

Barrick gold corporation essay sample



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1. What are the challenges faced by extractive mining corporations in their attempt to establish subsidiary operations in developing nations

As major multinational extractive mining corporations continue to expand their developing country footprints, they are finding challenges in carrying out corporate social responsibility (CSR) to achieve a sustainable balance of benefits for business, its employees, stakeholders and the communities in which they attempt to establish subsidiary operations. In response to increasing global demand, extractive firms are operating where the natural resources are located, mostly in developing countries where governance mechanisms are often weak and sometimes non-existent. Developing countries envisage that the mining sector would be a key driver for economic growth and that the industry would eventually alleviate poverty and foster economic and social development.

However, benefit gap exists between the anticipated and actual rewards to the local communities that are impacted by the mining corporations – mining has actually contributed little to the economic and social development in these developing countries. The Mineral Sector Policy of 1997 set the goal that mining would contribute 10% to Tanzania GDP by 2015. However, by 2010 mining's contribution to GDP was only 2.3% (Tanzania Chamber of Minerals and Energy). Poverty and corruption have increased (Pegg, 2006), particularly, large-scale mining combined with weak governance of the rule of law has been found to be closely connected with human right abuses and forced displacement (Ballard and Banks, 2003).

Governments from various countries, companies in the extractive sectors, as well as non-government organizations, all with an interest in human rights and corporate social responsibility, have developed a set of Voluntary Principles on Human Rights and Security to help guide companies in maintaining the safety and security of their operations (Foley Hoag LLP, 2015). However, there are a number of practical policy challenges that prevent mining companies like Barrick Gold Corporation to practice in the developing countries in which the business operates. According to Canada Department of Foreign Affairs (2005),

“ The international CSR architecture is still underdeveloped–there is a proliferation of codes and standards and no agreement on how to define CSR or an accepted methodology with which to measure CSR performance.”

“ There is no consensus with respect to the appropriate boundaries between governments, companies and other stakeholders. For companies operating in weak states with little or no capacity to enforce their laws and little in the way of accountability or transparency, a blurring of lines between public and private responsibilities can result. Not only can this perpetuate weak governance, but it can also result in misdirected grievances.”

There is high risk and complex exploration area; corruption; weak legal systems; theft, vandalism and physical violence; skilled workers are scarce; religious, linguistic and cultural diversity; and also need to earn trust and acceptance by indigenous people. Despite wanting to act in a responsible manner, mining companies are unaware of the standard they are expected to follow to ensure sustainable development. There are ongoing debates

concerning the responsibility that home countries have for the overseas activities that their international companies carry out. Although guidelines currently exist, there is a need to assess whether or not a mandatory regulatory framework should be implemented by home countries to further regulate CSR on mining companies operating abroad.

2. Why and how has Barrick Gold Corporation adopted a global approach to address corporate social responsibility issues in Tanzania?

Quite simply put – governments have not always been the best stewards of natural resources. There are increasing clamour for better governance and social accountability for natural resource use. Major international companies such as Barrick Gold Corporation moved beyond narrow corporate social responsibility concerns to recognize their collective stake in promotion broad-based and sustained development in the extractive industry.

Corporate responsibility performance in the mining sector is positively linked to business success (MacMahon et al., 2011). When an organization's most significant environmental and social issues are addressed, business value is created. Sustainability concerns and evolving stakeholder expectations are having a greater impact on the business environment due to the emergence of international norms and standards that are playing an equally significant role in sector governance.

Barrick integrated CSR throughout their management structures so that they operate abroad in an economic, social and environmentally sustainable manner. They articulate their expectations and enforce their policies on ethical conduct and decision-making across all facets of their business which

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is driven by the company's Code of Business Conduct and Ethics. Barrick understands that incorporating CSR practices into their operations can contribute to their success. As more are becoming known about the costs of poor stakeholder relations, which is reflected in terms of share price and the bottom line, more investors will want to see evidence of effective CSR. In doing so, the company can benefit from: (1) managing risks more efficiently and effectively; (2) foster good relations with investment partners, employees, and surrounding communities; (3) increase access to capital; (4) improve the company's reputation; (5) manage social risks, including through conscious efforts to respect human rights.

Barrick implemented a number of policies to signal their commitments in the long term sustainable development of the mining sector in Tanzania (Barrick, 2006). (1) Through environmental management programs to address environmental effects related to mining activities and implement controls to ensure compliance with corporate environmental policies; (2) Through safety and occupational health management policies, Barrick has demonstrated commitment in ensuring all employees and contractors work in a safe and healthy manner; (3) Through professional development and training opportunities, Barrick commits to educating their employees to become accountable and involve in issues that affect the safety of the workplace; (4) Lastly, Barrick build partnerships in entrepreneurial endeavours that contribute to enhancing local capacity and also provide financial support and employment to indigenous people. They took the initiative to improve transparency by first open up constructive dialogues and be more responsive in providing information in an accurate, appropriate and timely manner.

3. Can tax revenues, rents and subsidies be effectively used by Tanzania (and other developing nations with mining wealth) to generate prosperity in the densely populated area of the Lake Victoria Zone and to break the so-called “ resource curse” that occurs in many poor nations? How?

To break away from resource curse in Tanzania and other developing nations the government can improve their ability to collect revenues from mineral extraction and spend them effectively on physical and social infrastructure. The lack of policy and administrative absorptive capacity in the public sector leaves government departments and regulatory frameworks ill-prepared for the challenge of translating resource revenues into economic development.

Over the past 20 years Tanzania’s economy has been substantially liberalised under World Bank-supported economic reforms. Investment and tax laws have been revised such that Tanzania now offers a raft of tax incentives to attract foreign mining companies to establish in the country. These incentives include low royalty rates (3% on gold exports), the ability of mining companies to offset 100% of their capital expenditure against tax in the year in which it is spent, and low taxes on imports of mining equipment (PwC, 2012). The government takes no stake in the major gold mining operations, allowing foreign companies such as Barrick Gold Corporation 100% ownership (Vis-Dunbar, 2008).

These incentives amount to hidden subsidies for the large mining companies – increasing incidence of tax avoidance by mining companies that are conditioned by measures such as secret mining contracts, corporate mergers and acquisitions, and various creative accounting mechanisms

(Environmental Law Alliance Worldwide, 2009). There is really no good reason to grant extensive exemption regimes to extractive industries in most developing countries since investment and production decisions of the companies are mainly based on the quality of the mineral resource, and the overall conditions and ability to produce and export the refined mineral. There are no firm evidence of their effectiveness in securing investment and production, but these exemptions have been shown to undermine the tax base.

In order to reverse resource curse, Tanzania must first capture a larger share of the resource rent, and then invest that share more effectively to increase national wealth. Globally, the amount of rent captured by the average host country of mining resources is less than half what is achieved from petroleum (Lundstøl et al., 2013). In Tanzania, the average effective tax rate for mining is less than half of petroleum in signed production sharing agreements (IMF, 2012). PwC (2010) has identified some trends that contribute to collecting more tax from the mining sector: (1) higher royalty rates (5 – 10% and increasingly based on gross); (2) progressive profit-based taxes; (c) longer capital depreciation; (d) impose withholding taxes.

However, they have not been proven to be sufficient to improve the level of collection to a satisfactory degree in terms of overall benefit-sharing. Hence, a comprehensive transition towards improved uniform mining tax regimes is needed in Tanzania. Here below is a four-pronged approached that can be used to negotiate transitions aiming to reach similar fiscal terms for mining companies over time.

Strengthen fiscal regime for mining

(1) Ensure separate mining projects are ring-fenced

Individual mining projects should be ring-fenced in order to reduce the administration complication of calculating the applied tax rate to different projects undertaken by the same company. (2) Apply standard depreciation rate applicable in the tax regime to the mining sector and eliminate 100% initial allowance Initial capital allowance is one of the main contributors to the low corporate tax burden in the mining sector (Foreign Investment Advisory Service, 2006). The mining sector should be treated in a similar manner to other sectors by eliminating the 100% initial allowance and applying an accelerated depreciation rate (i. e. 25% on mining equipment).

(3) Royalty

Royalties are favoured by governments as a mean of compensating for extraction of state owned resource. They have a high compliance rate, a low cost of collection and ensure up-front revenue stream as soon as production starts. Royalties can be applied based on production volume or the value of production and therefore fluctuate based on market value. (4) Withholding tax

Tanzania can benefit from applying withholding tax on foreign services to protect local services (i. e. encourage local lending) offered in the country. A large proportion of developing countries such as Chile, Indonesia, Kazakhstan, charge withholding taxes usually at around 20% for foreign services (Lundstøl et al., 2013).

Include a transparency guarantee in all agreement

The low collection of mining revenue is related to the erosion of the tax base through both legal and illegal tax practices. While it might be difficult to prove if something illegal or against the rules of laws of taxation has taken place, majority of tax reassessment to raise the correct tax from mining companies is hard to enforce. The implementation of transparent guarantee would provide a guarantee to the resource owner that in exchange for access to the resource, the company would provide full access to all relevant documents related to resource production and sales, all the way to the real origin or receiver.

Technical capacity to audit resource production and export

Government of the mining developing countries should have the capacity and funding to carry out basic technical audits of production and export data to verify independently the production and export data provided by the mining companies. This is to prevent under-reporting the main products and by-products which helps maximize benefits to the Government from the mining industry for sustainable development.

Specialised technical capacity in resource tax administration The

government of major mining developing countries should install a dedicated and specialised capacity in resource tax administration to ensure that tax base is maintained, correct tax assessments are carried out and that tax assessments are enforced – this is an area of great unexplored potential with high return to investment.

4. Despite Barrick's efforts in the Lake Victoria region, protests and tensions had not abated by early 2009. Why have the tensions and violence not stopped? What can corporations do to eliminate such conditions?

The on-going tensions with the locals at the Lake Victoria region is due to a complex set of factors including government corruption, technological and capital gaps, and a long history of disparity that have created the current power structure in the mining sector. The establishment of mining companies over the past decade has displaced and disaffected the artisanal communities. The local communities feel isolated when addressing social issues that concern them – land issues, compensation, employment, and how the presence of the company would benefit them. The national frameworks seldom provide sufficient protection or compensation to those whose land is expropriated.

Only a limited range of physical assets are compensated but the valuation methods do not capture the market value or the true cost of replacing lost assets (Price, 2009). Many Tanzanians are resentful of large-scale mining as there is a lack of transparency and accountability from both the government and the mining companies – the central government has kept mining contracts confidential and the mining companies avoid paying taxes that would actually benefit the poor country (i. e. income for national and local development tasks). Much of the violence stemmed from Tanzanian citizens who tried to fight for themselves, for the gold and mineral wealth they see as theirs, and attempt to take supplies from the mines so they can work themselves (Sperber, 2013).

With high mineral prices generating windfall profits, corporations should consider using foundations, trusts, and funds (FTFs) as vehicles for sharing the benefits of mining operations with the surrounding communities. FTF can be conceived as an individual entity, to bring value to communities where there are local capacities are limited, public services are absent or weak. FTFs can deliver community investment programs for companies and facilitate the use of government payments derived from mining for development and deliver compensation funds.

Barrick has established a community department to overseas development initiatives and adopted corporate social responsibility strategies to integrate these strategies into the local context, FTFs can be used in combination to:

- (1) signal commitment and establish systematic approach to development that can help build an informal expression of consensus amongst the local communities (i. e. social license to operate);
- (2) support long-term development project without being tied to annual company budget cycles;
- (3) foster shareholder participation in community investment program;
- (4) build bridges to promote collaboration between the company and other stakeholders by providing a neutral facilitator;
- (5) separate legal liability which minimize company risk;
- and (6) provide guaranteed financial support independent from the boom-and-bust cycle of mining.

Furthermore, Barrick must continually prove that their role in supporting Tanzania economic development is greater than the environmental and social impacts of their activities. Management of environmental and social impacts can potentially affect important business drivers such as access to labour and the reputation of the companies and projects. Therefore, Barrick

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must mitigate these risks by understanding which areas of social and environmental impact are most linked to competitiveness. From the analysis of Barrick's development in 2009, it is recommended that the corporation should be proactive in their management efforts and transparent in their disclosures in order to eliminate tension and violence from the local communities in the Lake Victoria region.

On the social side, Barrick's community department (as well as FTFs) should maintain strong relations communities to ensure project achieves social licence to operate – giving back to social organizations and local communities through development projects. It must also maintain strong relations with employees to avoid labour stoppages, be efficient on recruitment and retention spending, which is particularly important in the face of workforce shortages.

Lastly, Barrick should also manage the environmental pollutions and their effects on local communities. It is crucial that water, tailings and climate change impacts are managed responsibly. They tend to have impacts on multiple business drives such as leveraging of supply and demand trends, maintaining access to natural resources, which in turn influences the political and regulatory environment, operational efficiency, and the company's reputation.

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