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CALENDAR

- **Mineral Exploration Roundup 2005 – Discovering Our Future**
January 24–27, 2005
Westin Bayshore Resort & Marina
Vancouver, B.C., Canada
email:
roundup@chamborofmines.bc.ca
- **107th National Western Mining Conference**
Colorado Mining Association
February 2–4, 2005
Hyatt Regency Hotel
Denver, Colorado
email:
colomine@coloradomining.org
- **SME Annual Meeting and Exhibit**
February 28–March 2, 2005
Salt Palace Convention Center
Salt Lake City, Utah
email: sme@smenet.org
- **PDAC 2005 International Convention**
March 6–9, 2005
Metro Toronto Convention Centre
Toronto, Ontario, Canada
email: info@pdac.ca

A Synopsis of the Independent Review of the World Bank Group's Extractive Industries Policies Part 2

Introduction

The World Bank Group (WBG) is a facilitator to the mining, oil, and gas sectors providing project financial assistance, political risk insurance, and through the establishment of environmental guidelines in countries with developing or deficient regulatory programs. The World Bank Group's roles and policies concerning the extractive industries (oil, gas, and mining) have been the subject of an independent third party review to determine if the industries' projects can be compatible with the World Bank Group's goals of sustainable development and poverty reduction. Part 1 of this article (October 2004) described the makeup and roles of the World Bank Group; how the independent third party Extractive Industries Review (EIR) was initiated; the makeup of the review group; and the objectives, findings, and recommendations contained in the January 2004 final report. This article will provide a condensed version of the extractive industry (EI) comments, World Bank Management's draft response to the report, comments to the draft response, and World Bank Chairman's Summary.

Industry Comments to the Extractive Industries Report

The International Council on Mining and Metals agreed with the Extractive Industries Report that the World Bank Group should continue to remain engaged in the mining, oil and gas sectors. They further stated that the WBG is critical to developing countries

successful transformation of natural resources to human capital. The Council did not agree with the "diagnosis or prescriptions" of the EIR, finding that the recommendations would be "costly, counterproductive and unrealistic." Excessive complexity would result in reduced development in poor countries, withdrawal of responsible mining companies, and an increase in socially and environmentally "unconcerned" companies. Growth in poor countries that are dependent upon the Bank resources and assistance for development of emerging markets would be significantly reduced with implementation of the EIR recommendations. Additionally, the Council commented that,

- ◆ "The EIR does not take account of all relevant literature on the role of natural resources in development." The "natural resources curse" theory that mining is bad for development is based on statistically weak correlations and the concept paralyzes action.
- ◆ The EIR does not recognize that most current mining projects succeed in their socio-economic development objectives. The report focuses on the negative social and environmental impacts of extractive projects.
- ◆ The EIR excludes findings from well-documented operational evidence that most mining projects have had a positive developmental impact with 73% of the projects having satisfactory economic returns.
- ◆ "A full and fair use of the EIR's own consultations would have strengthened the findings of the report." The report does not provide a balanced account of the

■ **Congress Request Two-Year Coal Study**

U.S. Congressional leaders have requested a comprehensive two-year study on coal research, technology, and policy matters conducted by the Office of Surface Mining Reclamation and Enforcement and the National Research Council of the National Academy of Sciences. The goal of the study is to determine if Congress can have a more complete picture of the coal industry that will help define and construct a national coal strategy consistent with credible, bipartisan, national energy strategy. The request was funded through the fiscal year 2005 consolidated appropriations act that President Bush signed on December 8, 2004.

■ **Political and Social Unrest Affect Peruvian Mining**

The mining industry in Peru is feeling the affects of the social and political turmoil currently occurring in that country. Mining companies in Peru such as Barrick, BHP Billiton, Doe Run, Newmont, Phelps Dodge and Teck Cominco are experiencing blockades, community protests, labor strikes and disputes with the Peruvian government. The problems are being blamed on President Alejandro Toledo. Toledo and members of his family have been accused of corruption and Toledo is now considered Latin America's most unpopular president. Mining companies are looking for ways to solve some of their problems on their own. Several companies have developed infrastructure for local communities, a move viewed by economists and the Council on Foreign Relations as critical to helping the poor. Solutions may lie with the mining companies' abilities to convince their own governments to work with Peruvian national and local governments to facilitate land ownership rights, strengthen political systems, recognize the rights and offer protection to indigenous people, and use mining-related taxes and revenues to build desperately needed infrastructure in remote rural communities.

■ **Chinese Mining Companies Merge**

Four state-owned coal companies in China's Heilongjiang province have merged to create the Heilongjiang Longmei Mining Group. The new group, formed from Jixi, Hegeng, Shuangyashan and Qitaihe coal companies, is expected to produce 100 million tons of coal and an annual revenue of \$2.4 billion (20 billion yuan). The formation of the new group was backed by Japanese investor Itochu Corporation. The north-east province of Heilongjiang has a proven coal reserve of 22.4 billion tons and an annual output of about 80 million tons.

regional consultations. Practical examples of success provided by the advisory group were cut or ignored.

- ◆ "The EIR would have benefited from balanced representation." The report assumed that the World Bank Group "is simply not to be trusted; governments of developing countries cannot be trusted and should be excluded from the process; only civil society organizations, or self selected representative, can be truly independent and trustworthy.
- ◆ "The proposed ban on new coal mining projects along with other blanket bans, e.g., on activities and technologies, will not support the WBG's mandate of poverty alleviation." Implementation of the recommendations would reduce the Bank's effectiveness assisting developing countries with conversion of natural capital into physical and human capital.
- ◆ The EIR recommendations would reduce the WBG's presence in the sector and inhibit its capacity to raise performance standards.
- ◆ "The WBG's leadership role in promulgating environmental and social safeguard policies in the most needy countries should be strengthened through better implementation." The WBG policies are appropriate and have been used by industry to improve the environmental and social impacts of mining operations.

In a letter dated December 7, 2003, Sir Mark Moody-Stuart, Chairman of Anglo American, wrote to Dr. Salim (head of the EIR), "... from the outset I have been concerned at the unbalanced nature of the advisory group, the lack of transparency in the selection process and the lack of representation from developing countries with significant extractive industries." He further comments on the report's "steadfast focus on the negative," "complete omission of any reference to success," non-contribution to cooperation, and "great missed opportunity."

In a letter dated April 3, 2003 from Mr. Anthony Lea, Finance Director Anglo

American Gold, to Dr. Salim, Mr. Lea's concluded that,

- ◆ "The extractive industries have an unrivaled ability to generate wealth rapidly, which is one of the key requirements for poverty alleviation."
- ◆ Mines are able to provide sought-after employment and both physical and human infrastructure in areas where few other sectors would be willing or able to operate.
- ◆ The WBG is uniquely placed to influence the activities of governments and to promote good governance via its assistance programmes.
- ◆ The IFC (International Finance Corporation) and MIGA (Multilateral Investment Guarantee Agency) are important providers of finance and risk coverage in environments that are not attractive to other players.
- ◆ The IFC/WBG environmental and social guidelines are regarded as best practice.
- ◆ The WBG can improve the integration of its operations to better ensure good governance.
- ◆ Better monitoring and extension can improve the implementation of WBG Safeguard Policies over the life of the mine.

The document went further to provide case studies of Anglo American projects conducted with the World Bank that have provided social and developmental benefits to project areas in Venezuela, Zambia, Chile, and Brazil.

World Bank Draft Response

In June 2004, the World Bank Group issued a draft management response (MR) to the Extractive Industries Review for public comment before issuance of the Bank's official response. The Bank Group agreed with the majority of the recommendations and the basic objectives of "reducing poverty, protecting the environment, improving peoples lives, and supporting equitable growth." The Bank's approach in future investments "will be more selective, with greater focus on the needs of poor people, a stronger emphasis on good governance,

promoting environmentally and socially sustainable development.”

The Bank responded that there would be “speedy movement” to promote renewable energy and efficiency to combat climate change; strengthen governance and transparency; ensure that extractive industry benefits reach the poor; mitigate environmental and social risks; protect the rights of people affected by extractive industry investments; improve organization coordination; and an ongoing learning and review process.

The Group recognized that there was not consensus among all stakeholders, particularly on the recommendation that the Bank Group should withdraw investments from coal and oil projects in developing countries. The Bank’s rationale was that 1.6 billion people do not have electricity and 2.3 billion people rely on biomass fuels. Oil, gas, and mining assets in developing countries will have to be utilized to alleviate the “energy poverty” in those countries. The world’s poor will continue to rely upon coal and oil as major fuel sources for the foreseeable future. “By staying engaged on a selective basis,” the Bank can help poor countries build capacity, grow, and alleviate poverty while meeting environmental and social principles.

Comments to the Draft Management Response

Of the three primary categories of stakeholders, industry, government, and non-government organizations (NGO’s), the NGO’s were the most disgruntled group, commenting that the response and proposals were inadequate and without specificity. Government comments and declarations could be considered on the mid-tier level of dissatisfaction. Industry was probably the least aggrieved group, but comments were with reservation and criticism. Following are some of the more relevant comments in brief.

- ◆ Apply a moratorium on extractive industry investment until recommendations are implemented.

Shift funds to renewables. (NGO’s, Parliamentarian)

- ◆ Where the World Bank Group claims there was no consensus, the management response has come down in favor of the views of industry and government, as opposed to those of civil society. (NGO’s)
- ◆ Set a minimum level of \$1bn by 2010. (investment in renewables) (NGO’s and Parliamentarian)
- ◆ Climate change impact of lending should be transparently accounted for, including the cost of CO₂ emissions. (NGO’s)
- ◆ WBG should phase out of oil investments, and maintain its moratorium on financing coal production projects. (NGO’s, Parliamentarian)
- ◆ In formulating and requesting governance reforms, the WBG must respect the foreign rights of each state to establish its laws and policies. (NGO’s)
- ◆ Audits and independent monitoring should be employed to guarantee transparency. (NGO’s)
- ◆ Natural resources are the property of the state under the Constitution, and the state must administer these resources, taking into account all the interests involved. (Governments)
- ◆ Do not support riverine tailings or submarine tailings disposal. (NGO, Parliamentarian)
- ◆ Adopt principles for cyanide and EU standards. (NGO)
- ◆ Require fully funded financial guarantees and audits of closure plans. (NGO)
- ◆ World Bank extractive industry projects should all be Category A. (NGO’s Parliamentarian)
- ◆ WBG activities in social and environmental areas should be subject to independent auditing. (NGO’s)
- ◆ The MR (World Bank Management Response) proposal for “prior informed consultation” and “broad community support” are not adequate and the WBG should apply the principle of FPIC (free prior informed consent) for EI projects.
- ◆ Transparency and independent monitoring will be needed to ensure that the WBG proposed policies on EI are implemented. (Parliamentarian)

■ Argentina Mining Production Grew in 2004

Mining-related investments in Argentina reached approximately \$630 million (1.87 billion pesos) in 2004, according to the Argentine mining department. The growth is due to improvements in the country’s taxation and judicial procedures, which facilitated mining investments in Argentina as well as improved mining prices. The value of mineral products in Argentina, such as gold, copper concentrates, silver, industrial minerals and ornamental stones, grew by more than 12 percent in 2004 over the previous year. The growth is expected to continue over the next few years with approximately 80 exploration projects currently active in the country.

Minerals Corner—

Natrolite

Na₂Al²Si₃O₁₀-2H₂O, Hydrated Sodium Aluminum Silicate

Natrolite is a common and popular zeolite mineral. Open channels in this mineral’s structure allow water and large ions to travel into and out of the crystal structure. The size of these channels controls the size of the molecules or ions and can act as a chemical sieve. Natrolite is usually clear or white but can also be tinted yellow or brown. It is formed in the cavities of amygdaloidal basalts and other related rocks. Natrolite can make a fine specimen in itself but is often an accessory to other minerals and can enhance the beauty of associated minerals such as apophyllite, heulandite and benitoite. Its name comes from the Greek word “natron” or soda, in allusion to its sodium content, and “lithos” or stone. It can be found in Poonas, India; San Benito, California; New Jersey; and Nova Scotia.

Dr. Salim Comment to World Bank Draft Response

On July 22, 2004 Dr. Salim submitted a ten-page comment document to the World Bank Group Management response. His comments include,

- ◆ The World Bank Group Management Group Response ... says that it agrees with the majority of the recommendations, but makes few commitments to addressing these recommendations or fully to implementing them.
- ◆ The Response aims to predominantly pursue economic development in the extractive industry sector while slightly increasing attention to social and environmental development compared to the past.
- ◆ The Response ... ignores the urgent need to begin internalizing environmental and social cost in the EI sector, while they continue to favor the usual predominant focus on economic development.
- ◆ The response proposals are ... business as usual with marginal changes.

WB Chairman's Summary

On August 3, 2004, the Executive Directors of the World Bank Group met and finalized the Management Response based on the comments received, and the divergent opinions of the various directors and their constituents. Following are some of the final comments of the directors.

- ◆ The Directors generally agreed that the Response substantively addressed the recommendations of the Extractive Industry Review.

- ◆ The WBG's strategy in the extractive industries is consistent with its mandate to promote poverty reduction and sustainable growth in developing countries.
- ◆ Some of the Directors welcomed the establishment of a working level advisory group. Others cautioned against EIR-type processes and attendant costs.
- ◆ The Directors agreed that increased access to affordable energy will continue to be important for poverty reduction and sustainable growth in developing countries. The WBG should remain engaged in financing oil and coal projects, while doing more on renewable energy and energy deficiency.
- ◆ The Directors agreed with Management's proposal to constructively respond to what governments are aiming to achieve, and be prepared to provide financial commitment or technical support when there is credible commitment to improve governance.
- ◆ They agreed that communities should benefit from EI projects. Some of the directors supported meaningful consultation to ensure broad community support while a few supported free prior informed consent. Many Directors stressed avoiding proposals that created veto rights against projects that were supported by national and local governments, emphasizing the primacy of national sovereign law. The opinion of the Bank General Counsel is that adoption of free prior informed consent would be inconsistent with the Articles of Agreement.
- ◆ The Directors agreed with using the IFC Safeguards and revised guidance for certain issues such as the use of toxic chemicals, mine closure, and emergency response for tailings facilities.
- ◆ They welcomed the intention to scale up support for wider adoption of renewable energy and increased energy efficiency.
- ◆ The Directors recognized that the EIR consultation had presented many important issues, with many ramifications beyond the EI activities.
- ◆ Management will report on an annual basis, implementation of the measures set out in the response to the EIR and internal evaluations.

Future

The World Bank will continue to plot a course between what the extractive industries regard as practical and what civil society and NGO's consider inadequate. The NGO's have demonstrated their view of the extractive industries and their diligence and resolve to reform the World Bank Group's policies. With a few exceptions, the extractive industry group has not demonstrated the same diligence and resolve defending their practices. If the industry effort is not improved, the World Bank Group's policies and requirements will become increasingly complex and onerous to the detriment of developing countries that have little voice and impact on the Bank when compared to the NGO and their resources. The industries will cope with the additional burden until costs, time, and risks reduce their activities in developing countries.

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