

EXECUTIVE SUMMARY

Mining companies can cause or be affected by conflict, dramatically reducing the profitability of their operations, and negatively affecting the contribution of mineral wealth towards sustainable development. This paper maps out the linkages between mining and conflict.

Mining companies manage conflict based on an assessment of the nature of the conflict and the combatants; the firm's conflict management capacity; and its exposure to attacks upon its public reputation. Those firms with the greatest risk tolerances and lowest vulnerability to attacks on their reputations are also those more likely to become complicit in violence and human rights abuses. There is evidence, however, that firms who develop the capacity to engage in *proactive conflict management* - seeking to alleviate or resolve the sources of social tension - can maintain a competitive advantage against rivals with higher risk tolerances and lower reputational vulnerability.

In evaluating whether to invest in or divest from a conflicted situation, the key consideration is profitability: when the expected costs of political risks exceed the expected payoff of the project, the firm should not enter. Some firms - such as British Petroleum - believe the decision should also be based on the potential for the investment to make a positive contribution towards social stability, provided personnel are secure and their standard policies can be followed. A firm should be able to arrive at a definition of what constitutes a 'no go' zone - what is clearly unacceptable - based on dialogue with its stakeholders.

Once in a conflicted or potentially-conflicted situation, firms can target their interventions in order to address the linkages between their operations and conflict (see table, below). It is noted that different phases in the mining cycle - exploration, construction and closure - have a particular likelihood of sparking conflict due to the sudden and dramatic changes they represent in terms of immigration rates and financial inflows.

The greater a firm's direct involvement in the conflict, the greater its need to work in partnership with other businesses, civil society and international organisations, governments and community groups. The mining company must build trust through credible reporting and verification and through measures that sustain long-term development in the region. In many cases, natural resource access or quality may be the bone of contention most amenable to resolution. Conversely, peace-building may be wounded by a long history of exploitation that prevents the establishment of trust between traditional communities and the company. Factions within such communities often have divergent interests, and the presence of a mine often creates or exacerbates these divisions as a result of new social influences

Conflict is often the reason a firm chooses not to invest in a particular mining site, leaving the opportunity open to other firms with lower risk tolerances and reputational exposures. Companies with vulnerable reputations must therefore seek to lower the