Due Diligence Guidance for Meaningful Stakeholder Engagement in the Extractives Sector

We refer to the work the OECD undertakes to create practical sectorial applications for the recommendations found in the OECD Guidelines for Multinational Enterprises and the publication of draft Due Diligence Guidance for Meaningful Stakeholder Engagement in the Extractives Sector for a public consultation in April 2015.

The Guidance document is primarily directed at mining, oil and gas enterprises. The OECD has invited governments, business and civil society representatives, international organisations, and the general public to contribute comments on the draft Guidance. Although not a member of any of the above specifically mentioned constituencies, investors in the extractives sector may also have an interest in the proposed guidance. Norges Bank Investment Management accordingly contributes comments as a global financial investor in listed companies in the extractives sector.

Norges Bank Investment Management is the investment management division of the Norwegian central bank (‘Norges Bank’) and is responsible for investing the assets of the Norwegian Government Pension Fund Global (the ‘fund’). The fund is a long-term, globally diversified investor with minority equity positions in publicly listed companies and investments in listed fixed income instruments and real estate. As of the first quarter 2015, the fund’s assets were worth NOK 7 012 billion, or approximately USD 850 billion.

In accordance with the fund’s management mandate, we work to safeguard the financial interests of the fund, including by integrating relevant environmental and social risk considerations into our investment processes. Our strategy for responsible investment management encompasses interaction with standard setters, active ownership, and risk management. As a financial investor, we support the ongoing development of selected international standards. We also aim to contribute to the development of practices and therefore participate in consultations on such standards. According to the OECD Principles of Corporate Governance, boards should act in the best interest of the company and its shareholders. The responsibility for taking account of the interest of shareholders is also placed with company boards. Contact with board chairmen is a prioritised part of our company ownership efforts and through this interaction we engage on topics such as strategy, shareholder meetings, and sustainability issues.

We welcome the development of practical sectorial applications for the recommendations found in the OECD Guidelines for Multinational Enterprises. The guidance could improve companies’ ability to
implement the Guidelines in an appropriate manner. For investors, such guidance is also useful as it may inform our ownership efforts, standard setting work and risk analysis. We are hopeful that the consultation can lead to a guidance document well suited to meet the various challenges of stakeholder engagement faced by the extractives sector.

The exploration and extraction of natural resources may make a significant contribution to the socio economic development of countries and regions through public revenues, contribution to exports, infrastructure development and employment. Long-term investment decisions may be enhanced by analysing and understanding how a broader set of sustainability factors could have a material bearing on such investments. Norges Bank has given a grant to Columbia University and initiated research on sustainable mining and how environmental issues may impact the economics of mining. A separate motivation for the research project is the need to develop better quality and time series data on such issues for further academic research.

We would like to highlight the following three aspects of the current draft Due Diligence Guidance for Meaningful Stakeholder Engagement in the Extractives Sector.

- First; the draft practical guidelines could address the role played by governments and related engagement challenges more directly. A specific annex may be one way to achieve this. Each mine has its own characteristics resulting in individual mine design, processing methods and sub-contracting needs. Jurisdictions and geographical location also result in different regulatory and social considerations. The strength of human rights protection under domestic law will vary. Host governments play a key role in promoting the UN Principles for Business and Human Rights and, as relevant, OECD Guidelines including the OECD Guidelines for Multinational Enterprises. Taken together, regulatory regimes, laws, government structure, and the institutional capacity of the country where extractive companies operate will have significant implications for appropriate stakeholder engagement. This is particularly relevant as companies in the extractives sector contract directly with host governments through, for example, mining licensing contracts or joint ventures with state owned enterprises.

- Second; transparency and communication about due diligence and stakeholder engagement, with regular reporting on assessments performed as well as on the processes in place, could be emphasized more in the draft. The provision of objective information builds trust and may help manage stakeholder expectations about the extractive operations. For example, transparency and public reporting of human rights impact assessments (HRIAs) may be a constructive way to present both positive and negative impacts objectively. Today, such information is not always made publicly available.

- Third; existing extractives sector initiatives or standards relate to topics relevant for the OECD guidelines. Examples include the conflict free gold standard from the World Gold Council, as well as the International Council on Mining and Metal’s community development toolkit. Such initiatives provide useful practical implementation suggestions both at site and company levels and could be referred to in the Guidance document as appropriate. The latter toolkit, for example, is aimed at fostering constructive relationships, building capacity, and improving opportunities for the sustainable development of communities around mining and metals operations.

We look forward to follow the OECD in the further work on the Due Diligence Guidance for Meaningful Stakeholder Engagement in the Extractive Sector.
Yours faithfully

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