Notice: The information contained in this document is intended to provide an overview of the current situation in the World Bank’s Extractive Industries Review, as it affects the mining and metals sector. This paper is provided for reference purposes only. References to sites, companies, and agencies are for information purposes only.

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Update 3
EIR Information Circular

Issue

In the last several months, and since the last ICSG Information Circular published in June 2002, the EIR process has moved ahead with a new workshop, a project visit and research activities. Also, there has been an increase in industry involvement.

This information circular provides an update on recent events and brief comments on some key documents submitted to the EIR.

I.- Latest Developments

1) Eastern Europe and Central Asia Workshop
Budapest, Hungary
June 18-22, 2002

The general conclusion obtained from this workshop was that the World Bank (WB) should change to ensure extractive industries contribute to sustainable development and poverty alleviation.

Participants at the workshop also emphasized the need for region-specific policies to address the challenges facing countries undergoing a transition from centrally-planned to market-oriented economies. Legacy problems (due to old facilities and abandoned operations) widely exist throughout Eastern Europe and Central Asia.

The main points issues addressed were:

- Governance
- Revenue management
- Environmental clean-up
- Mine closure
- Social mitigation through transparency and community development as part of the country assistance strategies from international organizations
- Private sector involvement (Need to develop regulatory framework, particularly with respect to privatizations).

The sentence that summarizes this workshop is: “Goals of sustainable development and poverty reduction not yet achieved through extraction activity”. As in the Latin America Workshop, the “threat” of a WB withdrawal from extractive industries has been replaced by a demand for strong reforms on the WB activities. It remains unclear as to what “radical changes” will mean for the WB.

After the two first workshops, the concern is that an increase in rules attached to access funding for the extractive industries could lead to an even more complicated bureaucratic process than currently exists. This could have a particularly hard impact on small to medium sized companies when seeking loans.

The International Association of Oil & Gas producers (OGP)’s view was that much of the meeting was “given over to unsubstantiated information, general propaganda, projects which had nothing to do with the World Bank or the companies represented”. This led to industry
representatives expressing their concern to Dr Emil Salim, who corrected concrete examples of poor information presented at the meeting.

It appears that NGO’s and academia have had stronger representation than governments and industry, thereby heavily influencing the outcomes of the workshops.

2) First project visit report: Papua New Guinea (PNG)

It was recognized by the EIR representatives that there is a lack of detailed background information on the projects visited in Papua. This situation strongly questions the assessments obtained by simple observation.

Another important gap of the EIR visit was that they did not meet important parties such as the PNG Office of the Environment and Conservation (OEC), nor the independent monitoring controller on the environmental performance of Papuan extractive operations.

As a result it appears that the study’s conclusions of “Aesthetic Impacts and Consequence of Ocean Disposal of Mining Tailings via Deep Sea Tailing Placement (DSTP)” are based on impressions rather than results of field research or scientific information.

According to the EIR report, the sustainable development performance of the extractive industry visited is acceptable. Indirect effects such as impacts over traditional community values and logging activities due to the improvement in access to new areas (results of shift on economic condition of life or improvements on infrastructure), were the main problems pointed out in the report.

The full report is available in the following link: www.eireview.org/eir/eirhome.nsf/EnglishOtherLinks/Project+Visits?opendocument

3) EIR Commissioned Research

The EIR research program is a specific part of the review and is aimed to provide background information for the stakeholder consultations.

The research descriptions available from the EIR website, does not allow a deep assessment of the methodological criteria because they are too general. The links to demonstrate the relationships, linkages and impacts are weak.

The first round of research commissioned for the EIR Secretariat involves four programs as listed below:

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<th>Commissioned organization</th>
<th>Research</th>
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<td>TebTebba Foundation and Forestry People's Programme</td>
<td>Relationship between indigenous people, the extractive industry and the World Bank</td>
</tr>
<tr>
<td>World Wildlife Fund (WWF)</td>
<td>Linkages between World Bank and IMF-supported structural adjustment programs and subsequent trends in the extractive industry sector (Tanzania, Peru and Indonesia)</td>
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<tr>
<td>Associates for Global Change (AGC)</td>
<td>Impact of the World Bank Group’s social and environmental policies on extractive companies and financial institutions</td>
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<td>CoDevelopment Canada</td>
<td>Community perspectives on World Bank Group investments in the extractive industries</td>
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The selection criterion for projects is based on the “EIR Conceptual Framework” (Terms of Reference document) which was criticized in the LA Workshop in Rio. Despite the concerns expressed, this document seems to continue guiding an important part of the EIR process.

4) International Council on Mining and Metals (ICMM) involvement

A task force was established in last July to manage ICMM’s interaction with the EIR, following a visit by Dr Salim to the ICMM. Dr. Salim raised questions concerning the contribution that the extractive industry, including mining, makes to economic development, especially in poor countries; highlighted the adverse movements in terms of trade for mineral exporters; and the degree of further processing, beyond mining within developing countries (and measure taken by some countries to protect local industry).

Dr. Salim also expressed concern about the role of the World Bank Group: whether the current pattern of support to the industry was in the best interests of developing countries (especially whether support for smaller companies could not be increased) and whether other UN agencies might not be more appropriate bodies for supporting capacity building.

In response, ICMM is producing a submission (focus in particular on Dr. Salim’s questions) to the World Bank Group’s Extractive Industries Review (EIR) that will include a paper that has been commissioned from Professor John Tilton and Dr Graham Davis of the Colorado School of Mines entitled ‘Should Developing Countries Renounce Mining? A Perspective on the Debate’. This paper will consist mainly of a literature review on mining and economic development and scrutinise the critical works of Michael Ross of the UCLA (author of the Oxfam report) and of Jeffrey Sachs and Andrew Warner of Harvard University.

ICMM is also encouraging industry participation at the remaining regional EIR workshops.

In addition to ICMM involvement, the International Association of Oil & Gas producers, OGP, is preparing eight recommendations to be sent to the EIR.

5) Budget and work plan left

At the end of July 2002, Dr. Salim, Head of the EIR process, wrote to Mr. James Wolfenbhnson, Head of the WB, to explain his views on the EIR work left and to request additional funding.

In addition to the remaining Asia and Africa Workshops, two more project visits are planned and extra meetings with stakeholders were argued as reasons for the increase in budget of 0.8 million dollars which was agreed by the WB. The overall amount of this project has now reached 3.9 million US dollars.

The EIR plans on delivering its final report in September 2003 (one year later than first envisioned).

II.- Key Documents released

The Extractive Industries Review also consists of contributions from stakeholders outside of the EIR Secretariat. These will influence the outcome of the EIR. The most important documents released during the last year are:
1) Oxfam America Reports

Oxfam America has been an important player during the EIR. It has submitted two papers:

- “Extractive Industries and the Poor” (October 2001). Michael Ross, Department of Political Science, University of California Los Angeles, USA. www.oxfamamerica.org/publications/art791.html

- “Digging to Development? A historical look at mining and economic development” (September 2002). Thomas Michael Power, Professor and Chair Economics Department, University of Montana, USA. www.oxfamamerica.org/publications/art3576.html

Both documents address in a balanced manner the link between natural resources and development.

Whilst the October 2001 document found strong direct and indirect linkages between developing countries dependence on extractive activities and their poor performance on key poverty-related indicators, the September 2002 document addressed in depth the development paths of Australia, Canada and USA since they based their growth on rich natural resources endowments. The Sept. 2002 document concludes that mining was not a key activity for their development. Moreover, it questioned the possibility that current “mining countries” in developing regions could move toward a higher level of development as their economic, social, technological and political framework are completely different from the situation of Australia, Canada and USA when they started their industrialization.

Nevertheless, several methodological weaknesses affect the outcome in these documents. The first document did not compare the performance of “Mining countries” with “Non mining countries”. In addition the general under-development framework (which is common for all these countries) affects conclusions.

The second document did not include Scandinavian experiences which are also based on natural resources.

The link between natural resources and development is very complex. Specific conclusions about linkages should be taken carefully, because countries rich in natural resources and under-developed are so due to a wider and more complex set of reasons. Thus, to point out natural resources as the only explanation for under-development, could grossly miss other fundamental factors.

2) WB Group’s Mining Department

In March 2002 the WBG’s Mining Department released a paper intending to share its experiences and to address most of the issues raised by the EIR, (including the 2001’s Oxfam Report).

The full document is available in the following link:

Treasure or trouble? Mining in Developing Countries
By Monika Weber-Fahr
WBG’s Mining Department

The main conclusion was that there is not a causal relationship between a dominant mining sector and overwhelming economic ills. The document does recognize the importance of revenue management and governance as a key issue for sustainable development.

The WBG Mining Department backs the EIR position that a lack of proper in-country institutions mitigate the contribution of the extractive industry sector in developing countries.

III. Final Remarks

- As in the Latin America Workshop, the general conclusion in the Eastern Europe & Central Asia Workshop was that extractive industries are crucial to countries with rich natural resources endowments. However, all the statements call for a reform of the World Bank's activity in this field. The overall scope and direction of these changes remains unclear.
- Problems in the quality of the information presented during the workshops and the lack of background information in the project visit raise questions about the value of conclusions arrived at.
- Industry has changed its involvement in the EIR, from being an observer to taking a more active role.
- Governance and revenue management are increasingly arising as the most relevant points.
- An increase in more rules and requirements affecting access to funding by the extractive sector are a likely expected consequence of this process.
- At this stage, it seems to be clear that many of those involved in the EIR intend to, at least, to impede the development of mining, without taking into account the consequences of such actions on social and economic development.
- Applying restrictions on access to international funds will affect mostly poor countries and companies from poor countries rather than large companies and developed countries who have broader access to private funds.
- The real problem arising from this review is that no other option (in terms of economic activities), are being proposed as alternatives. The extractive industries are currently being carried out in developing countries which have not productive feasible alternatives. It is not realistic to undermine one of the most important sources of development to developing or least developed countries without proposing sustainable alternatives.
- Finally, demands from environmentalists have begun to be part of the anti globalization demonstrations. Last September during the annual WB-IMF meetings, “IMF and WB withdraw from large scale energy and extraction projects” was one of the main slogans used by the protesters.

IV.- Forward Agenda

The next Regional Workshop is scheduled for Africa and will take place in Mozambique or Tanzania, January 13-17, 2003.

The Asia Workshop (originally scheduled for November 19-23 in Bali, Indonesia), has been postponed to March 2003 with a new location to be decided on.

Regarding the project visits, the only confirmed visit to be undertaken is the Chad-Cameroon Petroleum Development and Pipeline Project (October 10 - November 2, 2002). The Chad-Cameroon Project was chosen as it is one of the largest development projects ever undertaken in the region, and one of the biggest investments recently made by the International Finance Corporation IFC. Other projects to be visited are not yet defined. A list of possibilities was listed in the Annex 1 in the previous EIR Information Circular.