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Anniversary of Kumtor Accident Highlights Extractive Industry Problems

On May 20th 1998, a severe accidental cyanide spill happened on the road to the Kumtor Gold Mine in Kyrgyzstan. The lead lender for the project was the European Bank for Reconstruction and Development (EBRD), and the International Finance Corporation (IFC) also participated in the financial scheme supporting the project. Four years after the accident there still are lessons to be learnt.

Nearly two tons of cyanide compound spilled into the Barskaun river, and the subsequent five-hour delay to notify downstream villages, plus the faulty emergency response, resulted in severe ecological and economic damage to the area of Issyl-Kul lake, allegedly including loss of human life. The price tag for compensation from the Canadian Cameco company was USD 4 million for bad housekeeping and lack of any proper emergency response plan.

After the spill, civil society groups had to engage in a year-long struggle for the release of a new emergency response plan – just to find out the immediate lessons of the accident. However, there is still one open question which poses a possible disaster for Kyrgyzstan after Cameco leaves the country: the closure of mine. *"The USD 5 million allocated for closure is far from enough"* argues Jozsef Feiler, Policy Coordinator of CEE Bankwatch Network. *"The costs of proper closure of mines such Kumtor should be at least a magnitude higher than is planned. It seems that the disposal of gold mining by-products presents a plague similar to*

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"Another profitable year for extractive industries"

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that of the nuclear industry and that the industry tries to ignore it." Another problem with Kumtor, situated in the Tien Shan mountains at an elevation of 4000 meters, is that glacier instability and melting resulting from ongoing climate change could cause the release of the unsealed mine tailings. This would be a disaster for Central Asia as it would lead to an enormous amount of toxic substances entering the river system which serves as the freshwater supply for the region. Who would take responsibility for this?

The Kumtor mine also raises the issue of the development impacts of mining. A recent Oxfam study finds that mining has little, if any, positive development impact on the countries where it takes place. The recently released book by CEE Bankwatch, Mountains of Gold: Kumtor Gold Mine in Kyrgyz Republic strengthens this view: Kyrgyzstan had to take a significant burden of loans (USD 78 million from the EBRD, USD 40 million from IFC – a total of USD 355 million from public sources) for the Kumtor mine, while the revenues generated by the mine are close to zero for Kyrgyz citizens, who will bear the legacy of the mine long after the Canadians are gone. International financial institutions should refrain from supporting such activities, as they do not sufficiently raise the projects' quality and such projects cannot be justified for institutions which are supposed to be working for development and fighting poverty.

Why and How?

A quick overview of the reasons for and methods by which the World Bank supports oil and gas development

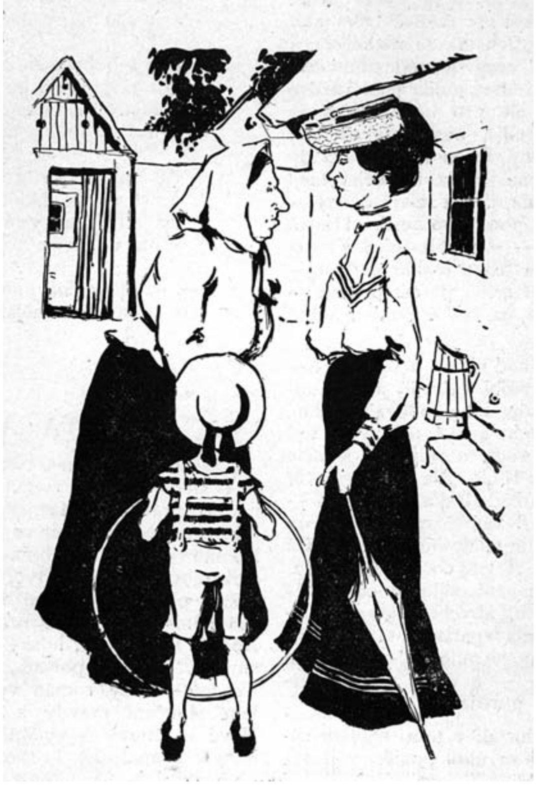
by Stephen Kretzmann, Institute for Policy Studies

"In any productive sector, the presence of an enabling legal and fiscal framework is an important catalyst for new investment and especially for the inflow of foreign investment. This is particularly the case in the petroleum sector where investments are typically of a long-term and high risk nature." - Ibrahim F. I. Shihata Senior Vice President and General Counsel, The World Bank, 1995

The World Bank's support for the oil and gas industry has become controversial because of the spectacular sums of money lent to destructive mega-projects. Chad-Cameroon, the Brazil-Bolivia gas pipeline, the Baku-Ceyhan pipeline, and the Sakhalin project have all mobilized the opposition of international civil society. However, often the structural and legal changes encouraged in developing countries by the Bank and the IMF have much broader and longer-term implications. For a fraction of the cost of large extraction projects, bureaucrats quietly work long-term changes into a country's legal and regulatory system towards the long-term neo-liberal goals of deregulation and privatization. These changes improve the prospects for further investment by oil and gas companies based primarily in the United States and Europe. Most disturbingly, the rationale for these changes and an increase in investment in the oil and gas sector has little or nothing to do with poverty alleviation or sustainable development.

The World Bank began to invest in oil and gas in 1977, following on the heels of the Organization of Petroleum Exporting Countries (OPEC) oil embargo and oil price shocks of the 1970s. In a July 1981 report entitled "An Examination of The World Bank Energy Lending Program" the office of the US Treasury's Assistant Secretary prescribed measures the World Bank should take to encourage private investment in oil and gas projects. The report noted that the World Bank played an important role as a multilateral investor, encouraging private investment in projects. In addition, it notes that the Bank should increase its investment in the oil & gas sector in order to *"expand and diversify global energy supplies to enhance security of supplies and reduce OPEC market power over oil prices."* The US Treasury Department (which wields more power than any other institution over the World Bank) also wanted to ensure that developing countries were able to service their debt payments to Northern commercial and public banks.

The US Treasury Department also noted that, as opposed to the US government, *"the neutral stance of the Bank can play an important role. As a multilateral 'development advisor' it can help Least Developed Countries revise their incentive structure to encourage investment."*



"He's only five and he can already spell 'Extractive Industries Review.' "

Thanks to the World Bank, many new areas of the world, including the former Soviet Union, are now opening up their supplies to the United States and Europe. The legislative and regulatory reforms encouraged by the Bank's legal staff have set the stage for billions in investment from export-credit agencies, other international financial institutions, and private capital. According to William T. Onorato, the Principal Counsel for Energy & Mining at the World Bank:

"Most recently, under the Technical Cooperation Program for the former Soviet Union (FSU) and certain of its adhering Republics, expert legal TA (technical assistance) was provided

to both the Republics of Russia and Kazakhstan. Its objective was to aid them in the development of acceptable, international-standard, legal, contractual and fiscal frameworks to encourage a quickening of the pace of petroleum investment operations in their respective territories. This work is currently ongoing, as, also, is similar work in some of the other FSU Republics under traditional Bank lending arrangements. Thus, since 1980, the Bank has financed PEPP's (Petroleum Exploration Promotion Projects) and other forms of petroleum sector legal reform and TA (technical assistance) with the consistent objective of acting as a catalyst to mobilize the inflow of foreign direct investment into the developing petroleum sectors of many of the Bank's borrowing members."

Investments in oil and gas have managed to succeed according to a narrow and self-serving mandate. These investments and the policies that enable them are a service to those Northern countries who direct the World Bank – not to the developing countries from whom the petroleum is drilled. Just because an industry can generate cash and provide a service for the ever-thirsty US public does not mean that it can help with poverty alleviation or sustainable development. If the Extractive Industries Review is to be true to its mandate, these investments and the policies that enable them must be comprehensively evaluated for their poverty alleviation impacts for the first time.

A Storm in the Making: Romanians Mobilise against Gold Mining

by Stephani Roth

Nestled in Romania's Apuseni mountains lies Rosia Montana, a valley traditionally inhabited by the 'Motz' (Tara Motilor) - a stubborn people with an extraordinary history. Their headstrong character, more than anything, is the result of a persistent struggle against gold-hungry intruders. The valley and mountains are honeycombed with Roman mine-galleries and littered with ruins bearing witness to Dacians, Romans, Celts, Goths, Hungarians and Habsburg, whose legends and armies were build with Motz gold.

Today, a modern-style 'empire' is set to invade the land of the Motz for what is left of their gold. And they intend to take everything: If they succeed, nothing will be left, not a single building. It will all be gone.

In 1997, Toronto-based Gabriel Resources (www.gabrielresources.com) formed `Euro Gold Resources', a joint venture company with Minvest SA., Romania's state mining company. Soon after, Euro Gold announced the discovery of the largest gold deposit in Europe in the Rosia Montana area. In 1999, the Romanian government approved a concession license granting the right to prospect, mine and deliver gold in the Rosia Montana area. Euro Gold has set up the Rosia Montana Gold Corporation (RMGC) to mine in the valley.

Early exploratory drilling estimated 100-150 million tonnes of ore containing 1,9 grams of gold per tonne. In a matter of months Gabriel Resources more than quadrupled its resource estimate and subsequently increased its interest from 65% to 80%. The Rosia Montana venture expects to produce up to 500 000 ounces per year at about USD 157 million per ounce over the mine's 16-year life. Mining will commence at Cetate, closest to the processing plant, then Cirnic, then Orlea; with Jig being the final area to be developed. The average breakdown in ore hardness is approximately 10% hard, 43% medium and 47% soft ore. Throughput will vary from 800 tonnes per hour for hard ore, to 1 200 tones per hour for soft ore. A total of approximately 196,4 million tonnes of waste material will be removed from four open pits, with a ratio of mine waste to ore of 0,98 to1. Cyanide Sodium will be employed at 0,8 grams per tonne. The project will be operated as a large scale, bulk tonnage, conventional open-pit mine operating 24 hours a day, seven days a week. Other advanced exploration projects in the region include: Bucium, Corabia, Botes and Frasin.

Due to the sheer magnitude of the project – which, if developed, will become Europe's largest open-cast gold mine – 750 family farms and 138 apartments will have to be resettled in Rosia Montana alone. The whole project would directly affect roughly 4 500 people in the region. Gabriel Resources launched its resettlement program in February before receiving the prerequisite environmental approvals or even having adequately consulted the affected population. The company claims to be abiding by the World Bank 'Forced Resettlement Directive' and has hired the Toronto-based Planning Alliance to oversee resettlement. The population has been offered to be moved to a new village to be constructed, whose main feature will be 200-square-metre bungalows. The average size of the traditional family farm is 450 square metres. Resistance to relocation has increased since Gabriel Resources announced its purchase price for the land. The company nonetheless expects to finish the first phase of resettlement this year.

With this in mind, Gabriel Resources announced a four-day public consultation in early April. During these meetings, Alburnus Major, a local citizens' group opposing resettlement and claiming to represent 80% of the population, staged peaceful demonstrations. Their banners had two messages. First, they asked for a truly democratic referendum, one for every affected community. Second, they stated that cyanide equals genocide. Gabriel Resources cancelled the consultation period on the third evening.

According to Zeno Cornea, a retired Minvest miner and founding member of Alburnus Major, the project will claim roughly 1 600 hectares of land. Mining will be concentrated on an area of roughly 722 hectares and the cyanide lake will cover 600 hectares of open environment. The dam will be 180 metres high with a capacity of 250 million tonnes. In addition to the potential danger of a spill, there is the danger of condensation. The rain is acidic enough to form hydrogen cyanide nitrogen when it falls onto the lake. The dam is situated right above the town of Abrud, with 1 300 inhabitants. Right by the dam is a river that runs through the town.

To date, there exists no Environmental Impact Assessment (EIA). In May, the

Romanian Government therefore blocked the project pending submission of an EIA. Agraro Consult SRL, which a former subsidiary of Canadian Agra Earth and Environmental Limited, has been contracted to carry out the EIA, scheduled to be released in the latter half of this year. Since April last year, Agraro Consult SRL has been a private Romanian Company.

Meanwhile, the Romanian Parliament has commissioned a report to look into the details of how Gabriel Resources managed to obtain a concession from the government without an open bidding process. Several landowners whose properties were confiscated during the Communist era are currently seeking to recover property rights in the concession area. It is questionable whether the concession is legal due to lack of an open bidding process and while question of land ownership remain in dispute.

According to Gabriel Resources' Second Feasibility Study, the company's equity funds last November amounted to 78 million Canadian dollars (USD 50,9 million). Gabriel Resources is looking for staring investment capital of USD 253 million, and has retained the services of HSBC Investment Banking in London as a financial advisor. In March, the company announced two non-brokered private placements which increased gross proceeds to Gabriel to a total of USD 56,1 million.

In order to increase its starting capital Gabriel Resources also approached the International Finance Corporation (IFC), the World Bank's private lending arm. Originally, the IFC denied this, and James Bond, director at the WB/IFC joint mining department, even stated during a visit to Romania that the World Bank was not involved in the project. But in May this year the Romanian press carried various articles on the subject. According to an IFC statement dated 27th May 2002, *"The IFC is in preliminary discussions with the project sponsor, Gabriel Resources, regarding IFC's possible participation in the Rosia Montana gold project….IFC and the sponsor are fully aware that the project involves a number of environmental and social issues, which would need to be addressed for the project to be successfully implemented. If IFC became involved, it would help the sponsor ensure that these issues were fully addressed, that the project complied with the World Bank Group environmental and social guidelines and that the benefits of the project to the local community and region's economy were maximized."*

Official criticism of the project from within Romania has remarkably increased, particularly in the national press. Eugen Dijmarescu, economic advisor to Prime Minister Adrian Nastase, was quoted saying that Gabriel Resources had insufficient credentials and experience to carry out such a project.

IFC involvement with Gabriel Resources thus would act as a favourable catalyst for the project. While it would increase Gabriel Resources' base capital, IFC involvement per se would also send a favourable message to further potential investors. Likewise, IFC abstinence would send a strong and cautionary signal to investors; this even more so since Gabriel Resources claims to be abiding by World Bank directives.

Should Gabriel Resources find sufficient financial backing and obtain all necessary environmental approvals, licenses and concession rights, opposition to resettlement could still help block the project.

And the Motz are gathering support.

World Bank Influence Undermines Credibility of EIR Process

by Shannon Lawrence, Environmental Defense

In January 2002, 101 organizations from 37 countries sent a letter to Dr. Emil Salim, the Eminent Person of the Extractive Industries Review (EIR), expressing concerns about the EIR process, including its lack of independence from the World Bank, budget, workshop procedures, and schedule. Later that month, Dr. Salim wrote to World Bank President James D. Wolfensohn and outlined similar "prerequisites" for the EIR's success. These prerequisites were: sufficient time to carry out the review process with integrity and credibility, genuine independence from the World Bank Group, and full trust and cooperation from the major stakeholders.

While Dr. Salim's attempts to reform the EIR process achieved some notable victories, the pre-requisites for success have still not been met. In April, more than 50 organizations signed a letter to Mr. Wolfensohn stating that unresolved issues regarding World Bank Group participation, the budget, and timing have compromised the full trust of major stakeholders and undermined the credibility of the EIR process. The arguments presented in the letter are summarized below.

The first regional consultation held in Rio in mid-April proved that these process concerns expressed by the NGOs and Dr. Salim were justified. Bank staff inappropriately dominated discussions and the limited preparation time compromised effective planning for civil society participants from throughout the region.

World Bank Participation

In a letter to Dr. Salim on January 17, Mr. Wolfensohn stressed that the EIR should be *"carried out for, and on behalf of, poor people living in developing countries. These people, and their governments, must be the chief stakeholders in any consultation."* However, Mr. Wolfensohn goes on to argue that unless World Bank Group staff are active participants in the consultation process, the recommendations in Dr. Salim's final report *"are unlikely to be founded on the real facts of [World Bank Group] operations on the ground."* This statement seems to imply that project-affected communities, governments, and industry involved in the financing or implementation of Bank projects cannot grasp the on-the-ground reality or impact of Bank projects. This is an untenable and unfounded assertion that negates the credibility of all the stakeholders whom Bank projects and operations purport to impact and serve. Furthermore, the statement conflicts with Mr. Wolfensohn's previous assertion that these groups should be the major stakeholders in the EIR process.

It is imperative to ensure that the consultations represent an opportunity for the chief stakeholders to make their views clearly heard. Therefore, to ensure independence and engender the trust of major stakeholders, the role of Bank staff should be limited to providing background material for other stakeholders and providing clarifications of fact, upon specific request by stakeholders. In addition, records of the consultations should clearly identify and separately analyse the input from World Bank staff as opposed to input from the stakeholders.

Dr. Salim's decision to limit the World Bank staff's role to a *"special stakeholder who will have the responsibility to prepare materials explaining its projects, policies and procedures that have influenced the extractive industries,"* may prove – if well implemented – to be a reasonable resolution of this issue. Based upon previous experiences with the World Bank Group in multi-stakeholder consultations, this arrangement must be strictly enforced if the consultations are to be valuable as an opportunity for stakeholders to relate their perspectives and experiences.

"World Bank Consultations have come a long way..."

Budget

Currently, the EIR cannot control its own budget. In their letter to Dr. Salim, the signatory NGOs called for the budget to *"be controlled by the Eminent Person who should have full authority to determine the best use of the review's scarce resources."* This complaint was repeated in Dr. Salim's letter to stakeholders dated January 30, when he explained that the current budget is not adequate for the EIR to achieve its objectives, and that many of the allocations were imposed on him without his input.

The EIR is funded by USD 1,4 million in trust fund money from Norwegian government, plus USD 1,6 million from The World Bank Group. Considering the 2001 annual administrative budget for the World Bank's IBRD alone was USD 859 million and its profits totalled nearly USD 1,5 billion, it is difficult to accept such an inadequate EIR budget and the World Bank allocations that it includes. Insufficient budgetary support for the EIR would require Dr. Salim to devote already limited staff and personal time to outside fundraising. Given the enormous amount of work the EIR will entail, the added obligation of fundraising is a distraction that can only detract from the efforts of the EIR.

Moreover, despite assurances that Dr. Salim has been granted full control of the EIR budget, Dr. Salim was not involved in the development of the budget. It was created before he had outlined his work plan, and substantial funds were spent or "allocated" before he assumed his position.

Timing

Although the EIR process has been extended by eight months, the timeframe is dictated by the limited budget, as Mr. Wolfensohn states in his January 17 response to Dr. Salim, rather than by thoughtful analysis of what a truly legitimate, effective process might entail. Significantly, the World Bank Operations Evaluation Department (OED) and Operation Evaluation Group (OEG) are already conducting ongoing reviews of the oil, gas and mining sectors. The EIR process should make use of this OED/OEG review, but a draft of their findings will not be available until later this year. By pushing for the initiation of the regional consultation workshops before the results from first phase of the OED/OEG review are available, the Bank rules out any possibility that the EIR could make use of these materials.

World Bank-Funded Project Opens Door for Mining in Protected Areas:

Ecuador's Prodeminca Project

by Carlos Zorrilla, Decoin

A project financed through a World Bank loan to Ecuador failed to live up to the Bank's own standards. The Mining Development and Environmental Quality Project (known as Prodeminca), received USD 14 million from the Bank, collected geochemical data from 36 000 square kilometres of western Ecuador, including seven national protected areas (National Parks, Wilderness Areas), and dozens of private and public legal forest reserves. In many cases, the sample collecting was done illegally, without the consent of the land owners. An example of this was confirmed in the case of a 6 000 hectare privately protected forest called Los Cedros.

In December 1999, the NGO Defensa y Conservacion Ecologica de Intag Decoin (Decoin) initiated a claim against Prodeminca because one of the project's primary objectives was to promote mining in Ecuador. Decoin felt the project would threaten livelihoods and the local agricultural-based economy, plus the rich, biodiverse environment of the area and beyond. Furthermore, Decoin claimed that the project violated Bank policy by gathering mining information in protected areas.

A World Bank Inspection Panel convened to study the claim found several violations of Bank policy throughout the project, and uncovered an impressive series of irregularities. One of the worst infractions was the lack of any Environmental Assessment (EA) for the northern part of Ecuador, even though it contains the Cotacachi-Cayapas Ecological Reserve and belongs to two of Earth's Biological Hotspots, The Tropical Andean, and the Choco-Darien-Western Ecuador Hotspot. The EA that was done was limited to the environmental impacts of small mining in the south of the country – an entirely different ecosystem.

The EA was also done without any consultation with local people. In fact, the Panel's report states that the first series of meetings took place nearly three years after the completion of the EA. In Imbabura province, a series of meetings to inform (not to consult) people about the project started about five years after the completion of the EA, and nearly at the end of the project. World Bank Policy calls for consultation to take place before the completion of the EA. This, therefore, was a major violation of Bank Policy.

Although Bank experts pointed out the project's potential impact on protected areas and other natural areas, the report fails to mention this. Neither does it mention the well known extraordinary biological diversity of the forests of north-western Ecuador.

The EA did not include one single biotic element in its investigation; nor did later investigations. Instead, it focused on creating a database of maps and geochemical information intended to increase mining activity. The 36 elements that were analysed were almost exclusively useful only to the mining industry, and included platinum, gold, silver, copper, cadmium, lead, molybdenum, and many other rare metals. Nevertheless, the Panel found that the data was neutral.

Furthermore, the EA totally ignored valuable input from World Bank Latin American and Caribbean experts who expressed concern over the limitations of the project and its potential impact on protected areas.

"No Environmental Assessment? Bad dog!"

The Panel Report is an excellent window into how the Bank operates in developing countries. Incredibly though, the Panel ruled that the project did not fundamentally violate Bank policies as stated in Decoin's claim – even after hearing of all the violations and irregularities and pointing out a number of very serious violations in its Report.

One important slant on all this is that Ecuador's Minister of Energy and Mines has decided to sell all the information gathered by the Prodeminca project and that another of the project's goals was to "modernise" Ecuador's mining laws. At the end of the Pro-deminca project, the President rammed through a major reform of the mining law that did away with most of the environmental protection and fiscal controls, including the prohibition on mining in protected areas, and the elimination of all royalties that mining companies would have had to pay for exploiting the nation's minerals, which legally belong to the state.

Some local populations are resisting these efforts. Cotacachi County, for example, declared itself an Ecological County in September 2000. On the same date a People's Assembly, fearing that the release of mineral data would attract miners, asked the federal government not to make public the geochemical information gathered within its political boundaries or from any protected areas. Nevertheless, the federal government arrogantly went ahead with its plans to sell the information to anyone who wanted it. This violates the will of the local population who, along with County government authorities, have taken a firm decision to back sustainable economic activities, biodiversity conservation and clean technology through the Ecological County declaration.

The Inspection Panel's unjust ruling, in spite of serious, proven violations committed by the project's officials, gives a green light to the long-held plans of the national and international mining sector to gain access to millions of hectares of protected areas for mining, and undoubtedly sets the stage for endless conflicts between mining companies and local populations and local governments.

As Papua New Guinea Mining Continues, So Do Troubles

by Pam Foster, Halifax Initiative

A troublesome mining project in Papua New Guinea, partially funded by Canadian and Australian money, continues to operate despite environmental problems and a lawsuit from local inhabitants.

The Ok Tedi mine, the world's third-largest open-cut copper mine, was built with the support of the Canadian Export Development Corporation (EDC), which gave USD 88 million in construction loans in 1982. The project is 52% owned by Australian mining giant BHP Billiton, the world's fourth-largest mining company. The government of Papua New Guinea owns 30%, and a Canadian mining company, Inmet Corporation, owns 18%.

The mine's impact on the economy of Papua New Guinea is enormous. Ok Tedi represents 10% of Papua New Guinea's gross domestic product and 20% of its exports, giving the mine owners tremendous political clout.

The mine has also had an almost unfathomable impact on the environment. Although the government originally required a tailings dam to be built, it was destroyed in a 1984 landslide and has never been rebuilt. Since then, the mine has been dumping 80 000 tonnes of rock waste a day into the Ok Tedi and Fly Rivers.

By 1993, when Inmet bought its share of the mine, the problems had become well known. The sheer sediment load, plus a variety of toxic exposures related to the mine waste *"rendered the first 70 kilometres of the Ok Tedi River almost biologically dead,"* according to a 1993 report by the Australian Conservation Foundation. Internal company reports admit that fish stocks in the Ok Tedi River have declined by 50 to 80%. Pollution from the mine has contaminated 1,300 square kilometres of productive forest land and 1,200 kilometres of fertile river bank.

Finally, in 1994, some 15 000 Papua New Guinean landowners who live downstream from the mine filed a class action suit against BHP. The company made various attempts to stymie the case, including drafting legislation for the Parliament of Papua New Guinea that made such claims in foreign courts illegal, with fines of up to USD 75 000 for anyone suing the company or challenging the proposed law. When BHP's role in drafting the legislation was revealed, the company was found in contempt of court, only to be let off on a technicality.

BHP settled the case in 1996, agreeing to spend up to USD 115 million to compensate the landowners for environmental damage from the mine. The company also began construction of a full tailings retention system, to be completed within two years.

However, these remedies turned out to be well below the scale of the mine's impact. A June 1999 report prepared for BHP made it clear that the millions of tons of silt, sand and other mine waste that had poured into the Ok Tedi and Fly rivers had built up to the point where flooding was predicted to become so frequent that, by 2010, it would kill the existing trees on 800 square kilometres of floodplain. The study also showed that the area of "dieback" along the shores of the rivers may expand by another 50%.

"I don't know what they're so upset about, it was just a river."

BHP is eager to escape what has become a public relations nightmare in its native Australia, and it is clearly worried about the costs of the eventual clean-up of the mine. Following the report, the company announced that it intended to abandon Ok Tedi, but would stay if the government of Papua New Guinea asked it, a move widely seen as an attempt to shift liability for the clean-up onto the government. The government, for its part, has an enormous interest in keeping the mine open. In addition to its stake in the project, an estimated 50 000 people in Papua New Guinea are dependent on the mine, according to BHP's estimates.

In 1999, the government asked the World Bank to examine the social, environmental and economic issues surrounding cleaning up the mine. In March 2000, the Bank recommended that despite the economic costs, the mine should be shut down. The Bank report had sharp words for BHP, stating that the company's assessment of strategies for addressing the environmental disaster *"reviewed a limited set of technical options... that minimised the overall risk to shareholders."* (freelance article "Shut Ok Tedi Immediately, World Bank Report Says" by Rowan Callick)

"BHP's irresponsible attempt to walk away from the problem and receive legal indemnity is totally unacceptable," adds Geoff Evans, director of the Mineral Policy Institute. *"BHP is putting share value ahead of the livelihoods of thousands of people. If the mine cannot operate without causing massive environmental and social destruction, it must close, and BHP must fully rehabilitate damaged communities and environments."* (Mineral Policy Institute press release, January 11, 2000)

The problems with the mine have finally proved too much for even BHP. In February 2002, the company pulled out of the mine consortium, transferring its 52% share to the PNG Sustainable Development Programme Ltd, which is supposed to use mining dividends for sustainable development projects in the country. Whether anything changes remains to be seen, however – three of the development programme's seven directors will be appointed by BHP.

Digging and Drilling Out of Poverty?

The World Bank and Extractive Industries

by Keith Slack, Oxfam America

The stated mission of the World Bank Group is to promote poverty reduction and economic development in poor countries. *"Our dream is a world free of poverty"* reads the large sign above the gleaming steel and glass lobby at World Bank headquarters in Washington. After many years in which economic growth – and not poverty reduction per se – had been the focus of the Bank's work, the Bank has recently rediscovered and reemphasized its poverty reduction mandate. Indeed, with the adoption of the Millennium Development Goals, which include eradicating extreme poverty by 2015, the Bank has committed itself to efforts to promote direct and measurable poverty reduction.

Despite the Bank's stated intention of moving "beyond growth" and focusing on poverty, some Bank critics suggest that little has really changed in the Bank's myopic focus on economic growth. Perhaps nowhere is the old way of thinking more in evidence than in the Bank's continued promotion of the extractive industries (mining, oil and natural gas). These industries generate little direct poverty alleviation, through, for example, the creation of employment. The Bank argues, however, that they can contribute to economic growth that will trickle down to the poor, resulting in poverty reduction. In this way, countries with large mineral and oil resources can become the next Australia or Kuwait. The often very serious environmental and social "externalities" caused by extractive activity (such as pollution and disruption of communities) will be compensated for by the overall increase in societal well-being produced by the extractive-led growth.

The only problem with this theory is that it hasn't worked very well in practice. Recent economic studies – including by the World Bank itself – have demonstrated that in general there is in fact a negative correlation between minerals extraction and economic growth. In other words, developing countries that depend on extractive industries grow more slowly than those that do not. As for poverty reduction, in the case of mining, the World Bank has admitted that there is no clear linkage. Others contend that the linkage is negative. A recent study by Oxfam America indicates that dependence on extractive industries appears to actually worsen poverty. The Bank counters evidence of such non- or negative linkages by stating that extractive industries really could be directly linked to growth and poverty reduction if only poor countries would implement the correct policies for properly distributing resource revenues. The Bank makes this argument without asking whether the implementation of such policies is really feasible, given the complex management challenges these industries present and the ease with which extractive revenues can be manipulated and lost in corruption. This argument also does not take into account impacts on local communities, who may not wish to be used as guinea pigs until their governments can get the policies right.


"Guess Who? - I dunno...A world without poverty?"

To justify its support for mining, the Bank frequently points to some apparent extractive success stories, such as Chile and Botswana and, at an earlier stage, the US, Canada and Australia. It does not, however, ask whether these examples are really replicable or even desirable. In the case of Chile, for example, it has been argued that the country's success as a copper exporter has come at the expense of other copper exporting countries like Zambia, thus raising a question about the replicability of Chile's success. Some analysts also note that Botswana's economic growth has come from diamonds, a commodity whose price has been kept artificially high by a successful cartel, a situation that does not hold for other mineral commodities. Similarly, the alleged extractive-led development enjoyed by the US, Canada and Australia came during a very different global era in which large multinational extractive firms did not play the dominant role they do today. Economic diversification was also a central element of these countries' paths to development, an issue that seems to be given inadequate attention in the Bank's prescriptions for developing countries. With regard to oil and gas, Norway and Alaska are often cited as positive examples, even though both had mature democracies and institutions prior to the advent of oil revenues.

It should also be kept in mind that it is not for purely altruistic motives that the World Bank is involved in extractive industries. The International Finance Corporation, the Bank's private sector arm and a for-profit entity, makes a sizeable profit on its extractive investments. Indeed, mining is the most profitable subsector of IFC's equity portfolio. One must therefore question whether the World Bank and IFC would tout extractive industries for their "development" value if they were less profitable for the Bank.

As controversies around natural resource extraction have increased in countries like Ecuador, Peru, Nigeria, Angola, DRC and Indonesia, pressure has intensified on the World Bank to end its involvement in these sectors. This seems a compelling argument, given these sectors' negative impacts on the poor and their apparent lack of contribution to the Bank's core mission – poverty reduction. At the very least, serious reforms are in order. If the Bank is to remain involved in extractive industries, it must take the following steps:

• Transparency. Any company receiving the support of IFC or MIGA should be required to publicly disclose any payments made to host country governments. If there is to be any hope for resource extraction to contribute to development, local populations must know how much money is coming into the country so that they can press their governments to use the money appropriately.

• Revenue Management. The Bank must make transparent and accountable extractive revenue management for direct poverty reduction purposes a precondition for any support of extractive activity.

• Free, prior and informed consent. The Bank must make the recognition by companies of the rights of local communities to free, prior and informed consent a precondition of support to any extractive project.

• Diversification. The Bank must clearly demonstrate how its support for extractive activity in a developing country will contribute to economic diversification and sustainable forms of economic growth. Nonrenewable resource extraction is not sustainable and dependence on it must be avoided. The Bank must work to guarantee that dependence does not occur.

The Bank likes to say that, under the right conditions, poor countries could efficiently convert their mineral wealth into development. This may be true. The questions the Bank must answer, however, are whether, given the nature of these industries, the "right conditions" can ever exist and, most importantly, whether the theoretical benefits these industries can bring are worth the very real risks they engender: economic distortions, corruption, environmental destruction and the disruption of local communities. The Bank has not yet answered these questions satisfactorily.

World Bank Pipeline in Georgia and Azerbaijan Illustrates Problems with Extractive Industries

The Baku-Supsa pipeline was the first fast-track component of the "contract of the century," involving partial development of the Chirag oil field and related facilities in the Caspian Sea. The export of oil from Sangachal is routed via the Northern Route Export Pipeline to Novorossiysk and the Western Route Export Pipeline to a new storage terminal at Supsa on the Black Sea. The project cost USD 1,98 billion total, including USD 400 million financing from the EBRD and IFC. The project was designed as a model intended to prove the drilling potential of the politically unstable region, providing long-term financing that had *"not previously been made available to the region,"* and serving to both mitigate the risks associated with private sector investments as well as create a precedent for the possible future involvement of IFIs in Caspian Sea Oil reserves development.

The Early Oil project involves the production of 100 000 to 150 000 barrels of oil per day; in January 2002 it reached 127 000 barrels per day. The Northern route for early oil was opened in November 1997 to move Azerbaijani crude oil to the Black Sea port of Novorossiysk. In April 1999, the Western route to the Georgian port of Supsa was completed.

British Petroleum and IFIs claim that the project was implemented using Best Available Technologies (BAT), according to the strictest environmental and social standards. The project was expected *"to start an oil boom whose tax revenues will increase the national [Azerbaijan] budget by 40% over the next 11 years, and the related pipeline development should also help Georgia attract more foreign investment than it has received since independence in 1991."* However, the reality is completely opposite.

David Woodward, president of the Azerbaijan International Operating Company, said the country has gained over USD 1,3 billion from the venture led by Britain's BP, including a bonus payment of USD 360 million, USD 246 million from oil sales, USD 200 million from local contracting, and USD 108 million in salaries. However, Azerbaijan President Aliev objected to this, raising the issue of the wage gap between foreign workers and domestic workers.

The Azerbaijani government budget greatly depends on oil revenues for financial stability. On average, it makes up about 50% of income in the budget. Increasing oil extraction since 1998 has facilitated the predominance of the oil sector and the decline of the manufacturing industry. The sharp increase in oil prices in 1999 had a favourable effect on Azerbaijan's oil revenues, with the share of petroleum products in total exports composing 86,8% in 2000 (average oil price USD 27,2 per barrel), increasing to 90,3% in 2001 (average oil price USD 24,7 per barrel). While the government estimates that the economy grew about 11 percent in 2000, a UNDP report clearly states that the lives of 60% of Azeris have not improved.

The drastic increase of foreign direct investment (FDI) to about USD 250 million in 1997-1998 in Georgia has been directly connected with the Baku-Supsa pipeline. However, from 1994-2000 the cumulative net FDI reached only USD 700 million.

Environmental concerns

There are still many environmental concerns that have been raised by NGOs from the beginning of the project.

The following requirements are still not in force:

• re-injection of drilling waste into the sub-sea formation;

• use of non-synthetic drilling muds during all project stages;

• need to upgrade and re-direct proposed land-based pipeline routes; and

• assessment of cumulative greenhouse gas emissions.

Since 1997, when Chirag Platform-1 began to operate, it has generated wastewater that is discharged into the Sea. While the AIOC/EIA states that the problem of wastewater treatment will be investigated and that *"water will be discharged 50 meters below the Caspian mean level to prevent damage to the productive biological zone,"* right now all cuttings, wastewater, and synthetic drilling solutions are being discharged directly into the Sea. All this is having a direct negative impact on the population of sturgeon and salmon, and causing the deaths of a great number of seals.

The WREP pipeline passes through five conservation areas, as well as near areas designated as protected areas. It crosses more than 27 watersheds, creating the possibility of leakage or rupture near a watercourse or other sensitive area. Regarding the new Supsa Terminal, located near Kolkhety wetland, which is protected under the auspices of the Ramsar convention, a Baseline Environmental Study stressed that the *"Kolkhety reserve is situated in one of the most sensitive areas adjacent to Paliastomi Lake, and the Supsa terminal may have a potential impact on unique wetlands communities and Kolkhety Forests. Therefore, it is strongly recommended to enlarge the territory of the reserve."*

One accident already occurred on the Northern route pipeline in 1997, when 1 000 tonnes of oil were accidentally discharged from a corrosion hole. Due to several so-called technical accidents like the uncovering of the pipeline, land slope oil transportation through the Northern Route as well as the Western Route Pipeline was stopped for a number of days in 1998-1999.

More recently, about two tonnes of oil spilled over an area of up to 1 000 square kilometers in western Georgia on May 5, 2002. According to reports, the

"Transparency, transparency, transparency! We're talking money here!"

pipeline was damaged by oil poachers. Transportation was stopped for two days.

The WREP and NREP both terminate at the Black Sea. The Black Sea is a large, enclosed body of water with a high concentration of hydrogen sulphite below 200 meters. At one time, it was one of the world's most productive seas, hosting sturgeon, maasbanker, bonito, turbot and trout. Today it is recognised as one of the most polluted seas, with the number of species decreased significantly.

Transparency issues

The large number of overlooked issues in the Azeri project prompted several NGOs from the Caucasus, Eastern Europe, and other countries to write a joint letter of concern to the IFC/EBRD in July, 1998. The NGOs' concerns echoed and reinforced concerns about the Azeri Early Oil Project held by many professionals inside and outside of these agencies.

A particular point of concurrence was the basic lack of transparency in the decision-making process on environmental standards, such as the fact that the EIA was a shell document representing the findings of other studies that theretofore had not been made available to citizens or to the public finance institutions backing the project. There was also agreement that critical environmental decisions over issues such as the discharge of production waste and oil spill response plans were being decided through an opaque process over which the banks and citizens had no oversight.

The disclosure of relevant information included in Annex 1 of EIAs and monitoring studies has been conditioned by the Banks. However, experiences regarding implementation of this has been quite negative, especially regarding documents that were prepared after loan disbursement, such as environmental monitoring reports and oil spill response plans. In Georgia, where there is a more developed civil society, NGOs forced BP's local office to share its oil spill response plans for the country. However, in Azerbaijan, where an oil spill could result in an ecological tragedy in the Caspian Sea, the AIOC is keeping a tight lid on its plans. The lack of transparency and public participation in these high-risk oil projects could lead to environmental problems that increase financial and political risks, including precisely the kinds of risks that publicly owned institutions like the IFC are supposed to ensure against. What is more, till now the environmental monitoring annual report has not been made available to the public.

CEE Bankwatch Network is an international NGO network with members in 12 countries of the CEE and CIS region. The Network monitors the activities of International Financial Institutions.

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