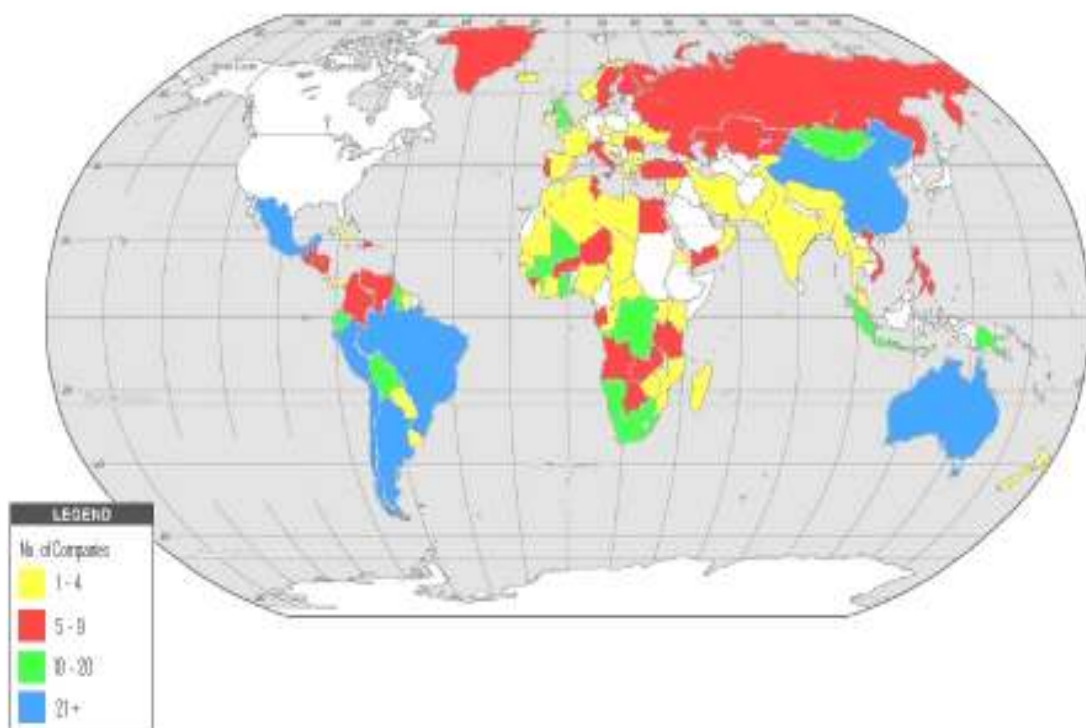


Corporate Social Responsibility & the Canadian International Extractive Sector: A Survey



ABOUT THE CENTRE

The Canadian Centre for the Study of Resource Conflict¹ is an applied-research centre associated with the Master of Arts in Human Security & Peacebuilding program at Royal Roads University in Victoria, B.C. It specializes in the analysis of natural resource-based conflict, seeking to alleviate violence by engaging stakeholders, undertaking research, and disseminating information with regard to the effect and influence of natural resources in violent conflict. Founded as a society in British Columbia, the Centre is managed by a Board of Directors. At present, researchers are currently engaged in projects in Southeast Asia, Southern & Eastern Africa and South America.

AUTHORS

Ashraf Hassanein MAHSP; Director – CCSRC (Southern Africa)

Gideon Lundholm MAHSP; Director – CCSRC (S.E. Asia)

Graham Willis MAHSP; Director – CCSRC (Brazil)

Corrie Young MAHSP; Director – CCSRC (Uganda/Rwanda)

ACKNOWLEDGEMENTS

Many thanks to Dr. Paz Buttedahl, Academic Lead of the MAHSP program at Royal Roads University and President of CCSRC for support and editing; Robb Thompson of Studio Dialog for extensive website support; and Carl Byers for strategic planning assistance.

¹ 103 Sixth St E. Revelstoke, B.C. V0E 2S0
<http://www.resourceconflict.org>
Contact: inquiries@resourceconflict.org

EXECUTIVE SUMMARY

Building on the momentum of the SCFAIT hearings and the Roundtables on Corporate Social Responsibility (CSR) in the Canadian Extractive sector, the Canadian Centre for the Study of Resource Conflict (CCSRC) undertook quantitative research to measure the level of CSR among Canadian extractive sector companies. To date, little has been known about the state of CSR – in any of its many permutations - among Canadian companies in the extractive sector.

- Results of the study have shown that the adoption of voluntary CSR policies by Canadian oil, gas, mining and exploration companies with international interests is remarkably low.
- Among the companies that have adopted CSR policies, a significant majority are creating their own sets of principles which may not have independent evaluation mechanisms.
- Companies which do have formal policies have experienced positive outcomes which should make implementing a CSR policy a prudent business decision.
- Within the industry, adherence to recognized international frameworks is inordinately low, despite government efforts to promote specific CSR principles such as the OECD Guidelines for Multinationals.

CONTENTS

EXECUTIVE SUMMARY	3
BACKGROUND	5
<i>What is Corporate Social Responsibility?</i>	6
<i>Project Justification – CSR in the Canadian Extractive Sector</i>	8
METHODOLOGY	8
THE SURVEY	9
<i>Do you have a CSR policy or Code of International Business Conduct?</i>	10
<i>If yes, how long have you had a policy in place?</i>	10
<i>Which code or set of Principles do you adhere to?</i>	10
<i>Did the implementation/formulation of your CSR policy come as a result of circumstances in the field?</i>	11
<i>Additionally, did your CSR policy come as result of any of the following?</i>	11
<i>Finally, how has having a CSR policy of Code of International Business Conduct affected your company and/or operations?</i>	11
THE CANADIAN EXTRACTIVE SECTOR	12
<i>Company Size, Financial Capacity and Economic Capability</i>	12
<i>The Canadian Extractive Sector - Geography</i>	13
MAPS 1.1 – 1.5	16
SURVEY RESULTS	21
Question 1: <i>Do you have a CSR policy or Code of International Business Conduct?</i>	21
Question 2: <i>How long have you had a CSR policy in place?</i>	26
Question 3: <i>Which code or set of principles do you adhere to?</i>	28
Question 4: <i>Did the implementation/formulation of your CSR policy come as a result of circumstances in the field?</i>	30
Question 5: <i>Did your CSR policy come as a result of any of the following?</i>	31
Question 6: <i>How has having a CSR policy or Code of Conduct affected your company and/or operations?</i>	32
CONCLUSION	34
APPENDIX 1 - Canadian Presence Data	36
APPENDIX 2.0 - Copy of Phase 1 Email Survey	39
BIBLIOGRAPHY	41

BACKGROUND

The interaction between multinational corporations and the global South –its communities, governments and natural resources- has increased drastically with market deregulation and the free flow of capital. As such, responsible international business practices have become the focus of much attention in recent years. The expansion of multinational corporations into unregulated or under-regulated areas brings with it both challenges and benefits. For Canada, where the majority of the world’s resource extraction companies are publicly listed, socially responsible business practices are of heightened concern.²

One of the most widely publicized challenges which has arisen within the current global economic paradigm is the ability of companies to avoid negative interaction with local communities and governments. In a 2005 report to the Government of Canada, the Standing Committee on Foreign Affairs and International Trade (SCFAIT) expressed concern that Canadian mining and oil and gas companies were having an adverse effect on local communities.³ Some Canadian companies continue to be active in countries with questionable human rights records, or in territories occupied by rebel forces (see Map series 1.1 – 1.5 below). In some extreme cases, corporations have been directly implicated in human rights abuses or linked with private military companies that have committed such crimes.⁴ The implication and activities of some Canadian companies in such circumstances has raised significant concern within Canada and abroad.

For many, a solution to these issues can be found in the principles of corporate social responsibility (CSR). CSR is supported by many of the larger corporations in the

² Government Response to the Fourteenth Report of the Standing Committee on Foreign Affairs and International Trade. (2005) Parliament of Canada, p. 2. Retrieved on Dec 3, 2005 from: <http://www.parl.gc.ca/committee/CommitteePublication.aspx?COM=8979&Lang=1&SourceId=131218>

³ Fourteenth Report of the Standing Committee on Foreign Affairs and International Trade (SCFAIT). Retrieved on Dec. 5, 2005 from: <http://cmte.parl.gc.ca/cmte/committeepublication.aspx?com=8979&lang=1&sourceid=122762>

⁴ Abdel-Fatau Musah (2002), “Privatization of Security, Arms Proliferation and the Process of State Collapse in Africa.” *Development and Change*. 33(5) p. 912.

business community and by some governments⁵ as a solution to the issues surrounding human rights, security, local communities and the environment. The report from SCFAIT called for stronger CSR monitoring mechanisms for Canadian resource extraction companies.⁶

What is Corporate Social Responsibility?

Although there is no mutually agreed upon definition, CSR can be loosely understood as an approach to business which recognizes the social, economic and environmental concerns of stakeholders, as a component, and responsibility, of any business operation⁷.

Some groups posit that a ‘culture of CSR’ is a valuable business practice for corporations because it helps raise employee pride, increases retention, and acts as a tool in preventing possible crises and building the social contract with local employees and communities.⁸ Well known bodies, such as the Conference Board of Canada, see the ‘stakeholder model’ as an important approach which values not only the company shareholder, but the customer, employee, community, operator, and competition in business decision-making.⁹

Others see CSR as an alternative to legal regulation, or an increased government role. The current paradigm of CSR as a voluntary regime is popular among business, national governments and international government bodies¹⁰.

⁵ Created by Tony Blair, the Minister for Corporate Social Responsibility works within the UK Department for Trade and Industry.

⁶ Fourteenth Report of SCFAIT.

⁷ A more focused definition comes from Industry Canada (2006) in *Corporate Social Responsibility: An Implementation Guide for Canadian Business*:

“the way in which firms integrate social, environmental and economic concerns into their values, culture, decision making, strategy and operations in a transparent and accountable manner and thereby establish better practices within the firm, create wealth and improve society.”

⁸ Michael Blowfield & Jędrzej Frynas (2005), “Setting new agendas: Critical Perspectives on Corporate Social Responsibility in the Developing World.” *International Affairs*, 81(3), p 501.

⁹ Alison Azer (2002) "The Ethics of Corporate Responsibility: Management Trend of the New Millenium?" Sheldon M. Chumir Foudation for Ethics in Leadership Report, available online [July 6, 2006]: www.chumirethicsfoundation.ca/downloads/publicpolicyfellows/azeralison/azeralison1.pdf.

¹⁰ Blowfield & Frynas.

However, there are more extreme views. In a 2001 journal article, the former chief economist at the Organization for Economic Co-operation and Development (OECD), David Henderson stated that CSR ‘rests on dubious and false assumptions’ and that the role of business remains to make profit.¹¹ This view coincides with that of Milton Friedman, the Nobel Prize winning economist who holds, ‘the business of business is business’; being that the ultimate outcome of business is strictly to generate wealth for shareholders.¹²

Others have countered that the argument presented by Henderson fails to consider public opinion. In a global survey of business executives, McKinsley Quarterly found that the participants overwhelmingly believed that the social contract between corporations and society is far more complicated than simple fiduciary responsibility.¹³ In addition, the idea that a corporation can be defined by consumers is reflected in recent polls which show that the public determines it’s opinion of a company based on social, environmental and ethical business practice rather than performance on the stock market. Interestingly enough, Canadians were some of the most demanding citizens polled; calling for more responsibility from corporations.¹⁴

Concurrently, a number of Non-Governmental Organizations (NGOs) see self-regulatory frameworks for CSR as too feeble to hold corporations accountable, and view stronger domestic regulation of multinational companies as the only way to hold corporations accountable to the ideals presented in the ethos of CSR.¹⁵

¹¹ David Henderson (2001), “The Case Against Corporate Social Responsibility.” *Policy*, 17(2), p.31.

¹² Azer, 2002.

¹³ (2006) “The McKinsey Global Survey of Business Executives: Business and Society.”, *McKinsey Quarterly*, 00475394, Issue 2.

¹⁴ The Millenium Poll was conducted in 1999 by Environics, The Prince of Wales Business Leaders Forum & The Conference Board. The results are available here: <http://www.mori.com/polls/1999/millpoll.shtml>

¹⁵ Amnesty International. *Corporate Social Responsibility*. Retrieved on July 1, 2006 from: <http://news.amnesty.org/pages/csr/>

Project Justification – CSR in the Canadian Extractive Sector

Despite the flurry of activity over the manifestations of CSR, little has been known about the state of CSR – in any of its many permutations - among Canadian companies in the extractive sector. The adherence of some major companies to CSR standards and frameworks is documented, but there has been little study specific to the extractive sector. Most surveys and research projects on CSR have focussed on only the largest corporations, regardless of sector.

The CSR policies of some companies in the Canadian international extractive sector¹⁶ are available on their websites. However, these companies represent only a small fraction of the large pool that operates internationally. With this in mind, it was determined that in order to truly understand the state of adherence to the paradigm of corporate social responsibility in the Canadian international extractive sector it was necessary to attempt direct contact with 600 companies.

METHODOLOGY

There are a vast number of principles, codes and frameworks which have been formulated by civil society, international government organizations, and business advocacy groups which emphasize the fundamentals of Corporate Social Responsibility. To date, little has been known about the CSR policies of Canadian Extractive Sector Companies.

For this project, companies were measured against their implementation, or not, of a formal policy of CSR – either externally borrowed and adhered to or internally created - as a method of determining the number of companies utilizing CSR in their business practice.

¹⁶ In this study we defined the Canadian International Extractive Sector as all companies that operate outside of Canada and the United States.

For the purpose of data collection, companies were identified based on three qualifiers.

1. Companies listed on the TSX or TSX-V, registered and with a head office in Canada;
2. Companies involved in the exploration, development and extraction of hydrocarbons and subsurface minerals;
3. Companies with stakes in operations, properties or projects outside of the United States and Canada.

Data collection was undertaken in three phases, using two different media. Phase One consisted of compiling a database of all Canadian international extractive companies via analysis of the TSX and TSX – V public company listings. The appropriate companies were then emailed a survey to the contact address listed either on the TSX website, on the company website or in SEDAR filings. The second and third phases consisted of direct phone calls to the head offices of companies who had not responded in Phase One. In the final two phases, every attempt was made to contact a qualified representative; if he or she was not available to complete the survey, an email contact was requested and a survey was sent by email.

Raw data collected during research is confidential, and respondents were notified that their input would be held in strict confidence. Furthermore, in this report and any other work of the CCSRC, there is no attribution of data to the respondents or to the company(s) they represent.

THE SURVEY¹⁷

A survey composed of six questions was created with the specific goal of: i) identifying companies with CSR policies; ii) length of time policy has been implemented; iii) what constitutes the policy; iv) why the policy was implemented; and, v) how the companies had been affected by having a formal policy in place. All six queries were closed and multiple choice. They were as follows:

¹⁷ See Appendix 2.0 for a full version of the email copy of the survey.

Do you have a CSR policy or Code of International Business Conduct?

The initial question was aimed at separating companies with a formal, implemented policy from companies with an informal policy - that may or may not play a role in governance and operations - and companies with no policy.

If yes, how long have you had a policy in place?

Building on the result of the first question, question 2 attempted to discern a temporal trend in the adoption of formal policies of CSR. By identifying when companies have instituted policies, it was hoped that results would reveal a growth or decline trend in CSR policies. This question gave respondents four possible answers; i) <1 year; ii) 1-3 years; iii) 3-5 years; or, iv) >5 years.

Which code or set of Principles do you adhere to?

To date, the degree to which Canadian extractive companies are active within the CSR paradigm has not been known. Furthermore, the qualitative nature of the activity within the CSR paradigm was also unclear. As such, the third question sought to understand the extent to which companies have adhered to recognized international CSR frameworks. Multiple choice responses consisted of the following: i) Conference Board of Canada CSR Assessment Tool; ii) Global Reporting Initiative iii) AccountAbility 1000; iv) International Alert – Conflict Sensitive Business Practice Guide; v) US/UK Voluntary Principles; vi) Canadian Code of Ethics for International Business; vii) Self-Developed Code of Ethics; viii) UN Global Compact Recommendations; iv) Organization for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprise; v) Extractives Industry Transparency Initiative; vi) Other.

Did the implementation/formulation of your CSR policy come as a result of circumstances in the field?

The SCFAIT hearings of 2005 dealt specifically with the topic of Canadian companies mired in complications and human rights abuses with local communities. Although a sensitive issue, this question sought to inquire whether companies had moved to formalize a policy of Corporate Social Responsibility in response to complications experienced in the field which could be considered avoidable or controllable under a CSR regime.

Additionally, did your CSR policy come as result of any of the following?

CSR has been emerging as a paradigm among multi-national corporations of all sectors, but what are the motivators, if any, for Canadian extractive sector companies to formally involve themselves in CSR? There are a numerous reasons to create a CSR policy, which can be related to internal (management decision) or external drivers (such as public pressure). For this survey, six multiple choice answers were prepared; Shareholder interest; Public perception/demand; Perceived domestic requirement; Overseas regulatory requirement; Internal management decision; Other.

Finally, how has having a CSR policy of Code of International Business Conduct affected your company and/or operations?

The final question of the survey served to measure the perceived successes and shortfalls of a formal CSR policy. Seven answers were provided; four which denote a positive impact, and three which referred to negative impacts. Respondents were free to provide additional information on their experience with having a CSR policy. Possible answers were as follows: i) Reduction in conflict; ii) Better relations with the community; iii) Positive participation; iv) Increased shareholder interest; v) Increased administration costs; vi) Increased operations costs; vii) Increased shareholder concern.

In addition to recording the responses to the survey questions, researchers took note of ideas, themes and issues raised by survey respondents. This data, while more informal than the survey responses, compliments the survey results and is used to highlight reasoning and to provide relevant perspectives on CSR.

THE CANADIAN EXTRACTIVE SECTOR

Company Size, Financial Capacity and Economic Capability

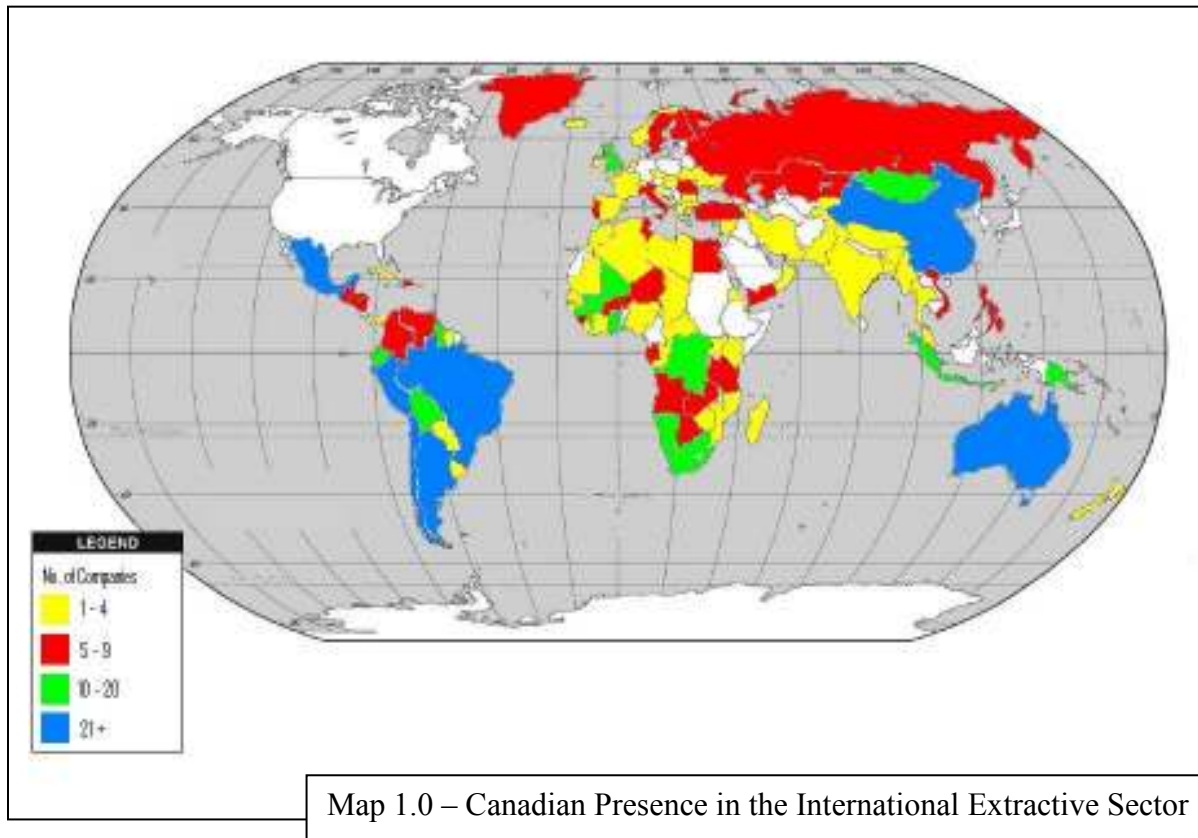
The Canadian extractive industry is a heterogeneous group of companies with many different characteristics. Some of the most defining features, however, are company size, financial capacity and economic capability. For the purposes of the survey, the extractive industry was divided between *major* companies -those listed on the Toronto Stock Exchange- and *junior* companies, listed on the Toronto Venture Exchange.¹⁸

The difference between these companies is significant; most majors are owner/operators of several mining or oil and gas projects, employing much larger numbers and impacting much more significantly on local and national economies, governments and communities. On the other hand, junior companies, some of whom are quite small having one or two permanent employees, are the first presence of a multi-national company in local communities. Junior companies are often limited to exploration and primary stage development, while major corporations are usually involved in taking on promising junior projects and bringing them into full-fledged extraction operations. The significant distinction between major and junior companies provides one of the lenses through which the analysis of the data has been undertaken.

¹⁸ The industry itself often divides the sector into three categories: exploration companies, juniors and majors.

The Canadian Extractive Sector - Geography

The Canadian presence in the international extractive sector is considerable. Canadian extractive companies are present in 108 countries around the world. Although



widespread, there is a higher concentration in certain countries. Mexico receives a significant portion of attention with 108 Canadian companies listing at least one operation or interest¹⁹ there. Peru, China and Argentina follow with 46, 43 and 40 companies active respectively. In essence, Canadian mining companies have painted the globe red in their command of the extractive sector (see Map 1.0)²⁰.

¹⁹ The determination of 'interest' was made based on company documents that identified invested resources in a mining licence area. Simply stating imprecise plans to explore a region or country did not represent an interest.

²⁰ The series of maps created for this report were made using the entire database of Canadian international extractive companies rather than just the survey respondents. This data used in the database is current to May 2006.

The maps that follow have been used to illustrate some of the more controversial elements of the Canadian presence by considering a number of different contexts. The first (Map 1.1) is based on a list of ‘transitional countries’, those countries that are considered ‘emerging democracies’. It shows the number of Canadian companies operating in these transitional or emerging democracies. These countries have governance institutions that are considered fragile.²¹ In this context, the tenuous state claim to representation and governance over natural resources can produce, by extension, tenuous claims on behalf of legitimate extraction companies.

The result can be problematic at the local and regional level if these stakeholders are not included in the decision-making process. The presence of natural resource wealth in transitional democracies has also been shown to create considerable risk for the country’s near and long term stability.²²

On Map 1.2, the Canadian presence is considered in the perspective of the most corrupt countries in the world based on the ranked index available from Transparency International.²³ The presence and/or perception of corruption can complicate resource access and ownership issues in a similar way to that of poor governance. Research has also shown that companies complicit in corruption can have a negative impact on economic development while simultaneously complicating relations with local communities.²⁴ Even *perceived* complicity in corruption can de-legitimize company claims to responsible business operation. The philosophy of corporate social responsibility includes business measures that seek to avoid situations of corruption.

Maps 1.3 and 1.4 show the number of Canadian companies operating in countries that fall in the lowest 25 countries in the failed state index (FSI) and the lowest 30 countries in the

²¹ The list of countries is based on a study by and available from <http://www.freedomhouse.org/template.cfm?page=70&release=401> and its latest version was released in August 2006.

²² C.f. Michael Renner (2002), *The Anatomy of Resource Wars*. World Watch Paper 162, World Watch Institute; or Micahel Ross (2004), “What do we know about natural resources and civil war” *Journal of Peace Research*, 41 no. 3, 337 – 356.

²³ The index is published annually and is available at <http://ww1.transparency.org>.

²⁴ C.f. (economic impact) Stephen Everhart, “Private Investment in Emerging Economies: The Impact of Corruption and the Quality of Public Investment” Dissertation – Georgia State University, 2002. or (social impact) Jeremy Pope (2000), *Confronting Corruption: The Elements of a National Integrity System*. Transparency International Report, available online: <http://www.transparency.org/publications/sourcebook>

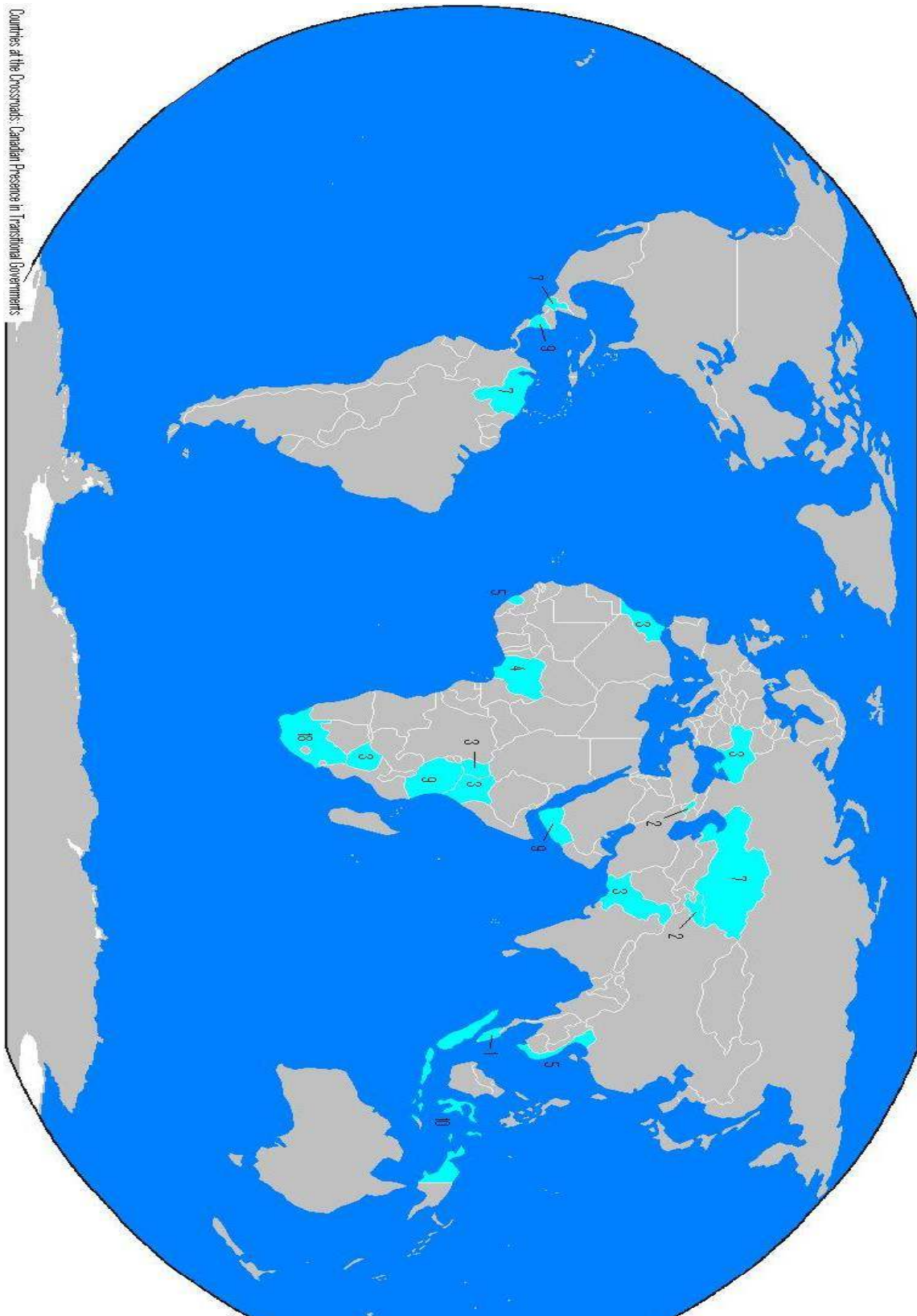
sub-index within the FSI that measures human rights violations by state institutions.²⁵ Issues of poor governance and complicity with human rights violations are some of the more contentious issues under the corporate social responsibility umbrella.

Finally, Map 1.5 shows the presence of Canadian companies in countries with ongoing conflicts. Companies that invest in countries in which there is ongoing, active conflict are confronted by a number of different risks. Complicity in human rights abuses through direct or indirect association with security forces, perpetuation of conflict through the payment of resource rents and an association with generally poor governance and/or regulatory regimes are some of the problems faced in the past by Canadian companies.²⁶

²⁵ The FSI is compiled by Foreign Policy.org & the Fund for Peace (2005) and is available here: http://www.foreignpolicy.com/story/cms.php?story_id=3098

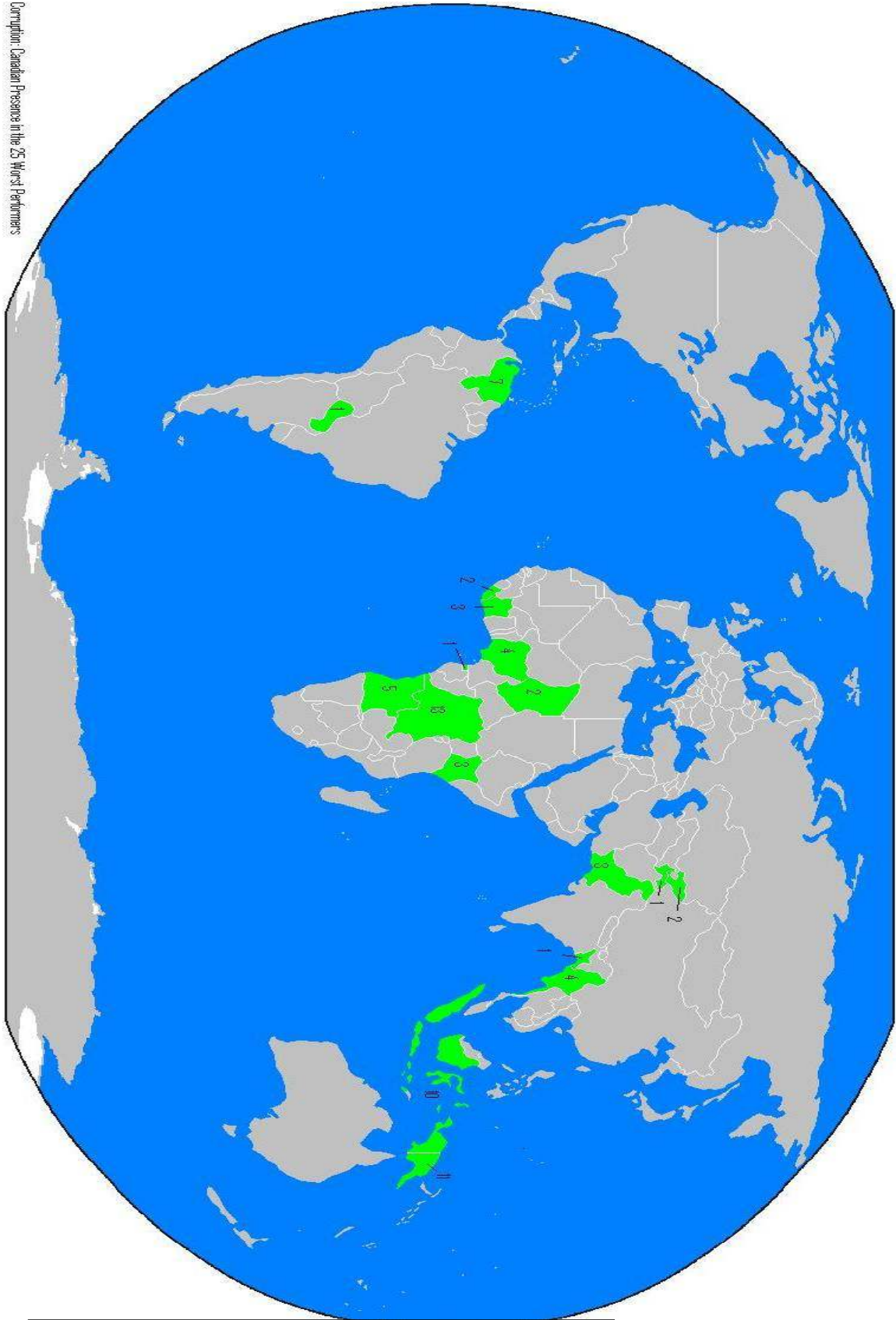
²⁶ Conflict is notoriously difficult to define. The map was created using information on currently active conflicts available online from Global Security.org: <http://www.globalsecurity.org/military/world/war/>

MAPS 1.1 – 1.5



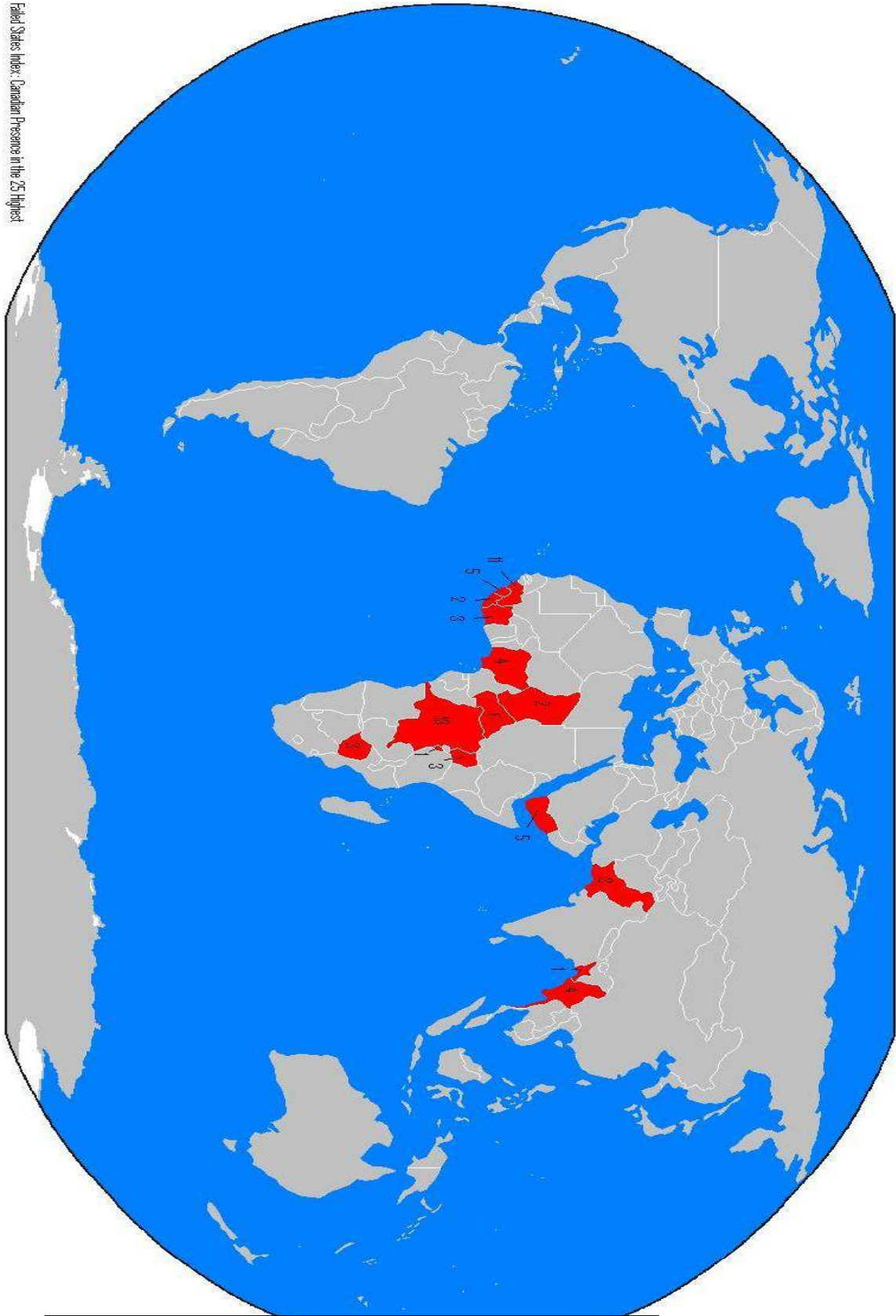
Map 1.1: Canadian Presence in Transitional Countries

Corruption: Canadian Presence in the 25 Worst Performers



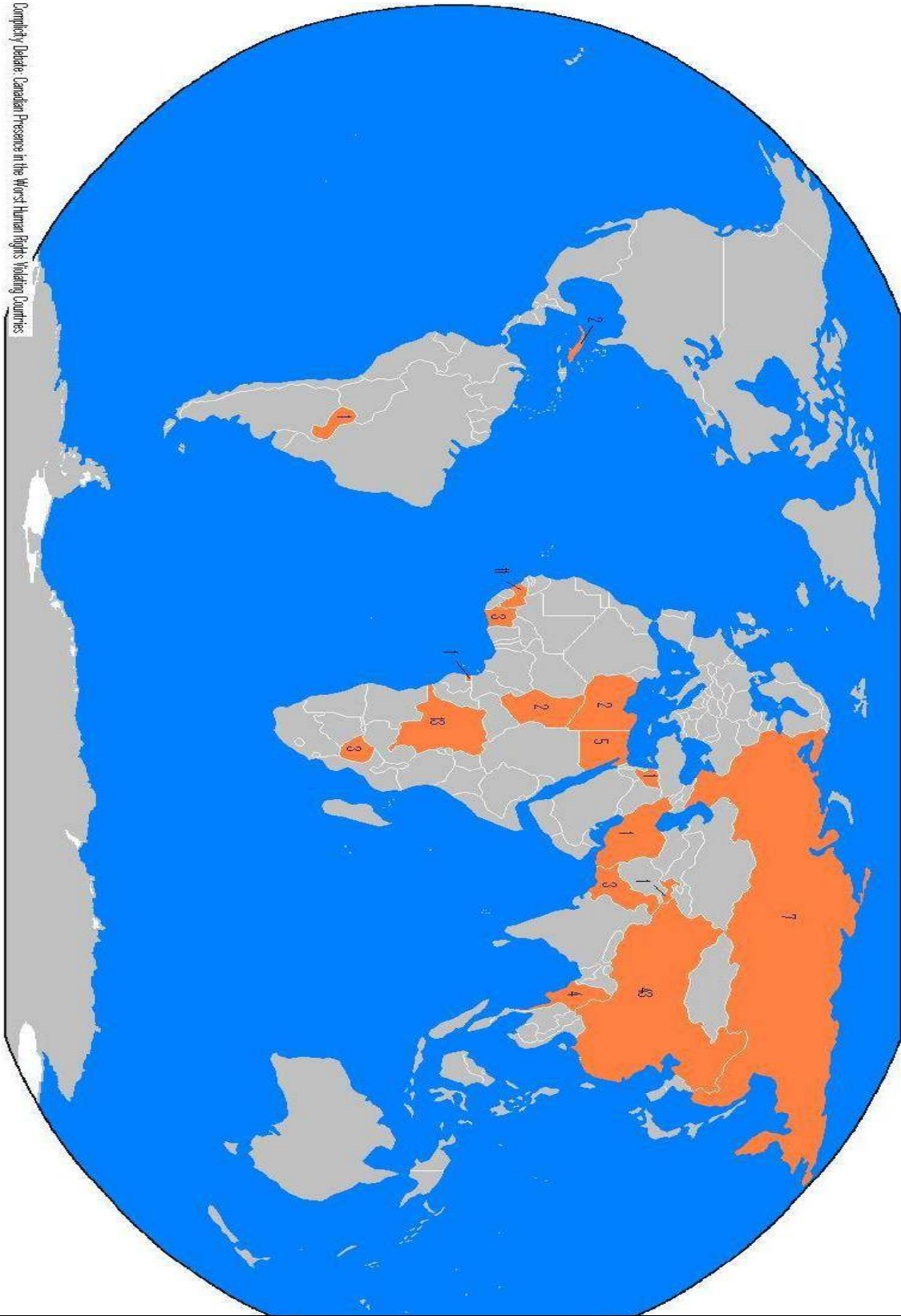
Map 1.2: Canadian Presence & Corruption

Failed States Index: Canadian Presence in the 25 Highest

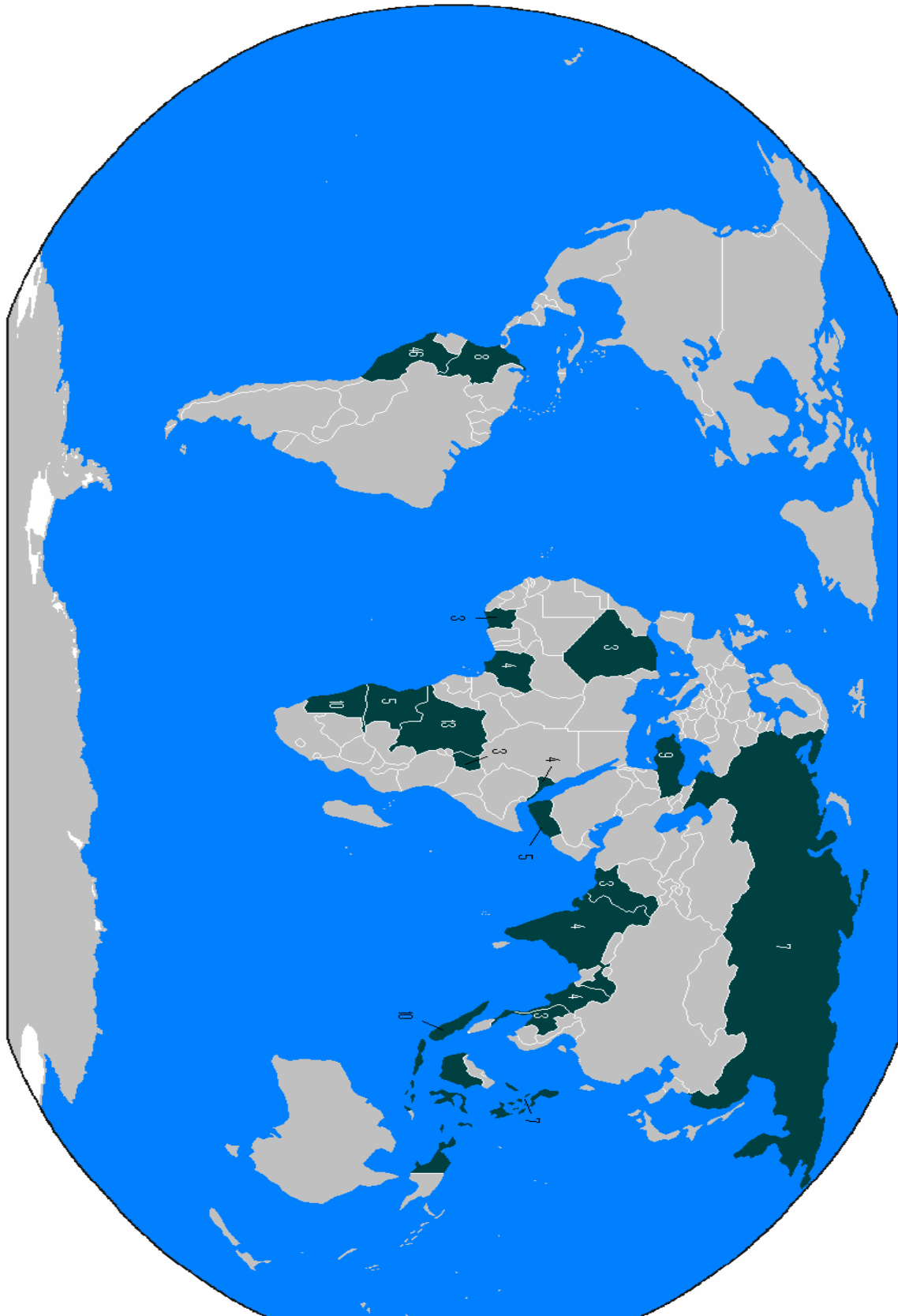


Map 1.3: Canadian Presence in Failed States

Complexity/Depth: Canadian Presence in the Worst Human Rights Violating Countries



Map 1.4: Canadian Presence in Countries with Poor Human Rights Records



Map 1.5: Canadian Presence in Countries with Active Conflicts

SURVEY RESULTS

Using the three qualifiers discussed in the Methodology section, a total of 584 companies met the requirements for the study. In total, 202 companies were reached, providing a 34% representation.

The remaining 382 companies chose not to respond to the email sent in Phase One, or to telephone messages and/or email messages sent in phases two and three. In the final two phases researchers provided a direct telephone contact and requested that companies return their call. During these phases roughly 340 companies who were contacted requested that the survey questions be sent by email, and provided an email address to the relevant company contact. Of those companies, only 3 responses were subsequently received. Null responses do not constitute an official category of the research, however, the number of non-responding companies should be considered significant in the context of the survey's subject. Public accountability and access to information is often one of the issues of concern under the umbrella of corporate social responsibility. The absence of such a significant proportion of the sector is notable when compared to those companies that took a very active interest in the survey and the work of the centre in general.

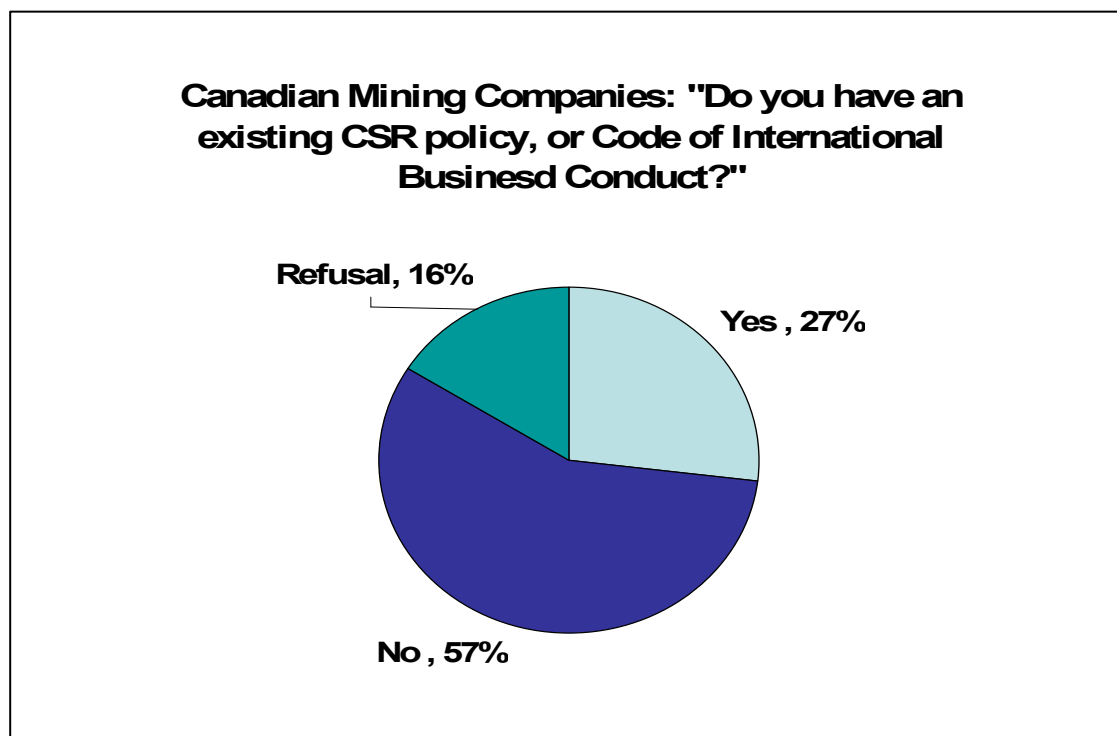
In total 202 companies were contacted and participated in the survey, providing a significant representation of the sector as a whole. Research results are a notable representation of the current context of Corporate Social Responsibility in the Canadian Extractive Sector.

Question 1: *Do you have a CSR policy or Code of International Business Conduct?*

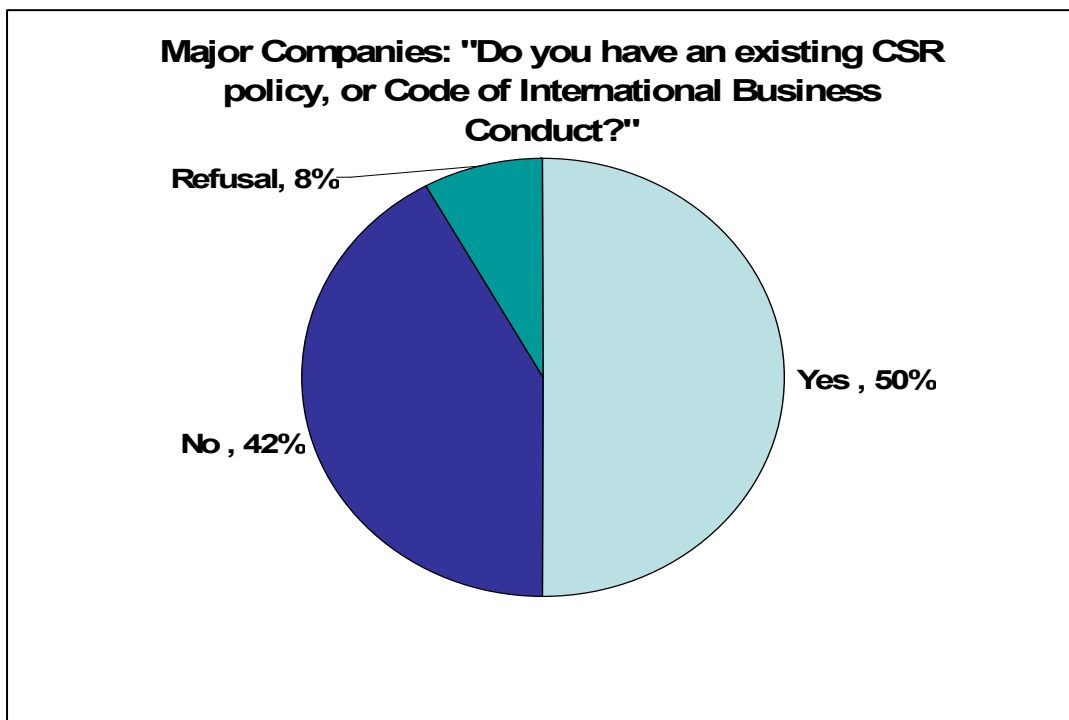
Results of the study have shown that although voluntary CSR measures are touted by many as the solution to ensuring responsible operations in the global South, the current environment of adherence to CSR standards among Canadian oil, gas and mining companies remains remarkably low. In total, 56 of 202 companies contacted reported

having a CSR policy in documented form, only slightly more than one quarter (27%) of all companies. Furthermore, perspectives on CSR vary widely within the sector. In one case a company which has had great success with CSR affirmed that having a policy is absolutely necessary when doing business in the South, not solely because of issues with foreign governments, but primarily because, 'all politics are local'. On the other end of the spectrum, one disillusioned company had a number of comments to make on CSR. Seeing CSR as a passing trend, the president stated, 'CSR is an airy-fairy concept that is meaningless in our business.'

During the data collection phases, the ideology which is prevalent within the industry came clear. While a small number of companies noted that there has been increased interest in their operation as a result of having a formal CSR policy, the it remains that the majority of companies do not see business as anything more than fiduciary responsibility. This perspective was voiced a number of times; one company with operations in Africa stated during a survey interview, "our shareholders don't care about how we operate, only that we're making money." This perspective is likely one of the factors inhibiting CSR among mining companies.



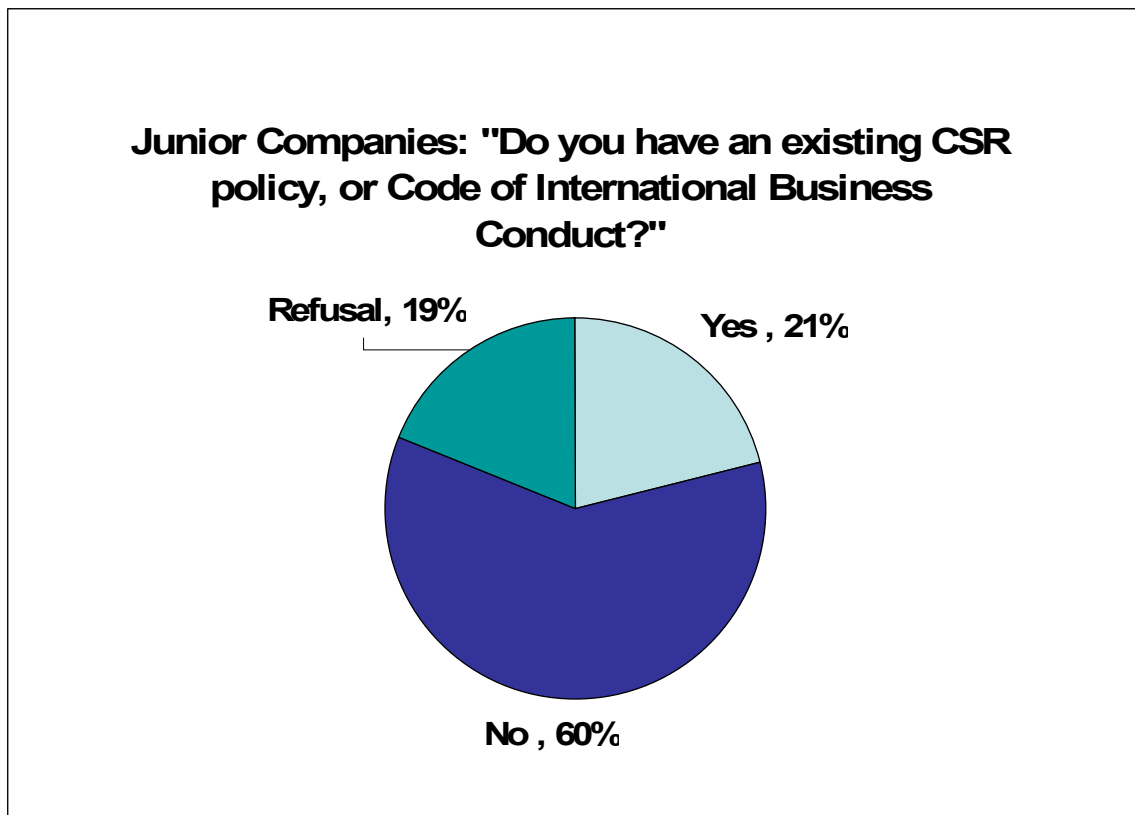
The results of question one, viewed according to size of company –*major* versus *junior*– are slightly more telling. Exactly 50% of all major companies reported an adherence to a formal CSR policy of Code of International Business Conduct.



As mentioned previously, Canadian extractive sector companies have invested in all corners of the globe including in locations notorious for instability, civil unrest and poor governance. Considering that the overwhelming majority of Canadian extractive sector corporations do not have CSR policies, it is virtually inevitable that Canadians will be involved in compromising situations. The major corporations who did not have a formal CSR policy, or who formally refused to participate, are operating in the following countries:

Argentina, Botswana, Brazil, Chile, China, Costa Rica, Egypt, El Salvador, Guyana, Honduras, Mali, Mexico, Pakistan, Peru, Suriname, Tunisia, Turkey, Venezuela.

Conversely, the vast majority of junior companies -companies which are usually the first corporate presence on the ground in local communities- did not have a formal policy in place. Of junior companies who took part in the research, only 26% reported having a policy. Many juniors provided an explanation for not implementing a formal code or policy. The most common was lack of size, and an insufficient number of employees. As one company stated quite simply, “we’re just too small.” Additionally, junior companies provided the following logic for not having a policy: having a managing director from project the location who knows local standards and policies; consideration of Canadian laws as universally applicable; and regulation within the country of operation.



In relation to company size, a small, yet significant group of companies emerged, who suggested that a formal policy may not be pragmatic for small companies. One company stated the notion succinctly:

“While a small junior resource exploration (pre-extraction) company may not have a written or formal CSR-policy in place it may nevertheless have - by consensus of the Board of Directors and management – unwritten standards, policies and/or a code of conduct in place that are equivalent to such a formally adopted policy.”

Although having an ‘informal policy’ may seem practical, many groups, such as NGOs might take issue with such a format. By definition an informal policy -while perhaps pragmatic for business- does not have a tool for accountability or a whistle blower clause. While informal policies are beyond the measure of this survey, it is possible that an informal policy is a precursor to the implementation of a formal policy. More research is required in this area.

Despite a number of junior companies stating the presence of an ‘informal policy’, there is still an overwhelming number of companies who did not have a policy in any form. Of the junior companies which did not have a CSR policy, or who formally refused to answer the survey, a number had investments in highly volatile locations. Some of these operations are in countries which are involved in, transitioning from or declining into civil war, such as: Colombia, Democratic Republic of the Congo, Eritrea, Indonesia, Sierra Leone and Uganda (see Maps 1.1, 1.3 & 1.5).

Perhaps the most notable issue is that a number of junior companies continue to operate without a CSR policy in countries or communities which have witnessed significant backlashes from the local community towards multi-national companies. These sorts of community uprisings have happened in places where Canadian juniors operate, such as: Argentina, Bolivia, Chile, Colombia, Democratic Republic of the Congo, Guatemala, India, Nigeria and Peru.²⁷ Corporate Social Responsibility, as a paradigm, is intended to mitigate incidents involving local communities, however, it cannot, if it is not recognized and employed in earnest by the industry.

²⁷ Kelly Patterson (2005), “Are Canadian companies abroad bending to demands from terrorists?” *Vancouver Sun*, Oct 1, A5.

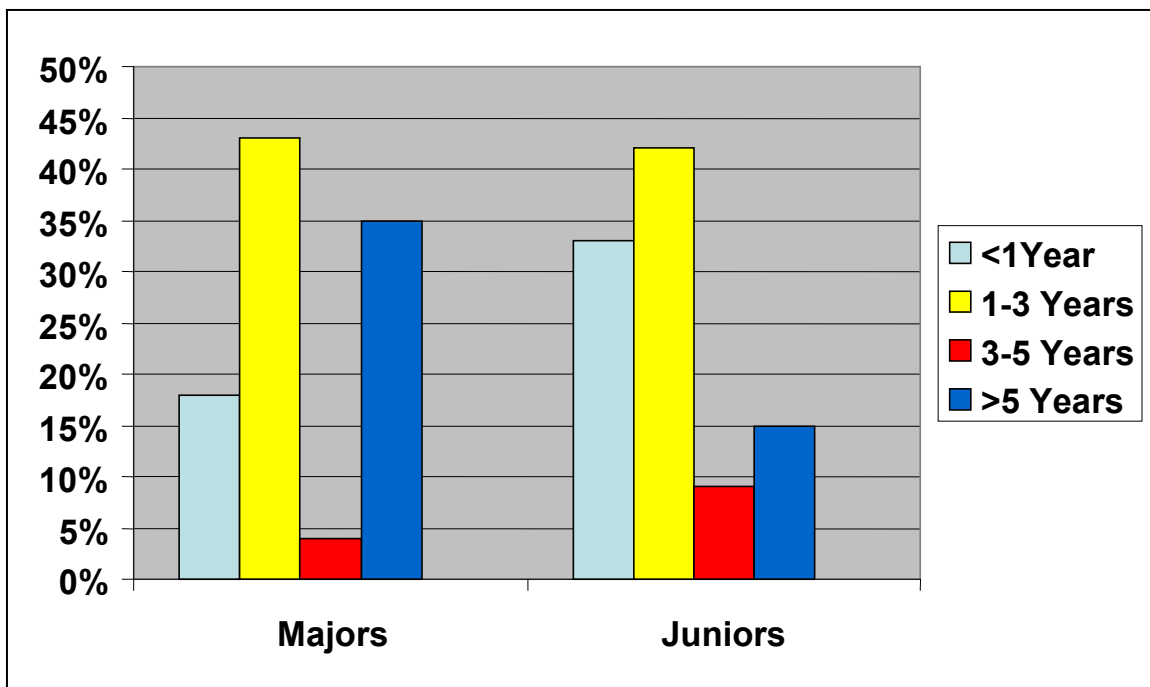
It is clear that Canadian junior companies are very active in the countries of the global South, but that the majority do not have any adherence to any formal code or policy of CSR. If CSR is to be promoted as the best solution for responsible operations in developing countries, it would seem from these results that significant work is needed to engage the juniors with regard to CSR policies and practices since these companies have the widest reach and first impact. Other related work in Europe suggests that small- and medium-sized enterprises (SME's) often have attitudinal barriers to CSR policies rather than resource barriers. In the same findings the SME's surveyed did not link their socially responsible activities to a business strategy.²⁸ This may offer policy-makers an entry point to address CSR among Canadian extractive juniors. If the case can be made to link CSR to an important business strategy it maybe possible to break down some of the attitudinal barriers in companies that are so intimately linked to the communities in which they operate.

Question 2: *How long have you had a CSR policy in place?*

The second question of the survey sought to determine whether adherence to a formal CSR policy is an emerging, or growing trend among extractive sector companies.

Research results appear to support the widely held belief that voluntary CSR measures may be catching hold among extractive sector companies. Responses show that in the last year only 15 of the companies had implemented a policy during that period. An analysis of the last three years, though, paints a different picture. Of companies who responded affirmatively to having a policy, 70% had instituted it within the last three years.

²⁸“European SME's and social and environmental responsibility” *Observatory of European SME's* 2002 No. 4, 17, available online [July 2006]: http://ec.europa.eu/enterprise/enterprise_policy/analysis/observatory_en.htm



Although this research suggests that there is a trend emerging among companies adhering to CSR within the sector as a whole, data suggests that there is a notable difference between major and junior companies. Whereas 63 % of major companies have created a policy within the last three years, they have still been outpaced by junior corporations. In the junior category 76% of all companies who have formally instituted a policy have instituted it in the last three years. It should be noted that junior companies are far more ephemeral in nature and the result may very well reflect the relatively short lifespan of these more tenuous businesses. The other consideration may be that the rising demand and subsequent price for resources on a global basis is also driving the creation of new companies thus there may have been an influx of new companies being formed in the last three years.

If voluntary measures are to be accepted as the method to limit social, political and environmental complications as a result of multi-national operations, there must be general adherence among the resource sector. Although adherence in the sector is remarkably low, this research suggests that the number of companies investing in formal

CSR policies is increasing. This may be a promising factor for those promoting voluntary CSR regulations among the companies of the extractive sector.

Question 3: *Which code or set of principles do you adhere to?*

In the world of Corporate Social Responsibility, there are an overwhelming number of voluntary standards, principles and codes that have been developed by a wide range of actors. Of all these guidelines however, there is not one lone framework which is recognized as the industry standard for CSR. This presents a significant challenge for those hoping to use voluntary standards as the recognized regime. For the purpose of data collection, Question Three of the survey was designed to catch the most widely recognized instruments. As such, the number of responses which were provided by the designers of the survey was presented in anticipation of CSR adherence to a wide variety of principles.

Contrary to the anticipated result, the adherence to CSR within the sector was overwhelmingly focussed. Furthermore, the central focus of the overwhelming majority of companies was not on externally created standards, but on standards created from within by internal means. Of companies in adherence to CSR, 77% created a set of standards through an internal process, most often with a legal team. Adherence to an internally-created policy dwarfed all other possible responses. The overwhelming proportion of companies adhering to internally formulated standards does raise some concern, however. Internally created codes have been widely criticized since they often do not have an external evaluator, or a system of accountability. As such, many internal codes are not as extensive as principles formulated by international government bodies, or civil society.²⁹ Finally, from a sector-wide perspective the use of widely varied internal codes is problematic as it does not bring with it the spirit of universality that is essential to business competition.³⁰

²⁹ Ronen Shamir (2004), "Between self-regulation and the alien tort claims act: on the contested concept of corporate social responsibility." *Law and Society Review*, 38 no. 4, 644-45.

³⁰ Larry Smeltzer & Marianne Jennings (1998), "Why an international code of business ethics would be good for business", *Journal of Business Ethics*. 17 no. 1, 65.

Far behind the majority of companies who reported having internal codes, was the number of companies adhering to external standards. Companies which did not have an internally-created policy often adhered to numerous external instruments. Of the 56 companies with policies, ten companies contributed all the responses for external policies. Furthermore, in some cases, companies adhered to four or more externally formulated policies.

The most popular external frameworks were the OECD Guidelines for Multi-National Enterprise and the Canadian Code for International Business Ethics (CCIBE), each with 3 companies (1.5% of all responding companies) adhering. The other responses were:

Mechanisms with two companies (0.9%) in adherence:

Extractive Industry Transparency Initiative;

Global Reporting Initiative;

United Nations Global Compact;

Mechanisms with one company (0.5%) in adherence:

Sustainable Development Principles of the International Council on Mining and Metals;

Association of Professional Geoscientists of Ontario Model;

Canadian Association of Petroleum Producers Stewardship Initiative;

Prospectors and Developers Association of Canada E3;

International Petroleum Industry Environmental Conservation Association Voluntary Sustainability Reporting Guidelines;

Canadian Chemical Producers' Association Responsible Care Guiding Principles and Codes of Practice;

Other/unsure;

Not Answered .

That only 10 of 202 (5%) Canadian extractive sector companies subscribe to an externally formulated and independently accountable set of standards is of great significance. Considering that the Government Response to the SCFAIT report stated as one of its goals, to “**clarify a more comprehensive CSR framework against which the performance of mining and other companies can be measured**”, much of the current context has been overlooked. At present, much of the industry does not recognize CSR as a valuable paradigm or tool to prevent complications in Southern locations. To propose that a more comprehensive framework is needed pre-supposes that there is already widespread industry buy-in, especially with regard to externally-formulated standards. Survey results have shown that this is not the case. While there is evidence to suggest that CSR may be on the rise, at this point in time there is little reason to believe that the international extractive sector as a whole will be willing to subscribe to a voluntary set of principles which will serve to hold them accountable.

Question 4: Did the implementation/formulation of your CSR policy come as a result of circumstances in the field?

Among respondents in the major category, the survey found that just 4% of respondents answered affirmatively that their CSR policy had been as a result of circumstances in one or more of their field operations. A definitive 92% of the major companies surveyed cited other reasons for the implementations of their policy. The remaining 4% choose to not to answer this question on the survey.

Among the junior exploration and extraction companies 13% of respondents implemented their CSR policy as a result of circumstances arising during field operations. A total of 84% of the junior companies surveyed relayed to researchers that other reasons led to the development of their CSR policies. Finally, 3% of juniors that responded to the survey declined to answer this question.

Question 5: *Did your CSR policy come as a result of any of the following?*

This survey question allowed for respondents to choose multiple answers in a “choose all that apply” methodology. Some respondents chose to share multiple reasons why the CSR policy of their company was implemented, while other respondents chose only one of the survey options. The survey question was such that the researchers are unable to discern where multiple reasons are cited which reasons were foremost and which reasons were secondary when the policies were developed.

Amongst the major companies, 75% cited an internal management decision leading to the creation of their CSR policy. A total of 29% of companies responded that a perceived domestic requirement was a factor that led to the establishment of their CSR policy, while a further 29% cited shareholder interest in implementation. A further 25% of companies cited public perception or demand that a CSR policy be implemented as their reason for development of a policy. An overseas regulatory requirement was cited in 17% of the responses as their motivation for realization of a policy, while 4% chose the ‘other’ category as their reasons for implementation did not appear among the survey choices. One company chose the other category and volunteered that their “approach to CSR has changed over the course of their operations”.

In the junior category, fully 97% of companies surveyed informed that an internal management decision was a factor that led to the development of their CSR policy. A minimal 9% of companies cited a perceived domestic requirement as one reason their company’s policy had been implemented, while another 6% cited that shareholder interest in the realization of a policy had led to its development. A further 6% of respondents answered affirmatively that public perception or demand was one factor that led to the development of their policy. In addition, 3% regarded an overseas regulatory requirement as a reason leading them to put into operation a CSR policy. Finally, 6% of the respondents in the junior category relayed other reasons for the implementation of their policy, including one respondent who noted that their CSR policy had been developed “on the advice of a consultant to improve project development”.

Question 6: *How has having a CSR policy or Code of Conduct affected your company and/or operations?*

A formal code of Corporate Social Responsibility, although not the norm within the extractive sector, does seem to have an overall positive effect on business operations. In the sixth question of the survey, respondents were asked to report how having a CSR policy had impacted on their company. The majority of companies responding denoted that they had been affected in more than one way. In total, 68% of all responses were positive, while only 25% noted a negative impact such as higher administration or operating costs. Although the majors and the juniors differ greatly in other aspects, results show that the positive effects of CSR are at virtually the same level for juniors (69%) as for majors (68%). Overall responses clearly show that there are definitive positive benefits to adopting CSR into business practices. Further analysis also indicates that companies are, in fact, experiencing multiple positive outcomes, such as reduced complications in the field, better relations with the community and increased attention from investors.

Of the 56 of 202 companies having a CSR policy, 40 (or 73%) affirmed having at least one positive effect. Furthermore, 45% reported experiencing two or more benefits as a result of CSR. On the other hand, 5 companies (9%) had seen only adverse effects. These negative effects were overwhelmingly limited to increased expenditures relating to administration and operations, with only 3 companies (5%) stating that investors had expressed concern regarding the policy. The formalization of a CSR policy is certainly not without its negatives however, 29% of all companies noted at least one negative aspect related to having a formal CSR policy. But, as noted above, the majority of companies experiencing some negative effect(s) from having a policy were reaping other rewards.

By a substantial margin, companies responded that having better relations with the community was the most widespread benefit of having a formal CSR policy, with 62% of

all companies reporting that this was the case. The following is a summary of results by percentage of companies responding affirmatively to each answer:

How has having a CSR policy or Code of Conduct affected your company and/or operations?

	Total	Majors	Juniors
Reduction in conflict/complications:	24%	21%	25%
Better relations with community:	62%	71%	53%
Positive participation:	24%	25%	22%
Increased shareholder interest:	25%	24%	25%
Increased administration costs:	24%	30%	16%
Increased operating costs:	25%	30%	19%
Increased shareholder concern:	5%	4%	6%
Other (positive):	15%	17%	13%
Other (negative):	0%	0%	0%
No effect/ No response:	15%	4%	22%

As a majority of companies have testified, the institution of a formal CSR policy does have the potential for a positive effect. Throughout the research process, although not formalized within the survey, a number of companies voiced how CSR has been important to their operations. Respondents stated that CSR was important to employee morale, recruitment and retention, relations with host governments and to the profile of the company within the industry and for investors. These statements, and the survey results that show CSR does have a positive effect on operations and business, should lend credence to the notion that having a formal CSR policy is sound business practice which can improve profitability.

CONCLUSION

Survey research brought a wide variety of formal and informal results which show a broad spectrum of perspectives on corporate social responsibility within the Canadian extractive sector. The enthusiasm and interest shown by some company representatives was held in strong contrast to the dismissive responses of others. At a minimum it can be concluded that the issue of corporate social responsibility kindles a very heated debate in the mining community.

The survey's results illustrate a variety of concerns, while identifying at least one promising trend. Results have shown that CSR may be increasing in the rate which it is adopted by companies within the Canadian extractive sector. For policy makers, this is significant since it represents a growing opportunity to promote CSR. Unfortunately, although CSR may be spreading its wings within the sector, research has isolated a number of issues which may detract from its viability.

First and foremost, the sheer number of companies who either provided a null response or who did not have a CSR policy grossly overshadows the number of companies who reported an adherence to CSR standards. This issue is especially critical when one considers that many companies continue to operate in volatile and vulnerable areas around the world.

Despite the absence of such a large quantity of companies, research results have shown that companies who employ CSR are reaping the rewards. Critics of CSR -specifically those who subscribe to Friedman's notion that 'the business of business is business'-should take note. Even in organizations where fiduciary responsibility seems the solitary directive for business operation it is still necessary to mitigate risk for shareholders and investors. One of the routes to risk mitigation and a stable investment would be to incorporate the values of corporate social responsibility into overseas operations. In addition, the reality of public perception and the evolution of the social contract between corporations and the communities or countries in which they operate suggest that it will

be increasingly difficult for those companies that choose to disregard the underlying message in corporate social responsibility frameworks.³¹

Even for those companies that have incorporated CSR into their policies, the notable number who have followed an internal design process may yet prove to be problematic for the individual companies and for the industry at large. An internal policy may be difficult to defend in the court of public opinion and could be problematic for the industry in its perpetual search for the ‘level playing field’. In addition, for companies without a formal policy, but with a stated informal policy, there is reason for concern. Neither informal nor formal internal policies are subject to external scrutiny, nor are they required to meet a minimum set of principles. It may be, however, that such policies are actually part of an evolution in the incorporation of CSR. If CSR becomes more broadly accepted throughout the industry the decision may be made to shift to internationally recognized frameworks.

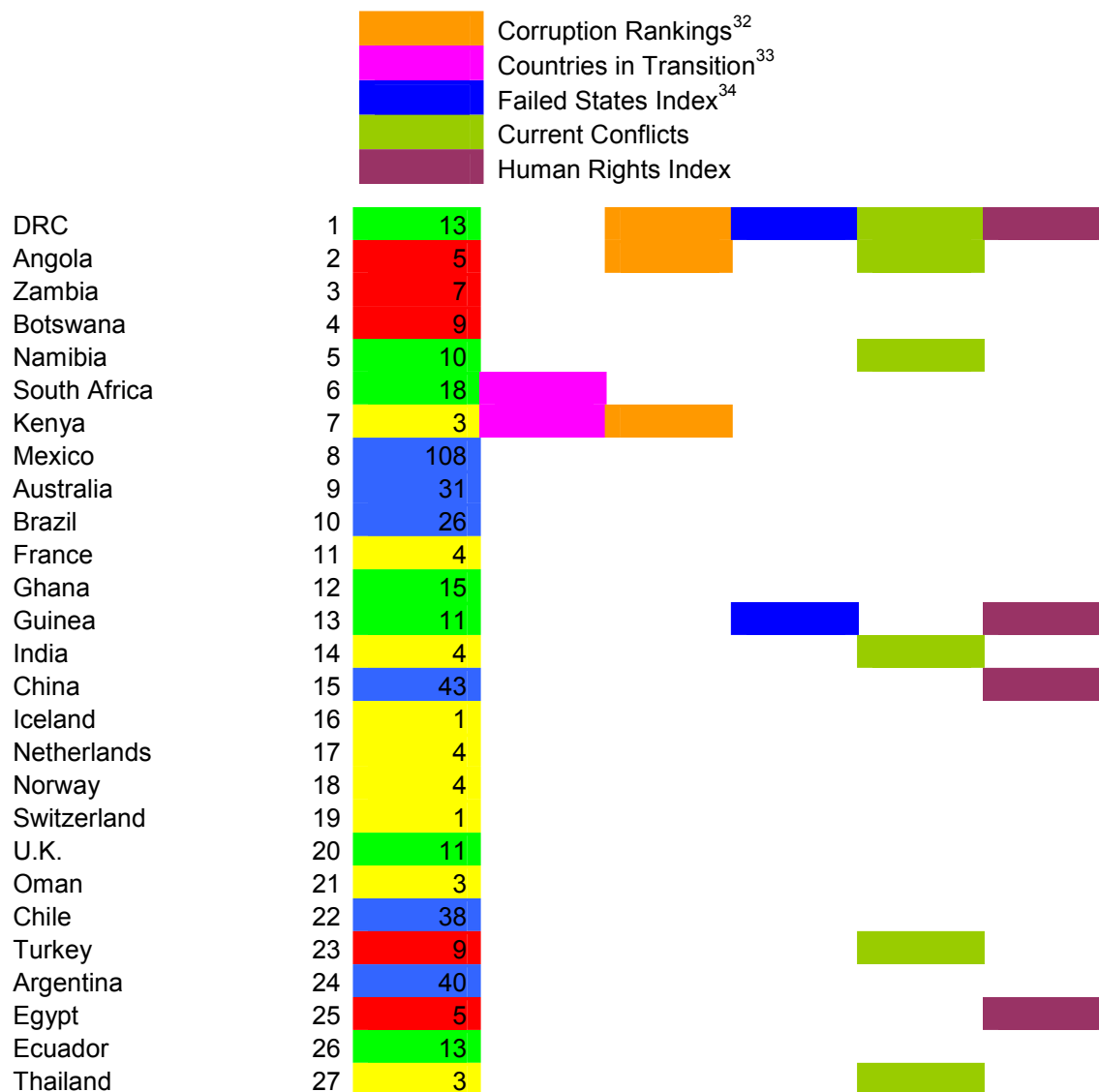
The survey results should also serve to reorient some of the government expectations that arose from the SCFAIT hearings. The tone of the results and the response to the SCFAIT hearings suggests that the government’s impression of the status of CSR within industry is more optimistic than these results have shown. At present, CSR does not enjoy widespread support within the industry. In addition, while much energy has been expended by the Canadian government on the OECD Guidelines for Multinationals, only 1.5% of all companies surveyed are utilizing them. It would seem that some leadership from within the industry or from government is required if the pace of adoption and adherence to CSR policy is to be increased.

³¹Smeltzer & Jennings, 62-63.

APPENDIX 1 - Canadian Presence Data

Data used for Maps 1.1 – 1.5

The first column describes all the countries in which there was a Canadian company’s ‘interest’. The second column was for data analysis, while the third was the number of companies with interests in each country. The data is current to May 2006 and is based on all Canadian extractive companies that have an international presence rather than just those that responded to the survey.

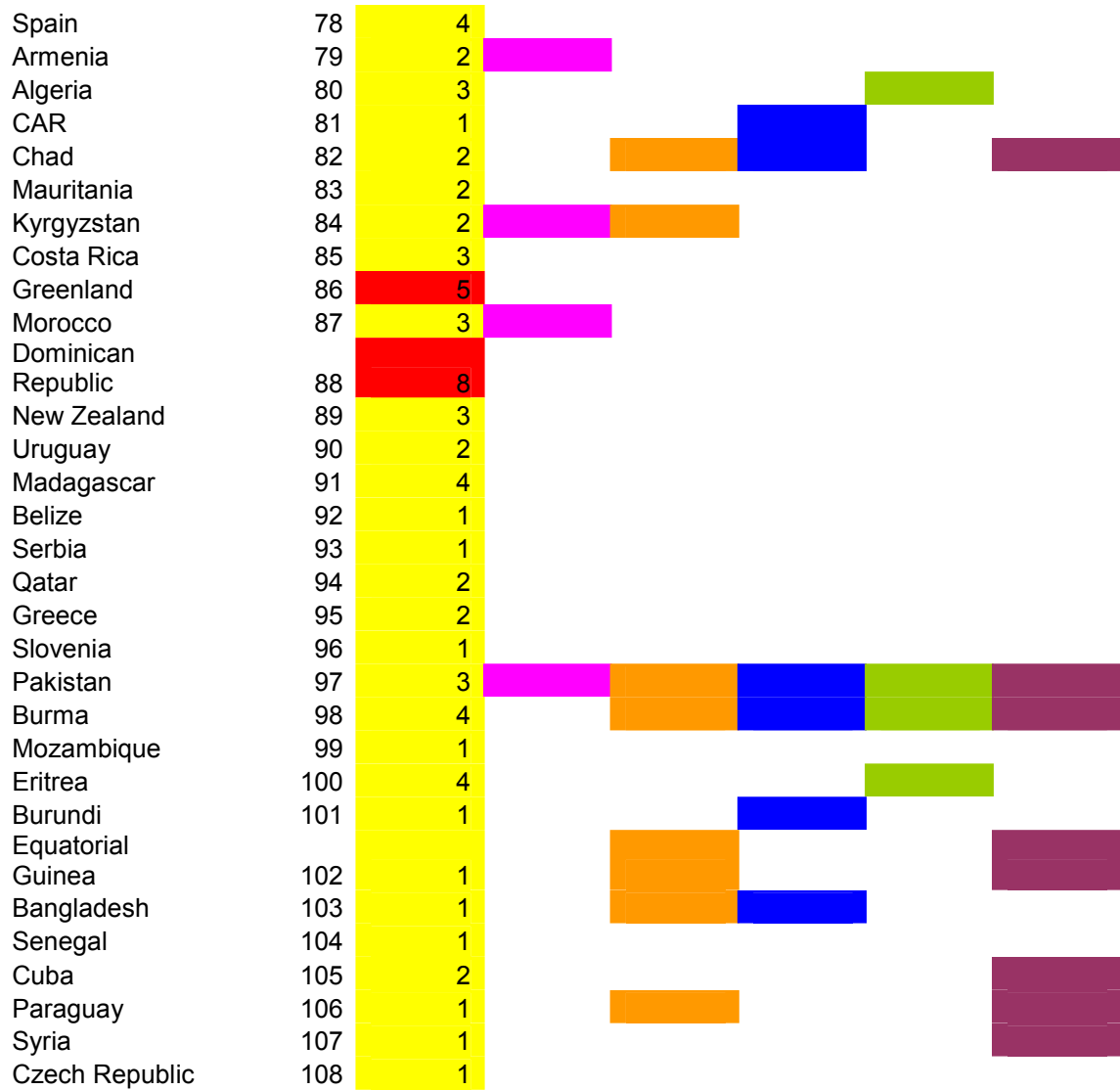


³² Corruption Rankings is based on the lowest 25 countries on Transparency International’s Corruption Perception Index available at <http://www.transparency.org>.

³³ Countries in Transition data is from a study by Freedom House and is available here: <http://www.freedomhouse.org/template.cfm?page=70&release=401>

³⁴ The Failed States Index data and the Human Rights Index are both from the Failed States project which is a joint effort of Foreign Policy & the Fund for Peace. The lowest 25 and lowest 30 countries were considered respectively: http://www.foreignpolicy.com/story/cms.php?story_id=3420&page=0





APPENDIX 2.0 - Copy of Phase 1 Email Survey



www.resourceconflict.org

Dear Sir/Madam,

The Canadian Centre for the Study of Resource Conflict (CCSRC) is an academic centre for applied research and analysis of natural resource based conflict. It is affiliated with the Human Security and Peacebuilding Program at Royal Roads University in Victoria, British Columbia. Currently, CCSRC is involved in research regarding Canadian companies operating overseas in the extractive industry, either as sole investors or in partnership with other investors, subsidiaries, or state-run extraction companies.

This survey seeks to map the current environment of Corporate Social Responsibility (CSR) policies among Canadian resource extraction corporations. It is being distributed to the offices of Canadian listed, registered or based companies with operations in foreign countries.

In 2005, the Canadian Parliamentary Sub-Committee on Foreign Affairs and International Trade made a number of recommendations regarding the operations of Canadian extractive companies and CSR. The objective of this research is to reach a comprehensive understanding of the state of CSR in the Canadian resource extraction industry.

In addition to this survey, we are planning upcoming e-discussions in order to bring interested stakeholders into online discussions regarding corporate social responsibility issues. If you are interested in participating, please include the name of the contact person in your company that would be responsible for participating on behalf of your company in these discussions.

Please be advised that a non-response will still be considered in our analysis.

To complete, please reply to the email and mark selections with an x where appropriate.

The survey results will be blind and all company-specific information will be permanently deleted once the data has been analyzed. No company information will be made available to the public at any stage in the survey process.

Company Name: _____

Contact Name and Email for E-discussions: (Optional)

1) Do you have an existing CSR policy, or Code of Conduct?

Yes ___ No ___ Under development ___

(If no, or it is under development, the survey is complete)

2) If yes, how long have you had a CSR policy in place?

Less than 1 year _____
 More than 1 year, but less than 3 years _____
 More than 3 years, but less than 5 years _____
 More than 5 years _____

3) Which code or set of principles do you adhere to?

Conference Board of Canada CSR Assessment Tool _____
 Global Reporting Initiative _____
 AccountAbility 1000 _____
 International Alert Conflict Sensitive Business Guide _____
 US/UK Voluntary Principles _____
 Canadian Code of Ethics for International Business _____
 Internal code of ethics _____
 UN Global Compact Recommendations _____
 OECD Guidelines for Multinational Enterprise _____
 Extractives Industry Transparency Initiative _____
 Other (Please name) _____

4) Did the implementation/formulation of your CSR policy come as result of circumstances in the field?

Yes _____ No _____

5) Additionally, did your CSR policy come as a result of any the following?
 (Check which apply)

Shareholder interest _____ Public Perception/ Demand _____
 Perceived Domestic Requirement _____ Overseas Regulatory Requirement _____
 Internal Management Decision _____ Other _____

6) Finally, how has having a CSR policy or Code of Conduct affected your company and/or operations? (Check which apply)

Reduction in conflict _____ Better relations with community _____
 Positive participation _____ Increased shareholder investment _____
 Increased administration costs _____ Increased operating costs _____
 Increased shareholder concern _____

Completed surveys can be returned directly to: glundholm@resourceconflict.org
 The CCSRC greatly appreciates your participation.
 Should you have any questions, please feel free to contact me at (250) XXX - XXXX or through the above email address.

Kind regards,

Gideon Lundholm
 Director - CCSRC

BIBLIOGRAPHY

- Amnesty International. *Corporate Social Responsibility*. Available online [July 1, 2006]:
<http://news.amnesty.org/pages/csr/>
- Alison Azer (2002) "The Ethics of Corporate Responsibility: Management Trend of the New Millennium?" Sheldon M. Chumir Foundation for Ethics in Leadership Report. Available online [July 6, 2006]:
www.chumirethicsfoundation.ca/downloads/publicpolicyfellows/azeralison/azeralison1.pdf.
- Blowfield, Michael & Jędrzej Frynas (2005). "Setting new agendas: Critical Perspectives on Corporate Social Responsibility in the Developing World." *International Affairs*, 81(3).
- Conference Board of Canada. (2001) "The Corporate Social Responsibility Benchmarking Model."
- European SME's and social and environmental responsibility*. (2002) Observatory of European SME's No. 4, 17. Available online [July 2006]:
http://ec.europa.eu/enterprise/enterprise_policy/analysis/observatory_en.htm
- Everhart, Stephen (2002). "Private Investment in Emerging Economies: The Impact of Corruption and the Quality of Public Investment" Dissertation – Georgia State University.
- Fourteenth Report of the Standing Committee on Foreign Affairs and International Trade*.
 Available online [Dec. 5, 2005]:
<http://cmte.parl.gc.ca/cmte/committeepublication.aspx?com=8979&lang=1&sourceid=122762>
- Government Response to the Fourteenth Report of the Standing Committee on Foreign Affairs and International Trade*. (2005) Parliament of Canada, p. 2. Available online [Dec 3, 2005]:
<http://www.parl.gc.ca/committee/CommitteePublication.aspx?COM=8979&Lang=1&SourceId=131218>
- Henderson, David (2001). "The Case Against Corporate Social Responsibility." *Policy*. 17(2).
- Musah, Abdel-Fatau (2002). "Privatization of Security, Arms Proliferation and the Process of State Collapse in Africa." *Development and Change*. 33(5).
- Patterson, Kelly (2005). "Are Canadian companies abroad bending to demands from terrorists?" *Vancouver Sun*. Oct 1, A5.

- Pope, Jeremy (2000). *Confronting Corruption: The Elements of a National Integrity System*. Transparency International Report. Available online [July 5 2006]: <http://www.transparency.org/publications/sourcebook>
- Renner, Michael (2002). *The Anatomy of Resource Wars*. World Watch Paper 162, World Watch Institute.
- Ross, Michael (2004). "What do we know about natural resources and civil war" *Journal of Peace Research*. 41 no. 3, 337 – 356.
- Shamir, Ronen (2004). "Between self-regulation and the alien tort claims act: on the contested concept of corporate social responsibility." *Law and Society Review* 38 no. 4, 636-56.
- Smeltzer, Larry & Marianne Jennings (1998). "Why an international code of business ethics would be good for business" *Journal of Business Ethics*. 17 no. 1, 65.