

DATA DISPATCH

## Analysts observe as Rio Tinto aims to restore trust after blasting heritage site

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By Stephanie Tsao  
*Market Intelligence*



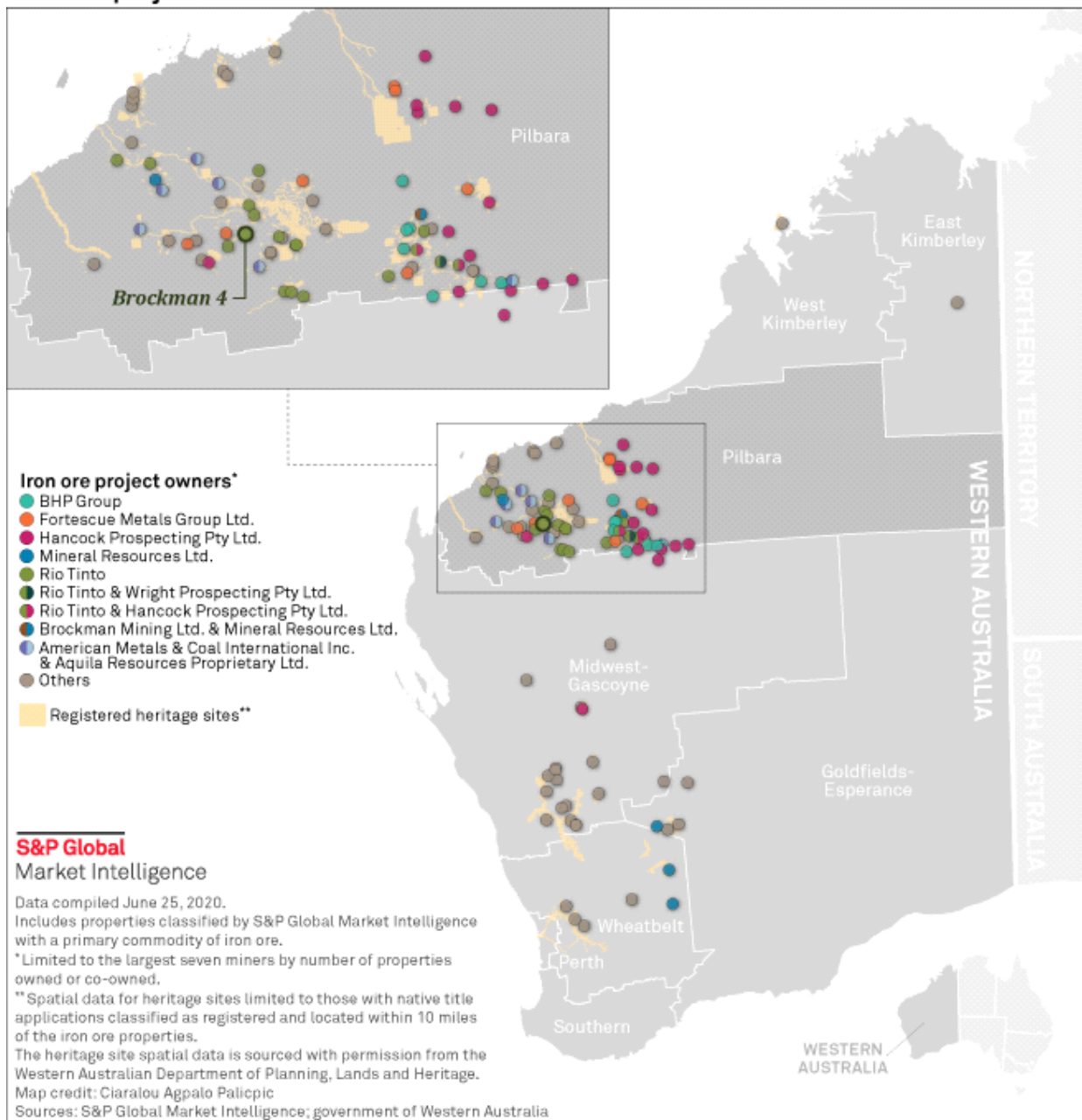
**The Pilbara region of Western Australia is home to a network of Rio Tinto's iron ore mines.**  
*Source: Rio Tinto.*

The recent blasting of a heritage site in Western Australia as part of a mine expansion by Rio Tinto, the world's second-largest iron ore miner based on 2018 attributable production, raises questions about environmental, social and governance practices in the global mining sector.

In late May, the mining major destroyed a 46,000-year-old site at the Juukan Gorge in the Pilbara region that included artifacts from the direct ancestors of the Puutu Kunti Kurrama and Pinikura, or PKKP, people. The company did the blasting to expand the Brockman 4 mine, which forms part of its Hamersley complex and hosted 264 million tonnes of proven iron ore reserves at the end of 2019.

Rio Tinto originally defended the move, predicated on its collaboration with the PKKP people on the Juukan area since 2003 and in line with 2011 and 2013 agreements. The company later started a review of its mining plans for the region, and CEO Jean-Sébastien Jacques publicly apologized June 12 with Chairman Simon Thompson following suit a week later. The miner also launched a board-level inquiry in mid-June.

## Iron ore projects in Western Australia



Thompson tried to calm investors in early June as Aberdeen Asset Management PLC and insurer and wealth management firm Legal & General Group PLC expressed concerns over Rio Tinto's local relationships, *Financial Times* (London) reported June 15. Aberdeen Asset Management parent Standard Life Aberdeen PLC and Legal & General are the eighth- and ninth-largest Rio Tinto shareholders, holding US\$1.48 billion and US\$1.41 billion, respectively, according to S&P Global Market Intelligence data.

In addition, the New South Wales Aboriginal Land Council, a membership of aboriginal groups, told fund managers June 29 to withdraw millions in investments due to the destruction of the heritage site and encouraged other investors to do the same.

### Credit analysts await inquiry outcomes

After following the mining sector for 20 years, Carol Cowan, a senior vice president at Moody's Corp. and part of its Corporate Finance group, was surprised by Rio Tinto's move. "I think among the large miners, certainly Rio has been viewed as having very high standards with respect to the environment ... working with their communities. This is

something that has not really been an occurrence with them in the past," Cowan said June 17.

Members of Parliament forming the Joint Standing Committee on Northern Australia launched an investigation June 11, with findings expected in September. Rio Tinto's inquiry, led by independent nonexecutive director Michael L'Estrange, will produce a report by October.

With conclusions pending, Moody's ratings on the Rio Tinto group remain unchanged, Cowan noted. Moody's Investors Service affirmed all A2 ratings for the group in late April, with the investment-grade rating based in part on the group's liquidity position, diverse mineral portfolio, and low-cost and large-scale operations.

When asked if the credit ratings would be impacted by large fund managers reconsidering investments in Rio Tinto, Cowan said, "It wouldn't change our evaluation. These are big market cap companies with numerous investors, and while we do follow it — we follow pretty much everything — it is just important to know what is going on."

Cowan and Mathew Hodge, a director of equity research at Morningstar Inc., are watching to see how Rio Tinto restores trust with stakeholders. The destruction of the heritage site was "disappointing," Hodge said. "I fully expect Rio Tinto to examine the missteps and address the shortcomings and believe it will do what is needed to operate its iron ore business in accord with community, shareholder and stakeholder expectations."

### **Does history shed any light?**

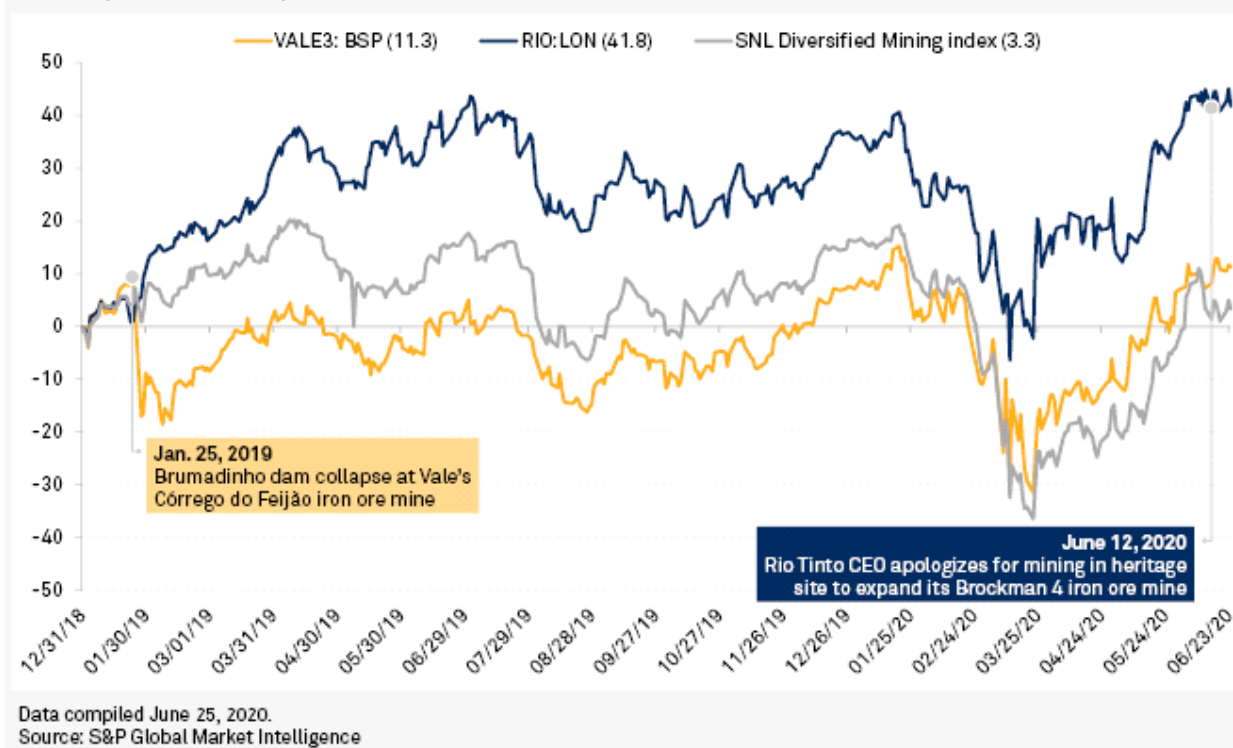
When considering other recent material ESG events, analysts often point to the collapse of a tailings dam at Vale SA's Corrego do Feijao mine in Brumadinho, Brazil, in early 2019. The disaster followed a 2015 tailings dam collapse at another Vale operation in the region, the Samarco joint venture with BHP Group.

One difference between these events is that the Brumadinho tailings dam collapse killed 270 people, including 123 Vale employees and 117 contracted workers, according to the company's 2019 sustainability report. The disaster led Vale to suspend operations at certain mines, with production capacity cut by 90 million tonnes, the company reported in August 2019.

The Brumadinho tailings dam collapse sank Vale's overall returns to negative 18.6% as of Feb. 7, 2019, from the end of 2018, before becoming positive in early April 2019. In comparison, London-listed Rio Tinto stock returned 41.8% through June 24 since the end of 2018 and has not seen as drastic of an impact to date.

## Vale SA and Rio Tinto total return (%)

Dec. 31, 2018-June 24, 2020



While both disasters involved iron ore mines, analysts said the events also reflect the general riskiness of mining and not only the iron ore miners.

"Mining in general has been littered with ESG issues," said Ronnie Cecil, a metals and mining research analyst with Market Intelligence. The worst cases tend to be in Africa, China, India and Russia, Cecil said, pointing to the use of child labor in mining cobalt in the Democratic Republic of Congo as one example.

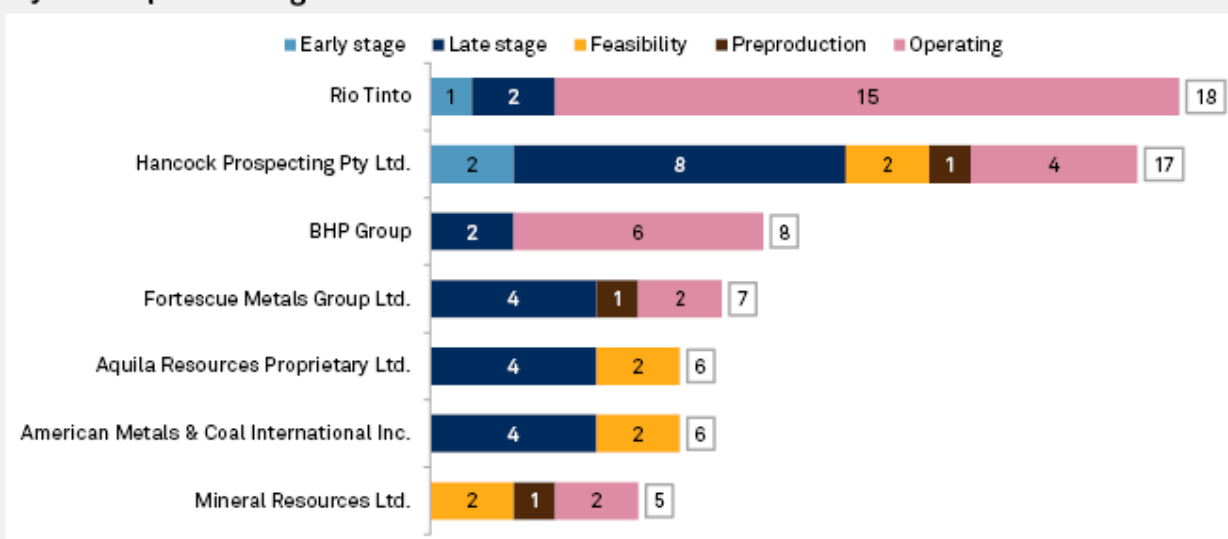
"Iron ore mining is open pit mining requiring large scale [operations] and access to rail lines to transport the huge volumes of product to the port for shipment overseas," Cecil said June 29. "Over the past 20 years, all of the growth in global iron ore trade has been driven by a massive expansion in Chinese demand for imported iron ore. Australia and Brazil are by far the world's biggest exporters of iron ore."

### Reflecting on stakeholder approaches

In its May 27 defense, Rio Tinto noted that it went ahead with the expansion after receiving prior agreement from the PKKP people and state-level ministerial consent under a 1972 law called the Aboriginal Heritage Act.

"I think all companies doing operations there have similar challenges," Cowan said regarding ESG challenges for miners in the Pilbara region. Market Intelligence data indicates that Rio Tinto owns or has partial interest in 18 mining properties in Western Australia, followed by Hancock Prospecting Pty. Ltd. with 17 mines and BHP Group with eight.

## Largest owners by number of iron ore mines in Western Australia shown by development stage



Data compiled June 25, 2020.

Chart reflects the number of properties where a miner owns more than a 50% share. Properties that are under a 50/50 ownership are counted twice, once per co-owner.

Status is classified by S&P Global Market Intelligence.

Source: S&P Global Market Intelligence

BHP Group CFO Peter Beaven said June 17 that he does not expect the Rio Tinto situation to impact BHP Group's South Flank development at its Area C mine in the region. Beaven noted during a virtual meeting that the company's agreements with the Banjima traditional owners took 10 years to negotiate and said they are "living documents" as mines can operate for decades.

"You have to have that relationship every day with the folks, and you have to take into account the fact that they will change their minds on things and they have every right to change their minds on things. And you've got to keep that day-in and day-out conversation," Beaven said.

BHP Group recently agreed not to disturb 40 heritage sites related to South Flank without seeking further consultation with traditional landowners. Fortescue Metals Group Ltd. also dropped plans to blast a heritage site as part of an expansion of its Solomon Hub operation.

*Ciaralou Palicpic contributed to this article.*

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