

Risk Management Starts with building trust: Gabriel Ruiz – CEO

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How has CEO Strategos served Mexico's mining sector for the last 15 years?

A: We are deeply involved in risk management, especially non-operational risks, which refer to those caused by social dynamics like land conflicts and inter-union or intra-union disputes. The dynamics have changed in recent years with the introduction of harmful actors who corrupt contractual or cooperative relationships among the original stakeholders. In Guerrero and other states, crime is influencing those interactions. This problem threatens Mexico's development and governance. However, we continue to find alternatives, giving companies an understanding of the contexts, they face and helping them identify allies who have a social interest in generating development, both for themselves and stakeholders. These allies can be communities or political actors who see a future in the mining industry and are trying to promote clear rules and free competition.

Q: What knowledge and expertise underpin the company's services?

A: We have a deep understanding of social phenomena, governance, and communication. By governance, we refer to the art of balancing the diverse interests of various stakeholders, including companies, social actors, political figures, and unions. This balance is essential for achieving business viability and operational success. For the private sector, we generate actionable, tailored information for decision-makers, allowing them to build proactive relationship strategies with the numerous stakeholders involved in each operational phase. In the industrial sector, I assisted in the generation of corporate governance strategies across different industries in Peru, Argentina, Colombia, and Ecuador, where social dynamics closely resemble those of Mexico.

We have collaborated with Canadian and US-based companies, as well as some investment funds. Our knowledge and skills are deeply rooted in fieldwork. We have spent significant time working on site, directly experiencing the challenges, and engaging with diverse stakeholders in communities. We have undergone rigorous training in governance-related topics and gained a comprehensive understanding of all relevant actors. We honed strategies for persuasion, cooperation and even control of risks that go beyond a company's capacity to manage. Our goal has often been to establish connections between authorities, conflicting stakeholders, and companies, fostering the viability of a project.

Q: What insights from other Mexican industries can be applied to the mining sector?

A: We have learned a great deal from the logistics sector, which has strengthened supply chains by implementing technology to map and manage risks. The mining sector was somewhat behind in this regard because it often believed that ores were not attractive to criminal groups. However, as the theft of ores increased, it seriously affected the cash flow of companies, especially in Zacatecas and Michoacan. Companies began to recognize the need to implement mitigation measures and started adopting approaches from the logistics industry.

Theft of ores also takes place in ports, so we mapped risks extensively and provided recommendations. But even with all the security measures in place, trucks and ores can still be stolen because criminal groups are constantly evolving, gaining knowledge about industry practices, and trying to find vulnerabilities. It is an ongoing competition between the industry and criminals.

We also collaborate with clean energy industries facing challenges in Mexico. These industries share lessons with the mining sector, emphasizing community engagement and leadership. Companies are working directly with communities to dispel misconceptions. Even seemingly humorous misconceptions, like wind turbines "stealing" air, can have real consequences. Our core focus remains on communication, encompassing various perspectives and crisis management to minimize long-term impacts on companies and communities. Crises have a finite duration, but it is important to manage them to minimize their impact on companies and communities.

Q: Why should a mining company hire a risk management consultant?

A: Every company's main purpose is to generate profit, but profit is not like it used to be. Modern ethical and responsible companies focus on the future and understand the value of risk management and prevention. In extractive sectors, like mining, the continuity of operations is vital. Stopping machinery or equipment due to a strike can be catastrophic. Some companies, regardless of the origin of their capital, cannot withstand such disruptions. Thus, hiring a company like CEO Strategos represents a strategic approach to risk management.

Companies need to understand the social dynamics of the areas they live in, including people's expectations, aspirations, living conditions, income, family structures and environmental factors. Each place is different. Responsible companies recognize the need for risk management, understanding that it is necessary for communication. They know they need information and knowledge to anticipate and understand different actors. This perspective helps them manage risks, be prepared and resolve conflicts.

Not allying with a risk management company limits a company's ability to generate trust and legitimacy. We explain to companies what the community expects from them, enabling effective community relations, risk management and conflict resolution.

Q: What are the main risks Mexican mining companies face in their daily operations and how do you anticipate these will change with the integration of disruptive technologies?

A: Challenges revolve mainly around generating trust, which is at risk due to the presence of harmful actors influencing the conversation between government, companies and communities. The loss of trust will always generate conflict.

Problematic labor actors are another issue. Unfortunately, we are reaching a point where labor leaders are pressuring companies with strategies similar to those used by criminal groups.

Q: What are your perspectives on the recent changes in the Mining Law and which points, if any, should be clarified?

A: The model proposed in the Mining Law is not compatible with economic freedom.

Labeling exploration as a state-exclusive activity puts the sector at risk, since mining starts with exploration. Companies that want to enter Mexico are delaying their investments, waiting for a new political scenario or looking at other countries. This issue also impacts the generation of trust among mining companies and other actors, especially with the government.

To properly conduct exploration, the government requires more resources, personnel, technical equipment and investment. No government in Latin America has the economic capacity to carry out exploration activities by itself. The capital requirement is typically met through various investment funds and investors. Therefore, formal companies may be waiting for authorization to participate in exploration, but informal groups will not wait. By leaving mining sites at the mercy of informal groups, the government will lose governance and problems will worsen if mining territories are controlled by illegal miners.

If this dynamic continues, mines that were originally exploited by formal companies will be operated by criminal groups. Remote communities in Mexico see many economic benefits from mining, such as direct employment, infrastructure projects, scholarships, and education. If they lose all of this, they could turn to illegal activities (fuel theft, illegal logging, as well as trafficking and production of drugs).

The law should have been drafted alongside the industry. The government should also reconsider concession terms. Mining projects are long-term and a project's maturity

requires first establishing a presence in the area, cooperating with communities, making social investments and assessing the viability of different operational strategies. Extending the concession period to at least 50 years would be better. Furthermore, it is essential to provide certainty regarding the grounds for penalties. In some cases, the decision seems to be based on the official's discretion.

Q: What are CEO Strategos' plans for the mid and long term?

A: Our plans, beyond collaborating with more companies, are to develop new risk management models. We use risk matrices to identify and measure various factors, especially when dealing with dynamic political changes and harmful actors. We aim to reinforce our risk assessment methods to align with changing dynamics.

Furthermore, we aim to innovate in the analysis of social media, communication models and message generation. Fake news significantly impacts extractive industries. Our goal is to change negative perceptions about mining, emphasizing its role in modern society. We understand the need to provide education and tools for informed decision-making to lead to change.

CEO Strategos is a consultancy with over 15 years of experience in business across the US, Mexico and Latin America. It specializes in country risk evaluations, risk management strategies and crisis communications support.