

Laos: IFC backs Australian gold mine

On 28 February 2002, the International Finance Corporation, the private sector arm of the World Bank, approved a US\$30 million loan to develop a gold mine at Sepon in Savannakhet province in Laos. The mine, which will be the largest mining operation in Laos, is 80 per cent owned by Oxiana Resources, an Australian mining company, and 20 per cent by Rio Tinto.

Construction of the US\$45 million project is due to be completed by the end of 2002. Preliminary works, including upgrading roads and preparations for the gold plant, have already begun at the site and the first gold production from the mine is forecast for December 2002. Oxiana estimates that the gold deposits at Sepon are worth about US\$1 billion.

Rio Tinto started exploration for gold in the area near the Vietnamese border, in the early 1990s. However, Rio Tinto considered the deposits it found to be too small and in August 2000, the company sold 80 percent of its Lao operations to Oxiana. Oxiana gained the right to explore, develop and extract any mineral resources in a 2,000 square kilometer area in Laos.

The companies have negotiated generous subsidies from the Lao government. For the first two years, Oxiana and Rio Tinto are exempt from corporate tax and employees are exempt from paying income tax. For the next two years, corporate tax will be paid, but at only half the usual rate. As the mine will only operate for seven years, this means that the government will only receive corporate tax at the full rate for three years. Meanwhile, there are no taxes or restraints on repatriation of money from the project. The government has waived duties on imported equipment. In return, the Lao government is to receive 2.5 per cent of the value of the ore mined (but only after Oxiana has subtracted the costs of selling, transport, smelting, refining and other treatment costs). The government also has an option to buy a 10 per cent share in the mine.

Oxiana and Rio Tinto plan to use the profits from the gold mine to develop a US\$100 million copper mine at nearby Khanong. The companies estimate that there could be US\$ 2 billion worth of copper in Khanong. Although the copper mine is described in project documents as Phase 2 of the operation, IFC has approved its loan without studies of the combined impact of both the gold and copper mines.

Villagers' forests, farmland and swiddens will be cleared to make way for the mines. The Sepon gold mine will cover an area of 27.6 square kilometres, straddling the Nam Kok river, a tributary of the Mekong. Fisheries will be damaged. Huge volumes of waste earth and rock will be dumped. The local water table will drop. Cyanide, a chemical which is extremely toxic to fish, wildlife, plants and human beings, will be used to extract gold from ore. Leaks of cyanide from mining operations are common.

To make way for the mine, two villages with a total population of 120 people, will be moved. The mine will also take up land within other village's territory. The project's Resettlement Action Plan, acknowledges that in these villages, "relocation might eventually be necessary" and adds that "one other village, not currently listed for relocation, Ban Vieng (25 households), may require relocation."

Oxiana commissioned NSR Environmental Consultants of Australia and Earth Systems Lao to carry out an Environmental and Social Impact Assessment, which was completed in November 2001. IFC describes the project's environmental and social impact assessment as "detailed," yet the consultants do not know whether three endangered species of fish live in the Nam Kok River. They also do not seem to know what the impact of the mine would be on these species. The consultants report that "should these species actually occur," the impacts could range from "severe" to "very minor." Based on this scant information, IFC decided to back the project.

This support primarily benefits the companies developing the project, Rio Tinto and Oxiana, while putting local communities' livelihoods and environment at risk.

Rio Tinto is the world's largest mining corporation, with over 60 mines and processing plants in more than 40 countries. The company has an appalling record of human rights violations and of destruction of communities and their lands, rivers and forests. A 1998 motion to the UK Parliament described Rio Tinto as "probably the most uncaring and ruthless company in the world." Oxiana Resources was formed by Owen Hegarty, a former executive at Rio Tinto. Based in Melbourne, Oxiana is a gold and copper mining company. As well as the Sepon project, Oxiana owns Dalton Pacific Resources in the Philippines, with six gold and copper mine projects in Northern Luzon. The company also owns shares in mines in Cyprus and Australia.

IFC hopes that its involvement in the Sepon gold mine will encourage further mining projects in Laos: "The investment in the Project will help to increase confidence of the investment community in mining and other sectors of the economy." The World Bank Group's mission is supposedly to alleviate poverty, but IFC appears more concerned with helping the rich get richer. (By: Chris Lang, WRM Bulletin N° 57, April 2002).