



# VON WOBESER

E S G   A R T I C L E S

## ESG in the Mexican Mining Industry

### *First Section*

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### Introduction

Gradually, the words expressed by the 1976 Nobel Prize in Economics, Milton Friedman, that “there is one and only one social responsibility for business: to use its resources and engage in activities designated to increase its profits...” have less resonance among organizations.<sup>1</sup> This is because, contrary to that quote and almost 50 years later, the World Economic Forum published the Davos Manifesto 2020, which states that “a company is more than an economic unit generating wealth. It fulfils human and societal aspirations as part of the broader social system. Performance must be measured only on the return to shareholders, but also on how it achieves its environmental and social objectives”.<sup>2</sup>

In this context and considering that the mining industry in Mexico and worldwide has been accused -justifiably or unjustifiably- of adopting Friedman’s controversial words of focusing only on generating profits and leaving dramatic consequences that, most

of the time, are irreversible,<sup>3</sup> it is extremely important that organizations that are part of the said industry know and become familiar with the principles and criteria of “E” (Environmental), “S” (Social) and “G” (Governance). The foregoing, to continue with the tremendous work the aforementioned industry has carried out over the years to destigmatize the mining industry and to continue complying with the Davos Manifesto, including the compliance with the Sustainable Development Goals (SDGs) of the United Nations Organization (UN), among other relevant agreements.

This document, which is part of a series, aims to provide its readers with the necessary tools to navigate in the Mexican mining industry in light of the ESG criteria and principles, delineating the main areas of opportunity for the organizations that are part of said industry and provide them the general tools to act accordingly.

<sup>1</sup> Milton Friedman, *The Social Responsibility of Business is to Increase its Profits*, N.Y. TIMES, September 13, 1970, at A1.

<sup>2</sup> The World Economic Forum, <https://es.weforum.org/agenda/2019/12/manifiesto-de-davos-2020-el-proposito-universal-de-las-empresas-en-la-cuarta-revolucion-industrial/>

<sup>3</sup> Mexican Civil Council for Sustainable Forestry, A.C., <https://www.ccmss.org.mx/blog/asi-se-ve-la-mineria-en-mexico/>.

Pursuant to this article, some of the consequences generated by the mining industry in Mexico are found in water and soil pollution, deforestation, huge mountains of highly toxic leached minerals, displacement of communities, social conflicts, serious damage to public health, confrontation between the inhabitants of the affected communities and very low economic benefits.

## The Mexican Mining Industry

Mexico has traditionally been a mining country and whose origins date even prior to the Spanish conquest.<sup>4</sup> Since then, this productive activity has been an important pillar in the national economy. In 2019 alone, according to the Mexican Mining Chamber, an organization that represents 90% of the mining operation in Mexico -the Mexican mining industry: generated 379,000 direct jobs and 2.2 million indirect jobs; represented 8.1% of the industrial gross domestic product and 2.3% of the national gross domestic product; generated 190,000 million pesos (around 9.5 billion dollars) in economic income, and 17 of the metals produced in Mexico were, each one, in the top 10 places worldwide such as silver, gold, copper, gypsum, zinc, and lead.<sup>5</sup>

### **Environmental, Social and Governance**

From an investor's perspective, the ESG criteria and principles provide a set of environmental, social, and corporate governance rules that are taken into consideration during the investment decision-making process. This analysis process includes, in addition to the traditional elements of financial profitability, a criteria of positive and negative impacts that are valued to determine the viability of investment in certain assets or companies.<sup>6</sup> The correct implementation of these criteria and principles translates into aspects such as operational efficiency, brand equity, cost of capital and risk management and, therefore, they are increasingly important in the process of analyzing and evaluating an investment opportunity.

Additionally, and in line with the Davos Manifesto, it

is extremely important that companies contemplate as their purpose to collaborate with all their stakeholders in the creation of shared and sustained value. By creating it, companies do not only comply with their shareholders by delivering returns on invested capital, but with a wide range of stakeholders: employees, customers, suppliers, local communities, and society in general.<sup>7</sup>

In other words, implementing ESG criteria and principles in an organization, in addition to generating commercial value for the said organization, contributes to sustainable development with all those people and communities directly and indirectly involved with it. With this, paraphrasing Alex Gorsky, Chairman of the Board of Directors and Chief Executive Officer (CEO) of Johnson & Johnson at the Business Roundtable in August 2019, "it affirms the essential role corporations can play in improving our society when CEOs are truly committed to meeting the needs of all stakeholders".<sup>8</sup>

### ESG - Mexican Mining Industry

The mining industry in Mexico has not been immune to the implementation of various environmental and social policies that have aimed to generate added value to its investments and its stakeholders. In fact, during 2019, the mining sector in Mexico invested 7.45 billion pesos in environmental programs and implemented 549 productive projects in the communities where the mining companies operate.<sup>9</sup> However, more often than not, both investors and stakeholders in this industry firmly analyze the implementation of ESG policies and criteria over the organizations that are part of this sector, especially in the absence of standardization of impact metrics to allow its comparison.

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4 According to Joaquín Muñoz, *Mining in Mexico. Historical Sketch (La minería en México. Bosquejo histórico)*. National Autonomous University of Mexico. ISSN 0211-6111, N° 11, 1986, pp. 145-156, in the Mendocino Codex and the Matricula de Tributes of Emperor Moctezuma, 18 mineral products tributary provinces are indicated.

5 Mexican Mining Chamber, *Sustainability Report 2020 (Informe de Sustentabilidad 2020)*, <https://camimex.org.mx/application/files/5316/1544/4990/Inf-Sustentabilidad-2020-Camimex.pdf>

6 Corporate and Sustainable Social Responsibility, <https://www.responsabilidadsocial.net/criterios-asg-y-esg-que-son-significado-indicadores-y-principios/>

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7 The World Economic Forum, <https://es.weforum.org/agenda/2019/12/manifiesto-de-davos-2020-el-proposito-universal-de-las-empresas-en-la-cuarta-revolucion-industrial/>

8 Business Roundtable, *Business Roundtable Redefines de Purpose of a Corporation to Promote 'An Economy That Serves All Americans'*, <https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans>

9 Mexican Mining Chamber, *Sustainability Report 2020 (Informe de Sustentabilidad 2020)*, <https://camimex.org.mx/application/files/5316/1544/4990/Inf-Sustentabilidad-2020-Camimex.pdf>

From our view, the ESG principles and criteria of the mining industry in Mexico are related to the following topics:

- **E (environmental)**: biodiversity and environmental impact, efficient water management, wastewater treatment, greenhouse gas (GHG) emissions and climate change, waste generation and management, energy efficiency and closure of operations.
- **S (social)**: land use, social impact on the community, community relations, acquisition of real estate rights, respect of traditional customs and rights of

native/indigenous communities, health and safety of employees and human rights.

- **G (governance)**: corporate governance, anti-corruption, transparency, and corporate ethics.

In the second and third part of this series, we will address the main environmental topics (“E”) that affect the mining industry and identify the main risks and opportunities faced by organizations that are part of it and, based on our experience, outline some general ideas and tools to mitigate or take advantage of them, as the case may be.

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