



The discussion around which of the chief mining addresses – London, Canada or Australia – deserves the title as the world's mining centre has long been of great academic interest to an industry that, while truly international, remains fiercely parochial.

Those making the case for Australia would point to its geological wealth as home to 25 major iron ore operations in the Pilbara, the 30 per cent of global gold reserves found in the Yilgarn Craton, and the world-class Permian coal basins in the east. In terms of production, Australia's rocks easily deliver more wealth across key minerals than those of Canada's Abitibi Gold Belt, Sudbury base metal district, the uranium expanses across Saskatchewan and Alberta, the Interior Platform potash deposits, or the west coast Cordillera.¹ The United Kingdom doesn't enter this conversation.

Similarly, Australia is home to 40 per cent of the top 100 mining equipment, technology and services (METS) companies, compared to a respectable nine per cent based in Canada. Here, the UK also becomes a player, with five per cent of firms.²

But when it comes to finance the tables turn dramatically.

London's position as a genuinely international hub, through which globally significant and therefore influential transactions flow, remains its trump card. This, combined with the volume and quality of resources-specific capital houses it hosts, makes it a clear leader for mining finance.

The reality, is London is an unavoidable and a key destination when the time comes for companies listed in Australia, Canada or South Africa to raise significant amounts of capital from serious institutions for major projects.

Though the Toronto Stock Exchange hosts the most companies with some 1,200 listed resources equities,³ dwarfing the 153 on the London Stock Exchange (LSE),⁴ the vast majority of these companies are microcap exploration groups that are statistically unlikely to make any meaningful financial contribution to the mining sector, let alone exert influence. It is a similar story with the Australian Securities Exchange's 676 equities.⁵

In contrast, London's top-five primary listings are currently worth some US\$300 billion. In Canada, the top five equities are worth US\$82 billion and in Australia they're valued at US\$164 billion.⁶ This falls in line with London's reputation for scale and quality over volume and is reflected in the standing of the LSE.

In a review of the three key mining exchanges published by Mining Journal this year, the LSE main board finished ahead of its rivals on access to both retail and institutional investors, liquidity, promotional assistance, manageability of reporting obligations and the suitability of regulations for mining companies, as judged by listed resources companies and financial services firms.

London's capacity and experience in supporting large, international transactions has therefore made it a natural home to major players from other parts of the world. Besides British firms, Rio Tinto and Anglo American, the top end of the London grouping is made up largely of foreign-headquartered miners, including BHP (Australia), Swiss giant Glencore, Antofagasta (Chile) and Polymetal (Russia). Most other miners of significant scale have at least a secondary listing in London.

This is why the industry's global representative body, the International Council on Mining and Metals (ICMM), chooses to headquarter itself in London.

It is also why mega deals, such as once-private trading group Glencore's merger with major miner Xstrata in 2013, was transacted in London. This US\$65 billion deal saw the creation of a commodities producer and trader operating across 50 countries, employing approximately 190,000 people. This followed its 2011 London listing and a secondary listing in Hong Kong.⁷

When broken down, it's easy to see how the stereotypes of the exchanges have developed: Australia and Canada are incubators of small resources firms, but London is where companies often end up once they reach maturity, particularly if their focus is global.

World class support

To support such transactions and the world's largest miners, London's white-collar service providers must have the expertise, experience and scale to match. These were developed over centuries as London built both its financial and mining pedigrees. Development of South Africa's gold sector, for example, was financed in London from the 1800s when the country was a British colony.

Those service providers include bankers, insurance firms, lawyers, accountants and advisors. These skills are not unique to London but their size, number and mining-specific experience in global-scale deals is.

The reason this support network exists is not only related to London's historic mining roots but is also a function of its position as a centre for complementary industries.

Chiefly, London's position as home to the London Metal Exchange (LME) and secondary position behind Switzerland as a commodities trading hub brings a level of sophistication to metal pricing and purchasing conversations found in few other places. Indeed, though the LME was bought by Hong Kong Exchanges & Clearing in 2012, the world's premier gathering for metals conversations and meetings remains LME Week every October – in London.

It is a similar situation with international logistics firms that provide assistance importing and exporting key equipment and the raw materials themselves. Meanwhile, the fact that major petroleum and industrial quarrying groups which require many of the same support services are also based in London draws the servicing firms to a truly international extractives-industry pie.

In short, the geology and population density of the UK means it will never have the physical presence of either Australia or Canada as a mining address, but its pedigree as a financier in the mining space, combined with its position as a hub for complementary industries, makes it the only place miners can find the support to execute transactions that are likely to have a meaningful impact on the global market.



Life after Brexit

Many have questioned London's position at the centre of the financing world post-Brexit but, from a mining perspective, we can not justify this negative view.

Initially, following the Brexit vote in mid-2016, mining companies listed in London actually saw an increase in share valuations as investors took stock of what corporate fixed overheads paid in sterling would mean to the bottom line of groups selling metals for US dollars. Regardless of where the sterling exchange rate ends up, and in the event of future strength, the current political leadership has mooted cuts in corporate tax rates in the post-Brexit world.

At a practical level, London's position as a financing centre and headquarters for decision-making seems unlikely to be affected by trade complications between the UK and Europe given that these decisions will generally focus on operations held by subsidiaries outside these geographies.

On the upside, meanwhile, there are grounds to hope that the UK might move beyond its financing role towards a more influential position in the physical mining industry.

The Camborne School of Mines has an international reputation for the quality of its graduates, as does Imperial College (formerly the Royal School of Mines), but these professionals have mainly found their way to operations in the mining hubs of Australia, Africa and the Americas. More recently, however, a resurgence in developments, including a major polyhalite project in Yorkshire, a gold mine in Scotland, tungsten operation in Devon, and tin and lithium proposals in Cornwall have combined with Ireland's robust mining industry to provide more local options.

Though physical mining will remain limited, the expansion and influence of the METS space will not.

The Department for International Trade (DIT) has been mandated to redouble its efforts to promote UK firms abroad. There is increased awareness of the METS industry – with some 90 mining-specific support firms in Cornwall alone and more than 5,000 companies tracked by the DIT through the UK's mining supply chain. The DIT will look to support the establishment of new businesses.⁸

Positioned for leadership

As home to the world's largest diversified mining houses, London has been the default location for industry-shaping discussion in historic periods of transformation.

Flux and change has, arguably, never been more prevalent than today, driven partly by the fourth industrial revolution – artificial intelligence and robotics – but also by the moral awakening of miners. Environmental Social Governance (ESG) and Corporate Social Responsibility (CSR) objectives, pushed by stakeholders such as investors and community groups, are now being taken exceptionally seriously.

Anglo American has been engaged with faith-based groups as community guardians and investors since at least 2013. Earlier this year it became a founding sponsor of the World Bank's Climate Smart Mining Fund and more recently announced plans to improve disability inclusion.⁹ The ICMM's review of tailings best practice promises a step change in thinking and culture and will be co-convened with the Principles for Responsible Investment and the United Nations Environment Programme. London-listed gold miner Polymetal has become the first Russian-based member of the Dow Jones Sustainability Index.¹⁰ Statements of record from other groups such as Rio Tinto, BHP and Glencore strike a similar chord.

These organisations welcome the current scrutiny, recognise the industry has issues it needs to address, and are committed to delivering tangible change in the near term.

Mid-tier and junior resources firms also take these issues seriously. London has the unique ability to host regular, meaningful conversations with diverse stakeholder groups.

London's lead on ESG/CSR issues is also helped by its history of transparency and disclosure, and culture of high behavioural standards in business. Companies listed in London have long been aware of the need to be proactive in terms of their reputation and stakeholder engagement, particularly with investors.

Deloitte first started working with London-listed companies on their community engagement initiatives more than 15 years ago, at a time when the industry focus was on the emergence of China, rising metal prices and the challenge of finding and digging up more ore.



Glencore, has become increasingly stringent in its efforts to ensure the traceability of strategic elements.

The energy transition, of course, goes beyond electric vehicles (EVs) and battery-specific metals.

More electrification demands more copper; the search for increased efficiencies means lighter aluminium is substituted for steel. If we don't like the carbon intensity of converting bauxite to aluminium, base-load uranium power generation and renewable infrastructure requires a large volume of a variety of metals.

Both mining and financing history dictate that these conversations will gravitate towards London. And it is London that will continue to deliver global leadership on these issues of significance for the industry.



Power and provenance

While it may not be a full-scale revolution, the electric vehicle (EV) boom stands to reshape numerous industries. London, again, is well placed to view the impact of this trend and its impact on different parts of the economy. As referenced in Deloitte's Tracking the Trends 2019 report, a demand for provenance or responsible sourcing, is a key trend this year.

Major car manufacturers are introducing new models and will produce hundreds of thousands more EVs over the next four years. This is driving demand for battery metals; especially lithium, graphite, cobalt, rare earths and nickel. Demand for tech-grade graphite is forecast to rise by 300 per cent by 2025,¹¹ while lithium and cobalt demand is to double between 2022 and 2025.¹²

As encouraging as this has been for miners, there are risks – the most prominent one being responsible sourcing, or provenance. This difficulty is seen in the Democratic Republic of Congo (DRC). It supplies 70 per cent of global cobalt while struggling with human rights issues, including child labour.¹³

As consumers become more socially aware, manufacturers – not just of EVs but other products using long-life batteries and electronics such as smartphones – are under pressure to prove that their materials are ethically sourced. This pressure is being passed on to miners. Apple, for example, regularly maps its supply chain and removes suppliers unwilling, or unable, to comply with its ethical-sourcing standards.

Endnotes

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- ¹³ "DRC Cobalt: A potential Achilles heel of electric vehicles," by Michael Schwartz. Global Risk Insights, 5 October 2018. See also: <https://globalriskinsights.com/2018/10/drc-cobalt-a-potential-achilles-heel-of-electric-vehicles/> on 29 October 2018.

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