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Tracking the trends 2024

Navigating global challenges and opportunities in mining and metals

Introduction

Navigating global challenges and opportunities in mining and metals

As we enter 2024, the mining and metals industry finds itself at the center of a complex matrix of challenges and opportunities, expectations, and demands.

With supply shortages looming in metals that are critical, not just to the energy transition but to global urbanization and industrialization, stakeholders are acting strategically to secure their supply chains (copper, for instance, is expected to see a supply deficit of 9.9Mt by 2035[1]). With supply source alternatives such as urban mining still in their infancy, downstream companies and even governments are striking deals with miners and metals providers in a reshuffle that has seen some traditional value chains realign over the past 12 months.

Organizations also remain under pressure to improve the efficiency of existing assets and operations by embracing generative artificial intelligence (gen AI), leveraging third party delivery models with specialized back office capabilities and to unlock new value in assets. Additionally, the need for mining and metals companies to collaborate with industry peers, suppliers, and competitors to tackle productivity and environmental issues, all while upholding environmental, social, and governance (ESG) expectations in day-to-day operations remains a priority.

With strong business strategies in place and 2050 sustainability targets as its North Star, now is the time for the mining and metals industry to accelerate growth. However, with heightened uncertainty in the global geopolitical sphere and volatility in commodity markets, to do so may not be easy. Companies that navigate uncertainty, work with governments to address permitting issues for new projects, rethink the strategic value of exploration, work with regional players to address skills shortages, and drive toward becoming more purpose-led organizations are most likely to prevail.

In this, the 16th edition of Deloitte Global's *Tracking the trends*, a team of professionals from around the world provides insights and examples as well as practical ideas to help mining and metals companies rise to the challenges that lie ahead and capitalize on new opportunities. We're looking forward to discussing these trends with you in more depth and helping your organization to continue forging its own pathway to success. Thank you for your ongoing support.

Endnotes

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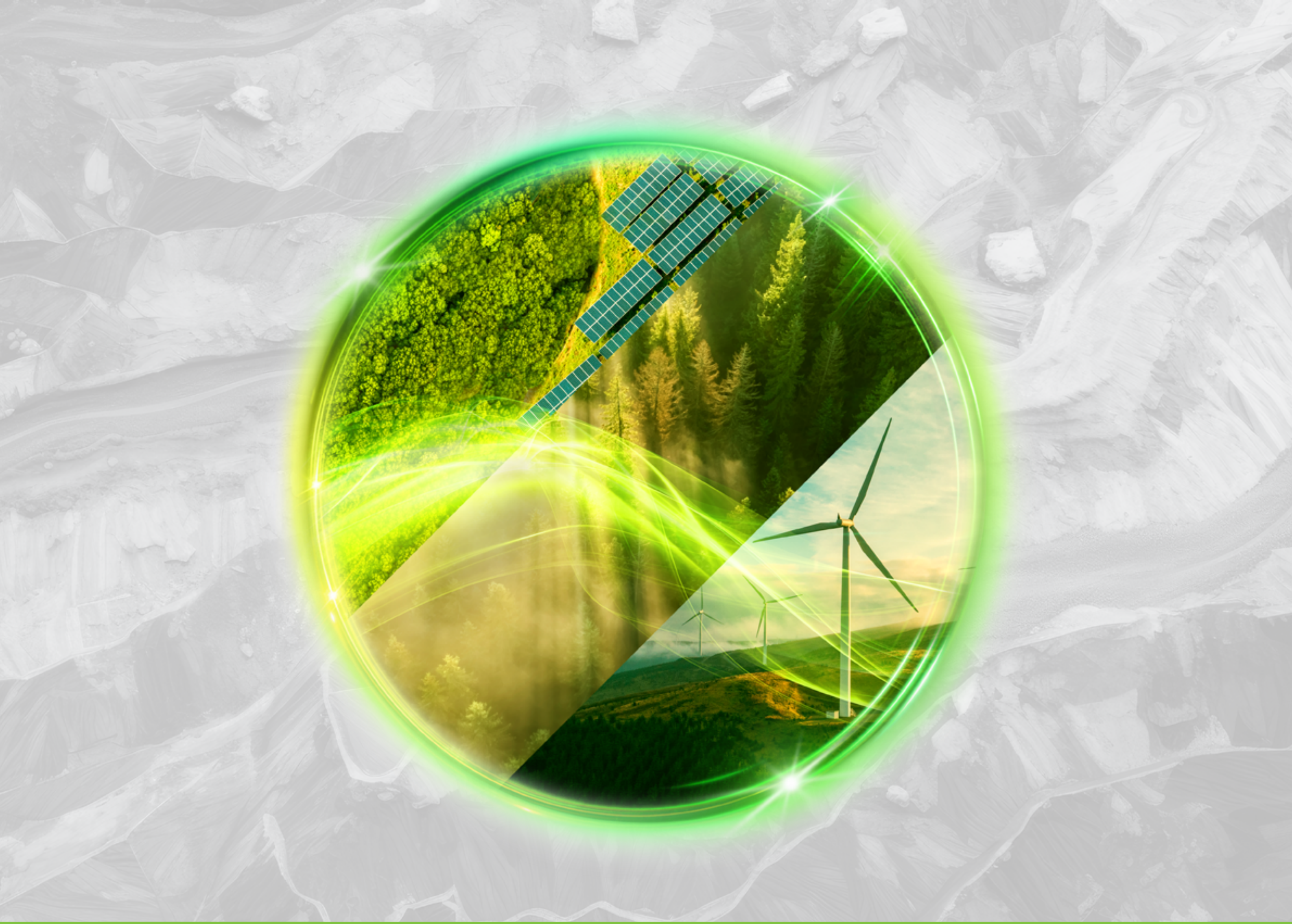

Trend 4

Working toward net-zero: Building capacity and future-proofing ESG strategies for a credible transition

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According to the United Nations, while global greenhouse gas (GHG) emissions are trending downward, countries' efforts remain insufficient to help limit global temperature rise to 1.5°C by the end of the century. In fact, the combined climate pledges of 193 parties under the Paris Agreement could put the world on track for 2.5°C of warming by the end of the century,[1] a scenario that could result in severe consequences for both people and the environment.

Research by the Deloitte Economics Institute has found that, if left unchecked, climate change could create US$178 trillion in global economic losses between 2021 and 2070.[2] In contrast, a coordinated effort in climate change mitigation could deliver an additional 300 million jobs by 2050[3] and boost the economy by more than US$43 trillion by 2070.[4]

The private sector has a role to play in helping accelerate a credible energy transition with shared outcomes for all stakeholders. As providers of the raw materials needed to create sustainable infrastructure, low-carbon technologies and electrify transportation, mining and metals companies should be positioned to lead the way, and organizations that act swiftly could be rewarded through enhanced resilience and value generation opportunities.

In this trend, Deloitte looks at some of the practical ways that companies can help build their climate leadership capacity, ensure their transition action plans are set up for transformative success, and wield their influence to inspire coordinated actions across business ecosystems.

Creating a climate transition action plan

According to the Climate Leaders Coalition, "a credible, responsible and equitable transition is a transition to a net-zero economy that is grounded in integrity by bringing together organization, government and community perspectives".[5]

To help achieve this may require organizations to move beyond tackling emissions as a standalone challenge and apply a broad and forward-thinking approach to help mitigate climate change.

> "Effective transition planning requires companies to understand their role with respect to all of their stakeholders, and then to evaluate climate-related risks and opportunities from the perspective of each stakeholder group."

John O'Brien, partner, Sustainability & Climate leader, Mining & Metals, Deloitte & Touche LLP

A Climate Related Transition Plan (CTAP), which the International Sustainability Standards Board (ISSB) describes as an "aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower carbon economy",[6] can provide an architecture for this.

Unilever was one of the first multinational companies to implement a CTAP. In March 2021, the organization made history by announcing, of its own volition, that it would put its plan to a shareholder vote; a move that garnered much respect. The company committed to providing an annual report on its progress in reducing GHG emissions and to submitting an updated plan for a shareholder vote every three years.[7]

Good CTAPs feature science-based net-zero targets supported by goals over short-, medium- and long-term time horizons. These should be informed by achievable decarbonization pathways with steep emissions reductions in the near term supported by enabling capital allocation frameworks, operational and organizational impacts and portfolio optimization. They also integrate with corporate strategy, actions and investments and provide transparency on the data and methodologies used.[8]

In September 2021, BHP published its first CTAP, which sets out the company's strategic approach to help achieve its long-term GHG emission reduction targets and goals, and its commitment to additional actions. As part of this, BHP has embedded decarbonization into its capital allocation framework. This means that each major investment decision requires an assessment of investment viability under BHP's 1.5°C scenario. Ultimately, by taking a strategic approach to analyzing future scenarios, the global challenge of decarbonization has been turned into a potential growth opportunity for the company and its portfolio is aligned to help support the global response to climate change.[9]

Making actions credible and meaningful

In addition to growing alignment on what a CTAP should look like and contain, thought leadership is now focusing on what truly counts as "credible" and how companies can uphold leading practices. This will likely vary by sector and geography to accommodate technological and physical dependencies, as well as just and equitable transition principles.[10]

For transition plans to stand the test of time, it's expected that mining and metals leaders understand evolving external regulatory frameworks and socio-environmental shifts in the jurisdictions in which their organizations operate.

In areas where IFRS S2[11]—the latest ISSB standard on climate-related disclosures—applies, companies are required to disclose their CTAP along with its critical assumptions and dependencies. For example, Brazil intends to adopt the standards on a voluntary basis starting in 2024 before mandatory use comes into play in 2026.[12] The UK Transition Plan Taskforce Disclosure Framework,[13] launched in March 2022, has also been designed to align with IFRS S2 and is recognized globally as a leading practice for transition plan disclosures.[14]

There is growing scrutiny on corporate climate disclosures globally and varying sentiment with regard to environmental, social, and governance (ESG) in certain geographies. Many European markets continue to help drive forward on ESG, raising the bar for companies, while others, like the United States, have started to avoid the term as it has become highly politicized.[15] These growing policy disputes have seen ESG-focused companies and funds come under fire over the past year, at shareholder meetings and in the media. Data from fintech, Broadridge, showed that 44 sustainable funds removed the label from their brand name during the first half of 2023.[16]

Now more than ever, companies should think beyond disclosure and target-setting to real actions that can demonstrate credibility and integrity and ultimately help drive value for shareholders and other stakeholders through ESG.

Building leadership for climate action

The transition to a low-carbon economy demands synchronized transformation of multiple, interdependent systems and, as such, mining and metals organizations could look to collaborate with their customers, suppliers, regulators, traditional owners, and competitors to help create material change and, where necessary, act as an orchestrator for joint projects and activities.[17]

To do this, leaders should understand who the various actors are within their ecosystems, including those who may be less obvious or may affect competitive positions, as well as their differing priorities and values. From there, they could identify common goals and opportunities for collaboration and use systems thinking to help understand the impacts and opportunities created through every interaction, including noticing potential intervention points.[18]

"In understanding their ecosystem, mining leaders should recognize that many of their client base will be looking to transition to a low-carbon business. These companies will likely start to examine their supplier relationships more closely, look for collaborative action on climate change and make purchasing decisions accordingly. This could present risk but also opportunity for mining and metals organizations"

Celia Hayes, partner, Risk Advisory, Deloitte Australia

Schneider Electric has a good example of this in action. In 2022, carbon emissions from its procurement of goods and services amounted to 7.6 million metric tons of CO2, making it the largest contributor to the group's scope 3 upstream emissions. In response, Schneider developed The Zero Carbon Project. This saw the organization collaborate with more than 1,000 suppliers, who were responsible for 70% of its upstream carbon emissions, with the goal of halving its collective carbon footprint by 2025. The project enables leading practice exchange with peers and partners to access solutions for decarbonization. More than 1,000 companies have joined, and 1,300 supplier participants have now undertaken technical training about decarbonization.[19]

At the organizational level, leadership for climate transformation usually involves bold decision-making and directing resources and efforts toward a unifying net-zero ambition. This requires leaders to define and commit to that ambition, innovating and changing the organization's products and/or services to transition to a low-carbon revenue model. It also requires courage to take decisive actions with regard to suppliers, employees, customers, and communities in adapting to and mitigating climate change. Leaders who are cautious with regards to climate change, may find themselves and their business lagging as the economy transitions.

For example, in 2022, Deloitte launched a globally coordinated learning program to help increase the sustainability, climate knowledge, and skills of its more than 450,000 people across its businesses. The effort stems from Deloitte's Sustainability & Climate practice, which is dedicated to guiding clients as they redefine their climate strategies; embedding sustainability into their operations; meeting tax, disclosure, and regulatory requirements; and accelerating the transformations of their organizations and value chains. This learning program aims to enhance the skills and capabilities of Deloitte professionals, enabling them to address sustainability and climate topics while advising clients and other stakeholders—creating one of the largest networks of sustainability specialists.[20]

No time to lose

Climate change is one of the greatest challenges of our time. However, with the right plans, strategies, and leadership in place, mining and metals companies have the potential to help lead at each step, paving the way for a safe, prosperous, and opportunity-filled future for people and the planet. The action points—based on steps from the Climate Leaders Coalition's seminal report *Credible transition to net zero*,[21] which was delivered by Deloitte Australia—provide ideas for companies that are keen to supercharge their ESG efforts.

From ideas to actions

- **Get comfortable asking questions:** Laying the foundation for a credible CTAP begins with leaders asking questions of their teams, boards, and investors. Creating mechanisms for this and maintaining an open and constructive dialogue and encouraging the challenging of long-held assumptions, throughout the process can be vital to helping produce meaningful outcomes.
- **Foster ecosystems thinking:** The ability to think across ecosystems—both business and natural—is a critical skill for the future and one well worth investment. Organizations that adopt a strategic and rounded approach to collaboration across a network of vendors, clients, and peers should be able to better recognize their impacts on and dependencies upon nature, communities, and society. This can inform opportunities to add value over time and help mitigate or manage any potential threats to a business.
- **Leverage relationships:** The scale and urgency of climate change requires a coordinated effort. Timely and impactful actions require organizations to work within, and beyond, their historic sectors and ecosystems, with governments, peers, and communities to help identify synergies and overcome potential barriers. Industry associations and working groups often convene thought leaders to discuss shared challenges and can provide critical mass to help accelerate plans and actions.
- **Take action strategically:** Embedding credible actions toward the climate transition into an organization's strategy and capabilities is critical. To do this, identify, prioritize, and resource key actions in line with targets that reflect areas of focus, stakeholder engagement, and value-creation opportunities. From there, determine the governance mechanisms, leadership, and team capabilities that may be needed to help operationalize the transition.
- **Be clear on the importance of ESG:** Effective ESG programs should be underpinned by a materiality assessment whereby a company looks at its business and strategy through an ESG lens. Identify key ESG factors that can impact the business from the perspective of its stakeholders and ensure that ESG-related activities are structured around these. By clearly linking actions to business objectives and purpose, the company should be better positioned to respond to both pro- and anti-ESG crowds.[22]

Endnotes

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