

<https://blog.en.erste-am.com/gold-the-most-sustainable-commodity-in-the-world/>

## Gold: the most sustainable commodity in the world?

Ronald-Peter Stöferle, CMT



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### Guest commentary by expert Ronald-Peter Stöferle

The public is still being fed the narrative of gold being a dirty metal. Gold is considered environmentally reproachable because open-pit mining requires enormous volumes of rock to be moved; and in rare cases, mercury is used in the process. Gold is also regarded as soiled in terms of the working conditions in some mines – sometimes the (polemical) term “blood gold” is even used. However, this angle fails to take into account the full picture, because it only focuses on the mining of new gold and forgets about other significant aspects. There are indeed good reasons why gold is already quite “green” nowadays.

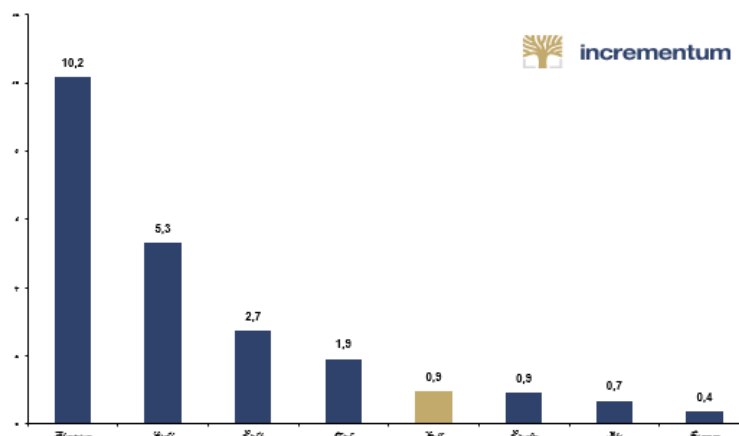
### Gold cannot be consumed and is very environmentally friendly due to its repeat use

Gold has been mined for 7,000 years. Over that period, more than 190,000 tonnes of gold have been produced, which is equal to a cube with an edge length of 20.5m. 50% thereof have been produced since the 1950s, with new production adding about 3,300 tonnes annually. This means the “inflation rate” of gold is only 1.7%. Practically all the gold ever produced is still available and can be recycled. Thus, gold remains in its purest form almost forever, which is why the social and environmental costs of gold production can be allocated over an almost unlimited period of time, and as a result they converge towards zero.

### The production of new gold emits relatively little CO<sub>2</sub>

A closer look at the CO<sub>2</sub> emissions of gold per value unit in comparison with copper, aluminium, steel, coal, zinc, and lead helps us understand the advantage of gold from production to refining relative to those commodities.

### Emission intensity per standard value, in kg of CO<sub>2</sub> emissions, in USD, 2018



Source: Gold and climate change: An introduction, World Gold Council, 2018, Incrementum AG

Also, gold recycling causes 90% less CO<sub>2</sub> emissions than gold mining. Some 25% of annual gold demand is covered by recycling. Even though the better will always be the enemy of the good, which is why the gold sector can and has to continue making efforts towards the reduction of its environmental footprint, the gold sector is already well on its way of environmental responsibility.

### **A higher ESG rating boosts performance**

For better comparability between companies and in order to keep track of the development of specific companies over time, ESG ratings have been introduced in recent years that evaluate the performance of a company on the basis of environmental, social, and governance criteria. Over the past five years, the gold producers with the best ESG ratings (if available) have significantly outperformed their competitors with lower ESG ratings. Specifically, Newmont Goldcorp has had a better ESG rating and a better financial performance than all of its peers. This comes as no surprise, given that Newmont is often seen as pioneer in the field of ESG. For example, the company has reduced its freshwater consumption by about 470mn litres at its Pete Bajo Mine as a result of the construction of a new pipeline. This example of Newmont shows to what significant degree the use of technology makes the sector safer and more environmentally friendly. [\[1\]](#)

### **How the blockchain technology helps in the compliance with ESG criteria**

The gold sector has used technological progress also to increase the transparency in gold production and gold trade. For example, the most important mining companies already resort to blockchain technology to trace and confirm the origin of their gold. The so-called blood gold could forever be a thing of the past.

Blockchain technology will not only be relevant for investors, but also influence the economic success of mining companies. The auditing firm BDO forecasts a possible gold price premium of 3 to 5% for gold from conflict-free mines for the coming years. The traceability will ensure the introduction of safer and ESG-compliant methods across the entire gold value chain. As a result, mining companies should become safer, cleaner, and more productive and generate higher returns for all stakeholders along the value chain.

### **ESG on the investment front**

In reaction to the ESG boom, a number of different ratings, quality seals, valuation methods, and data bases have emerged in recent years that label sustainable investment products. However, from our point of view, the criteria of the existing ratings are sometimes very rigid. The production of commodities tends to get demonised across the board, which puts an elementary part of our industrialised world into the rating providers' bad books. Also, no internationally renowned quality seal has established itself so far without restriction. Rather, new seals have mushroomed, leaving consumers and consultants rather bewildered. We often get the impression that these seals that are based on the superficial analysis of incomplete criteria are used to greenwash certain rating recipients. So, as long as there are no unified, reliable standards, we will stick to our best-in-class approach in our investment strategy. After or country filters have excluded certain countries based on their jurisdiction, we select exclusively companies that take ESG seriously and have taken according measures.

In any case, investors should keep a close eye on the topic of ESG. We will continue to proactively create awareness for the issue in the mining sector on the basis of matter-of-fact, serious research and clear principles. The *In Gold We Trust Report 2020* due for release on 27 May 2020, will again contain a focus on the ESG initiatives of the gold sector. We are planning on an interview with Terry Heyman from the World Gold Council, whose "Responsible Gold Mining Principles"[\[2\]](#) are considered a benchmark framework for the mining industry.

### **Conclusion**

In public perception, gold has an ambivalent reputation. On the one hand, it is seen as precious metal that conserves its value and is very popular as investment and jewellery. On the other hand, dubious methods in the areas of ecology and labour laws especially when it comes to production do not benefit the reputation of gold. The increasing degree of compliance with ESG criteria in the gold sector could therefore also improve the public perception of the gold sector. But given its non-consumability, a fact-based analysis would suggest that gold is already a very green metal.

[\[1\]](#) As reference for example, National Mining: *This is Mining*, [www.youtube.com/watch?v=M1Ubbyn2vrc](http://www.youtube.com/watch?v=M1Ubbyn2vrc)

[\[2\]](#) World Gold Council: [Responsible Gold Mining Principles](#)

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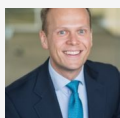
Prognoses are no reliable indicator for future performance.

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## **Ronald-Peter Stöferle, CMT**

Partner of Incrementum AG and responsible for Research and Portfolio Management. He studied Business Administration and Finance in the USA and at the Vienna University of Economics and Business Administration, and also gained work experience at the trading desk of a bank during his studies. Upon graduation he joined the Research department of Erste Group, where he published his first "In Gold We Trust" report in 2007. Over the years, the Gold Report has proceeded to become one of the benchmark publications on gold, money, and inflation. Since 2013 he has held the position as reader at Scholarius in Vienna, and he also gives talks at Wiener Börse Akademie (i.e. the Vienna Stock Exchange Academy). In 2014, he co-authored the book "Austrian School for Investors" and in 2019 "Die Nullzinsfalle" (The Zero Interest Rate Trap). He is also adviser for Tudor Gold, a Canadian exploration company with projects in the legendary gold triangle (British Columbia) as well as member of the Advisory Boards von Affinity Metals (AFF). [www.incrementum.li](http://www.incrementum.li) & [www.ingoldwetrust.li](http://www.ingoldwetrust.li)