-aligned CbyC disclosures may not tell the whole story of a mining group’s full contribution to its host countries’ economies.

“In being originally designed to provide granular financial information to tax authorities for their own private scrutiny, the basic CbyC dataset is very much focused on corporate tax. For a mining and metals group whose in-country payments to governments may also, or even exclusively, come via mechanisms such as profit-sharing arrangements, revenue-based royalties, or dividends on government free-carry equity stakes, the CbyC dataset can never give the full picture.”

Roman Webber, Partner, Mining & Metals Leader, Deloitte UK, agrees: “Since GRI 207 came into effect in 2021, we’ve seen much closer communication and collaboration between the finance, tax, and sustainability functions within organizations reflecting tax now truly being a part of the ESG imperative.

“In building trust across their broad stakeholder communities, mining and metals companies should continually evolve in their external communications to help ensure that the public perception of mining’s economic and social value is not based on single-year, single-tax snapshots. Instead, it should consider the complete range of different payments to governments across the mining and metals value chain from extraction, through beneficiation and logistics to sales and marketing. It should also encompass the entire project life cycle from exploration; through build, ramp-up, and full production; to closure, rehabilitation, and repurposing.”

A question of trust

The purpose of voluntary transparency reporting is to demonstrate value beyond compliance. This is vital in changing perceptions of mining and metals companies and their activities, which are often viewed in a negative light by civil society. Lack of trust, particularly with local communities, is still widely acknowledged to be one of the leading risks that mining and metals companies face.

However, when done responsibly, mining and metals production has the potential to be a powerful driver of positive social, environmental, and economic development. Transparency around contributions to host economies can play an important part in building trustworthy relationships with landowners, including Indigenous people, and stakeholders such as regulators, NGOs, and investors who are increasingly cognizant of ESG measures.

That said, there is currently a spectrum of thinking around transparency among mining and metals companies. At one end, there are mining and metals companies that are embracing it, seeing enhanced disclosures as an important tool in demonstrating their credibility as an operator and responsible corporate citizen and showing that they are learning lessons from the past. At the other, there are organizations that have concerns that the information they disclose could be misconstrued, creating risk, or that think no amount of information may ever be enough for certain parties. Extended voluntary transparency reporting has an ongoing role to play in mitigating those perceived risks, and internal communication and organizational governance are also key.

Andrew Stevenson, director, Tax, Deloitte UK adds: “Finance, tax, sustainability, and external communications functions within organizations should collaborate seamlessly to help ensure that their transparency reporting can engender trust with stakeholders. Reporting should also be underpinned by appropriate governance frameworks and internal assurance processes; and larger mining groups are increasingly seeking external assurance opinions on key parts of their reporting.”
One step at a time

We are starting to see the trickle-down effects of voluntary transparency reporting. While some of the largest diversified mining groups have been publishing reports for more than a decade, several single-commodity focused groups—particularly precious metals producers—have recently published their first stand-alone tax and economic contribution reports.

This behavior sets a precedent, and it’s highly likely that others will follow over the next 12 months. Ultimately, the level of transparency that this action creates can play an important part in supporting the mining and metals industry as an integral force for sustainable development in regions of the globe where investment can be hard to come by—which can only be a good thing.
Using tax and economic contributions as a tool for transparency

- **Be proactive:** Make time to assess where the organization sits within the fast-evolving landscape of transparency reporting regimes and map this against expectations from industry bodies and other stakeholders. Calculate the investment required for aligning with transparency regimes and initiatives (in terms of internal resourcing, etc.) versus potential returns (including qualitative types of value) over the long term.

- **Use voluntary reporting to paint a complete picture:** Assess whether the organization's current disclosures, whether mandatory or voluntary, paint an accurate picture of its contributions to host nations. If the current level of detail does not invite trust in the corporate entity, then consider enhanced transparency reporting to supplement this.

- **Uphold your commitments:** If the organization already uses a responsible tax framework, ensure that commercial activities are aligned with it. This could impact how the company's operations and tax department are run and how it engages with tax authorities and regulators.

- **Embrace cooperative compliance:** Where regimes and relationships allow, reviewing a company's tax affairs openly with the relevant authorities can be beneficial in terms of resolving and expediting tax positions freeing up the company's resources. Moving from retrospective to near-real-time auditing could help ensure that issues are brought to the fore more regularly or can be planned for in advance. Be very clear, not only about the organization's payments, but also the relationship between tax, investment, and returns in each jurisdiction. Authorities need this information to make informed decisions.

- **Link tax with sustainability:** Identify and be able to articulate, internally and externally, the tax implications of your sustainability strategy. For instance, tax incentives might potentially accelerate progress toward the organization's sustainability goals. Assign ESG roles and responsibilities within the tax function, working as business collaborators with the organization's sustainability team.
Endnotes


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