

Huge Disaster in the Making?

Oyu Tolgoi Project Briefing

September 2012



OT Shaft 1, March 2012. Copyright © 2012 [MuthuK](#)

What is this project for?

With the national poverty rate hovering just under 40%, the Government of Mongolia has sought to leverage the country's vast mineral wealth in an attempt to stimulate growth. The plan has been generally successful, as Mongolia's GDP has grown nearly 17% from 2010-2011, a third of it based on extractive and mining revenue. The Oyu Tolgoi copper/gold/silver mining complex is the largest single foreign investment project in Mongolia and is a prime example of the government's strategy of mining for development. The mine sits on what is considered to be one of the largest undeveloped copper deposits in the world, and when commercial production begins in early 2013 some expect it to increase Mongolia's GDP by up to 30%.

The mine is located in southern Mongolia in the South Gobi province, or *aimag*, of Omnogovi. Oyu Tolgoi is 34% owned by Erdenes Oyu Tolgoi (a government corporation) and 66% owned by Vancouver-based Turquoise Hill Resources, formerly known as Ivanhoe Mines, and the London-based mining company Rio Tinto, which manages the mine. The mine itself is operated by Oyu Tolgoi LLC, a subsidiary of Turquoise Hill/Rio Tinto and Erdenes MGL. The total project cost is estimated by OT LLC to be \$13.2 billion¹, a significant portion of which will be financed by multilateral institutions such as the World Bank Group (WBG).

¹ Oyu Tolgoi Project IDOP Technical Report, p 450
(http://www.ivanhoemines.com/i/pdf/IDOP_2012Mar29_Tech_Rpt.pdf)

How are the international financial institutions involved?

The European Bank for Reconstruction and Development (EBRD), and the International Finance Corporation (IFC), the private sector lending arm of the WBG, have both proposed funding Oyu Tolgoi LLC as part of a coalition of financial institutions.^{2,3} The package, which is expected to reach up to \$4 billion, is supported by the IFC, EBRD, Export Development Canada, Standard Chartered Bank, BNP Paribas, and US Export Import Bank. In addition to the IFC financing, the Multilateral Investment Guarantee Agency (MIGA, another branch of the WBG) is considering providing risk insurance to the project. The Australian Export Finance and Insurance Corporation (EFIC) has also stated its intent to finance the mine.⁴

- **IFC:** The IFC is proposing a \$300 million A Loan and a B loan of up to \$600 million.

Oyu Tolgoi is classified as a Category A project (significant social and environmental impacts). According to the IFC, the project has triggered seven of the IFC's eight Performance Standards.⁵ Performance Standard 7 was not triggered because the nomadic herders of Mongolia are not identified by the IFC as indigenous peoples,⁶ though the herders strongly dispute this. No authoritative statement has been made by the IFC defining why the South Gobi herders are not indigenous, despite the IFC's commitment to operationalize UNDRIP⁷ beginning in January 2012. The WBG Board of Directors approval date has been set for November 8, 2012.

² Project Summary Document, OT LLC, EBRD

(<http://www.ebrd.com/english/pages/project/psd/2012/41158.shtml>)

³ Summary of Investment Information, OT LLC, IFC

(<http://www.ifc.org/ifcext/spiwebsite1.nsf/ProjectDisplay/SII29007>)

⁴ Category A register, EFIC (<http://efic.gov.au/CORP-RESPONSIBILITY/ENVR-RESPONSIBILITY/Pages/CategoryAregister.aspx>)

⁵ IFC Performance Standards, 2012

(http://www1.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability/Sustainability+Framework/Sustainability+Framework+-+2012/Performance+Standards+and+Guidance+Notes+2012/)

⁶ Environmental and Social Review Summary, OT LLC, IFC

(<http://www.ifc.org/ifcext/spiwebsite1.nsf/ProjectDisplay/ESRS29007>)

⁷ United Nations Declaration on the Rights of Indigenous Peoples

(http://www.un.org/esa/socdev/unpfii/documents/DRIPS_en.pdf)

- **MIGA:** MIGA is offering a \$1 billion political risk guarantee covering investments by Standard Chartered Bank in the Oyu Tolgoi project.⁸

The 15-year guarantee will cover against the risks of expropriation, war and civil disturbance, and breach of contract. The WBG Board of Directors is expected to consider the guarantee on November 8, 2012, at the same time as the proposed IFC loans.

- **EBRD:** The EBRD has not disclosed any specific dollar amounts, but the investment should be equivalent to that proposed by the IFC.

Oyu Tolgoi is classified as a Category A project (significant social and environmental impacts). The project should also trigger eight of the EBRD's ten Performance Requirements⁹, with the exception of PR 7 on Indigenous Peoples and PR 9 on Financial Intermediaries. The approval date has not yet been set for the EBRD Board.

Why should civil society networks take action?

The project poses significant environmental and social risks to the local community in Khanbogd *soum*¹⁰, the closest settlement to the mine, and the nomadic herders who live on or near the land covered by Oyu Tolgoi's mining license in Javhlant and Gavliut *baghs*¹¹. Water resource management remains the primary concern of the community in the fragile and arid Gobi Desert ecosystem. While the company maintains that the water contained in the Gunii Hooloi deep aquifer will be sufficient for the current mining operations and will not impact the wells used by the nomads and citizens of Khanbogd, there is no information about where the water for

⁸ Summary of Proposed Guarantee, OT LLC, MIGA

(<http://www.miga.org/projects/index.cfm?pid=1184>)

⁹ EBRD Performance Requirements

(<http://www.ebrd.com/pages/about/principles/sustainability/requirements.shtml>)

¹⁰ Second-level administrative division or district (subset of aimag)

¹¹ Smallest rural administration unit (subset of soum)

daily use by the mine workers, the planned airport, a coal-fired power plant and other associated facilities will come from. The government has proposed diverting several fragile watersheds to alleviate the lack of water in the Gobi, but these carry their own risks, including transboundary impacts that could negatively impact on international lakes not only in Mongolia, but in Russia and China as well.

Concerns have also been raised over the loss of mining revenues to foreign interests, especially to China. For instance, most of the minerals extracted will likely be exported immediately to China for manufacturing after being condensed on site. The company is also currently in negotiations with the Chinese to import electricity for the mine, but Oyu Tolgoi will have to build a 450 MW coal power plant to fuel the huge complex within four years to meet its contractual obligations to the government. This power plant poses another problem in and of itself.

Other emerging problems with the project include lack of transparency and appropriate consultation, involuntary resettlement and loss of livelihood, threats to biodiversity, public health and safety, labor issues, and the need for cumulative impact and cumulative risk assessments. For more details, please see the Oyu Tolgoi problem project page and the earlier field studies conducted by USAID and a coalition of NGOs available on the Bank Information Center's website.¹²

What actions are being initiated?

- **ESIA Review:** Oyu Tolgoi LLC released an English version of the Environmental and Social Impact Assessment (ESIA)¹³ for the project on its website during the weekend of August 20. IFC and MIGA subsequently disclosed their project information documents on August 23, while the EBRD project information document was not disclosed until September 5. The ESIA had been pushed back since December 2011 for review, but its disclosure begins the 60 day consultation process with stakeholders. A *pro bono* call was put out to colleagues on the project for help in assessing the ESIA. Priority sections include environmental assessment,

hydrogeology, biodiversity, involuntary resettlement and land acquisition, pollution, and labor. It is important to note that the ESIA only covers the construction phase of the project, which is already 90% complete. The operations phase is due to begin in late 2012.

Timeline:

- September 18: Short list of concerns and recommendations for Sukhgerel Dugersuren (OT Watch) and Vlada Martsynkevych (CEE Bankwatch) to take to their meetings in Europe.
 - Late September – October 8: Full report of review submitted to the EBRD and the IFC.
 - October 12: Deadline for comment submission on the project at EFIC, which benchmarks projects against the IFC Performance Standards.
- **Complaint Mechanism:** Both the IFC and the EBRD have accountability mechanisms which can be used as a complementary tool in an advocacy campaign. The Compliance Advisor/Ombudsman (CAO)¹⁴, the IFC accountability mechanism, reacts relatively quickly to complaints and would be the best place to start for any potential complaint. The Project Complaint Mechanism (PCM)¹⁵ at the EBRD tends to be less immediately responsive, but may still prove useful. In the event of a complaint, a letter signed by an individual, group, or community that is impacted by the project, or by an organization representing the affected community outlining the environmental and social harms of a project funded by the financial institution involved may be submitted.
 - **Tokyo Annual Meetings:** The World Bank/International Monetary Fund Annual Meetings will be held from October 12-14 in Tokyo this fall. Members of OT Watch and Bank Information Center will be attending these meetings.

¹² Oyu Tolgoi Copper/Gold/Silver Mine, Bank Information Center (<http://www.bicusa.org/en/Project.10530.aspx>)

¹³ Overview, ESIA, OT LLC (<http://www.ot.mn/en/about-us/environmental-social-impact-assessment>)

¹⁴ Office of the Compliance Advisor/Ombudsman, IFC (<http://www.cao-ombudsman.org/>)

¹⁵ Project Complaint Mechanism, EBRD (<http://www.ebrd.com/pages/project/pcm.shtml>)



Oyu Tolgoi Concentrator Complex. Copyright © 2012 Rio Tinto

How can you help?

- Assist in reviewing the ESIA.
- Submit comments to the Australian EFIC.
- Submit comments/requests related to the project to your concerned Ministries (IFI departments) and your Executive Directors at the WBG and the EBRD.
- Arrange meetings with your government and IFI representatives to reinforce the demands of the affected communities.

Civil Society Contacts

EU

Vlada Martynkevych
CEE Bankwatch Network
Tel: +380 44 353 78 42
Email: vladlena@bankwatch.org

Richard Harkinson
London Mining Network
Email: research@londonminingnetwork.org

Mongolia

Sukhgerel Dugersuren
OT Watch
Tel: +976 99 185 828
Email: otwatch@gmail.com

USA

Sarah McNeal, Jelson Garcia
Bank Information Center
Tel: +1 202 624 0622
Email: smcneal@bicusa.org;
jgarcia@bicusa.org

Sarah Singh
Accountability Counsel
Tel: +1 415 296 6766
Email: sarah@accountabilitycounsel.org