

Top 10 business risks and opportunities for mining and metals in 2021

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Ongoing disruption has presented miners with new risks and opportunities. How they respond will be critical to success in 2021.

hen last year's top 10 risks in mining and metals report raised the prospect of high-impact risks those that are rare but potentially catastrophic — who could have predicted what would follow in 2020? At that point, we anticipated that disruption would soon hit the sector but didn't expect it to come from a global pandemic that has now accelerated other disruptive factors.

COVID-19 is clearly the dominant issue of 2020 and will impact all industries into 2021, including mining and metals. At the time of writing, some markets are beginning some semblance of an economic recovery, but others, particularly many significant mining geographies, remain heavily impacted by the virus.

In our 2021 report, we focus on the effects of COVID-19 on the sector, highlighting how the pandemic has heightened many risks but also created new opportunities.

Top 10 business risks and opportunities for mining and metals



While the outbreak has been a truly disruptive event, the mining and metals sector has dealt with its impact extremely well, leading an effective response due to:

- The safety-first culture that prioritized people's health and well-being
- Excellent governance that enabled agile change management with the right checks and balances in place
- Collaboration with governments, the sector, health experts and communities to ensure leading practices were followed
- Changes made on expert advice that were embedded across operations to ensure a consistent, effective response to the pandemic

As a result, many mines have remained operational and productive during the pandemic, despite having less people on site. Business continuity has come at a cost, however, due to the added expenses of new processes, procedures, protocols, health testing equipment and support for the workforce.

Chapter 1

License to operate

LTO remains the no. 1 issue for miners.

The disruption of 2020 has reshuffled rankings, but license to operate (LTO) remains the number one issue for miners, with 63% of our survey respondents flagging it as a top three risk. We expect the issue to become even more important as stakeholders broaden and develop a stronger voice. As effective engagement becomes even more critical, we believe miners should consider three tiers of community:

• Local communities will have greater expectations around how miners respect indigenous rights and native title.

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- National communities may push for a return to resource nationalism, with increased debate around who miners sell to and for what purpose.
- Broader community commitment will come into focus as socioeconomic issues are highlighted post-COVID-19. We may see pressure build to provide ownership of assets to communities.



What area of mining and metals will face the most scrutiny from investors relating to ESG issues?*

Miners will need to work with governments and sector associations to help shape the messaging of the societal contribution and value derived from the mining sector. There is a real need to rebrand, and with investors looking to understand value beyond the financials, this is key to obtain capital and other sources of funding.

High-impact risks

COVID-19 has highlighted the importance of preparing for company-destroying risks.

In last year's report, we noted that company-destroying risks tend to be rare and, as a result, may not be examined but rather will stay on the risk register in much the same format year on year.

In 2020, the COVID-19 pandemic has clearly demonstrated the importance of understanding and reviewing these high-impact risks, particularly as there is a significant link between a company's ability to manage them well and its LTO. The experience of the pandemic has heightened stakeholder expectations around how enterprises prepare for, manage and monitor all high-impact risk exposures.

Productivity and rising costs

Ongoing economic uncertainty and COVID-19-related expenses are increasing cost pressures.

Rising costs and productivity remain on the radar as the complexity of mining increases and commodity prices come under pressure due to disrupted supply and the impact of ongoing economic uncertainty on demand.

The impact of COVID-19 has been mixed, with some restrictions imposing new, unforeseen costs and other measures removing silos that hindered productivity. Over the longer term, we believe that tackling this issue effectively requires a true end-to-end focus on costs and productivity across the value chain.

Decarbonization and green agenda

Miners that seize the opportunity to focus on sustainability can win the fight for capital.

Decarbonization and the green agenda has become a more prominent issue as social responsibility and broader stakeholder demands intensify in the wake of the pandemic.

The pressure to reduce greenhouse gas (GHG) emissions remains the biggest environmental issue for mining and metals companies, although the amount of GHG contributed does vary across commodities. Leading companies are setting out their approaches to decarbonize direct emissions; however, many current emission reduction targets do not align with the Paris Agreement and few miners comprehend the true environmental impact of their entire value chain.

Pre-COVID-19, we were seeing a great deal of climate and green activism around the world, much aimed at the mining sector. Post-COVID-19, do you think the pressure will:



We believe that COVID-19 has offered miners an opportunity to reset operations. Companies that increase their focus on environment, safety and governance issues can strengthen their LTO and gain a competitive edge in the fight for capital.

Chapter 5

Geopolitics

A shifting global power balance is changing the operating dynamics for miners.

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This risk is new to our top 10 this year, reflecting the growing impact of geopolitical uncertainty. Our survey of global executives for the EY geostrategy report¹ found that the geopolitical issues that leaders expect will have the biggest impact on their company are the changing role of the US in the international system, EU stability and US-China relations.

This assessment reflects the shifting balance of power among the world's largest economies. The US is repositioning itself from a leadership perspective, China is playing a bigger role in geopolitics and Europe is seeking a more cohesive projection of its own power. As the emerging blocs consolidate their power, relations between them could become volatile.





This shifting geopolitical landscape is changing many dynamics for mining and metals companies. A trend toward economic protectionism to favor domestic producers and ensure host countries receive their fair share of resource wealth will emerge in many jurisdictions.

Capital agenda

Cautious spending strengthened balance sheets, but bolder investment decisions will yield greater returns.

Throughout this crisis, miners optimized liquidity by tightly managing cash, prioritizing the operation of core assets, and reducing or cutting nonessential or non-core capital expenditures.

But while strong capital discipline is helping miners weather volatility, bolder investment decisions and increasing risk will enable greater returns in the mid term and long term. Approaches to achieve this may be radically different from those deployed in the past. Mining companies will need to evaluate their appetite for risk and approach to capital allocation to ensure they do not miss out on new opportunities.

Workforce

The pandemic spurred a change in corporate culture, possibly accelerating workforce transformation.

Our second-biggest risk in last year's report now sits at no. 7 -not because it is less important but because miners feel more confident managing the issue. They certainly demonstrated their commitment to workers' safety during the pandemic, acting fast to protect health and reduce the risk of site exposure.

Now companies are recognizing that the accelerating adoption of remote working and virtual teams has the potential to add value beyond the crisis by keeping teams safe, productive and engaged. The pandemic has spurred a change in the corporate culture of mining and metals companies, creating a new opportunity for sustainable workforce transformation. Almost 80% of the mining and metals executives we surveyed said that they expect their organizations to become more open to change due to the impact of COVID-19.

Volatility

Economic uncertainty is challenging miners' ability to make longterm decisions about demand.

Volatility is new to our top 10 this year — a reflection of the impact of COVID-19 on the global commodities market. The pandemic has significantly disrupted supply chains in the near term and created ongoing uncertainty around demand.

Base metals commodity price volatility 2000-2020 q-o-q % change



China's swift economic rebound has kept up demand for iron ore, and gold and silver retain their status as safe havens, but future disruption could see this change fast. Miners need to be able to make sustainable, long-term decisions as they deal with the return of severe commodity price volatility, the threat of substitution and changing customer demand.

Digital and data optimization

Miners are realizing the additional benefits of digital transformation throughout the crisis.

Digital and data optimization, our third-biggest risk last year, is now at no. 9, indicating growing digital confidence for miners. We believe that this is not because it is viewed as a less important risk — or opportunity — but rather that many of the issues surrounding digital have become "business as usual" for the larger miners. Many are in the second or third year of their digital road map journey, and as their digital transformation becomes more complex, its value to the organization is clearer.

COVID-19's impact has highlighted the benefits of various technologies, such as automation, AI and blockchain, to help ensure business continuity. Businesses that had already invested in advancing their digital journey are reaping the benefits now and will continue to have a competitive edge beyond the pandemic.

Innovation

Conditions are ripe to expand and scale collaborative innovation.

Opportunities abound for miners to broaden the scope and increase the effectiveness of their innovation agendas, particularly after the sector's rapid pivot in response to COVID-19. The pandemic has provided some valuable lessons on how to take a resource-to-market approach to innovation. We have seen increased innovation and more solutions implemented across the value chain to deal with the impacts of COVID-19, with many innovation projects fast-tracked into reality.



Where in the value chain are your innovation efforts primarily focused today? By % of respondents given three options

COVID-19 also acted as a catalyst for greater collaboration across mining and metals companies to develop creative, agile solutions to problems. Now, the sector faces a huge opportunity to expand this collaboration, including in the coevolution of new products or technologies, development of shared incentives and rewards from the application of innovations beyond more sales of devices, and consequent fundamental changes in business systems or practices, which can yield significant short- and long-term value for individual companies, the entire sector and communities.

1. "Geostrategy in Practice 2020: an EY survey of global executives reveals how to improve political risk management – an urgent imperative amid the COVID-19 crisis".

Summary

The uncertainty created by COVID-19, volatile commodity prices and geopolitical tensions have reshuffled the rankings of miners' top risks and opportunities for 2021. License to operate; disruption; and environment, safety and governance are all becoming more prominent issues as the pandemic raises stakeholder expectations around corporate

Source: VCI State of Play Ecosystems Report, 2019

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responsibility. We believe this perfect storm of disruption creates an opportunity for the sector to progress long-stalled structural changes and accelerate the transformational projects that will reframe the mining and metals sector for the future.

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