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A New Role for Natural Resources Companies

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BY MARY STACEY, MARILYN TAYLOR,
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by **Mary Stacey, Marilyn Taylor, and David Legge**

Around the world, natural resources companies — producers of agricultural staples, oil and gas, lumber and wood products, basic chemicals, and many minerals — are facing unprecedented volatility in supply and demand. The global population is poised to reach 9 billion by 2050, and much of the growth will be in emerging markets. Millions of people in China, India, Latin America, and Southeast Asia are entering the middle class for the first time, increasing their demand for energy, housing, and transportation. At the same time, because of economic turbulence, rapid technological change, and the ever-present dynamics of gluts and shortages in most resource industries, there is no guarantee that the price of raw materials will continue to rise. Adding to this uncertainty are concerns about the impact this growing demand will have on the environment.

These challenges suggest that we need a new way to think about natural resources — a change in mind-set from simply managing resources to practicing resource leadership. Resource producers have always been constrained by their view that the primary goods they sell are

commodities with which they compete on the basis of price alone; their customers determine how they should be used. That approach, however, has led producers to the status quo: a largely reactive position with a short time horizon, and little opportunity to differentiate themselves from their competitors.

Resource leadership, in contrast, entails thinking strategically about natural resources from the moment they are pulled from the earth through to their end use. Unfortunately, this form of leadership is rare in all too many industries. It involves the ability to see the complex interdependencies of the natural resources system; to engage key stakeholders upstream, downstream, and across sectors; and to promote innovation with economic and ecological benefits within the resource system. Resource leadership represents a shift from short-term thinking to stewarding resources for the long term.

Imagine a company that embraced this new model. As a resource producer at the beginning of the value chain, this company would contribute solutions and expertise — culled from working directly with the materials at the earliest stages — in collaborating with its customers to find cost savings, reduce waste, and improve service.

The expertise developed this way would also lessen the impact on the environment, by helping all users, starting at the source, operate more effectively, with less waste.

To succeed, resource leadership requires a partnership-oriented model, in which the producers and consumers of raw materials have a mutual interest in process and product innovation. The producer helps the consumer identify cost savings and access technological innovations throughout the value chain, and as a result can charge slightly higher prices without feeling vulnerable to lower-priced competitors. A business model with a mutual commitment to the stewardship of resources could work, but only when there is a high-enough level of trust between these two groups.

A growing number of companies, both producers and users of natural resources, are recognizing the potential value of this approach. For example, Air Canada, the national Canadian airline, has set out to dramatically improve its performance amid competition from low-cost carriers and pressure from rising fuel costs (its fuel bill in 2011 was more than US\$3 billion). It needs to look for ways to replace or improve legacy practices that hinder profitability. The airline industry may also be faced with carbon taxes linked to emissions limits set by the European Union Emissions Trading Scheme, a multinational cap and trade system for all planes using E.U. airports. (The program went into effect January 1, 2012; first payments are due in 2013.)

To this end, the company has established a department focused on achieving fuel savings and carbon emissions reductions. Air Canada has recognized that alternative fuels

(such as biofuels) can help the airline meet its energy requirements while reducing emissions. The airline's leaders believe that partnering with alternative fuel producers or suppliers to create economic and environmental solutions could be financially advantageous and reduce the company's exposure to fuel price volatility. A scenario in which the airline industry would be willing to pay a small premium and commit to a significant, steady demand for alternative fuels would promote the development of new technologies; reduce the financial burden of carbon taxes; and, in the long term, create a lower-cost, sustainable, and ecologically friendly solution to the airlines' energy requirements.

Business leaders have often tried to adopt this way of thinking, but they have largely found they cannot do it alone. A resource leadership approach can be implemented only through intensive attention not just within a company, but throughout its network of producers, suppliers, regulators, and customers. Such a consortium vastly increases the margin for creative alternatives and innovation, and it distributes the costs of research and development.

Here, the importance of government policymakers comes into play. The leaders of resource-producing nations — such as Canada, the U.S., Australia, and Brazil — have tremendous opportunities to promote resource leadership. These leaders can provide their national resources companies with opportunities for shared research, distribution, and even marketing (imagine an ad campaign, similar to “Intel Inside,” along the lines of “This product contains Canadian resources developed with ‘cradle-to-cradle’ care”). They can also generate tax and trade



incentives for cross-sector collaboration in industry clusters committed to improving stewardship of resources. Canada already provides tax incentives for renewable energy enterprises. Resource leadership initiatives could be included as part of these policies.

National projects like this can have global reach. Pioneering re-

their expertise to customers in New Orleans, Dubai, and other waterfront areas.

It will take high-volume resource consumers in partnership with resource providers — and supported by policymakers — to create this new business model. Much of the intellectual, social, and commercial resource leadership momentum has stalled in the past because of narrow political and economic perspectives. But as the natural resource challenge reaches a critical state, it is time to move past the old way of thinking.

Recent headlines only reinforce resource leadership's game-changing potential. A greater awareness of the big picture would enable policymakers and resource-producing and -consuming companies to engage with other key stakeholders: local communities and the grassroots politicians that represent them. When we started writing this article in early 2012, U.S. President Barack Obama had recently put on hold the TransCanada Corporation's pro-

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source leaders, having realized economic and ecological advantages in the initial resource consortia within their own regions, can generate knowledge, technologies, and practices with significant export value. The Netherlands, for instance, has turned its experience with dikes and levees into a national industry. About 2,000 Dutch engineering companies exist, often exporting

posed Keystone XL pipeline — which would carry primarily Canadian (and some U.S.) oil to refineries in Oklahoma and Texas — because of environmental-impact concerns. The resulting debate only intensified in March, when Obama supported the expedited construction of the southern portion of the pipeline, from Oklahoma to the Gulf of Mexico.

Battles are also shaping up over several El Paso–based Trans-Mountain Oil Company pipeline proposals aimed at sending Canadian oil to China. In all of these cases, closer engagement among the relevant parties would have brought concerns to the forefront earlier, and the groups could have worked together to come up with possible solutions. Collaboration is as complex, time-consuming, and costly as the science and engineering of pipeline technology. This is where resource leadership can shine: It builds shared responsibility for jobs, oil security, and environmental protection across all sectors.

By embracing this responsibility for the way resources are used, natural resource producers can help the rest of the world learn to employ raw materials wisely, and can safeguard their industries from competition. They can also discover a new source of resilience: their own distinctive knowledge and capability, which is one resource that is practically guaranteed to increase in value. +

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