

# THE MESSAGE



## THE RED GOLD MINING

Massimiliano Comità, Portfolio Manager

Over time, driven by our changing needs, we attributed different hues to gold. Better said, we have called “gold” commodities that have been of vital importance, borrowing the colour of such commodities. Thus cotton became “white gold” and oil “black gold”. It seems now that a new colour is emerging, and that gold is taking red hues.

EU has published two months ago its Fit for 55, a package of reforms aimed at reducing by 55% the greenhouse gases emissions by 2030, compared to 1990, as an intermediate step to ensure that the neutrality target of 2050 can be achieved.

Sustainable finance  
according to 

Alpha Investor  
Services Management  
Luxembourg

CONTACTS  
info@aism.lu  
+352 27 85 47 1  
21 Rue Aldringen  
L-1118 Luxembourg

Considering as well the programs of other countries, the quantity of copper linked to the green economy necessary to achieve the intermediate target is thought to be six times the current level. The estimate increases to nine times as the technologies involved are more and more sustainable, giving the hue a darker tone. It's easy to see that the estimate is not unreasonable, given that copper is used everywhere: from electric cars (which use six times more copper than a conventional one) to the charging stations, from wind turbines to solar panels, from batteries to electric grids. In fact the whole world of energy and transportation that the EU foresees in the near future.

According to some research, the price of red gold is destined to almost double in the coming years, pushed by such accelerated demand that is not compensated by a similar supply increase. The reasons for a slower supply include lack of adequate technologies for a more efficient extraction process; lack of investments by mining companies, which would reduce profit margins; the two-three years' time needed to expand an existing copper mine compared to up to eight for a new mine to be able to generate revenues.

And given the cyclicity that copper has had until now, how to blame them? The only way to convince producers is therefore an increasing price, to provide them with cashflows and a business that will be sustainable.

If copper will be the most important commodity, representing over 50% of the total of the metals needed for the green technologies revolution, the others should not be neglected: nickel, cobalt and lithium are needed for batteries, the lightness of aluminium brings down the fuel needs of cars, trucks and planes, while platinum, palladium and rhodium are needed for the catalytic converters used to reduce the emissions of diesel cars as well as the new hydrogen fuel cells.

The extraction of such commodities however has always made ESG investors uneasy, because of the CO2 emissions, the consumption of resources and for the social aspects involved. All issues that depend on many factors such as the product mix, the extraction process and the geographical location.

It is in fact more polluting to produce aluminium than iron or copper: a deeper excavation implies higher consumption of resources and higher risks for the workers, compared to surface mines. Additionally, mining in an emerging country implies higher social or political risks than mining in Canada or Australia.

If we analyse only the direct emissions (so called scope 1 and scope 2) of mining companies, we would find out that they represent only 1% of the total anthropic emissions. But the proportion increases noticeably to 7% if we consider indirect

emissions, those generated by the use of the commodities produced, where the main role is played by fossil fuels.

We should consider as well the use of resources: while we have large deposits of aluminium, copper deposits are smaller considering also the increase in demand foreseen in the near future. In this case an important factor will be the recycling which will also contribute to prevent prices from skyrocketing. But the most controversial aspect linked to mining companies is the social one. Generally speaking, mines are located in emerging countries, with governments often overlooking human rights like in the known case of underage workers exploited in the Congo cobalt mines. On the other hand, the companies that operate in such countries establish a durable relationship with the local population supplying jobs, building schools, roads, bridges, providing medical assistance and support in several ways.

The Governance is another aspect to consider, one that has a greater importance for this sector given the frequent contact with governments less organised or attentive, often liable to corruption and inclined to sudden and unexpected decisions. Such an example is the law proposed by Chile last April to increase copper extraction fees up to 75% to face the Covid emergency, where local mines produce almost 30% of the world copper and thus represent a significant source of revenues for that country.

The greater weight assumed by less measurable aspects like the S and G, compared to the E, makes the mining sector liable to a wider dispersion of opinions by the rating agencies in estimating a sustainability score for any given company. This is perhaps one of the reasons why mining companies are under-represented in ESG portfolios; or it may be the result of the opinions of investors, journalists and independent analysts that could call greenwashed those products that invest in such companies. An increasing risk given that the hunt for greenwashed products is gaining traction.

The variety of critical factors affecting the mining sector definitely requires a stronger focus on the securities selection, but are we really sure that a sustainable portfolio could simply avoid investing in those commodities that are needed to achieve that sustainability?