Even though they face various ESG challenges, the extractives industries can adopt sustainability objectives when projects are diligently conducted.

Today Eurosif (European Sustainable Investment Forum) publishes their Extractives sector report, describing the major environmental, social and governance (ESG) challenges faced by the industry, along with opportunities businesses can uncover when mindful of these challenges. This report has been compiled with research from GES Investment Services.

Research highlights:

- According to Forbes Magazine, in 2009, sales from the world’s top five listed mining companies were about €147 billion, whilst the top five oil & gas producers sold product worth nearly €1 trillion.

- Extractives companies are increasingly operating in areas of high environmental and social sensitivity which increases the likelihood of being exposed to corruption practices and to regimes that may not share extractive revenues fairly among their populations.

- Extractive companies that systematically address and manage environmental issues early in project lifecycles will reduce their physical impacts, rehabilitation and legacy costs.

This industry faces environmental challenges, not only due to GHG emissions, but also due to the sensitivity of the new environments in which they are operating. Extractives projects are also being implemented more frequently in emerging market economies, which can trigger community disruption as well as corruption. Nevertheless, companies working in the extractives industries may avoid ESG risks by concentrating on the opportunities involved. This report shows how risks and challenges are interrelated, and also gives two case studies of extractives companies that excelled in conquering ESG risks through good business practices.

Sophie Rahm, Head of Research at Eurosif, states: ‘The Extractives industry continues to play a vital role in our economy, and naturally, it attracts great interest from investors. The appetite for oil, gas and other natural resources is increasingly connected to the various environmental and social stresses it can generate. The example of the BP Deepwater Horizon oil spill in the Gulf of Mexico is emblematic of the interconnection between ecological disasters and subsequent financial liabilities. Investors and communities alike share -although differently- the burden of the Extractives risks. Eurosif’s research shows that such catastrophic scenarios are not systematic: Extractives projects which adequately adapt to their local context will reap financial, social and environmental benefits.’

A steering committee of financial executives oversaw the production of this report and provided their expertise regarding extractives projects. Representatives from CM-CIC Asset Management, Edmond de Rothschild Asset Management, Schroders, SNS Asset Management, Threadneedle Asset Management Ltd. and Triodos Bank.
Senior Research Analyst Shane Chaplin at GES Investment Services comments: “What stood out most when researching and compiling this report was how the wellbeing of the planet depends to such a large extent on the actions of the extractive industry sector. The extraction and use of resources, particularly fossil fuel burning, are the main contributors to both the global economy and global climate change. Management of these two issues will be the biggest future challenge for the sector and its stakeholders. A range of very good solutions exist for managing local “on-the-ground” impacts, but even these must continue to develop and improve as the industry moves increasingly into more challenging operating environments”.

The Eurosif issue and sector reports aim to guide policy makers, mainstream and specialist SRI investors, as well as companies towards understanding risks that are not consistently integrated into traditional financial analysis, but which have the potential to influence companies’ shareholder value and fund managers’ investment decisions.

To view the Extractives Report please go to:
http://www.eurosif.org/publications/sector_theme_reports

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Eurosif (the European Sustainable Investment Forum) is a pan-European network and think-tank of national Sustainable Investment Forums whose mission is to Develop Sustainability through European Financial Markets. Current affiliate members of Eurosif include institutional investors, financial service providers, academic institutes, research associations and NGOs. The association is not-for-profit entity that represents assets totaling over €1 trillion through its Member Affiliates.

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GES Investment Services - founded in 1992 - is Northern Europe’s leading research and service provider for Responsible Investment based on international guidelines for Environmental, Social and Governance (ESG) issues. We are the only research provider in the Nordic countries to have certified our services according to the European Voluntary Quality Standard (VQS). GES’ clients consist of numerous well-known pension funds, banks and other investors. Approximately EUR 650 billion is under GES’ advice.