MINING CERTIFICATION EVALUATION PROJECT

FIELD TRIAL PROCESS REPORT

RIO TINTO COAL AUSTRALIA TARONG COAL

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SUMMARY

The purpose of the Mining Certification Evaluation Project (MCEP) is to evaluate the feasibility of establishing independent, third party certification of the environmental and social performance of mine sites. An important component of the project is the field trial period, which involves evaluations of how Mine Site Operators (MSOs) are addressing corporate governance, health & safety, employee relations, environmental, and community relations issues.

The third MCEP field trial had a dual purpose:

1) To test the field trial process, including the protocol (its adequacy, clarity, redundancy and so on) as well as the process of gathering data, and to make recommendations as to how the process might be improved in subsequent iterations.
2) To trial scoring the site's performance with a scoring system based on performance measures. (See Appendix 1 for definitions of performance measures and scoring.)

This review was undertaken at Tarong Coal over the period 13 to 17 September 2004. The team consisted of an independent Team Leader, the MCEP Project Officer, and three staff members from Rio Tinto.

The key process issues and suggested improvements, identified through the trial, are summarised below.

- This field trial used a protocol that had been iteratively modified following the first and second field trials.
- In some cases, the notes taken by team members contained much repetition due to redundancy in the protocol. The protocol could be reformatted so as to minimise repetition by asking directly for specific pieces of evidence which would indicate that the site is meeting requirements.
- Site representatives suggested that the protocol could productively address important mineral resource stewardship issues. However, it was decided that since the Working Group did not include people with the necessary expertise, nor could the companies provide suitable auditors to test these questions, this would be flagged as an important issue to be addressed in future.
- For the first time in the MCEP field trial period, the team members were asked to score the site's performance.
- A test of the inter-rater reliability of the scoring system revealed a noticeable degree of difference between the scores provided by each team member. This could be reduced by clearly defining requirements, setting thresholds for minimum acceptable performance, and creating clearer scoring guidelines.
- In some cases, inadequate justification was provided for the scores assigned. Team members should be clearly informed of the necessity of providing adequate justification for all scores.
- The auditors need some basic information about the site prior to arrival that may not be available in annual reports or other publications that are publicly available. For the actual certification process, pre-audit documentation must be defined and obtained within a specified period before the audit commences.
- The principles and criteria should be issued to the site with a request that they identify the people the auditors should talk to. Audit team members should provide input into the interview schedule.
- A broader cross section of the community might have provided a greater range of viewpoints. The auditor responsible for Community Relations should have effective input into identifying external stakeholders to be interviewed.
- In the actual audits, there should be time made available to address questions to the organisation at the corporate level.

- Team members found that, due to the level of detail of the audit protocol, all questions could not be comprehensively covered. More person-days may be necessary, especially for complex operations or contexts.
- Some of the criteria and questions on the protocol required certain issues to be investigated to a level of detail that would be unnecessary in some contexts. Also, the systems that a site would need to have in place, in order to address each criterion adequately, would vary according to context. Future audits should be preceded by a scoping study to examine the context of the operation.

Introduction

The purpose of the Mining Certification Evaluation Project (MCEP) is to evaluate the feasibility of establishing independent, third party certification of the environmental and social performance of mine sites. *Working Paper 1 – Principles and Criteria for Certification* lists criteria for evaluating performance, building on the principles developed by the International Council on Mining and Metals.

These criteria have formed the basis of a protocol to be used in field trials, which comprise Phase 2 of the MCEP. These field trials, to be conducted at five sites around Australia and one overseas, involve evaluations of how Mine Site Operators (MSOs) are addressing corporate governance, health & safety, employee relations, environmental, and community relations issues. These issues are outlined in the principles and criteria and elaborated in a protocol approved by the MCEP Working Group. The trials will provide an opportunity for performance standards and a rating system to be developed and tested. They will also allow opportunities for experimenting with various data-gathering techniques. The final phase of the project will address questions of governance and institutional arrangements for a possible certification scheme.

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1) To test the field trial process, including the protocol (its adequacy, clarity, redundancy and so on) as well as the process of gathering data, and to make recommendations as to how the process might be improved in subsequent iterations.

2) To trial scoring the site's performance with a scoring system based on performance measures. (See Appendix 1 for definitions of performance measures and scoring.)

This review was undertaken at Tarong Coal over the period 13 to 17 September 2004.

The mine is located in the Tarong Basin, 180 km north-west of Brisbane, in Queensland's South Burnett region. The Tarong area is named after one of Queensland's oldest properties - Tarong Station. The Tarong Coal Mine is the primary supplier of coal to the adjacent 1400MW Tarong Power Station, which generates about 40 per cent of Queensland's electricity needs. The mine commenced coal deliveries in 1983 and the first unit at the Power Station was commissioned in early 1984. The mine had identified marketable reserves of almost 100 million tonnes of coal at December 2003.

A 10-year contract with Tarong Energy Corporation to supply up to 7 million tonnes of coal per annum came into effect in January 2001.

The Field Trial Team comprised:

- Hugh Wyndham – Manager NSW, Golder Associates (Team Leader);
- Leah Horowitz – Project Officer, MCEP, WWF;
- Adrian Van Tonder – Principal Environmental Consultant, Rio Tinto (Economic);
- Robert Piper – Principal Consultant, Rio Tinto (Environmental); and
- Simon Wake – Community Relations Adviser, Rio Tinto (Social).

Data gathering techniques included:

- review of documents provided by the MSO;
- team members' observations during site tours, including tours of the plant facilities;
- interviews with MSO staff;
- interviews with external parties.

The interviews were conducted both in person and by telephone. Interviews with staff were arranged by the site contact, after the Team Leader and the Project Officer had provided him with a list based on Tarong Coal's organisational chart. Additionally, a round table was held with shift employees. The Field Trial Team's interactions with external stakeholders included a round table discussion with influential community members, selected and invited by the site contact, and a focus group discussion with four members of Traditional Owner clans, contacted and invited by the Project Officer, whose names were provided by Rio Tinto Coal Australia (located in Brisbane).

Team members provided feedback, although not scores, at the exit meeting, as a service to the site. This feedback consisted of team members' professional opinions as to Tarong Coal's achievements and opportunities for improvement, as identified through this trial. This meeting also provided site personnel with the opportunity to provide comments on the field trial process.

Process Issues

The Protocol

Changes to the protocol

This field trial used a protocol that had been iteratively modified following the first and second field trials. The list of indicators as to what would constitute adequate performance had been expanded, with references to international standards from sources listed in Working Paper 1, by the Team Leader and Project Officer, with input from some members of the Working Group. At a Working Group teleconference following the Tarong field trial, it was agreed that the protocol should only reference standards that are accepted by the Working Group. These would preferably be internationally-recognised standards.

Subsequent to the trial at Tarong, the Field Trial Team made extensive comments on the protocol, which were incorporated into a new version, emailed to the Working Group (with changes indicated in Track Changes mode) on 11 October 2004. Notably, some of the sections were renamed: Question #1 was renamed "Corporate Governance", the "Economic" section was split into "Employee Relations" and "Health and Safety", and the "Social" section was renamed "Community Relations". Each section represents a roughly equal work load, and requires a particular type of expertise. This change will allow sections to be assigned to team members in a more appropriate manner.

Redundancy

In some cases, the notes taken by team members contained much repetition due to redundancy in the protocol, leading to a need to cite the same information to respond to different questions.. This represents a inefficient use of team members' time and could lead to the over- or under-emphasis of certain aspects of the protocol, depending on the number of times they were repeated.

Process Improvement: Reformat the protocol so that it asks directly for specific pieces of evidence which would indicate that the site is meeting requirements.

Mineral resource stewardship

Site representatives and team members suggested that the protocol could productively address important mineral resource stewardship issues such as:

- Has the operation adequately defined its resources and reserves?
- Is there a long-term resource development plan in place?
- Does this plan maximise the potential returns (economic and other) from development of the resource?
- Is sufficient development work occurring in sufficient time to ensure that the future economic viability of the operation is not compromised?

These questions are fundamental to profitability and to continued operation and therefore have impacts on employment practices and community relations.

However, at a teleconference subsequent to the field trial, it was pointed out that the Working Group did not include people with the necessary expertise to design appropriate questions, nor could the companies provide suitable auditors to test these questions. Therefore, it was decided to flag this as an important issue to be addressed in future.

Scoring

For the first time in the MCEP field trial period, the team members were asked to score the site's performance. The Tarong protocol incorporated additional spaces for the team members to score the site's performance against each criterion. Below is the template for this space:

score (1-5):
justification for score:
comments on whether the standard provides an appropriate measure of performance:
suggestions for alternative standards:

For the purposes of this trial, the scoring system was as follows:

Score	Description
1	Total absence of systems or systems not in conformance to requirements. *OR* Performance not in conformance to requirements.
2	Systems partially in conformance to requirements. *OR* Performance partially in conformance to requirements.
3	Systems fully in conformance to requirements. *OR* Performance fully in conformance to requirements
4	Systems surpassing requirements. *OR* Performance surpassing requirements.
5	Systems best practice for industry. *OR* Performance best practice for industry.

Inter-rater reliability

Each team member was asked to score all the criteria for his or her particular section. Additionally, the Environmental and Social sections were each scored again, separately, by a second team member (Hugh for the Environmental section and Leah for the Social section). This allowed for the testing of the inter-rater reliability of the scoring system – the degree to which two scorers would independently assign identical scores.

In both cases, a notable degree of difference was apparent between the scores provided by each team member. In the Environmental section, not surprisingly, the degree of difference between scores correlated with the number of questions that each criterion contained. For both sections, the differences in scores were informative as they indicated a lack of clarity in the protocol, concerning definitions of certain requirements, as well as dissimilarities in team members' judgements of the adequacy of performance in some areas. At a Working Group teleconference following the Tarong field trial, it was agreed that the requirements listed in the protocol needed to be further developed as guidance to the auditors. However, it was noted that it would be important to find a balance between creating a protocol with clear guidelines and relying on the judgement of competent auditors.

Process Improvement: Clearly define all requirements, set thresholds for minimum acceptable performance, and create clearer scoring guidelines for each criterion.

Justification of scores

In some cases, inadequate justification was provided for the scores assigned. Particularly, the score of N/A (not applicable) was assigned in some questionable cases and with no rationale. Additionally, data collection methods and sources were not always listed. In a formal certification process auditors will be required to describe in some detail reasons for assigning scores.

Process Improvement: Clearly inform team members of the necessity of providing adequate justification for all scores.

Data gathering issues

Document provision

Certification processes to international standards, such as ISO 9000 and ISO 14000, include a document review assessment as a step carried out prior to the formal conformity assessment. The document review assessment can be carried out as a desk-top assessment remote from the site, or at the site. Either way, it is a prerequisite to the conformity assessment. As there is no time available for document review at the site prior to the MCEP trials, for succeeding trials there is a definite need to be able to access relevant documentation prior to the site visits.

The auditors need some basic information about the site prior to arrival that may not be available in annual reports or other publications that are publicly available. Information should cover issues such as: local population demographics; key H&S, environmental and community issues; work arrangements including labour agreements; workforce stability; employment practices; staff and contractor mix; a summary of site activities and processes; management structure and so on. This would help in planning the site activities and reduce the amount of time needed for familiarisation. Having the documents ahead of time, as had been the case for the second field trial, would have facilitated the field trial process.

Process Improvement: For the actual certification process, documentation review will be required before the audit may proceed.

Internal interviews

There is a need to obtain greater involvement from the site in identifying people who are best placed to respond to the protocol questions. In hindsight, the site contact should have been provided with the MCEP principles and asked to identify persons on site who would be able to respond to questions concerning these principles. The interview schedule had to be significantly modified after arrival on site in order to obtain the appropriate amount of time with the key personnel on site. This had an impact on the ability of the team to obtain the information needed to test the protocol.

Process Improvement: The principles and criteria should be issued to the site contacts with a request that they identify the people the auditors should talk to. Subsequent to this identification of appropriate staff, the audit team leader should develop a proposed audit schedule based on feedback from the mine for consideration by the mine and by the audit team members. Audit team members should provide input into the interview schedule.

External interviews

The external stakeholder meetings held during the Tarong field trial were effective but only covered a sample of community leaders, selected by the site contact, as well as a limited number of representatives of the traditional owners. A broader cross section of the community might provide a greater range of viewpoints.

Process Improvement: The auditor responsible for addressing issues of Community Relations should have effective input into identifying local community groups and stakeholders to be interviewed during the trials.

Questions to be directed at a corporate level

The Corporate Governance and Community Relations sections contain questions that should be addressed at a corporate level as well as, or instead of, at the mine level. Examples are: Board responsibilities for business ethics and corporate governance; evidence of involvement by stakeholders in the development of business ethics and corporate governance policies;

distribution of business ethics and corporate governance policies to stakeholders; processes for addressing breaches of business and/or corporate governance policies; independent audits that address compliance with business ethics and corporate governance policies; policies on human rights and remuneration of employees. This may not be possible or appropriate during the trial period but should be considered when moving towards full implementation.

Process Improvement: In the actual audits, there should be time made available to address questions to the organisation at the corporate level.

Time constraints

Team members found that, due to the level of detail of the audit protocol, all questions could not be comprehensively covered in what was effectively three days of data collection time. This applied in particular to the health, safety and human rights sections as more time would have been required for interviewing a range of senior management, supervisors and employees. Additionally, team members predicted that a more complex operation or environmental setting would require more time to be allocated to the Environmental section. Pre-audit preparation, including the development of an appropriate interview schedule and document review, will assist in reducing the time required on site.

Process Improvement: As part of the next step of considering how a certification process might work some thought should be given to establishing guidelines for audit duration that take account of site operations and complexity. Criteria could include number of employees and general level of risk.

Applicability of criteria and requirements

At a Working Group teleconference following the Tarong field trial, it was pointed out that some of the criteria and questions on the protocol required certain issues to be investigated to a level of detail that would be unnecessary in some contexts. However, it was also noted that even seemingly irrelevant issues (e.g. child labour) might actually be relevant in unexpected contexts, so that it would be dangerous to assume that they were not.

A related issue concerned the systems that a site would need to have in place in order to address each criterion adequately; this would vary according to context. Concern was expressed that certification could be denied if a site addressed an issue in a manner adequate for the context and risk but below the requirements of the protocol. For example, a site that did not have complex community issues might not have developed many comprehensive community engagement processes. However, concern was also expressed regarding who would decide what type of systems were adequate in any given context.

Process Improvement: Future audits should be preceded by a scoping study to examine the context of the operation. Auditors should be provided with detailed guidance as to which criteria are likely to be of particular concern, thus requiring detailed investigation, in which contexts. Also, auditors should be given clear guidance as to which types of systems will be adequate for which contexts.

TARONG PROCESS REPORT APPENDIX 1

For the purposes of this report, the following definitions apply:

Performance measures: levels of achievement required in order for a site to obtain a particular score in the scoring system (see below). In order to be ascribed a particular score for each criterion, the site would have to demonstrate that it has achieved a specified level of attainment. Performance measures are descriptions of the requirements that need to be met for each level in the scoring system. For example, to be given a score of 5 on a particular criterion, a site might have to demonstrate a system described in the relevant performance measure as being best practice as defined in a particular international standard. To receive a score of 4, the site would have to demonstrate a system that was good, but not quite as good as that required for a score of 5; this requirement would also be described in the relevant performance measure.

Scoring system: a set of numbers that represent a gradation of levels of performance. This could be, for example, the numbers 1-5, in which 1 would represent unacceptable performance, 2 would represent performance that needed improvement, 3 would represent acceptable performance, 4 would represent good performance, and 5 would represent best possible performance.