

**Mining Certification Evaluation Project (MCEP)**  
**Working Group Meeting 8**

**Friday 21 May 2004: 10am-4pm**  
**Rio Tinto**

**Participants:**

Andrew Minns, Newmont  
Andrew Rouse, WWF  
Ian Wood, BHP Billiton  
Kristina Ringwood, Rio Tinto  
Leah Horowitz, WWF  
Margaret Donaldson, Office of the Aboriginal and Torres Strait Islander Social Justice  
Commissioner  
Martha Macintyre, University of Melbourne  
Martin Webb, WMC Resources  
Melanie Stutsel, Minerals Council of Australia  
Michael Rae, WWF  
Nick Chipman, PricewaterhouseCoopers  
Nick Currey, Placer Dome  
Peter Colley, Construction Forestry Mining and Energy Union

**Guests:**

Ray Nias, WWF Sydney

**Facilitator:**

Tim Offor, Offor Sharp

**Apologies:**

Francis Grey, Sustainable Asset Management  
James Ensor, Oxfam Community Aid Abroad  
Malcolm Forbes, Environment Australia

**Summary of main points of discussion**

**1. Introduction of the new Project Officer**

- (a) Leah Horowitz, the new Project Officer for the MCEP, introduced herself to the Working Group.

**2. Project direction and next steps**

- (a) Michael Rae reviewed the project's next steps: finalisation of the Principles and Criteria, development of the Audit Protocol, Field Trial testing of the usefulness of the protocol in demonstrating performance.
- (b) Working Paper 2 will discuss how effective the Audit Protocol was in the Field Trials.

- (c) There will also be concurrent development of Working Paper 3, recommendations for a certification system going forward, including exploration of issues around governance. A range of models will be evaluated, resulting in clear recommendations. This will inform an international discussion. The terms of reference for Working Paper 3 will be discussed at the next Working Group meeting.

### **3. Scope of the Audit Protocol**

- (a) The question of the level of specificity to be written into the Audit Protocol was mooted. There was some debate as to how exactly the sites were to be evaluated.
- (b) Some concern was expressed about the use of the term “performance standards” in the revised text of Working Paper 1, with the implication that the Criteria would form the basis for the development of performance standards against which mine sites would be assessed, in line with the FSC approach.
- (c) It was agreed that the development of performance standards, whether site- or region-specific, was beyond the scope of the MCEP.
- (d) It was recognised that sites establish their own standards and targets, and these could be used in a certification process as a form of evidence that they are meeting the Criteria.
- (e) However, outcomes (in terms of improved or adequate performance), not only systems, are important to measure.
- (f) The MSC approach was outlined as a model. In this approach, auditors determine what the operator can feasibly do in order to meet the criteria set by the MSC. Thus, performance standards are not written into the criteria themselves but are determined by the auditor, in accordance with targets that have been set by NGOs and other stakeholders. Finally, the MSC makes a judgement as to whether it is comfortable enough with the decision of the certifying body to allow its logo to be used by the operator.
- (g) The system and performance produced by the mine site must be sufficient to satisfy the widest range of stakeholders.
- (h) Different audit teams at different sites may take different approaches to auditing, leading to the production of incompatible results across providers and thus making the certification label unreliable.
- (i) There is also a risk of moral hazard whenever audit teams are used which have already provided advice or systems support to the operator being audited. In a sense, the audit teams would be evaluating their own guidance.
- (j) The two points above indicate the need to develop a highly standardized Audit Protocol that does not leave much room for subjectivity. The draft Audit Protocol will need much work, including a higher level of granularity, in order to be effective.

### **4. Levels of assurance**

- (a) Information was provided on the international financial auditing profession’s perspective, for comparative context.
- (b) For “Big 4” auditing firms, there are four levels (a “hierarchy of assurance”) to which an institution can be audited:
  - 1) Positive assurance: the statements or data provided are true and fair. This level requires a tremendous amount of work, as well as clear definitions of

- “materiality” (i.e. what is significant), but is the most rigorous. Non-financial information can also be subject to positive assurance. For the MCEP, this would translate to evidence that standards were being met and a system of control was in place. Qualitative information can be evaluated according to confidence levels.
- 2) Negative assurance: the performance report is free of “material misstatement”. This level requires less work.
  - 3) Procedures-based audit: there is an underlying system to manage issues of concern. The system is evaluated for its completeness, accuracy, reliability and integrity. The system is based on an agreed-upon, written procedure. This level can be used where no standards exist.
  - 4) Review procedures: the auditor provides a professional judgement about the institution being audited. This level is prone to the influence of subjective bias.
- (c) It was agreed that, as it stands, the draft Audit Protocol lacks sufficient clarity for a Level 1 or Level 2 audit to be performed. For the purposes of the MCEP, a Level 3 audit may be more appropriate.
- (d) However, the key issue is to ensure that the audits are replicable irrespective of site or auditor. Also, they must be able to guarantee good performance outcomes, not just good procedures.

#### **5. The business case for certification**

- (a) The project needs to outline the business case for certification. This would include an analysis of the level of certification necessary.
- (b) One answer to this question was that the market would determine the level of certification required, as has been the case with the MSC.
- (c) However, the market context of mineral commodities is different in that products are sold to customers (including through global commodity exchanges) rather than directly to consumers (as is the case with the MSC model). Ultimately, therefore, more research will have to be done on the potential market demand for certified products, both raw materials and manufactured goods. However, this is beyond the scope of the MCEP.
- (c) Preliminary observations would indicate that the market demand for certification is currently very low. However, this does not necessarily translate into the lack of a business case for certification as other stakeholders have shown interest in the process, and certification could give some companies an edge.
- (d) The achievement of a social license to operate is another important factor. The necessary level of certification would be determined by whoever could shut the mine down.
- (e) More targeted work will be needed to uncover communities’ expectations. After the Field Trials, a letter to targeted groups should present the results and ask whether these meet the groups’ expectations. This information would then inform Working Paper 3.
- (e) Once recognition of the label has been attained, more rigor could gradually be required.
- (f) Also, as the program matures, economies of scale will drive down the costs of certification.

## **6. Presentation of Anglo American's offer to provide a Field Trial site**

- (a) Michael Rae presented a proposal by Anglo American to provide a site for a Field Trial at a niobium mine in Brazil.
- (b) The positive side of this possibility is that it would involve having Anglo American on board. Additionally, a site outside Australia would allow the MCEP to argue that the project had relevance on an international scale.
- (c) However, some negative issues might be raised by WWF Brazil and Oxfam. WWF Brazil has been contacted but has not yet responded.
- (d) No decision needs to be taken for the time being. More information will be provided as soon as it is available, hopefully allowing a decision to be made by the next Working Group meeting.

## **7. Update on Lead Auditor selection**

- (a) The Project Sponsors have decided that rather than having a single Lead Auditor for all five Australian Field Trials, it would make sense to benefit from a number of different perspectives by having three different Lead Auditors. PwC has voiced an opinion that having different Lead Auditors is unwise because of the risks and diseconomies involved as well as the difficulties in rationalising three separate firms' perspectives.
- (b) A short list has been generated. Two of the candidates (Peter Southern and Hugh Wyndham) have been interviewed. Richard Boele was requested by Newmont for their site.
- (c) The Project Sponsors have decided that Peter Southern will help to develop the Audit Protocol and will act as Lead Auditor for the first two field trials. Hugh Wyndham will also act as Lead Auditor for two field trials.

## **8. Field Trial timelines**

- (a) The Field Trial schedule will be the following:
  - 1) Week of 19 July: Cannington
  - 2) Week of 9 August: Stawell
  - 3) Week of 13 September: Tarong
- (b) Dates have not yet been finalised for field trials at Granny Smith or Tanami, but it is likely they will take place in October.
- (c) The members of the Working Group have been invited to a public meeting with the local community at Stawell on 5 August.

## **9. Finalisation of Working Paper 1**

- (a) Some concerns were raised about the edits made to Working Paper 1.
- (b) Publication of this document is not urgent and a September deadline was proposed.
- (c) It was decided that Working Group members would email their comments on the changes to the Project Officer and, if necessary, a meeting would be convened.

## **10. Finalisation of the Principles and Criteria**

- (a) It was decided to retain the ICMC Principles and Sub-elements as the basis of the MCEP Criteria.

- (b) The edited Principles and Criteria were discussed. Some changes were accepted and others rejected.
- (c) It was agreed that the primary purpose of this document is that of communication with stakeholders and other interested parties. It is not meant to be an Audit Protocol in itself.
- (d) However, the Audit Protocol must be clearly aligned with the Principles and Criteria.

### **11. Discussion of opportunities for journal articles and conference presentations**

- (a) The Minerals Council of Australia will be holding a conference in Melbourne on 25-29 October. The MCEP has been included in the preliminary Conference Program, with a focus on the role of the MCEP in global competitiveness.

### **12. Actions**

- (a) The Project Officer will:
  - revise the Principles and Criteria according to what was agreed during the Working Group meeting.
  - confirm dates for the Field Trials with the Mine Site Operators.
  - with Sam Brumale, develop a workable Audit Protocol and send it to the Working Group for comments.
  - ensure that relevant groups (including Indigenous groups) are appropriately notified of the field trials and what is involved.
  - if necessary, after receiving the Working Group's comments, convene a meeting to finalise Working Paper 1.
- (b) The Project Team will:
  - provide the MCA with an abstract for their presentation at the 2004 Sustainable Development Conference.
  - draw up terms of reference for Working Paper 3.
  - arrange for FSC certifier (Jeff Hayward?) to give presentations to the Working Group at a future meeting (probably in November).
- (c) The Working Group will:
  - send the Project Team information about other certification schemes of which they have knowledge.
  - email their comments on the edited version of Working Paper 1 to the Project Officer.
  - provide the Project Officer with comments on the issue of FPIC.
- (d) The mining company representatives will:
  - provide Margaret Donaldson and the Project Officer with information about the Aboriginal groups located near the field trial mine sites.

### **13. Date for next Working Group meeting**

- (a) The next meeting will be during the week of either 23 or 30 August.
- (b) Monday 23 and Monday 30 August were proposed as possible dates.
- (c) The Project Officer will coordinate choice of a date closer to the time.
- (d) During this meeting, Peter Southern (Lead Auditor) and the Project Officer will present the results of the first two Field Trials.