

# mining



Yanacocha gold mine in Peru.

Issue 104

## hands off!

why international financial institutions  
must stop drilling, piping and mining



**Friends of  
the Earth**  
International



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*Friends of the Earth asks the World Bank to stop funding oil, mining and gas projects at its September 2000 meeting in Prague.*

## hands off!

foreword by ricardo navarro, chair, friends of the earth international



As 2003 drew to a close, the streets of Bolivia were crowded with people full of outrage and despair. They were protesting against the export of their national gas reserves. Bolivians are among the most impoverished people in the world, and many lack basic services like water and energy. Yet the World Bank and other International Financial Institutions are overseeing the privatization and exportation of the country's resources, leaving misery in their wake.

Uprisings like the one in Bolivia have been happening all over the world. Communities no longer accept the imposition of a development model that has proven beneficial predominantly to the world's transnational corporations. Large-scale oil, mining and gas operations have created misery among communities, ravaged the environment and are contributing to dangerous climate change. International Financial Institutions are playing a major role in supporting these industries and this devastation with public money.

In 2000, convinced that this vicious cycle needs to stop, I confronted World Bank President James Wolfensohn, on behalf of Friends of the Earth International, with the tragic impacts of the Bank's investments in oil, mining and gas. He responded that he would assess whether the Bank should have a future role in the sectors. This resulted in the Extractive Industries Review, which is coming to a close as this report is being published at the end of 2003. The Review recommends an end to World Bank financing of coal and oil, and greater involvement of communities in decision making. It is important that the World Bank and other International Financial Institutions adopt these recommendations, and in addition take firm steps towards a phase out of large scale mining.

Friends of the Earth International, in cooperation with communities on all continents, has a long history of campaigning on mining and financial flows. This publication is our own Extractive Industries Review. We think that the answer is crystal clear: International Financial Institutions need to phase out their investments in the harmful fossil fuel and mining sectors as quickly as possible. There has to be an end to the public subsidization of the corporate oil, mining and gas industries at the expense of people and the environment.

Communities around the world have proposed many alternatives that could take us towards equitable and sustainable societies, and we challenge the world's governments to redirect their support towards such initiatives. At the same time, we call upon people everywhere to think critically and creatively about what we really need to consume and produce.

Friends of the Earth International believes that it is time for International Financial Institutions and the countries that govern them to abandon their archaic orientation towards export-led growth and start respecting the diversity in the world. Phasing out investment in the extractive industries would be an important step towards achieving that goal.

# hands off!

why international financial institutions must stop drilling, piping and mining

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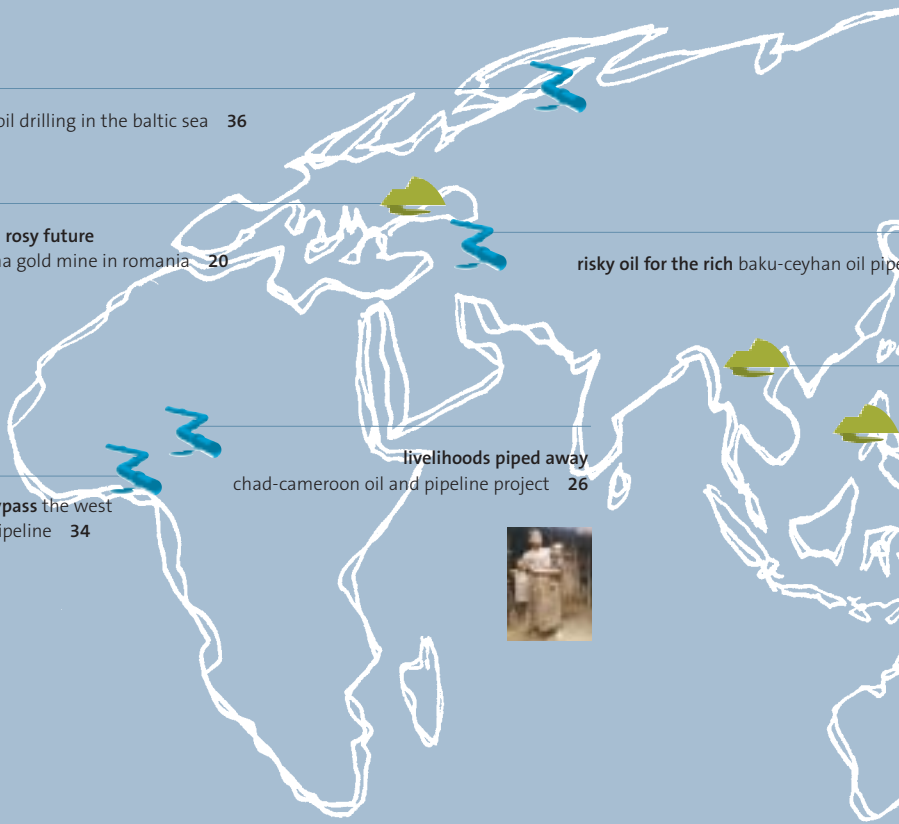
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risky oil for the rich baku-ceyhan oil pipe



© esita fields, fce.us



© rod harbinson



mining



pipng/drilling



Women hulling corn,  
Luang Prabang, Laos.



© rodharbinson

© janneke bruij

## introduction

For many of us, it is unthinkable to go through a single day without the comforts provided by fossil fuels, metals and minerals. Almost everything that we do or use has some connection with oil, gas and minerals: homes, food, drinks, clothes, pots, knives, plates, pencils, pens, paper, plastic, glass, cars, trains, airplanes, guns, bullets, computers, telephones, televisions, refrigerators, freezers, factory equipment, farm implements, needles, thread, toothpicks...The list is endless.

Production and consumption of these goods happens at a great cost. Although the comforts they provide are taken for granted by many, sustaining their cheap availability has come at a huge expense for others. In the name of development, International Financial Institutions (IFIs)<sup>1</sup> use taxpayer money to support the exploitation of oil, gas and mineral resources.



International Financial Institutions have pressured governments in poor countries to rigorously open up to foreign investment in the extractive industries, and have channeled billions of dollars directly to large transnational corporations (TNCs) to finance the construction of drilling platforms, pipelines and large-scale mines. While the external debt continues to grow and on the ground development benefits have yet to materialize, the coal, oil, gas and minerals are exported out of the country. This export-led development paradigm has been devastating for local communities: poverty is soaring, and ecosystems are ravaged. Corporations, which rake in large profits, benefit the most from this lopsided arrangement.

It seems paradoxical that many of the nations that are rich in natural resources are poorer in monetary terms than are countries with scanty resources. Less-developed, resource-abundant countries are forced to trade away their natural wealth and to bear the adverse effects of the extractive industries. These countries have become mere sources of

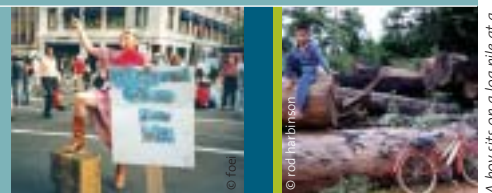
Yet all of this is contrary to what International Financial Institutions are mandated to achieve. It is the mission of IFIs to alleviate poverty and contribute to sustainable development. The donor governments that direct the investment of these institutions have all committed to eradicating poverty. The evidence that financing oil, mining and gas projects has no place in this mission is overwhelming.

While Friends of the Earth International understands that the extraction and consumption of oil, gas, and minerals cannot end from one day to the next, we feel the need to question current production and consumption patterns and how they relate to the world's real needs. For example, about 84% of the gold currently being mined is made into jewelry.<sup>2</sup> Friends of the Earth International believes that we will only achieve socially just and environmentally sustainable societies by dramatically changing our consumption patterns.

Communities all over the world are voicing their concerns about the plundering of their resources and the lack of benefits they receive. The Pacific island of Bougainville, for example, has suffered through a horrific war over a foreign-owned gold mine that decimated its population. Even more recently, many Bolivians died in mass riots against the export of the country's gas reserves.

Confronted with the enormous adverse effects of oil, mining and gas projects, Friends of the Earth International believes that public funding should not support the interests of extractive industries but should only be used for projects that clearly and immediately benefit the marginalized. Therefore, we are calling for a gradual phase-out of IFI lending for fossil fuel and mining projects and programs. IFIs should also take responsibility for the legacies they have left behind around the planet, through the rehabilitation of degraded areas, the payment of reparations to impacted communities, and the provision of transition assistance for workers after project closure.

Demonstrations at the World Bank Annual Meeting in 2002.



A boy sits on a log pile at a sawmill in Sepon, Laos.

## “We are very rich ... That is why we are so poor.”

Title of a poem by Nnimmo Bassey, Friends of the Earth Nigeria.

cheap labor and raw materials, and rarely have the opportunity to add value to create revenues that remain at home. IFI involvement in these countries has not led to poverty alleviation or increased people's opportunities to carve out sustainable livelihoods. Quite the opposite: investment in the extractive industries has destroyed the natural resource bases upon which the survival of human beings depends.

Finally, Friends of the Earth International proposes that funds intended for sustainable development be dedicated to financing decentralized and participatory initiatives that truly benefit people and the environment, for example in the area of renewable energy for sustainable societies.

1] When we refer to IFIs in this publication, we mean all multilateral development banks and bilateral export credit agencies (see glossary page 43). The case studies in this publication focus only on financial support from public financiers.

2] Only 4% of the mined gold is used for coins and medals, 6% for electronic equipment, 2% for odontological purposes and 3% for other industrial and decorative uses, according to 1997 data from the Costa Rican Ecological Association AECO-AT. According to Project Underground, central banks and IFIs hold more than 34,000 tons of gold, which is more than 13 times the annual production of the world's mines and which if sold, could satisfy gold demand for more than 8 years.



## stifling dissent

colombia's mining law



In early November 2003, Colombian miners' union leaders called upon the world for support. The World Bank, mining multinationals and the Colombian government led by Álvaro Uribe Vélez ordered the total liquidation of the state mining sector, giving companies free reign to snatch up the country's natural resources. Mineworkers are fiercely opposing this development, which makes their already vulnerable situation even more perilous.

The mining industry has dramatically transformed Colombian society. Before colonization, indigenous communities used minerals carefully – for ceremonial purposes, for war, and for medicine. During the Spanish invasion in the early 19th century, minerals and metals were plundered, smelted and exported to Europe. This exploitation launched the decimation of aboriginal populations in mining regions.

*“Because of the death threats and the disappearance of my brother, we were forced to leave our parcel, again leaving all that we had built up in all that time. I was left with nothing except a lot of grief and sadness for the loss of my family.”*

Elvia Quiroga, whose brother Edgar was one of the hundreds of mine worker's leaders who disappeared in recent years in Colombia.

corporations

anglo american [united kingdom/south africa]  
bhp billiton [australia]  
and many other mining corporations

With the entry of International Financial Institutions onto the scene in the 1990s, natural resource exploitation intensified. In 1995, the World Bank imposed new mining legislation on Colombia and other countries in the region. The Colombian laws were drafted by the same firm retained by Santa Fe, the oil corporation owned by then-President Pastrana. The new laws cemented the privatization of state regulatory agencies, changed the definition of “ownership” of natural resources, transferred environmental control from the state to corporations, increased labor flexibility, and transferred conflict arbitration to tribunals operating outside of the country.

Mining projects jeopardize the livelihoods of Colombia's U'wa indigenous people.



#### financier structural adjustment programs from the world bank

These changes were accompanied by an alarming increase in applications for mining concessions. They have also led to increased poverty in the mining regions of the country, partly due to the unequal distribution of the mere 0.4% of royalties that mining companies are obliged to pay to the state.

In 2003, the World Bank ordered President Uribe Vélez to sell the national mining company, MINERCOL. This privatization will effectively abolish any lingering control retained by social organizations to help them avoid dangerous mining contracts. The fate of Colombia's mine workers will rest solely with the multinationals, many of which have seriously tarnished human rights records.

#### rights violations

Mining interventions in Colombia have been accompanied by grave violations of economic, social, cultural and human rights, and the changes pushed for by the World Bank have deepened the misery of people living in mining regions. According to studies on social exclusion from the Contraloría General de la República, the 'misery index' in mining areas is now at 64%, while unemployment in some mining regions is around 50%.

The human rights situation in Colombia is one of the worst in the world. According to Amnesty International, 90% of Colombian human rights violations take place in mining and petroleum districts. There have been 433 massacres in 8 years in these regions. In the six mining departments, homicide has risen by more than 450% since 1995. Mine workers are among the most affected: 42% of the

human rights violations of workers happen in the mining sector where, on average, one union leader is assassinated every month.

Mining unions in Colombia are demanding that the government stop accepting human rights abuses and military violence against unarmed populations, workers and union leaders in its eagerness to smooth the way for foreign mining companies. Furthermore, these corporations, which include Anglo American and BHP Billiton, must immediately abstain from acts of violence and operations that sabotage the country's sovereignty and sustainability. Finally, the unions demand that the World Bank suspend its interference in national legislation, and launch processes to repair the impacts of its policies on the people of Colombia.

*more information:*

*Friends of the Earth Colombia: [www.censat.org](http://www.censat.org)*

*“Yes I can remember that day. Two children drowned when the spill happened because of the flooding. [...] Because of that spill our livelihood has gone. The river became poisonous and toxic. The animals used to drink from the river but now if they do they are dead by morning. We are having a hard time getting water for the animals. The spill and the toxicity of the water also affect the irrigation of our crops so they do not produce as much as they did before.”*

Community resident talking about the 1993 Mogpog disaster on Marinduque Island.

case study two

corporations placer dome [canada]

## lost rivers, lost lives

marcopper spill on marinduque  
island, the philippines

On December 6th 1993, the mine siltation dam on the Mogpog River on Marinduque Island in the Philippines was overwhelmed by floodwaters and burst. A toxic deluge swept through the valley, submerging villages, farmland and the town of Mogpog where two children were swept to their deaths.

Ten years on, affected residents have not received compensation either from the Marcopper copper mining company or from its biggest shareholder, the Canadian mining giant Placer Dome. The response of the Asian Development Bank, which had facilitated Marcopper with a total of US\$40 million in loans for the mine on the strength of a Placer Dome guarantee, was to chase after its money and ignore the plight of the people of Marinduque.

### lost rivers, lost lives

The legacy of that day remains profound. The Mogpog River winds through lush tropical forest and once plentiful farmland. Previously the centre of social activity, food and livelihood, residents have learned through rashes, sores, sickness and death to stay clear of the river's toxic waters, which are still a multicolored cocktail of chemical waste in which nothing lives. “This place was paradise before Marcopper arrived,” said Manong Fred of Magapua village, as he described how the floods had washed away his ground floor kitchen and poisoned his crops.

Unbelievable as it may seem, the spill was neither the first nor the last on the island. Calancan bay had previously been poisoned by 84 million tons of waste sludge ‘tailings’ dumped there between 1975 and 1988. When the furore by local residents finally put an end

*Upstream from Mogpog town  
the poisoned river runs  
multicolored with toxins. In  
the background lie the remains  
of one of many failed dams  
constructed by the Marcopper  
mining company.*



© rod harbinson

Toxic water flows down the siltation dam overflow which was created to prevent the dam bursting again after the 1993 disaster. Independent inspections indicate that the new dam is again in danger of collapse.



© red herring

### dangerous times for mining activists in the philippines

International Financial Institutions have been instrumental in establishing 'a favorable investment regime' in the Philippines. The Philippine Mining Act of 1995, adopted under pressure from the Asian Development Bank, allows big corporations to exploit up to 81,000 hectares per application and to file multiple applications. They can operate for up to 25 years, with the possibility of renewal for another 25 years. The agreement gives corporations the full rights to the use of timber and water resources within the mine site, depriving local communities of access to basic resources. Other incentives include tax holidays for up to six years, duty-free importation of capital equipment, repatriation of capital and profits, remittance of loans and contract obligations, guarantees against expropriation, requisition of investment and full confidentiality.

The Mining Act has led to a massive influx of mining corporations. Mining operations in the Philippines take place in a context of militarization and human rights violations. Since April 2001, at least 30 unarmed civilians have been killed, reportedly by members of Citizens Armed Forces Geographical Unit (CAFGU) or the Armed Forces of the Philippines (AFP). They include at least three people who were members of the prominent human rights organization Karapatan. At least 27 other activists, most of whom were members of the opposition party Bayan Muna, have also been killed according to the Special Rapporteur of the United Nations Commission on Human Rights.

The government of the Philippines formulated its national mineral policy in December of 2002 under its international commitment for sustainable development. However, the policy simply promotes "self-regulation and non-regulatory approaches to environment protection." While it mentions the 'polluter pays principle', it merely requires a payment of fifty pesos (US\$1) per ton of unauthorized release of tailings into the environment. The policy does not uphold the rights of communities to reject mining operations in order to maintain community peace and harmony.

financiers [asian development bank](#) | [japanese bank for international cooperation](#)

to this practice (outlawed in Placer Dome's home country Canada), the mining company started using the disused Tapian mine pit as a 'temporary' way to contain its waste without undertaking any environmental assessments.

In March 1996, sludge tailings started leaking from a badly plugged drainage tunnel from Tapian pit into the Makulapnit and Boac Rivers. Over the next five days, three million cubic metres of sludge tailings had completely clogged the rivers, killing all aquatic life. A United Nations expert assessment mission declared that the "Makulapnit and Boac River system has been so significantly degraded as to be considered an environmental disaster". Investigation into the toxic spill revealed that Placer Dome had ignored industry standards, expert advice, environmental laws and government directives.

### compensation woes

In 1997, Placer Dome attempted to dodge its creditors and liabilities by transferring its Marcopper shares to MR Holdings, a shadowy company it registered on the offshore tax haven of the Cayman Islands. Later, it transferred ownership of all Marcopper's assets to MR Holdings including the mining rights – with the intention of re-opening the mine once the fuss has died down.

Frantic not to see its loan vanish into compensations for disaster victims, the Asian Development Bank twisted arms in order to receive its money from MR Holdings. With Marcopper effectively bankrupt, Placer Dome and MR Holdings are playing hard to find. On several occasions, LRC-KSK/Friends of the Earth Philippines has unsuccessfully tried to serve a court summons on the companies' 'letterbox' offices in Manila.

Villagers are in agreement about their priority of getting the river rehabilitated. One of the plaintiffs at Candahon village said "I think that Marcopper and Placer Dome should rehabilitate all damage that they have caused and restore the river to the state that it was in before they came. They should compensate everyone that they caused damage to." What the villagers want is modest: payment for the loss of their animals, crops and possessions. Most of all, however, they hope for the rehabilitation of their lost river.

more information:

*Friends of the Earth Philippines:*

[www.lrcksk.org](http://www.lrcksk.org)

*Mines & Communities:*

[www.minesandcommunities.org/Company/placerdome1.htm](http://www.minesandcommunities.org/Company/placerdome1.htm)



# the impacts of fossil fuel and mining operations

Affected communities provide sobering testimonies and well-documented evidence that many IFI-funded projects cause environmental disasters and intensify social conflicts, rather than contributing to the creation of peaceful, equitable and environmentally sustainable societies. Through the large-scale pollution of land, air and water, people lose their livelihoods and develop health problems. In addition, fossil fuel and mining operations are often associated with severe human rights violations.

case study **three**



## toxic rivers, poisoned fish

sepon gold mine in laos



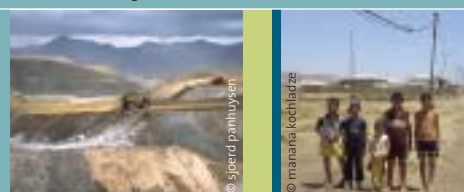
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corporations

rio tinto [australia]  
oxiana ltd [australia]

In December 2002, the first gold was poured from the Sepon mine in southern Laos, near the Vietnam border. Australian mining company Oxiana Ltd., backed by a 20% stake from mining giant Rio Tinto, has been quick to establish the gold project, and has its sights set on rapid expansion in order to extract the much bigger copper deposits nearby.

With half of its tropical forests still intact, Laos is a country of outstanding biological importance, made more so by the rapid recent disappearance of neighboring tropical forests throughout the Southeast Asian region. The many rivers, fed by the forests and monsoon rains, flow into the mighty Mekong River and provide an essential source of fish, farmland irrigation, and drinking and bathing water to millions of people.



© sjoerd panhuysen

© manana kochladze

Communities that will be affected by the proposed Baku-Ceyhan oil pipeline.

There is a growing worldwide movement demanding the recognition of these cumulative negative impacts, which are also referred to as the 'ecological debt'. In the context of the extractive industries, the ecological debt refers to the plundering by industrialized countries of fossil fuel and mineral resources, leaving behind a trail of degraded forests, contaminated air and water, divided communities and diminished biological diversity. The responsible governments and International Financial Institutions need to acknowledge their ecological debt, rehabilitate or compensate for the damage they have caused, and transform their actions in the future.

**financing the loss of livelihoods**

Extractive industries place a heavy burden on their surroundings throughout the course of their operations. Land, water, air and the environment are polluted through chemical waste discharge, spills, gas flaring, dust generation and the dumping of wastes.

Chemical, oil and wastewater spills are among the worst possible environmental accidents. They are often the result of companies sacrificing safety measures in order to cut costs, putting people and the

environment at an extremely high risk. Between 1998 and 2000, three serious chemical spills occurred at the Kumtor gold mine in the Kyrgyz Republic in Central Asia. The spills poisoned more than 3,000 people, and the number of people who died as a result is yet to be determined. Kumtor officials and the World Bank's International Finance Corporation refuse to divulge the extent of damage caused by the disaster.

The people living in the vicinity of mining sites are plagued by diminished access to clean drinking water, affected crops and sick animals. And these threats to their livelihoods do not evaporate when the operations terminate. When an oil, mining or gas project ends, the surrounding lands are contaminated, water sources polluted, and forests cut down.

Generally, the women in mining communities are the most disempowered through the pollution of natural resources that inevitably accompanies extractive projects. Women, who are often in charge of food provision through agriculture or the collection of forest products, are regularly forced out of their traditional economic roles when natural resources are contaminated or no longer available. Women, in particular, are also more susceptible to water pollution due to the critical role that water plays in daily household routines. In

financiers the european investment bank is considering a loan | export finance insurance corporation [australia]

**cyanide sludge scenario**

The Oxiana goldmine uses a process called 'cyanide heap leaching'. This entails crushing the mined rock and pouring cyanide solution over it to extract the gold particles. The millions of tons of leftover sludge, known as 'tailings', contain a toxic cocktail of cyanide compounds and dangerous heavy metals such as mercury, cadmium and lead. Effluent from the process is dumped into the Nam Kok River, a tributary of the Mekong with high aquatic biodiversity.

**livelihoods lost**

Of the 262 species of fish found in Laos, 135 live in the Nam Kok River, along with at least four turtle species, one of them endangered. Three of the fish species are on the IUCN endangered red list. This high incidence of

biodiversity compares with 36 species of fish found in the whole of the UK. For the local people, fish provides an essential food source, accounting for up to half of their protein intake.

Concern is mounting about the impact the mine wastes will have on the river. The aquatic studies carried out by Oxiana are simplistic, and the level of monitoring suggested is inadequate. But beyond this, there is no suggestion of remedial action to be taken should it be found that mine discharges are negatively impacting the health of fish and the people that eat them. Even worse, there is no comprehensive plan of action in the event of a major waste spill, as so commonly occurs at mine sites.

Two villages have been moved to make way for the mine, and the traditional cultivation and sacred ancestral sites of the Lao Theung

indigenous people have been destroyed without adequate 'land for land' compensation. Instead, they are being forced to give up their traditional shifting cultivation practiced over millennia and adapt to settled farming.



© rodr harbinson

Road improvement for the Sepon mine, Laos.

addition, women have little control over or access to the financial benefits of the development of oil and mineral reserves. They become dependent on the wages of men, who are more likely to find jobs at the mine or drilling site. Men, however, often fall into the trap of spending money on alcohol and gambling. The end result is that women lose decision-making power, and the household is left with less cash for food and other necessities.

Case studies in this publication and elsewhere clearly illustrate the destruction of natural resources. For example, the contamination and disappearance of fish is a well-known phenomenon around mine sites. In Laos, where the Australian mining company Oxiana is currently developing the Sepon gold mine with the likely support of the European Investment Bank, mercury is discharged into streams leading to the Nam Kok River. Local fishermen fear mercury poisoning, and complain of a severe reduction in the variety and volume of fish (see case study page 12).

In another example, one of Georgia's main export products is bottled water from the Borjomi reserve. However, local people have well-founded fears that the Baku-Tbilisi-Ceyhan pipeline, which will cut through the area and which several International Financial Institutions have recently decided to support, will pollute their water (see case study page 38).

Communities do fight back. The struggle in Tambogrande provides a good example of the clashing interests of an agricultural community and a gold mining company. In the 1950s, the San Lorenzo Valley in Peru received World Bank support for an irrigation project that turned dry desert into fertile farmland that now supports 20,000 people with its mango and lime production. Ironically, the World Bank has recently been asked by a Canadian mining company to support a cyanide-based open pit gold mine in the middle of the valley. The project, referred to as the Tambogrande Gold Mine, would be worth US\$240 million and would have a life span of ten years. Aware of the likely environmental and social impacts on their agriculture, farmers and residents are fiercely opposing the proposed gold mine through popular referenda, blockades and manifestations.<sup>3</sup>

### case study three

#### seeking cash for gold and copper

In 2002, The World Bank's International Finance Corporation offered US\$30 million to support the Oxiana project, but the company declined the offer in favor of financing from European banks with fewer conditions attached. The European Investment Bank (EIB) is currently considering a loan of 60 million Euro for the copper expansion. Australia's Export Finance Insurance Corporation has already provided financial support. Laos, a single-party Communist state with very few avenues for democratic participation, is not exactly a model of good governance. The EIB, however, gives little regard for human rights and civil liberties considerations.

The copper mine would produce 36 million tons of waste, and would use sulphuric acid to extract the copper. The resulting problem is that when the waste rock is exposed to air, the

acid it produces commonly leaks out of mines and contaminates water sources.

The gold project alone is projected to extract gold worth \$1 billion, with the sums for the copper project much larger. However, due to the corporate, staff and income repatriation tax breaks negotiated by Oxiana with the Lao government, only around 1% of the profits will remain in the country. The rest will flow abroad to Oxiana executives and shareholders in rich countries.

In twelve years time, the mine will be exhausted. It will leave behind a ticking time bomb of toxic waste which if not properly contained, maintained and monitored for years to come could cause catastrophe. Independent mining specialists have registered surprise at the lack of planning and financial commitment by Oxiana for mine rehabilitation and closure. The worry is that

once Oxiana has siphoned off the mineral wealth of Laos, it will skip the country, leaving its toxic legacy for one of the poorest countries in the world to cope with.

more information:

Aid/Watch Australia: [www.aidwatch.org.au](http://www.aidwatch.org.au)

Friends of the Earth International:

[www.foei.org/publications/pdfs/laos.pdf](http://www.foei.org/publications/pdfs/laos.pdf),

[www.foei.org/cyberaction/laos.php](http://www.foei.org/cyberaction/laos.php)

ECA Watch: [\[watch.org/eca/race\\\_bottom\\\_take2.pdf\]\(http://watch.org/eca/race\_bottom\_take2.pdf\)](http://www.eca-</a></p></div><div data-bbox=)

A village on the road to the Sepon mine basecamp.



A local woman passes a mine mill head on a truck bound for the Oxiana goldmine site.

3 | For more information, see [www.tambogrande.org.pe](http://www.tambogrande.org.pe) and [www.foei.org/ff/tambogrande.html](http://www.foei.org/ff/tambogrande.html).

### financing danger and poor health

The extractive industries are among the most hazardous industries in the world. Workers are constantly exposed to dangerous chemicals, explosives, heavy equipment, noise, dust, and toxic waste, often without being informed about the dangers they face. This is particularly dangerous for pregnant women, who are especially vulnerable to noise and pollution. Many workers have died in explosions, collapses, landslides and floods. Some companies do not provide adequate protection (safety boots, gloves, goggles, hard hats, etc.) for their workers, and mine jobs are often insecure, poorly paid, and without insurance benefits or bonuses for performing hazardous work.

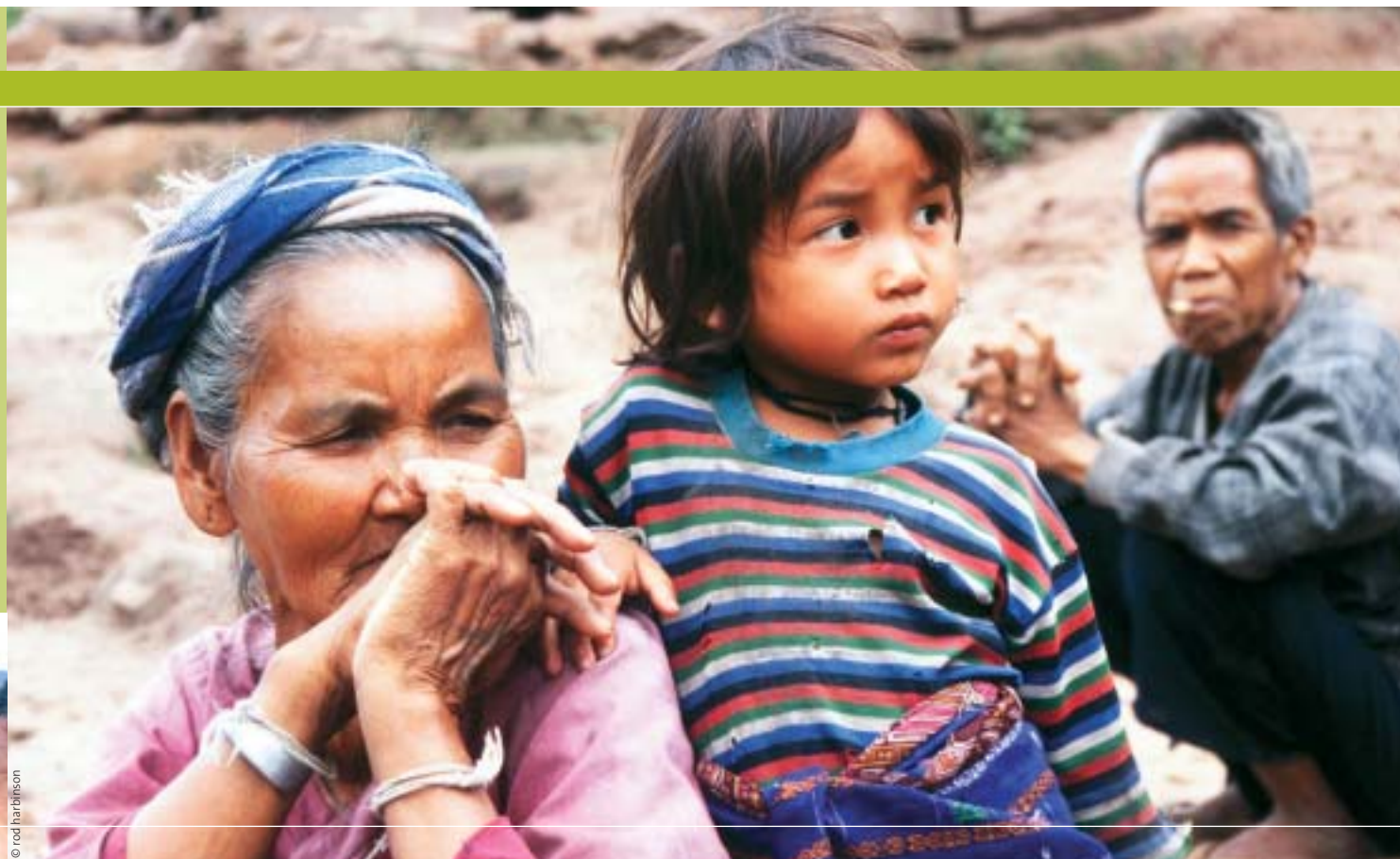
Women also suffer from an increased risk of HIV/AIDS and other sexually transmitted diseases as a side effect of the extractive industries. Mining and construction operations attract new workers, mostly young men, into the area. Unruly behavior, alcohol-related incidents, gambling and abuse of women are common around project sites. Additionally, dislocation and loss of livelihood force women, including very young girls, into prostitution (see case study page 22). Many do not know how to protect themselves from sexually transmitted diseases, which are as a consequence spreading very rapidly. AIDS, for example, is rampant in many extractive industry towns. In spite of this, International Financial Institutions have no guidelines to address HIV/AIDS prevention.

### financing militarization and human rights abuses

International Financial Institution involvement in extractive industries is frequently associated with political and economic instability, corrupt government officials, dictatorial regimes, and human rights abuses. Claiming that they are non-political actors, IFIs do not take these situations into account and have no human rights standards to guide their involvement. However, in countries like these, the projects ignite social unrest and fuel armed conflict due to fierce competition over control of resources and revenues.

Authoritarian regimes and dictatorships have a legacy of supporting the extractive industries, and vice versa. The hiring of paramilitary units or company security personnel results in abuses and human rights violations and escalates existing armed conflict. Here again, IFIs have no security and human rights guidelines, but instead state that they are non-political institutions and cannot influence these situations.<sup>4</sup>

One case of blatant human rights abuses related to the mining industry is taking place on the island of Mindoro in the Philippines, where opposition activists are considered political extremists and therefore targeted by military operations. Recently, in just over two years, more than 20 community leaders and environmental and human rights activists who were opposing mining projects were brutally murdered.<sup>5</sup> The Philippine government has not ordered an independent investigation into the death of these leaders (see page 10).



4 | For more information, see [www.tambogrande.org.pe](http://www.tambogrande.org.pe) and [www.foei.org/ff/tambogrande.html](http://www.foei.org/ff/tambogrande.html).

5 | Amnesty International ASA Index 35002/2003: Killings and disappearances of opposition activists, [http://people.freenet.de/ai-philippinen/Killings\\_jan03\\_infoteil.doc](http://people.freenet.de/ai-philippinen/Killings_jan03_infoteil.doc).

### financing the marginalization of indigenous peoples

Indigenous peoples are particularly vulnerable to mining and extraction because it disrupts their culture, the very basis of their survival. Indigenous peoples' ways of life are rooted in traditions closely linked to the cycles of the natural environment, and handed down from generation to generation. The operations of companies engaged in mining and fossil fuel extraction break these links by destroying the forests, defacing the land, poisoning the air and water, and erasing cultural identities, thereby pushing indigenous people to the brink of physical extinction. The imposition of mining, drilling and piping in indigenous territories violates the International Labor Organization's Convention 169 on Indigenous and Tribal People.

In Papua New Guinea, for example, the introduction of money that accompanied the influx of mining corporations has led to a fundamental change in societal relations. People formerly relied on a social security system based on the free provision of goods and services, with an understanding that these would be returned when needed. The handing over of money after an exchange of goods makes an abrupt ending to personal transactions, and in some non-monetary societies, the traditional security system is rapidly losing value as mining operations gain ground (see case study page 30). As companies do not recognize the religious and spiritual connections of people to their environment, they disrupt a cultural system that is based on respect for trees, land and water. They take away people's lives of dignity and replace them with existences of ongoing humiliation and deprivation.

Finally, mining threatens the health and lives of previously isolated indigenous peoples due to their lack of resistance to disease. For example, the Camisea gas project in Peru already wiped out 42 percent of the Nahua population through the introduction of diseases like the flu. For many indigenous peoples, the only accessible and acceptable health remedies are the medicinal plants in their natural environment, which are in turn endangered by drilling, piping and mining.

case study four



corporations

halliburton [usa]  
hunt oil [usa]  
pluspetrol [argentina]

## paradise trashed

peru's camisea project

*A traditional elder from the Shivankoreni indigenous community, Peru.*



*"We will in no way sell our Mother Earth. To do so would be to give up our work of collaborating with the spirits to protect the heart of the world, which sustains and gives life to the rest of the universe. It would be to go against our own origins, and those of all existence."*

**Statement of the U'wa people of Colombia, August 1998.**

*"The conditions of negotiation with transnational companies are always disadvantageous for our country. They are the ones who impose the economic conditions that regulate them. For us as indigenous communities everything is lost: our land, our capacity to negotiate, our culture, our security. We remain with a damaged environment and exhausted natural resources."*

**Armando Valbuena Wouriyu, National Indigenous Organization of Colombia, 2003.**

*"Before the mining operation, our livelihood was so beautiful. The river that we drink, wash and [use for] laundry was always clean naturally. The air we breathed was so fresh naturally and the roads without dust. But now, as the mine began, my people have been badly destroyed. Their lives and our environment, our trees, rivers and animals are no longer looking good as before. The indigenous people, women, children, travel miles and miles in search of fresh water to drink, food to eat, and materials for shelter."*

**Indigenous woman living near the notorious Ok Tedi mine in Papua New Guinea, which was supported by the Australian export credit agency EFIC. She does not want to be identified for fear of her safety.**



financiers inter-american development bank

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Peru's Camisea gas project is currently the most damaging project in the Amazon Basin. Located in the remote Urubamba Valley in the southeast Peruvian Amazon, the US\$1.6 billion project includes two pipelines to the Peruvian coast that cut through an Amazon biodiversity hotspot considered by ecologists as "the last place on earth" to drill for fossil fuels. Nearly 75 percent of the gas extraction operations are located inside a state reserve for indigenous peoples – living with little or no contact to the outside world – who have been forcibly contacted by the Camisea consortia in violation of their internationally recognized rights. The pipeline will also cut through one of the world's most pristine tropical rainforests, home to the Nahua, Kirineri, Nanti, Machiguenga and Yine indigenous peoples. A gas processing plant is being built on the Peruvian coast within the buffer zone of a marine reserve of international significance.

*Massive turbidity from erosion enters the Urubamba River from a river flowing from areas of pipeline construction, Peru.*

The two major US companies involved in the project are Halliburton and Hunt Oil, both of which have longstanding ties to the Bush-Cheney administration. For the final phase of the project, Halliburton is in line to build the gas processing plant, and Texas-based Hunt Oil will construct a plant to liquefy natural gas for export to the United States. Half of Camisea's gas will be shipped to the US to supply West Coast energy markets. This flood of cheap gas could undermine California's renewable energy initiatives.

Awarding a concession for the project was a prerequisite for Peru to receive loans in the 1990s from the International Monetary Fund. Now, the project is racing forward to meet its August 2004 deadline for completion. Led by Argentina's PlusPetrol, inexperienced companies with poor environmental records have plowed ahead with construction, showing neither the

## financing climate change

In order to avoid dangerous climate change, many countries have committed to reducing their greenhouse gas emissions by signing the Kyoto Protocol and other international agreements. However, these same countries continue to subsidize fossil fuel operations through their International Financial Institutions. This major policy incoherence must be addressed immediately.

Climate change is a direct threat for millions of people. Extreme weather events, the spread of exotic diseases and flooding will affect us all. Environmental refugees are already traveling the planet in search of a safer place to live. The entire population of the Pacific island of Tuvalu, which will be one of the first islands to be flooded and is already experiencing the siltation of its waters, has applied for asylum with New Zealand. From a climate justice perspective, richer countries should seriously reduce their fossil fuel emissions.

Contrary to objectives agreed to in international environmental treaties, IFIs continue to provide support to fossil fuel operations. According to the World Resources Institute, fossil-fueled power generation and oil and gas development accounted for 40% of trade and project finance flows to developing countries between 1994 and 1999.<sup>6</sup> The World Bank Group alone provided over US\$24 billion in financing for fossil fuel power and production between 1992 and the end of 2002.<sup>7</sup>

## case study four

will nor the ability to avoid the serious environmental and social impacts now affecting the entire local population. Government oversight is weak, and project financiers seem unable and unwilling to implement international standards to stop the devastation.

### criticizing camisea

In a major campaign victory, the US Export-Import Bank rejected financing for the project in August 2003, marking the first time that a project has ever been turned down by Ex-Im's Board of Directors on environmental grounds. But just days later, a loan from the Inter-American Development Bank (IDB) went through, despite the project's failure to meet international standards, to avoid lands of uncontacted indigenous peoples and to remove the proposed export terminal from the Ramsar-protected Paracas Marine Reserve.

Along with the Export-Import Bank, the Overseas Private Investment Corporation's refusal to fund Camisea and Citigroup's recent withdrawal as financial advisor are further indications that the project is financially, environmentally and socially risky. There are already reports that the project has caused massive erosion and pollution and has made use of divisive community relations tactics. International environmental expert Dr. Robert Goodland has suggested an investigation into allegations that contact initiated by the project is causing harm to isolated indigenous groups, who lack immunity to common respiratory and gastrointestinal diseases.



Camisea has attracted widespread critique, and celebrities and activists including Sting and Bianca Jagger have publicly taken part in the campaign to stop public financing. Civil society will continue to monitor the project, as well as future attempts at development in this pristine part of the world.

*more information:*

*Friends of the Earth United States:*

[www.foe.org/camps/intl](http://www.foe.org/camps/intl)

*Amazon Watch:*

[www.amazonwatch.org/amazon/PE/camisea](http://www.amazonwatch.org/amazon/PE/camisea)

*Bank Information Center:* [www.bicusa.org](http://www.bicusa.org)

*Sustainable Energy and Economy Network:*

[www.seen.org](http://www.seen.org)

*Protests against Camisea at the Inter-American Development Bank in Washington, DC.*

6 | World Resources Institute, *The Climate of Export Credit Agencies*, May 2000.

7 | According to figures from the Sustainable Economy and Energy Network in the United States, [www.seen.org](http://www.seen.org), September 2002.

8 | See Heike Mainhardt-Gibbs, *The Role of Structural Reform Programs towards Sustainable Development Outcomes*, August 2003.

Once burned, the oil transported through the Baku-Tbilisi-Ceyhan (BTC) pipeline in the Caspian region will contribute an estimated 185 million tons of carbon dioxide to the atmosphere each year. This controversial pipeline received financing from the World Bank and the European Bank for Reconstruction and Development at the end of 2003, and other IFIs are likely to follow (see case study page 38).

Metal mining operations are also a major contributor to climate change due to their exorbitant energy demands. The Peruvian and Tanzanian mining sectors' enormous hunger for energy have caused electricity deficits and put significant pressure on the countries' balance of payments due to increased energy imports.<sup>8</sup> In another example, the West Africa Gas Pipeline will allegedly pipe gas from Nigeria through Benin and Togo in order to power gold mines in Ghana (see case study page 34).

This trend needs to be reversed. Governments should comply with their commitments to combat climate change by withdrawing support for extractive industry projects and supporting renewable forms of energy to power sustainable societies.

*“In the past, Shell worked here and almost all of us died from the diseases. [...] We know that if another company comes here, our rivers and land will be destroyed. The rivers will be polluted, the fish will die and the animals will run away. Minister, we ask you, what will we eat when the rivers are dead and the animals have run away? [...] We do not want companies working here, we want clean water and a quiet and peaceful life.”*

Delegation of Nahua indigenous people to the Peruvian government, from a November 2003 Amazon Watch press release.

Machiguenga girl in Timpia, one of the communities directly affected by the Camisea gas pipeline in Peru.

Cranes digging vast quantities of construction materials from the Unubamba river bank along the right of way for the Camisea gas pipeline in Peru, August, 2002



Rosia Montana resident.



© Laszlo Kovacs

Village of Rosia Montana.



case study five

corporation gabriel resources [canada]

## fighting for a rosy future

rosia montana gold mine in romania

In October 2002, the World Bank Group announced that it would not finance the controversial Rosia Montana gold mine project in Romania's beautiful Apuseni mountains. Local community members and international campaigners alike rejoiced, and proclaimed their hope that the World Bank would steer clear of other such environmentally and socially disruptive projects in the future.

### inauspicious beginnings

The mine, which would be Europe's largest open cast gold mining project, came under fire from an international coalition of NGOs based on flaws in the project proposal and concerns about the corporate sponsor. The Canada-based company Gabriel Resources (registered in Barbados) approached the World Bank Group for a loan rumored to be around US\$250 million. The company had no previous mining experience,

and its then Corporate Executive Officer had been convicted twice for drug trafficking. In early 2002, the company had already launched an aggressive relocation programme without the completion of public hearings or Environmental Impact Assessment studies.

Despite the World Bank Group's withdrawal from the controversial project, the company is determined to proceed with the mine. The scheme being proposed by Rosia Montana Gold Corporation (RMGC), a joint venture between Gabriel Resources and the Romanian government, is draconian. It would be fifty times larger than the existing pit, and since the metal-bearing rock lies beneath several settlements, including the village of Rosia Montana, two thousand people would be moved – by force if necessary.

*“For well over two years we have been confronted on a daily basis with a psychological war to make way for the project. Today marks an important victory in our struggle to keep our land for our children. We are overjoyed and congratulate the IFC for its decision. We hope that other financial institutions and banks will follow suit and pull out or refrain from investing in this speculative, unprofitable and unsustainable project that will only increase pollution, poverty and corruption.”* Eugen David, president of Alburnus Maior, the local community group in Rosia Montana.

Romanian community representatives handing drawings from children in Rosia Montana to World Bank President James Wolfensohn in 2002, leading to the Bank's decision not to fund the project.



more information:

Rosiamontana.org: [www.rosiamontana.org](http://www.rosiamontana.org)

Rosia Montana photo gallery:

[www.sepsiszentgyorgy.info/galeria/kovacs\\_1\\_a](http://www.sepsiszentgyorgy.info/galeria/kovacs_1_a)

Friends of the Earth International: [www.foei.org](http://www.foei.org)

CEE Bankwatch Network: [www.bankwatch.org](http://www.bankwatch.org)

Burying People for Profits, video, FoEI (see back cover).

## financier world bank group withdrew

### glittering past, gloomy future

Gold and silver have been mined in the Apuseni for millennia – specifically at Rosia Montana – and until very recently, without significant damage. Now, however, the lodes are depleted, and tunneling is no longer profitable. There is metal dispersed throughout the rock, in the proportion of about one part of gold for every million parts of stone, but removing it involves quarrying the landscape and leaching the crushed rock with cyanide compounds. An unprofitable, state-owned company has been doing this on a small scale for a few decades, largely to provide local employment.

The project would transform the valley of Rosia Montana, the oldest documented settlement in Romania, into four open-pit mines. The neighboring valley would be converted into an unlined cyanide storage 'pond' covering a surface of up to 600 hectares, held back by a 180-meter

high dam. The pits would generate roughly 200 million tons of cyanide-laced waste. The international coalition that opposed the mine pointed to the disastrous experience at the Baia Mare gold mine in Romania, where a cyanide spill in 2000 polluted the Tisza and Danube Rivers, contaminating the drinking water supplies of 2.5 million people and killing 1200 tons of fish.

Furthermore, Rosia Montana is rich in history and archaeology. Apuseni gold was used by the ancient Egyptians, and also in Rome, Mycenae and Troy. In some sections of the mine, the underground environment has not changed in almost 2000 years, and very little of it has been explored. Wax tablets with rare examples of Roman cursive writing, building remains and artefacts from the Roman era as well as earlier and later periods have been unearthed. Consequently, 1,038 high-ranking academics from archaeology and history departments around the world have written to the Romanian

Minister of Culture imploring him to oppose the scheme, so far to no avail.

### better than gold

Apuseni is rich in resources other than gold. It has outstandingly beautiful scenery, history and rich archaeology - both ancient and industrial. It has forests and good terrain for grazing animals. Local villagers, many of whom are subsistence farmers, do not wish to leave their lands despite the high prices being offered for their properties. Although many have mined in the past, they see an irreconcilable conflict between large-scale cyanide-based open cast mining – an intensive, short-term, irreversible activity that consumes the landscape – and extensive activities like sheep grazing and forestry. They are thus fighting to preserve their valley, and hope that other International Financial Institutions and export credit agencies will stay clear of the mine.



*“Had they just shot me in the head, I would have felt better. Nothing could be worse than seeing my daughters suffer and hear them tell me about the tremendous pain in their eyes, their backs, their heads, day in day out. What can a father say to his sick children? How can I explain that the world’s richest gold mine sitting on that mountain does not want to help us?”*

Alfonso Charrasco, more than three years after the mercury spill that forced him and his family to flee their birth village.

case study six



## dividing and polluting

yanacocha gold mine in peru

corporations [newmont \[usa\]](#) | [buenaventura \[peru\]](#)



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financier international finance corporation



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High up in the mountains behind the beautiful town of Cajamarca in the Peruvian Andes, the Yanacocha gold mine carries out its operations. It has already leveled five mountains, and is heading towards its sixth target, Mount Quilish. The local municipality is fiercely opposed to the exploitation of Mount Quilish, the source of their drinking water. Ten years of living beside the continent's largest gold mine has taught them a lesson: "no more".

The Yanacocha mine is a 251-square-kilometer open pit mine located 18 kilometres from the town of Cajamarca. The World Bank's IFC has provided loans totaling US\$150 million and has a 5% equity investment in the mine, which is a joint venture with Newmont (US) and Buenaventura (Peru). According to the IFC, its involvement ensures adherence to the highest social and environmental

standards, which supposedly makes Yanacocha an example of best mining practice. However, according to the local people, the region of Cajamarca would be better served by investments in tourism, forests and agriculture.

The mining operations, which use large quantities of cyanide in a very fragile region, have contaminated the water sources, leading to the disappearance of fish and frogs. Cattle have become sick, the air has been polluted, and medicinal plants have been lost. All of this was recently confirmed through an independent environmental audit by a Colombian consultancy firm.

Campesino communities living close to the mine have put forth an official complaint, asking for funding to clean up their water. They also demand a reclamation and preservation program for medicinal plants, a



#### case study six

fish and frog repopulation scheme, and compensation for former landowners in the form of equivalent land and funds to re-establish farms. Although many of these measures would cost a fraction of what this profitable gold mine earns, the communities are still waiting. In the meantime, they have called upon the World Bank Group and Newmont to stop the expansion to Mount Quilish. Furthermore, Peru's constitutional court has ruled that expansion can only take place if the corporation can prove that mining will not endanger Cajamarca's drinking water.

#### a toxic tragedy

On June 2nd, 2000, a truck from the Yanacocha mine spilled 151 kilograms of liquid mercury along a 40-kilometer stretch of highway passing through Choropampa and two neighboring villages. People gathered up

the mercury, believing it to be a valuable metal. According to conservative government estimates, more than 900 people were poisoned. Symptoms of mercury poisoning (skin irritation, headaches, diminished eye sight, kidney problems, stomach aches, etc.) emerged a few days after the spill. Several of the victims were hospitalized, and one woman went blind.

Suffering from the effects of the mercury spill continues today. Juana Martínez from the Choropampa Defense Front said: "Several children have been born missing fingers and toes. Nothing like this ever happened in our village before the mercury spill." Miscarriages are also occurring at an alarming rate, while children suffer from chronic nosebleeds, respiratory infections, loss of sight and hearing, chronic migraine headaches and an inability to concentrate.

The community of Choropampa has called for an evaluation of the spill's health impacts, the presence of a doctor to monitor the situation, and economic compensation for health damages and business losses. However, Yanacocha's responses have been unsatisfactory. In April 2003, the company published a report of the spill that ignored the direct impacts on human health. The IFC commissioned a lengthy dialogue process that, after two years, resulted in two studies that have yet to be finalized. Meanwhile, the inhabitants of Choropampa still have not received adequate treatment. They feel abandoned and contaminated.



### divided communities

Although the Peruvian government established a special law to ensure that half of the taxes paid by the mine would be invested back into the region, Cajamarca has become the second poorest district in Peru since the start of mining operations in 1993 (FONCODES). Yet while Cajamarca's rural poverty increases, a few individuals in the city benefit tremendously. This unequal distribution of the mine's costs and benefits has caused major conflicts and an overall atmosphere of suspicion.

Displacement has forced people into the city, where they have no way to make a living. Traditional practices are being forgotten, and families are losing their community support structures. This has resulted in a significant increase in domestic violence and other social ills. Cajamarca now has a booming

prostitution trade in which girls as young as 14 sell themselves to miners, with no protection from HIV and other sexually transmitted diseases.

In 2001, allegations surfaced that Newmont paid Peru's former chief of intelligence, Vladimiro Montesinos, to bribe and extort Peruvian judges in the bid for Yanacocha. In a videotape, Montesinos is shown pressuring a judge to rule in favor of Newmont. After further evidence came to light in 2003, US federal authorities have begun to investigate the allegations. However, despite having a zero tolerance policy against corruption, the IFC has so far refused to undertake its own investigations

*more information:*

*Friends of the Earth International:*

**[www.foei.org/ifi/yanacocha.html](http://www.foei.org/ifi/yanacocha.html)**

*National Coordination of Mine Affected*

*Communities: **[www.conacami.org.pe](http://www.conacami.org.pe)** (spanish)*

*Project Underground: **[www.moles.org](http://www.moles.org)***

*Ecovida: **[www.ecovida.org](http://www.ecovida.org)** (spanish)*

*Guarango Cine y Video: **[www.guarango.org](http://www.guarango.org)***

*Oxfam America: **[www.oxfamamerica.org](http://www.oxfamamerica.org)***

# broken promises

International Financial Institutions (IFIs) are multilateral development banks and export credit agencies that offer loans, investment and guarantees for projects and programs with the stated aim of helping developing countries alleviate poverty and attain sustainable development. Funds come from member countries that invest public money from their development budgets into the operations of these banks. The mandate of multilateral development banks is to eradicate poverty and contribute to sustainable development, while export credit agencies were established in order to support corporations from industrialized nations doing business in developing countries and emerging markets. All IFIs are public agencies, and as such should put their money in public goods, in line with the commitments of sustainability made by the countries that govern them.<sup>9</sup>

International Financial Institutions have been funding fossil fuel projects and mining for decades. Between 1995 and 1999, IFIs channeled some US\$55 billion to the fossil fuel and mining sector.<sup>10</sup> Whereas IFIs originally supported mostly state-led activities, their focus is increasingly shifting toward private sector development.

*“The project will constitute a breakthrough by providing a unique opportunity for economic development and therefore create conditions for long-term political stability. Chad will receive substantial direct benefits from the project in terms of incremental fiscal revenues and foreign exchange. (...) For Cameroon, the project will also provide significant similar direct development benefits, generating annual revenues equivalent to some 3% of its current budgetary revenues. In addition, the project will have a catalytic impact on local business growth in both countries, which will lead to increased economic activity, and generate other indirect benefits (...).”*

**The European Investment Bank on its approval of a US\$144 million loan for the Chad-Cameroon pipeline project in June 2001.**

case study seven



## livelihoods piped away

chad-cameroon oil and pipeline project

*“They promised us jobs.  
They took everything from us.  
They took our land.  
They took our forest.  
They took our water.”*

Sama Bailie of Cameroon talking about the pipeline.



corporations

exxonmobil [usa]  
chevron [usa]  
petronas [malaysia]

<sup>9</sup> | For example, world leaders agreed in September 2000 to work towards achieving the Millennium Development Goals, which include eradicating extreme hunger and poverty, promoting gender equality and ensuring environmental sustainability.

<sup>10</sup> | Friends of the Earth International, Phasing out international financial institutions financing for fossil fuel and mining projects: demanding local community self-determination, January 2002.



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*“Again and again, natural resource windfalls have financed presidential planes and palaces and entrenched official corruption, while producing very little in the way of lasting economic benefits. Countries with the windfall external finance provided by abundant natural resources, such as Nigeria, Venezuela, Burma and Zambia have failed to progress economically – indeed, in several cases, have fallen back.”*

**Lawrence Summers, US Treasury Secretary, Remarks to the Council on Foreign Relations, March 1999.**

financiers world bank | eib | export-import bank [usa] | sace [italy] | coface [france]

On October 10, 2003, a coalition of Chadian civil society groups called for a national day of mourning on the inauguration of the Chad-Cameroon oil and pipeline project. The groups warned that Chadian oil revenues “will only be another weapon in the hands of a plundering oligarchy used to oppress the Chadian people.” The groups denounced the insecurity and impunity which prevail in the country, and which will only increase with the exploitation of oil.

### **paying the pipeline**

The US\$3.7 billion Chad-Cameroon pipeline project is the biggest private investment in sub-Saharan Africa today, as well as one of the most controversial. It involves the drilling of 300 oil wells in the Doba region in the south of Chad and the construction of a 1070-kilometer pipeline to transport the oil from

Chad through Cameroon to an offshore loading facility on the Atlantic Coast. Along the way, the pipeline will pass through rainforest, pygmy territories and major food and cotton producing areas. Resulting oil spills could have an enormous impact on the livelihoods of local people, and it has been estimated that thousands of fishermen will be put out of work.

In late 1999, the project appeared to be doomed when two of the companies involved, Shell and TotalFinalElf, dropped out of the consortium, reportedly partly due to local and environmental opposition by groups including Friends of the Earth members. However, project leader ExxonMobil (40%) carried on with the project, and is now supported by US-based Chevron (25%) and Malaysia’s Petronas (35%).

The World Bank Group and European Investment Bank provided \$200 million and

\$120 million respectively for the project. The World Bank, while financing only 4% of the total cost, is the most important project partner. The Bank’s participation serves as a form of political risk insurance for the consortium, and enabled the companies to raise more money on international capital markets. The banks have presented the project as an opportunity for Chad to come out of its acute poverty while generating much needed revenue for Cameroon.

### **punishing communities and nature**

NGOs in the two countries and abroad called fruitlessly upon the World Bank to postpone the decision until an adequate Environmental Impact Assessment had been conducted. After the pipeline was approved, they insisted that the Bank take social and environmental impacts into concern in implementing the project.

## public sector: attracting dirty business

International Financial Institutions have been instrumental in setting the development agenda for many countries across the world. They exert heavy pressure on governments to adopt structural adjustment measures that lead to the liberalization and deregulation of national investment laws. The purpose of these measures is to encourage private sector investment. Compliance with structural adjustment prescriptions is often a prerequisite for approval of other IFI loans. Among the concrete provisions dictated by IFIs are the scrapping or removal of restrictions on foreign ownership and royalties, full access to resources, reduced tariffs and taxes, and the relaxation of environmental and social regulations. In some cases, countries are forced to extract their natural resources as part of a structural adjustment package. In the case of the Heavy Crude Oil Pipeline in Ecuador and the Camisea Gas Project in Peru, the IMF demanded that the countries award oil and gas exploitation concessions to foreign corporations as a loan condition (see page 16).

*"In BHP Billiton's experience, the World Bank Group has often brought a voice of reason during difficult periods."*

**BHP Billiton submission to the World Bank Extractive Industries Review in October 2002, praising the important role the World Bank has played in facilitating investment in Algeria, Argentina, Indonesia, Mozambique and Papua New Guinea.**

## case study seven

However, by mid-2002 it was already clear that the project is piping great amounts of misery and devastation into the area. Thousands of people have had their lands expropriated, crops and other plants destroyed, and water sources polluted without adequate compensation. Some victims have received no compensation whatsoever, including the Bakola and Bagyeli pygmies in the forests of Cameroon.

Although about 5,000 jobs had been promised at the outset, most work is given to expatriates, and locals end up with occasional short-term unqualified labour. The influx of largely male job seekers into the project area has led to serious social disruption of the communities, with prostitution, alcohol abuse, HIV/AIDS and other sexually transmitted diseases all on the rise.

The pipeline cuts across sensitive and valuable ecosystems, particularly in Cameroon's coastal rainforest. Project-related upgrading of existing seasonal roads has led to logging and illegal poaching in otherwise inaccessible areas. The pipeline traverses several major rivers, and construction has already caused oil spills and polluted the water system.

### rhetoric vs. reality

The World Bank continues to claim that the project is being implemented with community support and NGO input. In fact, Cameroon was rated the most corrupt country in the world in 1999 and 2000 by Transparency International, a fact that significantly hampers participation in decision-making. The Chadian human rights situation is also highly problematic; the government of Chad has still not investigated the massacres of hundreds of unarmed

civilians that took place in 1997 and 1998 in the country's oil producing region. Furthermore, it was revealed that the President of Chad used US\$4.5 million of the signing bonus paid by the oil consortium to buy weapons, rather than investing in public health, education and vital infrastructure as had been agreed. Since the official inauguration of the pipeline in October 2003, the situation in Chad has deteriorated further: a peaceful demonstration planned by human rights groups was prohibited by the authorities, and the government, in violation of the constitution, closed the country's only independent radio station. In November 2003, the government, for the first time since 1991, executed eight people who had been condemned to death. Now that the oil money is starting to flow, Chadian citizens fear that repression and insecurity will further increase as the regime's 'true face' is revealed.



## flawed development model

These combined packages of deregulation, privatization and liberalization have led to a massive influx of unregulated activities in the extractive industry sector in many countries. This has also severely undermined the ability of countries to protect their environments, the rights of workers, and people's livelihoods.

In general, liberalization measures are meant to create a favorable investment climate for transnational corporations. Oil and mining companies often play a role in the drafting of such prescriptions for their host country. In Colombia, the government hired a private law office, Martines Cordoba, to prepare the national mining code. Rules and procedures for public contracts were completely disregarded. The law firm was later discovered to be the legal counsel for Semex, a Mexican cement company, and the President's own gas drilling company, Santa Fe (see case study page 8).

While these measures are supposed to help poor countries attract foreign direct investment and bring in revenues that will trickle down to the poor, decades of experience have shown that this development model is obsolete. Economists have noted that countries that are blessed with abundant natural resources tend to perform worse economically than countries without such wealth. This phenomenon, known as the 'resource curse', has been observed in comparative studies

of growth. An analysis conducted by economists Jeffrey Sachs and Andrew Warner in 97 countries found that countries with a high ratio of natural resource-based exports to Gross Development Product tended to grow more slowly than countries with less resource-intensive economies.<sup>11</sup> In addition, countries become more vulnerable to external shocks, notably price fluctuations, as a result of their reliance on raw commodities.<sup>12</sup> The World Bank itself concluded that "countries with substantial incomes from mining performed less well than countries with less income from mining."<sup>13</sup>

International Financial Institutions often overemphasize the historical role of the extractive industries in the industrialization of the northern countries in order to promote this as a model for developing countries. However, countries like the US, Australia and Canada never relied on mining in the 19th century to the extent that many developing nations do today. Mining in these countries was accompanied by an industrialization process that included a transformation in financial, educational, infrastructural and political institutions, which is rarely the case in current mining countries. Moreover, mining in the northern countries was accompanied by large and protected internal markets, whereas the resources extracted today are generally exported out of the countries where they are found.<sup>14</sup>



In both 2001 and 2002, local groups in Chad and Cameroon filed claims with the World Bank's Inspection Panel, charging that the Bank had violated its own policies in the implementation of the project. The Panel confirmed numerous trespasses of its environmental assessment policy, and in the case of Chad, violations of its operational directives on poverty alleviation and economic

evaluation. "The World Bank touts the Chad-Cameroon oil pipeline as a model project that will reduce poverty while compensating for environmental impacts. Practice has however demonstrated the failure of World Bank rhetoric to match reality," said Samuel Nguiffo of Friends of the Earth Cameroon.

more information:  
*Traversing People's Lives: How the World Bank Finances Community Disruption in Cameroon*, FoEI, 2002:  
[www.foei.org/publications/worldbank/traversing.pdf](http://www.foei.org/publications/worldbank/traversing.pdf)  
*Broken Promises: The Chad Cameroon Oil and Pipeline Project; Profit at any Cost?* FoEI, FoE Cameroon, FoE Netherlands, 2001:  
[www.foei.org/publications/worldbank/traversing.pdf](http://www.foei.org/publications/worldbank/traversing.pdf)  
*FoE Cameroon (French)*:  
[www.cedcam.org/petrole.htm](http://www.cedcam.org/petrole.htm)  
*Catholic Relief Services virtual tour*:  
[www.catholicrelief.org/get\\_involved/advocacy/economic\\_justice/globalization/trade\\_and\\_corporate\\_responsibility/index.cfm](http://www.catholicrelief.org/get_involved/advocacy/economic_justice/globalization/trade_and_corporate_responsibility/index.cfm)

**"I am concerned about the environment. Looking around me I see rivers drying out, birds disappearing, the wood is drying out, too. It feels as if soon it will be a desert here. They're clearing a large strip of forest that acted as a windshield for us against the strong winds from the sea. [...] But we're told this project is of international importance. [...] We have no way of opposing it, we will have to live with it."** Village chief near Kribi, Cameroon.



11 | Jeffrey Sachs and Andrew Warner, *Natural Resource Abundance and Economic Growth*, 1997.  
12 | See Heike Mainhardt-Gibbs, *The Role of Structural Reform Programs towards Sustainable Development Outcomes*, August 2003.  
13 | Monica Weber-Fahr, *Treasure or trouble? Mining in developing countries*, 2002.  
14 | Thomas Michael Power, for Oxfam America, *Digging to Development? A historical look at mining and economic development*, 2002.

### flowing up, not trickling down

Investments by IFIs in the extractive industries sector have also not improved the host country's performance on human development indicators. Oil and mineral dependence is strongly associated with exceptionally dismal conditions for the poor. For example, mineral-dependent countries generally have higher poverty rates and higher rates of income inequality. Oil-dependent societies tend to have elevated rates of child malnutrition, lower spending levels for health care, lower rates of school enrollment and lower rates of adult literacy.<sup>15</sup>

Whereas IFIs insist that they can help countries manage the revenues from extractive industries and ensure the broader distribution of benefits, a review by the World Bank's Operations and Evaluations Department found that the Bank was only "modestly relevant and efficacious" in addressing public expenditure policies in resource-rich countries.<sup>16</sup> It noted that the International Finance Corporation's measurement of development outcome "does not take into account the distribution of benefits." According to the review, the impacts have been especially harsh for women, who play an important role in sustaining the family in many communities. This finding is supported by the information gathered by the World Bank's Extractive Industries Review, which noted in its draft report that "Mining, oil and gas projects, and Structural Reform Programs promoted by the World Bank Group may serve to marginalize women."<sup>17</sup>

While a key aspect of poverty alleviation is the creation of employment, the requirements of privatization and making operations more efficient have led to massive job losses and disregard for worker's rights. In one case, the World Bank has ordered the total liquidation of the Colombian state mining sector, allowing companies that seriously violate workers rights to continue seizing the country's resources (see case study page 8).

International Financial Institutions and foreign investors also claim that industry liberalization will help to stimulate economic growth by generating upstream and downstream businesses. This has hardly been the case. Liberalization and deregulation of national investment rules, coupled with the ongoing protection of processing industries in the North, has discouraged the establishment of local downstream businesses in the countries of operation. Local industry in upstream areas like exploration, project development, extraction, processing, transport and retailing can rarely compete with large efficient foreign corporations. As a result, corporations often contract foreign partners for both upstream and downstream operations.

case study eight

corporation rio tinto [united kingdom]

## poisoning an island

papua new guinea's lihir gold mine



*"The natural beauty of the place should be preserved. I know, in that bay, it's one of the places that the leatherback turtle comes to lay its eggs, and now it doesn't happen anymore. And I know too, because of the volcano, the wild fowl used to live there before and people used to sell those eggs, but it doesn't happen any more now. So those things are gone – destroyed."* Interview with Father Clement Taulam, Lihir Island, 2000.

15 | Michael Ross, for Oxfam America, *Extractive Sectors and the Poor*, 2001.

16 | OED, OEU, *Extractive Industries and Sustainable Development*, Volume I, 2003.

17 | World Bank *Extractive Industries Review* draft report, August 2003.

### private sector: providing political comfort

For the past ten years, International Financial Institutions have increased their support for the private sector through direct loans and guarantees. IFIs can invest directly in a project by buying shares in a joint venture. As a result, millions of dollars of public money pledged for poverty alleviation and sustainable development have been channeled to already rich multinational corporations. Via this process, IFIs lend legitimacy and political backing to controversial oil, mining and gas operations. Their support is also essential for mobilizing additional private sector loans. That is why notorious mining giant Anglo-American would rather not see the IFIs withdraw from the extractive industry sector, fearing that this “may reduce the number of other players in the capital markets willing to take the risks associated with lending to large-scale extractive projects in developing countries.”<sup>18</sup>

In theory, this construction also gives IFIs the leverage to hold the main investor accountable. In practice, however, this influence is rarely used on the ground. For example, the World Bank’s International Finance Corporation insists that its involvement in Peru’s Yanacocha Gold Mine ensures the project’s adherence to the highest social and environmental standards. One only has to take a look at the long list of complaints from community members about contamination, as well as the IFC’s refusal to hold the company responsible for the illnesses resulting from the mine’s June 2000 mercury spill, to see the fallacy of this accountability (see case study page 22).

Among the International Financial Institutions, it is specifically the bilateral export credit agencies (ECAs) that provide insurance to protect companies’ exports and investments against political and economic risks like devaluation, breaches in agreements, nationalization and political unrest. In many cases, the host country is required to “counter-guarantee” the investment, or pay back the insurance to the ECA if the project collapses, resulting in a significant increase in the country’s external debt. In 1996, the debts related to export credits accounted for 24 percent of the total indebtedness of these recipient countries.<sup>19</sup> The Australian and Canadian export credit agencies, together with MIGA, the private sector insurance arm of the World Bank, have given guarantees for several risky mining operations including the Lihir Gold Mine in Papua New Guinea (see case study page 30).

financiers world bank miga | eib | export finance insurance corporation [australian export credit agency] | export development corporation [canadian export credit agency]

On Lihir Island in Papua New Guinea, the mountains rise steeply from the sea, and the coast is fringed by coral reefs. Lihirians are a matriarchal, peace-loving people, and when faced with conflict they paint their faces with mud or charcoal and present the offender with a “gorgor” plant to symbolize their desire to put problems on the table. Goods and services have traditionally been freely exchanged between islanders, with no money changing hands. But since a Rio Tinto subsidiary opened a massive, polluting gold mine here in 1985, mud masks and gorgors have become more commonplace, and bartering has been replaced by cash transactions.

The Lihir Gold Mine, in operation since 1997, is an open-cut mine located within an ancient volcano. Gold is extracted from the rock with cyanide, and the tailings – comprised of crushed rock particles, residual solution, cyanide and

other toxic metals – are discharged directly into the sea through an underwater pipeline. The mine will generate approximately 84 million tons of tailings and 300 million tons of waste rock over its seventeen-year life span. The raw gold produced from the mine is exported and turned into jewelry.

The US Overseas Private Investment Corporation refused to support the project. However, Lihir financiers at the time of construction did include the World Bank, two export credit agencies, and the European Investment Bank. The World Bank Group’s rationale for guaranteeing the project was that it would provide the country with export revenue that would trickle down to the people of Papua New Guinea. However, the country’s government is one of the most corrupt in the world.

### environmental and social waste

The mine has had major social effects, largely due to a massive influx of workers from other areas. The population of Lihir Island has swelled from 6,000 before the mine opened to over 11,000 by 2001. Prior to the mine operation, the island was relatively isolated from the rest of Papua New Guinea, with only a few roads and a small airstrip. Today, however, the island has a major airport and a ring road built jointly by the mine and the government. Furthermore, the majority of landowners have abandoned their traditional subsistence farming and their children have lost interest in growing crops.

An April 2003 project visit commissioned as part of the World Bank’s Extractive Industries Review (EIR) was not a great success. In the EIR’s own words, “The team spent limited time on each site, and were not able to interview

18 | Anglo American submission to the World Bank Extractive Industries Review, April 2003.

19 | Boote & Ross, as cited in Michiel van Voorst, Debt creating aspects of export credits, Eurodad, 1998.

### the job myth: creating unemployment

A major argument put forth by International Financial Institutions for directly financing fossil fuel and mining operations is employment creation. However, current operations in the fossil fuel and mining sectors are highly capital intensive. The modern technology predominantly used by the big transnationals allows rapid, systematic and highly mechanized operations. High-tech, heavy-duty equipment and dangerous chemical processes like cyanide heap leaching can now do the work of many hands and require only a few skilled operators.

In general, most available jobs in the oil, mining and gas sectors are short term, lasting only the duration of construction. Very few workers, and exclusively high skilled ones, are needed during mining operations. Workers are often hired as contractual labor so that they lack job security and are paid below the minimum wage. The number of jobs available is too small to relieve high local unemployment rates, and cannot possibly make up for the loss of livelihoods that results from contamination and resettlement. Although job creation is a major objective, IFIs do not monitor the net employment effects of IFI-supported growth in the extractive industries sectors, nor the negative impacts on employment in other sectors. However, there is clear evidence that there are plenty of readily available alternatives to extractive industry projects that would generate many times more employment.

In the Sepon goldmine in Laos, only 400 workers have been hired since operations started in 2002, and tensions between those hired and those not are on the rise. Two villages that stood in the way of the mine have been relocated, depriving people of their previous livelihoods (see case study page 12).

For the Chad-Cameroon pipeline, project proponents promised jobs to many local people. But in the end, locals were stuck with short-term, low-paying jobs while highly skilled long-term workers were hired from the cities or from overseas. Furthermore, the oil consortium and its subcontractors paid construction and pipeline operation workers sub-minimum wages, thus breaking Cameroonian labor law. Benefits for sick employees and work accident victims have been withheld. To add insult to injury, workers that complained about these unfair labor practices have been dismissed. (see case study page 26).

### case study eight

independent members of the communities, other than the few selected by the relevant companies. The team had little information regarding the main environmental and social issues relating to each project prior to the visit [...]” Nonetheless, the EIR report was able to conclude that “social tensions prevail on the island as major conflicts occasionally occur between the haves and have-nots. There has been a notable increase in alcohol consumption within the community, which has led to an increase in alcohol-related crime and other problems, such as an increase in the breakdown of marriages and traditional relationships.”

Indeed, new schools, hospitals, transport, housing and human resources development schemes have all appeared. But Lihir is a prime example of the creation of corporate dependency: the community is heavily reliant

on the mine for the provision of basic public services, and this cycle will be difficult to break after the mine closes. Unfortunately, the government is unlikely to take over the delivery of services to these remote communities.

Ocean disposal of mine waste via submarine tailings disposal will undoubtedly have long-term impacts on the coastal ecology. The company has already acknowledged that ocean dumping has been smothering organisms living on the ocean floor. Islanders see fewer seashells, more dead fish and they complain of itchy skin. In fact, submarine tailings disposal is banned by many countries through the London Convention on Dumping in the Sea, to which Papua New Guinea is a signatory.

The Lihirians are calling for more information about what is happening on their island, and want independent monitoring of the impacts of the disposal of waste on the sea and fisheries. The World Bank is currently pressuring the government of Papua New Guinea to drastically change its mining code. It should ensure that the people of Papua New Guinea get to speak their minds in this process, and that their demands are taken into account.

### insufficient learning curve

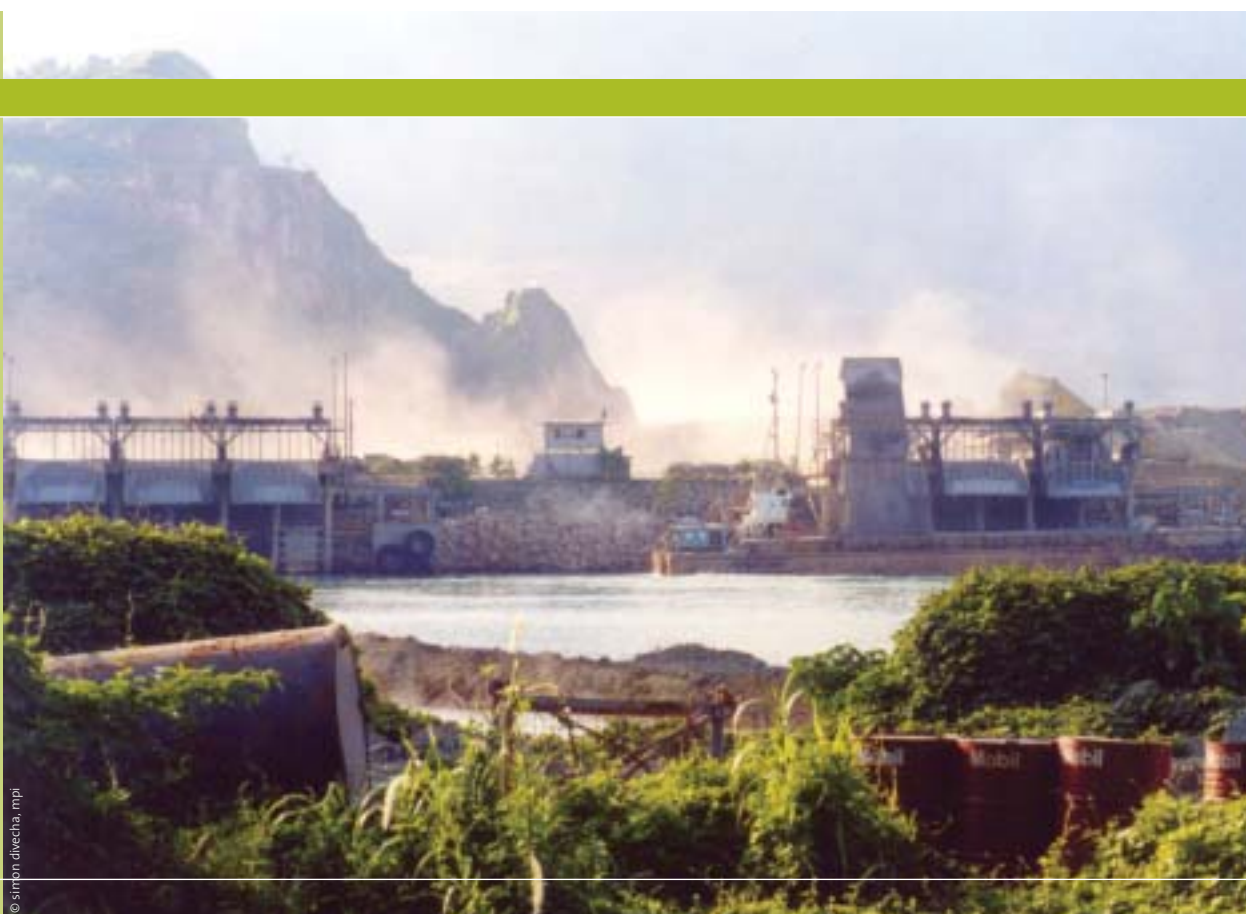
All though some International Financial Institutions acknowledge that projects in the extractive industries sector can be problematic, they have hardly learned from past mistakes. They have not mainstreamed social equity and the environment in their operations, nor have they enforced the implementation of existing guidelines. Even when undertaken, environmental and poverty assessments have not been effective in actually influencing project design, and IFI supervision of projects is often lax or non-existent.<sup>20</sup>

In the face of increasing criticism, the World Bank established an Inspection Panel in 1993 in order to provide people affected by its operations with a procedure for demanding accountability. Other IFIs followed suit by setting up complaints mechanisms, or are in the process of doing so. However, all of these mechanisms have important shortcomings. The World Bank Inspection Panel is criticized for its limited scope of investigation and its lack of power to take corrective action. Inspection Panel claims have led to improvements on the project level in only a handful of cases. In addition, the Panel's critical findings have had the effect of frightening Bank management, which has resulted in their concerted effort to convert the Bank's social and environmental policies into weaker standards. This is highly problematic, as the ripple effect through other IFIs will facilitate the widespread approval of even more bad projects and programs without providing bona fide opportunities to seek redress.<sup>21</sup>

As noted in a recent review by the IFC's Ombudsman, "Far too much attention has been given to specific phrases in safeguard policies rather than results on the ground".<sup>22</sup> In general, responses by International Financial Institutions have been insufficient and marginal and do little to ease the suffering of the victims of damaging projects.

*"The sea comes very near and goes into the trees. Twice in recent years a whale died on our shores. Really awkward, this never happened before. People don't understand and wonder whether this is the effect of the tailings."*

Jacklyn Membup, former mine worker and local resident.



© simon dwecha, mpi

20 | Volume II of the 2003 OED review found that only 41% of the projects reviewed had adequate supervision and oversight, while compliance with World Bank policies deteriorated during implementation.

21 | Weaker policies at the World Bank are likely to lead to weaker policies in other IFIs, which generally follow the World Bank's lead. Complaints mechanisms are meaningless without a set of stringent social and environmental policies to which IFI operations can be held accountable. See Demanding Accountability: Civil society claims and the World Bank inspection panel by Dana Clark, Jonathan Fox and Kay Treakle, 2003. For more information on IFI complaints mechanisms, visit Friends of the Earth International's web based toolkit at [www.foei.org/ifi/civil.html](http://www.foei.org/ifi/civil.html).

22 | Compliance Advisor Ombudsman, A review of IFC's Safeguard Policies, January 2003.



*“We pray to God on this holy morn that no petroleum oil will be discovered in our communities. Indeed, Lord, let the oil underneath our houses and farms drift away from us. Lord, spare us the pains and the misfortunes and diseases that petroleum oil brings to our people and to our farms and rivers. Lord, protect us from further harm in the hands of those who want our properties. Amen.”*

Pastor before a Christian congregation in Nigeria’s Niger Delta.

case study **nine**



corporations

**chevron [united states]**  
**shell [united kingdom/netherlands]**

## quadruple bypass

the west african gas pipeline project

The human and environmental devastation caused by powerful multinational oil corporations in the Niger Delta is no secret. Communities living in poverty coexist with one-story high furnace-like gas flares, the equivalent of smokestacks shooting out giant flames. Leaky and exploding pipelines crisscross neighborhoods. People deal with persistent air and water pollution, along with countless trucks and tankers. These communities live with oily muck and detrimental health effects, yet are subject to frequent periods where no gas is available due to the country’s lack of refining capacity.

one of its key economic policies. The World Bank prepared a feasibility report 11 years ago, and determined that a natural gas pipeline originating in Nigeria, passing through Benin and Togo, and ending in Ghana would be commercially feasible. It is just now with the project already underway, however, that the consortium of oil corporations and the World Bank have decided to “consult” with the local communities that will be impacted by this 620-mile long pipeline.

The four countries involved have already signed an Inter-Governmental Agreement to align their laws. The oil consortium – composed of Chevron, Shell, the Nigerian National Petroleum Corporation, the Ghana National Petroleum Corporation, Soci t  Beninoise de Gaz and Soci t  Togolaise de Gaz – has had all

### long in the pipeline

The West Africa Gas Pipeline (WAGP) had its genesis 21 years ago when the Economic Community of West African States proposed a natural gas pipeline through West Africa as



© JESI e fields, foai.us



© Leslie Fields, foe.us

Smoke is from a three-week-old pipeline fire. Existing oil pipelines, which weave through villages, often catch fire due to poor maintenance and vandalism.

financiers world bank | others currently being approached

of the agreements and contracts signed, and is ready to complete the project by 2005.

Neither the available information nor meetings with the World Bank and Chevron have answered questions about how the gas will be used. The few communities that have heard about the WAGP are under the impression that the gas will be used domestically, but it is alleged that the end-users will be Ghanaian gold mining corporations. The Bush administration has touted the US\$400 million WAGP as one of the projects that will help West Africa to become a major alternative source for oil and gas to the volatile Middle East region in the near future.

The WAGP has a myriad of issues. The consortium companies have disturbing human rights records, and project details are shrouded in secrecy. In March 2000,

Environmental Rights Action/Friends of the Earth Nigeria held a consultation with communities, experts and media from Nigeria, Ghana and Togo. Chevron and the Nigerian National Petroleum Corporation were invited but did not attend.

#### environmental impacts

According to World Bank 1995 figures, Nigeria flares more gas than any other country in the world. The gas flaring causes acid rain, which contributes locally to decreasing crop yields, corrodes structures and has health effects including respiratory problems. Globally, gas flaring contributes to climate change due to the carbon dioxide, methane and other greenhouse gases that are emitted on a continuous basis.

The pipeline will also traverse fragile wetlands and mangrove ecosystems that will without doubt suffer from the intrusion and impact people's livelihoods. These reasons are enough for Friends of the Earth groups in Africa and beyond to insist that the World Bank not support this project until it addresses the fears of local communities and potential environmental devastation.

*more information:*

*Pipe Dreams, Friends of the Earth Nigeria, Oilwatch and Friends of the Earth United States: [foe@foe.org](mailto:foe@foe.org)*

*Friends of the Earth Nigeria: [www.eraction.org/](http://www.eraction.org/)*

*Oilwatch: [www.oilwatch.org](http://www.oilwatch.org)*

*Bank Information Center:*

*[www.bicusa.org/africa/pppwgap.htm](http://www.bicusa.org/africa/pppwgap.htm)*

Friends of the Earth Lithuania protests against the Lukoil project.



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case study **ten**



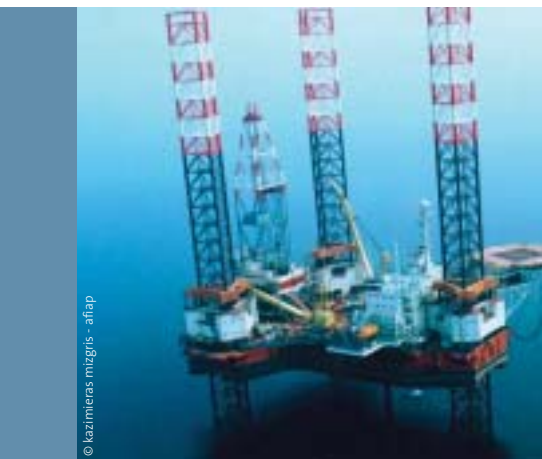
corporation **lukoil** [russia]

## dubious d-6

oil drilling in the baltic sea



Curonian spit.



© kazimieras mizgiris - afiap

*“People are newcomers here. We should behave and protect this wonderful place for future generations. Oil is a painful memory for the people living here. We experienced an oil spill in June of 1983 during the test drillings for the D-6 oil field. Most of us living here are trying to protect our clean beaches, sea water, fish and seabirds from the oil.”*

Kazimieras Mizgiris, renowned Lithuanian photographer and resident of Curonian Spit.

financier **European bank for reconstruction and development working capital loan to Lukoil**

New on the scene and rapidly expanding into foreign markets, Russian oil giant Lukoil is on the verge of extracting offshore oil near Lithuania’s and Russia’s extraordinary Curonian Spit National Park, a UNESCO World Heritage site. The ‘D-6’ oil deposit, some 22 kilometres from the Lithuanian coast, is thought to contain some 24 million tons of oil.

**opening pandora’s box**

Environmental NGOs in the Baltic region, including Friends of the Earth Lithuania, are concerned about the dangers of environmental pollution and accidental oil spills associated with the project. Curonian Spit is an exceptionally sensitive ecosystem, and the Baltic Sea is relatively clean and rich in biodiversity in this area. Both the Lithuanian and Russian parts of the Curonian Spit have great potential for sustainable tourism and

nature protection. Campaigners fear that the Lukoil project will open a Pandora’s Box for offshore oil extraction in the Baltic Sea, and that other companies will flock to the area.

The European Bank for Reconstruction and Development (EBRD) granted Lukoil a 165 million Euro working capital loan in May 2000 to bolster the floundering company. This loan strengthened Lukoil financially, enabling it to start development of the controversial D-6 deposit project. Campaigners have urged the EBRD to freeze or even withdraw its lending to Lukoil if the company does not drop this extremely controversial deal. The Bank, however, insists that it has no leverage to influence Lukoil in the areas of environmental responsibility or corporate accountability.

For several years, the Russian government has refused to engage in dialogue or to provide any information on the planned D-6 oil

extraction, despite numerous requests from the Lithuanian government, the Helsinki Commission, the World Heritage Committee and international environmental NGOs. Campaigners have now turned their attention to the European Union, and are asking the European Commission to intervene in order to prevent violations of the Helsinki Convention for the Protection of Marine Environment in the Baltic Sea.

The Baltic is one of the world’s dirtiest seas, and the 80 million people in the nine countries along its shores already feel the impacts of this pollution. Oil extraction, with the inevitable accompanying spills and accidents, could be the final drop that overflows the bucket.

*more information:*

CEE Bankwatch Network: [www.bankwatch.org](http://www.bankwatch.org)

FoE Lithuania:

[www.zalieji.lt/english/activities/Lukoil](http://www.zalieji.lt/english/activities/Lukoil)



© kazimieras mizgiris - afiap

## recommendations

*"I am not sure when the World Bank will start to understand that their policies do not work in this region. They should take their nose out of our politics, before things get out of control."*

**Evo Morales, Bolivian protest leader and 2002 presidential candidate, speaking a month after the October 2003 uprisings against the plans of the government to export gas out of the country. The World Bank has been instrumental in opening up Bolivia for foreign investment, and IFIs directly financed several pipelines in the country.**

Since the 1980s, environmental organizations and directly affected communities have produced impressive amounts of evidence that International Financial Institutions are financing disasters in the extractive industry sector all over the world. Studies and testimonies have demonstrated that, contrary to their own statements and missions, IFI investments in fossil fuel and mining have had devastating impacts on people and the environment.

Over the past several years, people from communities around oil, gas and mining projects have realized that they face similar threats. They have united and are cooperating with international non-governmental organizations, which in turn have helped to galvanize this unity by facilitating access to resources, providing venues for interaction, and coordinating activities and campaigns. This international cooperation has put immense pressure on governments and IFIs to reconsider their support for the extractive industry sector. And the collaboration by mining-affected people and campaign organizations is showing results: around the world, the recognition of the detrimental impacts of fossil fuel and mining operations is growing.

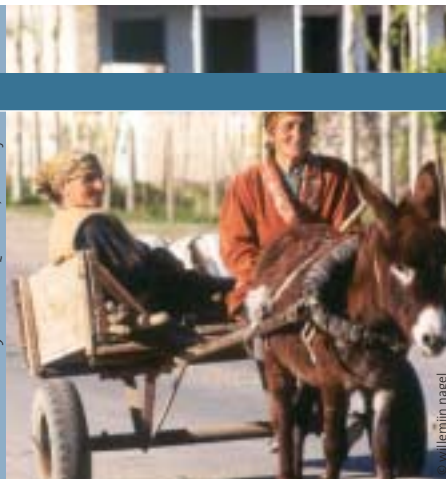
case study eleven



### risky oil for the rich

baku-ceyhan oil pipeline  
in the caspian region

Donkey cart near Qarabark, Azerbaijan.



corporations

bp [united kingdom]  
socar [azerbaijan]  
tpao [turkey]  
itochu [japan]  
amerada hess [saudi arabia]  
eni [italy]  
statoil [norway]  
unocal [usa]  
totalfinaelf [france]  
inpx [japan]  
conocophillips [usa]

*"Although there is a permanent energy crisis in Azerbaijan, the development banks support the energy needs of US citizens before considering Azerbaijanians who have limited access to gas and electricity. The oil and gas from the Caspian will be piped straight to western markets, completely bypassing local communities."*

Samir Isaev, local campaigner in Azerbaijan.

Open pit mine in Santa Rosa del Penon, Nicaragua.



foei nicaragua



© weihy/foei indonesia

Demonstrating in Indonesia to get the World Bank out of oil, mining and gas.

For example, in mid-August 2000, the Czech Republic amended the country's Geology Bill. The amended bill bans the use of cyanide heap leaching technology in gold mining. Friends of the Earth Czech Republic described the passing of the amendment as "the last nail in the coffin of gold mining projects" in the country. Similar bans have been established in Germany and in the US state of Montana. The Philippines, the US state of Wisconsin, a province in Ecuador, and Costa Rica have all banned open pit mining altogether. In the case of Costa Rica, the ban was a result of an eight-year-long campaign waged by numerous communities and organizations including Friends of the Earth.

In another encouraging victory, public pressure played a role in the October 2002 World Bank decision to withdraw from a controversial Romanian gold mine. The IFC announced that it would not fund the Rosia Montana mine in Romania after being repeatedly and sharply confronted by Friends of the Earth International and local people opposing the project (see case study page 20).

The IFIs themselves are becoming wary. In September 2000, in response to ongoing criticism concerning its support for oil, gas, and mining projects, and after publicly being questioned by Friends of the Earth International Chair Ricardo Navarro at its annual meeting, the World Bank launched an Extractive Industries Review (EIR) to determine whether it should have a future role in these sectors. The report published by the review committee identifies many problem areas in extractive industries, and recommends that the World Bank phase out its involvement in coal and oil projects, ban certain dangerous mining techniques, and request prior and informed consent for all projects from communities and indigenous peoples.

As International Financial Institutions generally provide legitimacy and financial security to the projects they fund, their withdrawal from the oil, mining and gas sectors would send a clear signal to other financiers. The bottom line is that extractive industries cannot be regarded a sound investment, and their harmful operations should not be eligible for public financial support. There are many readily available alternatives for more sustainable projects proposed by communities from all over the world.

In late 2003, shortly after the national elections in Georgia and Azerbaijan resulted in massive uprisings, the World Bank IFC decided to finance the Baku-Tbilisi-Ceyhan (BTC) oil pipeline. One week later, the European Bank for Reconstruction and Development approved funding for this project, one of the most controversial oil pipelines in the world. Despite protests from human rights and environmental campaigners, the European Investment Bank and export credit agencies are likely to follow suit.

When constructed, this US\$3.5 billion pipeline will carry oil from the Caspian Sea through Azerbaijan, Georgia and Turkey to the Mediterranean. In 2005, the 1,770-km long pipeline is due to transport up to 50 million tonnes of crude oil per year. The BTC pipeline consortium is led by oil giant BP, and includes Eni (Italy), Statoil (Norway), Unocal (US) and TotalFinaElf (France).

The project is billed by oil industry operatives as the "project of the century". Proponents argue that the pipeline will provide significant profits to the countries involved, transform the business environment, and deliver jobs and investment programmes to local communities – all while protecting the environment. Detractors, however, feel that the IFIs are supporting the power of corrupt and authoritarian leaders and profitable corporations at the expense of people and the environment by financing the project.

### creepy contracts

This project is very likely to lead to big corruption problems. Azerbaijan and Georgia fall 125th and 127th, respectively, out of the 133 countries ranked in the Transparency International Corruption Perceptions Index 2003. Their sectoral capacity is weak. Azerbaijan, for example, is the only Caspian state that does not have an oil spill response plan. In promoting increased extractive industry investment in the region, the World Bank is ignoring the advice of its own evaluation unit, which recommended against increased investment of this type in poor governance situations.

Local and international environmental organizations including Friends of the Earth International, Platform, Cornerhouse, World Wildlife Fund, CEE Bankwatch, and Amnesty International have urged the World Bank to



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In order to assist in the transition towards sustainable and equitable societies, Friends of the Earth International recommends that International Financial Institutions take the following steps:

#### case study eleven



stop financing the pipeline. Considerable negative impacts are inherent to the project, and IFIs will be forced to ignore their own social and environmental policies. All three countries involved have signed “Host Government Agreements” which prohibit them from establishing any new environmental or public health laws that might affect the financial return of the pipeline for the next 40-60 years – unless they compensate the project consortium. In essence, the project sponsors have transferred the tremendous risks of the project to local people through these legal arrangements. And through their expected loans and insurance, IFIs will seal the deal and protect the project consortium.

#### environmental risks

In Georgia, the pipeline threatens an important wildlife protection region, as well as a catchment area for Georgia’s mineral water industry. The water industry comprises 10% of the country’s exports, and employs more people than the pipeline will in the future. The chairman of the Dutch Environmental Impact Assessment Commission stated that crossing a water-producing region “would not be acceptable for Western Europe. We were astonished.” Also surprising is that the World Bank’s own International Finance Corporation (IFC) has invested in the largest of the water companies, as well as in a glass bottle factory

that supplies the industry. As such, the IFC sabotages its own investment portfolio by supporting the BTC pipeline.

The danger of oil leakage from the pipeline is significant, through earthquake as well as possible sabotage actions. In Turkey, the pipeline would traverse major fault lines, six watersheds, and two sites protected under national legislation. In Azerbaijan, the pipeline would cross 21 major rivers, impact a sensitive desert ecosystem and traverse unstable land with high seismic activity. In Georgia, there are six major river crossings in areas with unstable land prone to landslides.

Campaigners are also concerned about the pipeline’s contribution to global climate

*Demonstration against the BTC pipeline in front of the EBRD office in London.*

1. IFIs should establish a plan to phase out investments in the extractive sectors, including structural adjustment lending.
2. As a first and immediate step, IFIs should establish no-go areas such as protected areas, indigenous peoples' zones and areas of armed conflict, where they will not promote oil, mining and gas projects. Similarly, IFIs should immediately establish a ban on dangerous technologies, including the dumping of mine tailings in rivers and oceans, and the use of cyanide.
3. IFIs should focus their remaining investments in extractive industries on the closing down of mines, on helping displaced industry workers to find new jobs, on restoring degraded ecosystems and communities, and on the shift towards renewable energy projects.
4. All actors involved – IFIs, governments, industry proponents, legal experts, scientists, NGOs and affected communities – should cooperate in repairing the damage done by past projects. All parties that have played significant roles in causing the damage should be held accountable. Legal experts, scientists and NGOs should assist the affected communities in determining the social and environmental damage.
5. Governments should shift their financial support to decentralized and participatory initiatives that truly benefit people and the environment, for example a transition to renewable, efficient and decentralized energy production for sustainable societies.



change. The oil transported along the pipeline, once burned, will contribute 185 million tons of carbon dioxide to the atmosphere every year.

### social problems

The pipeline will pass through politically unstable regions, including the Armenian enclave in Azerbaijan and Kurdish areas in Turkey. The presence of oil and money is very likely to increase conflict and human rights violations in these areas.

It is already clear that local people's opinions are hardly being considered. In Turkey 30,000 people live along the route of the pipeline. These people have not been properly consulted,

despite the World Bank's special guidelines for this purpose. Many of these inhabitants are economically dependent on their land, and compensation for its use by the consortium has been non-existent or too low. In some cases, construction started before the compensation was granted.

Clearly, spending public and private money on projects like the Baku-Tblisi-Ceyhan oil pipeline will hardly benefit local people, and will only increase 'the paradox of plenty'.

more information:  
 The Baku-Ceyhan Campaign: [www.bakuceyhan.org.uk](http://www.bakuceyhan.org.uk)  
 Friends of the Earth Netherlands: [www.foenl.org](http://www.foenl.org)  
 Friends of the Earth England, Wales and Northern Ireland: [www.foe.org/camps/intl/institutions/backuceyhan.html](http://www.foe.org/camps/intl/institutions/backuceyhan.html)  
 Friends of the Earth United States: [www.foe.org](http://www.foe.org)  
 CEE Bankwatch Network: [www.bankwatch.org](http://www.bankwatch.org)  
 The Corner House: [www.thecornerhouse.org.uk/](http://www.thecornerhouse.org.uk/)  
 Bank Information Centre: [www.bicusa.org](http://www.bicusa.org)



## resources

You can also find pens, banners, stickers, and t-shirts at [www.foei.org/publications/financial/index.html](http://www.foei.org/publications/financial/index.html)

Freeport mine in Indonesia.



Indigenous Sarayaku Quichua people demonstrate against World Bank presence in their lands at a 2003 Friends of the Earth International meeting in Cartagena, Colombia.



Mango farmers demonstrate in Tambogrande, Peru.



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### **comments on the oil spill response plan for the chad-cameroon pipeline**

friends of the earth cameroon, 2003

[www.foei.org/publications/financial/cameroon.pdf](http://www.foei.org/publications/financial/cameroon.pdf)

### **poverty reduction or poverty exacerbation? world bank support for extractive industries in africa**

foe united states and others, 2003

[www.foe.org/res/pubs/pdf/pegg.pdf](http://www.foe.org/res/pubs/pdf/pegg.pdf)

### **oil funds: answer to the paradox of plenty?**

a policy brief on oil revenue monitoring plans: comparison across countries  
foe united states, 2003

[www.foe.org/camps/intl/worldbank/oilrev.html](http://www.foe.org/camps/intl/worldbank/oilrev.html)

### **traversing people's lives: how the world bank is financing community disruption in cameroon [report and video]**

friends of the earth cameroon, 2002

[www.foei.org/publications/worldbank/traversing.pdf](http://www.foei.org/publications/worldbank/traversing.pdf)

### **marketing the earth: the world bank and sustainable development**

friends of the earth united states, 2002

[www.foe.org/res/pubs/pdf/marketingtheearth.pdf](http://www.foe.org/res/pubs/pdf/marketingtheearth.pdf)

### **risky business: how the world bank's insurance arm fails the poor and harms the environment**

friends of the earth united states, 2002

[www.foe.org/res/pubs/pdf/MIGARreport.pdf](http://www.foe.org/res/pubs/pdf/MIGARreport.pdf)

### **opic, ex-im and climate change: business as usual?**

friends of the earth united states and inter-press service, 2001

[www.foe.org/res/pubs/pdf/climatesummary.pdf](http://www.foe.org/res/pubs/pdf/climatesummary.pdf)

### **dubious development: how the world bank's private arm is failing the poor and the environment**

friends of the earth united states, 2000

[www.foe.org/camps/intl/worldbank/ifcreport/index.htm](http://www.foe.org/camps/intl/worldbank/ifcreport/index.htm)

### **a race to the bottom: creating risk, generating debt, and guaranteeing environmental destruction**

friends of the earth united states and others, 2000

[www.foe.org/res/pubs/pdf/ecareport.pdf](http://www.foe.org/res/pubs/pdf/ecareport.pdf)



### **european investment bank fact sheets**

friends of the earth international, 2003

[www.foei.org/publications/financial/index.html](http://www.foei.org/publications/financial/index.html)

### **gambling with people's lives: what the world bank's new "high-risk/high-reward" strategy means for the poor and the environment**

friends of the earth international, environmental defense and international rivers network, september 2003

[www.foei.org/publications/financial/gambling.pdf](http://www.foei.org/publications/financial/gambling.pdf)

### **'if this is development, you can keep it!'**

[video and cd-rom]

friends of the earth cameroon and friends of the earth international, 2001  
order: [ifi@foei.org](mailto:ifi@foei.org)



### **broken promises:**

the chad cameroon oil and pipeline project; profit at any cost?  
friends of the earth international, friends of the earth cameroon and friends of the earth netherlands, 2001

[www.foei.org/publications/mining/promises.pdf](http://www.foei.org/publications/mining/promises.pdf)

### **the world bank and mining in peru: alleviating poverty?**

[video and cd-rom]

friends of the earth peru and friends of the earth international, 2001  
order: [ifi@foei.org](mailto:ifi@foei.org)

[www.foei.org/ifi/videos.html#peru](http://www.foei.org/ifi/videos.html#peru)

### **phasing out international financial institution financing for fossil fuel and mining projects**

friends of the earth international, 2001 [english, french and spanish]

[www.foei.org/publications/financial/FFMeng.pdf](http://www.foei.org/publications/financial/FFMeng.pdf)

### **we thought it was oil, but it was blood**

poems by nnimmo bassey, friends of the earth nigeria

[www.foei.org/publications/mining/blood.html](http://www.foei.org/publications/mining/blood.html)

### **burying people for profit: video on the rosia montana gold mine in romania**

[www.foei.org/publications/mining/index.html](http://www.foei.org/publications/mining/index.html)

### **anglo-american plc: financing the summit, plundering the earth**

friends of the earth, 2002

[www.foei.org/publications/mining](http://www.foei.org/publications/mining)

### **mining in the crossroads of sustainability**

friends of the earth colombia, 2000 [english and spanish]

[www.foei.org/publications/mining/index.html](http://www.foei.org/publications/mining/index.html)

## glossary



**ADB:** Asian Development Bank

**BTC:** Baku-Tblisi-Ceyhan oil pipeline in the Caspian region

**EBRD:** European Bank for Reconstruction and Development

**ECA:** Export Credit Agency

**EIB:** European Investment Bank

**EIR:** Extractive Industries Review

**FoEI:** Friends of the Earth International

**IDB:** Inter-American Development Bank

**IFC:** International Finance Corporation

**IFI:** International Financial Institution

**IMF:** International Monetary Fund

**MDB:** Multilateral Development Bank

**MIGA:** Multilateral Investment Guarantee Agency

**OED:** Operations Evaluations Department

**TNC:** Transnational Corporation

**WBG:** World Bank Group

### about international financial institutions

International Financial Institutions can be divided into two categories: Multilateral Development Banks and Export Credit Agencies.

**multilateral development banks** Most of the Multilateral Development Banks (MDBs) are governed by the world's rich countries. They have pressured governments across Latin America, Asia, Africa, and Central and Eastern Europe to follow an outdated, neoliberal, export-led development model that stresses liberalization, deregulation and privatization. Under the stated aim to 'alleviate' or 'fight' poverty, these policies have led to the displacement of entire communities, grave environmental damage, massive job losses, violations of indigenous peoples' rights, increased corruption and climate change. In addition, the projects and programs supported by the MDBs have increased recipient countries' already heavy external debt burdens.

MDBs are headed by a Board of Governors, composed of representatives from each member country government, generally the national Minister of Finance. However, much power is delegated to the Board of Executive Directors, which approves policies, loans, interest rates and the budget.

**ADB:** Asian Development Bank. Established: 1966. Main decision makers: United States (13%), Japan (13%), Australia (5%), China (5%). Annual lending: US\$5.3 billion (2001). More information: [www.foei.org](http://www.foei.org), [www.bicusa.org](http://www.bicusa.org), [www.adb.org](http://www.adb.org)

**EBRD:** European Bank for Reconstruction and Development. Established: 1991. Main decision makers: US (10%), France, Germany, Italy, Japan, UK (all almost 9%). Annual lending: 3.8 billion Euro (2002). More information: [www.bankwatch.org](http://www.bankwatch.org), [www.bicusa.org](http://www.bicusa.org), [www.ebrd.com](http://www.ebrd.com)

**EIB:** European Investment Bank. Established: 1958. Main decision makers: France, Germany, Italy, United Kingdom. Annual lending: 38 billion Euro (2002). More information: [www.foei.org](http://www.foei.org), [www.bankwatch.org](http://www.bankwatch.org), [www.eib.org](http://www.eib.org)

**IDB:** Inter-American Development Bank. Established: 1959. Main decision makers: United States (30%), Japan (5%), Canada (4%), LAC (50%). Annual lending: US\$9 billion (2002). More information: [www.foei.org](http://www.foei.org), [www.allianzafrentebid.org](http://www.allianzafrentebid.org), [www.bicusa.org](http://www.bicusa.org), [www.iadb.org](http://www.iadb.org)

**WBG:** World Bank Group. Public sector arms: International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA). Private sector arms: International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA). International Centre for Settlement of Investment Disputes (ICSID) Established: 1944. Main decision makers: United States (16%), Japan (8%), Germany (5%), UK (4%), France (4%). Annual lending: US\$30 billion. More information: [www.foei.org](http://www.foei.org), [www.brettonwoodsproject.org](http://www.brettonwoodsproject.org), [www.bankwatch.org](http://www.bankwatch.org), [www.50years.org](http://www.50years.org), [www.aseed.net](http://www.aseed.net), [www.whirledbank.org](http://www.whirledbank.org), [www.worldbunk.org](http://www.worldbunk.org), [www.worldbank.org](http://www.worldbank.org)

**export credit agencies** Export Credit Agencies (ECAs) are quite different creatures. They are industrialized nation's bilateral agencies, and thus tend to favor their own national interests even more than the MDBs. The ECAs provide government-backed loans, guarantees and insurance to multinational corporations from their home country that seek to do business overseas, often in the global South. In many cases, southern governments are required to sign a counter guarantee. This means that if a project fails, southern governments have to pay, thus creating more official debt for these countries. This is the way some of the riskiest projects in the world are financed. Because of the inherent risks of controversial projects in the mining, oil and gas and other sectors, many projects in the developing world could not go forth without the support of bilateral ECAs. As a result, ECA-backed projects often damage the environment and disrupt the lives of people in the affected regions. ECAs collectively lend more than any other IFI.

The most important ECAs:

**COFACE:** Compagnie Française pour l'Assurance du Commerce Extérieur (France)

**ECGD:** Export Credit Guarantee Department (United Kingdom)

**EDC:** Export Development Corporation (Canada)

**EFIC:** Export Finance Investment Corporation (Australia)

**Export-Import Bank** (United States)

**Hermes:** (Germany)

**JBIC:** Japanese Bank for International Corporation

**OPIC:** Overseas Private Investment Corporation (United States)

**SACE:** Sezione Speciale Per l'Assicurazione Del Credito All'Esportazione (Italy)

More information: [www.foei.org](http://www.foei.org) and [www.eca-watch.org](http://www.eca-watch.org)

