

**Role Play**

**Golden Standard:**

Role of the Government

This role play was written by Astrid Schrader, Julia Snedkova, and Xiaolin Tao, INSEAD MBA Alumni, and Warren Tierney, Postdoctoral Research Associate at INSEAD, under the supervision of Martin Schweinsberg, Associate Professor of Organisational Behaviour at ESMT Berlin, Horacio Falcão, Professor of Management Practice of Decision Sciences at INSEAD, and Eric Uhlmann, Professor of Organisational Behaviour at INSEAD. It is intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

To access INSEAD teaching materials, go to <https://publishing.insead.edu/>.

Copyright © 2024 INSEAD

Copies may not be made without permission. No part of this publication may be copied, stored, transmitted, translated, reproduced or distributed in any form or medium whatsoever without the permission of the copyright owner.

06/2024-6910

General Information

Five years ago Golden Standard, the world’s largest multinational gold mining company based in Toronto, Canada, discovered one of the hemisphere’s largest gold deposits high in the Antolian mountains of the Republic of San Teodoro. The region around the planned Punta Nueva project is estimated to hold nearly 20 million ounces (567 thousand kilos) of gold, enough to make it one of the largest gold mines in the world. The mine could serve as a precedent for other such projects in South America in the the future.

For the inhabitants of the remote and impoverished region, in particular the 76,000 residents of the Huascar River Valley, the mining project would bring new jobs and better access to infrastructure through the roads and facilities that would come with the mine. The company has promised the San Teodoroian government that eventually 7,500 local workers will be hired to work at the mine.

Although the project holds the promise of great economic returns over its expected twenty-five year lifespan, it also involves significant risks. The mine would be built at 5,000 meters above sea level in a hostile climate of temperatures ranging from +30 degrees Celsius to -40. These represent comparatively risky working conditions for members of the local communities compared to their traditional small-scale agriculture and herding. As it would be an open pit mine using cyanidation to extract metals it also threatens to contaminate the water supplies central to the survival of the inhabitants of the Huascar river valley. A substantial amount of the gold would also be located under or close to glaciers. Preserving these glaciers has attracted the attention of both local leaders and a rising number of international environmental organizations.

The San Teodoroian government, which has been looking to attract foreign investment to lower the country’s high unemployment rate, has provisionally approved the Punta Nueva project given that an equitable division of the gold revenues between the company and government can be agreed upon. In order to increase the mining project’s chances of succeeding, Golden Standard is seeking to secure the buy-in of as many key stakeholders as possible, including the local communities. However, skepticism has always been strong among the local farmers, who contacted environmentalist and indigenous rights NGOs in the capitol city of Chapolis which started advising them on legal, environmental, and technical matters.

In an effort to obtain local support for the mine, the Golden Standard has funded a campaign in the valley involving door-to-door information, media broadcasts, community information offices, and a major education initiative including building new schools, providing school bus services, and other free educational and vocational programs throughout the Huascar Valley.

|  |
| --- |
| **Overview of Golden Standard initiatives in the Huascar Valley** |
| **Investments made:** | **Investment costs:** |
| Elementary, Middle, and High Schools | $200 million – one time construction costs for 15 schools (already spent)$4 million per year for the next twenty-five years (= $100 million in total) - annual maintenance/teacher salaries/school lunches for children |
| School bus services | $1.3 million per year for the next twenty-five years (=$32.5 million in total) |
| Educational and vocational programs in villages | $1 million per year for the next twenty-five years (=$25 million in total) |

Thanks to the Golden Standard’s outreach and the $230 million they have already spent on education for valley residents, the Punta Nueva project won an increasing number of local supporters. The company has already spent $200 million on one-time construction costs for 15 schools and another $30 million operating the schools for the last several years. To some, the company appears to be living up to its stated goal to engage in “socially responsible mining.” In previous mining projects, company founder Tom Funk has likewise pursued the policy of investing tens of millions of dollars in local schools and infrastructure.

Supporters also note that Golden Standard has the best environmental record of any major gold mining company, typically imposing on themselves environmental restrictions more severe than their host government demands. At the Punta Nueva site, the company has already agreed to $80 million in water system improvements beyond what is done at the typical gold mine, and to building a $12 million resevoir to prevent toxic runoff from the mine entering the local waterways. They have further accepted a list of 400 conditions set by San Teodoro’s environmental commission.

Still, the leaders of the four local municipalities (in order of geographic proxity to the mine from closest to furthest: Vallenuevo, Paraiso, Tachito, and Alto de Lucia) are not satisfied and have taken their protests public. They argue that even strict environmental measures by industry standards are insufficient when their land and way of life will be put at risk, and are demanding that the Punta Nueva project either be stopped or severely scaled down in light of the potential environmental consequences. A particularly contentious issue is the company’s plan to move three large glaciers and two small glaciers to access the large gold deposits beneath them, which the local communities oppose as these are some of the hundreds of glaciers that feed their river valley. Local leaders also want Golden Standard to provide direct financial compensation to their municipalities, who they argue will suffer practically all of the negative environmental effects of the mine but only reap a small percentage of the benefits.

The conflict has captured the interest of international NGOs which include the Environmental Conflicts Association and the People’s Justice Network. These activist groups have helped the Huascar valley communities organize social media campaigns as well as large live demonstrations, which included dumping huge chunks of ice in front of the presidential palace in Chapolis. They even lobbied the Canadian government against Golden Standard’s planned mine. What used to be a disagreement about a mining project has turned into an international discourse about the legitimacy of permitting natural resources for exploitation by a multinational corporation.

After these efforts failed to obtain the hoped for concessions from Golden Standard, the local communities and their activist supporters publicly threatened to block the narrow mountain roads to the mine site if their concerns were not addressed. A civil disobedience campaign of this kind would make it very difficult for the mine to operate and also represent a public relations disaster for not only Golden Standard but also the San Teodoroian government, which is hoping to attract more international investment.

The protest movement has taken a major toll on the Punta Nueva project, severely delaying the full opening of the mine and it remains operating well below its capacity. What was planned as a $1.5 billion total investment has already swollen to an estimated $5 billion in final costs, with $3 billion already spent. Making things significantly worse for the Golden Standard company, the price of gold has fallen from its recent high of $1,920 an ounce to only $1,000 an ounce. If gold prices remain this low, industry analysts project that the Punta Nueva project will be far less profitable than originally expected.

Golden Standard founder Tom Funk has called for a meeting between the host government, San Teodoro, and the mayors of the four municipalities of the Huascar Valley to discuss the future of the Punta Nueva mining project.

Confidential Information for Raul Gonzalez, the Representative from the Government Of San Teodoro

You are Raul Gonzalez, an important government official in charge of Foreign Direct Investment (FDI) at the Ministry of Mining of the Republic of San Teodoro. You have been appointed by the President as the lead negotiator for finding a sustainable solution for the Punta Nueva project. You are faced with a difficult challenge. In these rough economic times when inflation is a real risk to the economy it is your task to position San Teodoro as an attractive destination for foreign direct investment (FDI). Mining could be a lucrative complement to the otherwise agriculture-heavy export industry.

San Teodoro’s Economic Situation

Over the last quarter century San Teodoro has been hit by one economic crisis after the other: hyperinflation, unemployment, recession, and sovereign debt defaults. Following the collapse of public enterprises and hyperinflation skyrocketing up to 12,000% per year, the country sank into a depression and was forced to ask for help from the International Monetary Fund. Recent years have been characterized by a series of free market reforms including large scale privatization of previously state-owned businesses. The national economy has been steadily growing, but unemployment remains high and San Teodoroean businesses struggle to compete abroad.

The Mining Investment Law passed by the present administration provides incentives for foreign companies to invest in mineral exploration. Given the lack of competitiveness of the entire San Teodoroian economy you need every investment possible. Just as importantly, your country is in desperate need of cash as managing liquidity has become crucial in order have the San Teodoroian economy survive.

Although you personally understand the need for environmental protection, you cannot accept vague environmental concerns which are mainly put forth by activist foreign NGOs to be prioritized over the economic development of the provinces.

Punta Nueva

The site the Golden Standard Corporation has discovered high in the Antolian mountains boasts unprecedented reserves for a South American gold mine. The Punta Nueva project could easily be the most prestigious project yet for the entire country and your career. If the San Teodoroian administration can prove to be a successful partner in this venture, you believe future and even larger foreign direct investment will only be a matter of time.

The Punta Nueva site is 45 kilometers from the closest agricultural areas and settlements in San Teodoro (the Huascar Province). The Huascar Province in Region III has a population of 76,000 people. There are four municipalities including Vallenuevo (population 28,000), Paraiso (18,000), Tachito (17,000), and Alto de Lucia (13,000). The ongoing protest movement by these municipalities and their environmentalist NGO allies has already undermined your efforts to improve the economic situation of your people and more generally proven a major embarassment. The public protest in which blocks of ice were dumped in front of the Presidential Palace in Chapolis received coverage by the international media and was a loss of face for your administration. You are concerned that San Teodoro will give a terrible impression to the international business community if the Punta Nueva project is further delayed due to protests and sabotage from your own citizens.

The Huascar valley communitiesclaim their lands and way of life are threatened by the Punta Nueva project. Having been involved in large FDI projects for years, you have played this game many times: essentially Golden Standard Corporation will have to pay for getting their buy in. It would be ridiculous to have such an important project for San Teodoro be stopped by a handful of local farmers and meddling foreign environmental activists. From experience you know that the true reason why such communities pretend to be completely opposed to the project is that they feel they have personally not benefitted enough from the generous sponsoring programs mining companies erect in order to obtain the social license to mine.

One thing that makes you particuarly angry is the role that international NGOs consulting with the Hauscar Valley mayors have played in this conflict. Never ever has it been your intention to destroy natural or cultural heritage, and the demands to preserve the environment in pristine condition have never been backed up by ideas from the NGO side on how this should be made financially feasible. You feel that if NGOs continue to oppose every single foreign investment opportunity at hand, not only are they discrediting themselves as a partner for the San Teodoroian government, they also deprive themselves of the legitimacy of their claims internationally. In any case, you cannot let this become a precedent as you fear that other NGOs might follow their example and render future FDI in natural resources impossible in San Teodoro.

Thinking about the upcoming negotiation, there are a number of specific issues at the forefront of your mind.

1. **Attracting foreign investment into San Teodoro**. As the head of Foreign Direct Investment (FDI) at the Ministry of Mining it is your job to attract projects like Punta Nueva to San Teodoro and help them become successful. You must work to avoid any more protests or negative press associated with the project, which could create a negative image of San Teodoro as a place for international companies to invest in. One potential last resort is to ask the Armed Forces to break up the protests and protect the road. However, military intervention would be a public scandal, bringing even further bad publicity to Punta Nueva, and opening the door to a number of lawsuits, which you would probably win, but which would carry a significant political cost.
2. **Granting official approval for the mining project to move forward**. You have the authority to grant (or not grant) official approval for the Golden Standard Coporation to mine their Punta Nueva site. You will only consider denying approval if Tom Funk insists on terms that are deeply unfavorable and unfair to your country, and which would set a poor precedent for future negotiations with international firms. Or if all four villages are opposed to the project and threaten to block the roads, since the political costs of intervening militarily would again be significant. Of course, it is up to the Golden Standard to make sure the municipalities are happy, since they are the ones with the checkbook.
3. **Your government’s percentage of the mine revenues.** You intend to ask Golden Standard to provide you a 30% share of the total revenues from the mine so that the partnership remains viable, and will not accept less than 15% under any circumstances. The number you had discussed in your initial talks with the mining company was 20% or an expected $4 billion dollars. However, things have changed dramatically since then with the failure of Golden Standard’s outreach program and the unexpected social media attacks and live demonstrations. Politically, your administration must be able to tell the San Teodoroian voters that they will reap huge economic rewards from the mine, ideally more so than the 20% originally announced. This would make you look as a great negotiator and patriot, who has worked hard to defend the interests of your country. You believe Tom Funk will agree to a 25-30% share for San Teodoro because of his company’s interest in building a long term partnership with your country. There are very likely more major deposits of gold elsewhere in San Teodoro, and your country offers a hospitable situation for business to operate in not present in most emerging markets, with the exception of the current Punta Nueva situation.
4. **Obtaining additional mining jobs from Golden Standard.** The nation of San Teodoro, and the Huascar Valley in particular, are facing a unemployment crisis. Golden Standard has already pledged to hire 7,500 local employees. You would like a commitment from Tom Funk to hire even more workers, ideally creating a total of 15,000 to 20,000 new jobs, thus all but erradicating unemployment in the four municipalities even if a small investment for the company. This increase would also represent a bargaining chip you could use with the leaders of the municipalities to convince them to stop their protests.
5. **Increasing financial compensation to the local municipalities by Golden Standard.** The company has already spent $230 million on their $360 million education and community initiative for the people of the Huascar valley. However, as the payments to local communities are dwarfed by the huge profits to be made from Punta Nueva, and the communities’ protests are all that stand in the way of the mine, you hope to convince Tom Funk to contribute even more. You are not authorized to make any such payments to the local farmers from the national government’s budget. After all, Golden Standard already has a budget of hundreds of millions allocated for such initiatives, so they may as well spend it all to ensure the success of this project. To not do so would be to save pennies, but risk losing dollars.
6. **Ensuring compensation payments by Golden Standard to the local municipalities are controlled by the national government.** The local leaders of Vallenuevo, Paraiso, Tachito and Alto de Lucia are notoriously corrupt, incompetent at administration, and stuck in the past. Their mismanagement and lack of vision contribute to keeping the Huascar Valley impoverished. If the Golden Standard company agrees to any further compensation payments to the local communities this money should be controlled and administered by San Teodoro’s far more qualified national government. Besides, winning on this issue would give you control over a significant amount of money that in turn converts itself into more political capital and a direct growth of your influence inside and outside of your Ministry, as well as giving the Ministry of Mining bragging rights over the social benefits that this money will generate.
7. **Maintaining the scope of the mining project.** To achieve the hoped for revenues from Punta Nueva to which the San Teodoroian government’s share is directly linked, you must maintain its ambitious scope. This means accessing the huge gold deposits beneath the three large glaciers and two small glaciers. Each large glacier Golden Standard agrees not to move will reduce the amount of gold extracted from the mine by $2 billion dollars, and each small glacier left in place will deny access to $1 billion in gold. If the estimated revenues from the mine drop from $20 billion to $12 billion because the glaciers were declared off limits, the San Teodoroian government stands to lose over a billion dollars. Considering that there are hundreds of similar glaciers in the surroundings and that Golden Standard has a 100% success rate in transferring glaciers, the risk does not seem to even be significant. Even if the glaciers that Golden Standard removed in the past were less complex and in lower altitude, this does not seem like a great engineering feat.
8. **Persuading the Huascar Valley communities not to block the roads into the mountains.** The single greatest danger to the viability of Punta Nueva is the local municipalities’ threat to block the narrow roads into the mountains, preventing trucks from arriving with supplies and leaving with the precious gold ore. No one municipality (Vallenuevo, Paraiso, Tachito, or Alto de Lucia) can do this alone, but you know that if all four were to band together they could successfully block access to the mine. Vallenuevo has the highest unemployment rate (42%) in all of San Teodoro, with Paraiso at 36%, Tachito at 28%, and Alto de Lucia at 25%. Given their economic situation, you expect that Vallenuevo and Paraiso will be the easiest to convince not to engage in roadblocks by offering additional jobs and financial compensation from Golden Standard. You will therefore advise Tom Funk to focus his persuasive energies on these two key municipalities. If they do not come willing, you can always order the army to intervene, but that should be a last resort. You could also threaten to intervene with Golden Standard and cut one or more of the municipalities out of the compensation payments. Although a consensus would of course be ideal, you only need one municipality to provide road access to the mine and allow the project to go forward.
9. **Avoiding involving the military**. If all four municipalities were to band together and the threatened roadblocks actually occur, your last resort option is to call in the national military to guarantee road access to the mine. However, using the military on behalf of a foreign corporation would lead to more protests and erode your administration’s political support within some segments of San Teodoro’s population. You might consider this option, but only if you receive all of the additional jobs you seek from Golden Standard (20,000 jobs rather than 7,500) and at least a 50% share of the expected gold revenues from the mine ($10 billion of the $20 billion dollars in gold). Even then, the military option would still be unattractive because of the reputational costs. Even a radically scaled down version of the Punta Nueva mining project would be preferable to the political costs of involving the national military.

Please prepare for your negotiations with Tom Funk and the mayors of the Huascar Valley municipalities now.