

# Compliance, complexity, culpability: tackling the future head-on – and winning

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Why is it, in today's world of rapid-fire change and constant introductions of advanced technologies, that metals and mining players continue to lag behind in the adoption of tools that could help them be more proactive, productive and profitable?



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Admittedly, the industry is dealing with an unprecedented volume and diversity of forces – from ever-fluctuating environment of geopolitical influences and regulatory pressures, to supply-and-demand levels, environmental scrutiny, and more. But that very fact begs the following questions:

Will individual businesses be able to maintain their position in a value chain that's key to the world's industrial, construction, and manufacturing processes? And, are they equipped to handle the inevitable, ongoing barrage of changes, as well as new risks that emerge?

## Atmospheric pressures

Despite market investments in renewable energy, a majority of mining and production is still powered by traditional energy sources with high carbon emissions, putting the industry in the often-unsettling position of constantly responding to consumer demand for environmental stewardship at every point along the supply chain. The automotive industry, which consumes a significant variety and quantity of metals, is just one example of how that pressure impacts metals and mining.

What many consumers don't realize, however, is how small the mining industry's contribution to the atmospheric dilemma really is. Aluminium production is responsible for only one percent of global CO2 emissions. According to a recent paper in Science Magazine, steel production emits around 1.7 gigatons of CO2 into the atmosphere annually, the equivalent of approximately five percent of global carbon dioxide emissions. Nevertheless, the metals industry remains a primary target for environmental regulators and policy makers focused on reducing greenhouse gas emissions.

In response, carbon pricing has become a standard practice, either through emissions trading schemes (ETS) or carbon taxes. According to World Bank, 42 countries and more than 25 sub-national jurisdictions have already deployed some form of carbon pricing. Not only is carbon pricing here to stay, it's likely to increase from its current coverage of 15 percent of global emissions. Major mining countries, including Chile, Canada and South Africa, have already announced that they're planning to implement carbon pricing systems.

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Carbon pricing affects more than just back office operations, however. As its potential for revenue-generation attracts scrutiny from local and national authorities, metals and mining firms will also be exposed to reputational risks, drops in shareholder value and noncompliance penalties.

## Political penalties

Carbon emissions aren't the only by-product being scrutinized. Toxic waste is generated at every stage of the metals production process at four times the rate that of total metal extraction. In response, a growing number of policy makers are tightening standards and regulations in an effort to reverse the negative impact on the environment.

In the past, the metals industry was able to sidestep environmental legislation by moving mining operations or refining facilities to emerging economies with less stringent regulations. The increase in waste material, however, has increased the pressure from governmental bodies around the world to develop appropriate environmental strategies.

Just this year, for example, Queensland Treasurer Jackie Trad reintroduced the Mineral and Energy Resources (Financial Provisioning) bill, designed to address financial risks at the state level when energy and mineral resource tenure holders don't comply with environmental requirements. According to the level of risk they create, miners would have to pay into a pool of funds that would be used to restore land compromised by mining activities. In Columbia, the Ministry of Environment and Sustainable Development has published a draft regulation that would regulate the use of the Colombian Environmental Mining Seal, a certification mark recognized by the Superintendency of Industry and Commerce to demonstrate a product's compliance with the draft regulation.

Other examples abound. And the result? The measures required to comply with these regulations have caused operational costs to also increase, and they will continue to do so as more areas demand strictly monitored, managed, and audited waste management procedures.

In an effort to offset additional costs with increased operational margins, some companies have integrated mining and/or smelting operations into their supply chain. Doing so, however, not only complicates overall process management, it also exposes these firms to a different set of regulatory regimes, risks, and requirements.

## The accountability solution

The key to responsible sourcing, sustainability, reputation management, profitability, and risk mitigation? Traceability.

The ability to trace and document activities along the complete length of the supply chain not only enhances overall quality and compliance, it also provides confirmation of "ownership" at any given point.

With geopolitical factors, ethical scrutiny, regulatory pressures, cost structure shifts, and supply chain adjustments forever hovering in the background, calculating the full impact of operational trade-offs is a formidable challenge. Without a holistic view of the enterprise, though, earnings are more unpredictable, accounting more complex, and compliance breaches more likely.

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Metals businesses must have the tools necessary for real-time portfolio management and reporting to 1) ensure that responsible sourcing is taking place, and 2) prove it to the competent authorities. Doing so will require remaining innovative and – at the same time – implementing reliable internal controls and responding to the information those tools provide.

Doing so will help industry players stay on the right side of both the law and public opinion.

## Minimizing uncertainty with enterprise CTRM software

Even when commodity trading and risk management (CTRM) solutions with the necessary functionality to manage regulatory risk have been available, they've often fallen short on the kind of functionality specifically designed for metals. However, homegrown commodity management solutions and manual tools, such as spreadsheets, are resource consuming and expose businesses to greater risk, making them even less satisfactory.

Metals industry participants need a solution that can be easily adapted to individual processes and prepare them for industry changes and business growth – solutions that provide real-time visibility and full value chain control across front, middle, and back offices.

CTRM solutions developed for the metals industry, such as Allegro Horizon, are critical to success in this complex and constantly evolving environment. With Allegro's agile metals market solution, businesses can efficiently manage emissions pricing, regulatory risk, and traceability – no matter how volatile the market becomes.

The future of the metals industry promises to be challenging, but also exciting and – for those who are prepared – rewarding. Having the best technology platforms could very well determine which businesses survive and flourish despite market uncertainty.

(By Brian Collins)