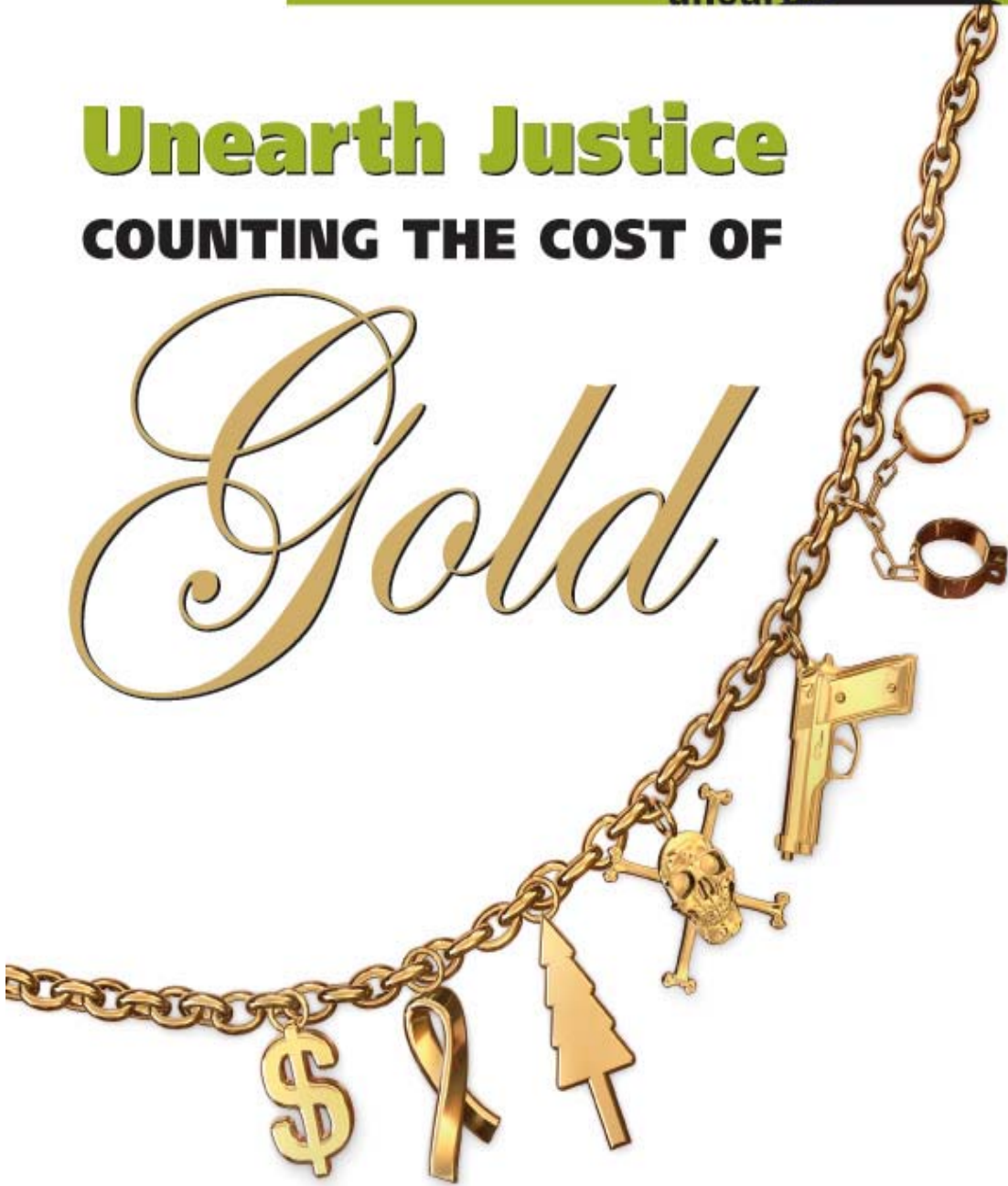


# Unearth Justice

## COUNTING THE COST OF

# Gold



# **Unearth Justice**

## Counting the cost of gold

A CAFOD report

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## Acknowledgements

This report was written and researched by Anne Lindsay and Geraldine McDonald, and edited by Sarah Finch. CAFOD is very grateful to our partner organisations who have generously contributed their time, knowledge and experience, including Pedro Landa, Rosa Giron and Juan Pablo Duron of Caritas Arquidiocesana Honduras, the staff of ASONOG in Honduras, the staff of Caritas Bunia and Caritas Goma in the DRC. We also thank the following people for their helpful comments and other valuable input: Carlos Amador, Fleur Anderson, Rodolfo Arteaga, Tara Burke, Antonio Cabral, Martin Cruz, Rebecca Evans, Alison Fenney, George Gelber, Paul Hollesen, Garry Lambert, Carys Lincoln, Karen Luyckx, Alison Marshall, Francis McDonagh, Richard Murphy, Geoff Nettleton, Philip Newman, Louise Norton, Henry Parham, Sophie Plagerson, Radhika Sarin, Keith Slack, Sarah Smith-Pearse, Greg Valerio, Anneke Van Woudenberg, Eduardo Villacorta, Debbie Wainwright, Helen Wolfson. Errors remain the responsibility of the authors.

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CAFOD is the Catholic Agency for Overseas Development, the official international development and relief agency of the Catholic Church in England and Wales, and has been fighting poverty in developing countries for over 40 years.

CAFOD is a member of the Caritas Internationalis Confederation, a worldwide network of Catholic relief and development organisations.

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# Preface

For centuries gold has held a powerful fascination for people. It has triggered conquest and conflict, and driven rich and poor on treacherous journeys to find and possess it. Gold continues to play a big role in our lives, representing wealth and status, style and glamour. It also remains a central element of our global economy.

But how often do we think about how gold reaches our high streets? In the UK alone, nearly 20 million hallmarked gold articles were sold in 2005 – many of them symbolizing love and commitment. In this report, CAFOD counts the real cost of gold mining and asks: is gold a curse or a blessing for those who live near mines? When is the price too high? And how can we avoid the most vulnerable paying that price?

CAFOD believes that rich nations have a duty to stand by poorer ones, helping them to build a world community where development for some is not bought at the expense of others. Rooted in Catholic social teaching, CAFOD believes that mining companies must contribute to creating better societies, and not be driven purely by self-interest when operating in poorer countries.

There is a real opportunity now to address the harmful impacts of gold mining. Mining companies and jewellers, governments in the north and south, banks and financial institutions all have a role to play. And all of us too, as consumers of gold, can help put pressure on gold mining companies to respect the needs and rights of local communities.

This is what our Unearth Justice campaign sets out to achieve.



Chris Bain  
Director, CAFOD

# Introduction

CAFOD campaigned with Make Poverty History for more and better aid, debt cancellation and trade justice. Mining, just like aid, can be a source of much-needed “financing for development”. In some developing countries, however, oil and mining revenues have embedded corruption in government and public institutions. In others the prospect of future revenues can cloud governments’ judgments about the real costs and benefits of mining and oil exploitation. Today, as rising prices and ever more efficient mining technologies are turning previously uneconomic deposits into attractive prospects, mining companies are keen to explore for minerals and oil wherever they lie beneath the earth’s surface. The communities and fragile environments that will be affected by the mining boom can be a side issue and all too frequently mining brings poor people and their communities into uneasy engagement or even open conflict with some of the most powerful companies in the world.

The preferential option for the poor, the injunction to turn the world upside down and see things from the perspective of the poor and the powerless, obliges us to look very carefully at this relationship and to listen attentively to what they have to say, and to work in solidarity with them for justice. The poor and the powerless here can be the communities that are affected by mining but they can also be people who may benefit if their government invests wisely its revenues from mining. The Catholic Church teaches that rich nations have a duty of solidarity with developing nations and enjoins them to build a more human world community where the development for some is not bought at the expense of others.<sup>1</sup> Representatives of large business concerns are told that they should be initiators of social progress and human betterment and not to “give in to baser motives of self-interest when they set out to do business” in developing countries.<sup>2</sup>

It is hard to imagine anything more destructive of the environment than modern gold mining – whole hillsides are denuded of vegetation, ground up and sprayed with cyanide for a few ounces of gold. But the natural world is not ours to do with it as simply we please. It has to be nurtured, respected and passed on to future generations. “The dominion granted to humanity by the Creator is not an absolute power nor can one speak of a freedom to ‘use and misuse’, or to dispose of things as one pleases.”<sup>3</sup> We are obliged rather to discern and respect both a moral and a natural order which we cannot violate with impunity.

CAFOD’s Unearth Justice campaign seeks to encourage companies to adopt and enforce high standards of business practice and transparency in their dealings with governments and local communities. At the same time, however, recognising that in a globalised world voluntary codes are unreliable, CAFOD is supporting the effort in Honduras to put in place laws and regulations that will oblige companies to adopt high standards of conduct.

George Gelber  
Head of Public Policy

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<sup>1</sup> *Sollicitudo Rei Socialis*, 1987. Para 9

<sup>2</sup> *Populorum Progressio*, 1967. Para 70

<sup>3</sup> *Sollicitudo Rei Socialis*, 1987. Para 34

# Executive summary

Gold is a symbol of wealth and power, but for many people in developing countries gold mining has done little to reduce poverty. Mining can generate revenue and create jobs. It can also cause lasting damage to communities and to the environment. Gold mining has also been closely linked to conflict – whether as a result of fighting over the control of precious natural resources or divisions within communities affected by mining. Mineral-dependent developing countries are more likely to suffer from corruption and poor governance.

This report looks at what needs to change to turn gold into a blessing – not a curse – for the people of the developing world. Action is urgently needed. Developing countries are producing a growing share of the world’s gold. Many gold mines will have quite a limited life of ten to twenty years. Like other non-renewable resources such as oil or natural gas, it is essential that mineral reserves are used wisely.

Working with local partners, CAFOD has looked at two very different countries where the gold-mining industry is at a critical point in its development.

In Honduras, gold mining has increased in scale since the 1990s. The country has a few large-scale mines owned by international mining companies and employing a small number of workers. Pressure is building on the government to grant a significant number of further concessions. Civil society groups have been working for a reform of the mining law which will better reflect the interests of the Honduran people.

In the Democratic Republic of Congo, mining companies are returning after years of instability and conflict. In the gold-mining region of Ituri, expectations are high about the changes that outside investment in mining will bring. Current mining activity is dominated by artisanal and small-scale gold miners. International companies will need to work closely with the community to support stable economic development and avoid further conflict.

Gold mining companies have a huge impact on the lives of some of the world’s poorest people. Governments in developing countries are keen to attract inward investment and expertise. As a result international mining companies often profit from tax incentives and wield significant political influence. Within the mining industry, awareness of the problems caused by gold mining has led to a range of initiatives to promote sustainable mining. Voluntary initiatives can play a role in improving standards but they are not a substitute for regulation. In addition to actions taken by companies to improve their working practices, the following changes are needed:

- **Binding standards for international companies and an effective means of redress for affected communities.**
- **Changes to national mining laws.** National laws and tax regimes need to balance the desire to attract investment against the best interests of the population and

impose binding standards on mining companies, including adequate environmental and social protection. These laws need to be enforced effectively.

- **A stronger voice for indigenous peoples and affected communities.** The negative environmental and social impacts of gold mining are very apparent, particularly to those communities affected directly, but the economic benefits are harder to demonstrate. While a limited number of people will be better off, the profits that are generated by gold mining frequently do not lead to significant improvements in development for the wider population. Communities need access to information regarding mines in clear format and a greater say both in whether mining projects should go ahead and how the revenues from mining are used.
- **Better access to information about mining operations and revenues.** People in gold-rich developing countries need accurate information about the costs and benefits of gold mining. Concessions, environmental and social-impact assessments, human rights impact assessments, environmental monitoring data and closure plans all need to be in the public domain. Companies and governments should publish a breakdown of tax revenues and other payments. This will help to increase understanding of what resources are being generated by gold mining, who is profiting and how those profits are being spent.
- **More stringent criteria for financing gold-mining projects.** The gold mining industry depends on international financial institutions, export credit agencies and banks for the financial support and risk-insurance needed to make mines viable. These institutions should demand high environmental standards, ensure respect for human rights and require consent from affected communities and transparency of revenue payments as pre-requisites for all funding of mining projects.
- **Demand from gold retailers and consumers.** The jewellery industry uses much of the gold that is mined each year. Retailers and consumers can help to drive change by asking mining companies to work to ensure the gold that they supply to the market has been mined in accordance with the ‘Golden Rules,’ respecting the rights of communities and workers and minimising damage to the environment.



# Chapter 1

## Gold as a global commodity

Gold plays a central part in our global economic system and in our everyday lives. For centuries it has been a symbol of wealth, power and love.

At the end of 2004 there were 153 000 tonnes of gold above ground.<sup>1</sup> Of this just over half was in the form of jewellery – treasured by consumers in both the developing and the developed world. India, the United States and China represent the strongest markets for gold jewellery.

Some 17 700 tonnes of the world's gold were used for manufacturing products other than jewellery. The most important sector is the electronics industry, which uses gold for bonding wire and plating solution to make circuits for computers, vehicles and mobile phones. In the developed world a significant amount of gold is used for dentistry (64.2 tonnes in 2004).<sup>2</sup> Tiny flakes of 24 carat gold are even used in some luxury food and beauty products.

Official holdings, such as the gold reserves of central banks, and private investment accounted for approximately 53 200 tonnes of gold in 2004. This was about a third of the world's gold.<sup>3</sup> Institutional investors, particularly hedge funds, are responsible for a significant amount of investment activity via the commodity exchanges in New York, Toronto and London. Over the last five years the price of gold has been steadily rising as a result of increasing investment in commodities across the board. Concerns over oil shortages and political instability have stimulated investment in gold. On 2 February 2006 gold prices reached a 25-year high of \$575.35 per ounce and on 19 April they rose to \$626.75.<sup>4</sup>

Globally an estimated 48 000 tonnes of gold reserves remain underground still to be mined.<sup>5</sup>

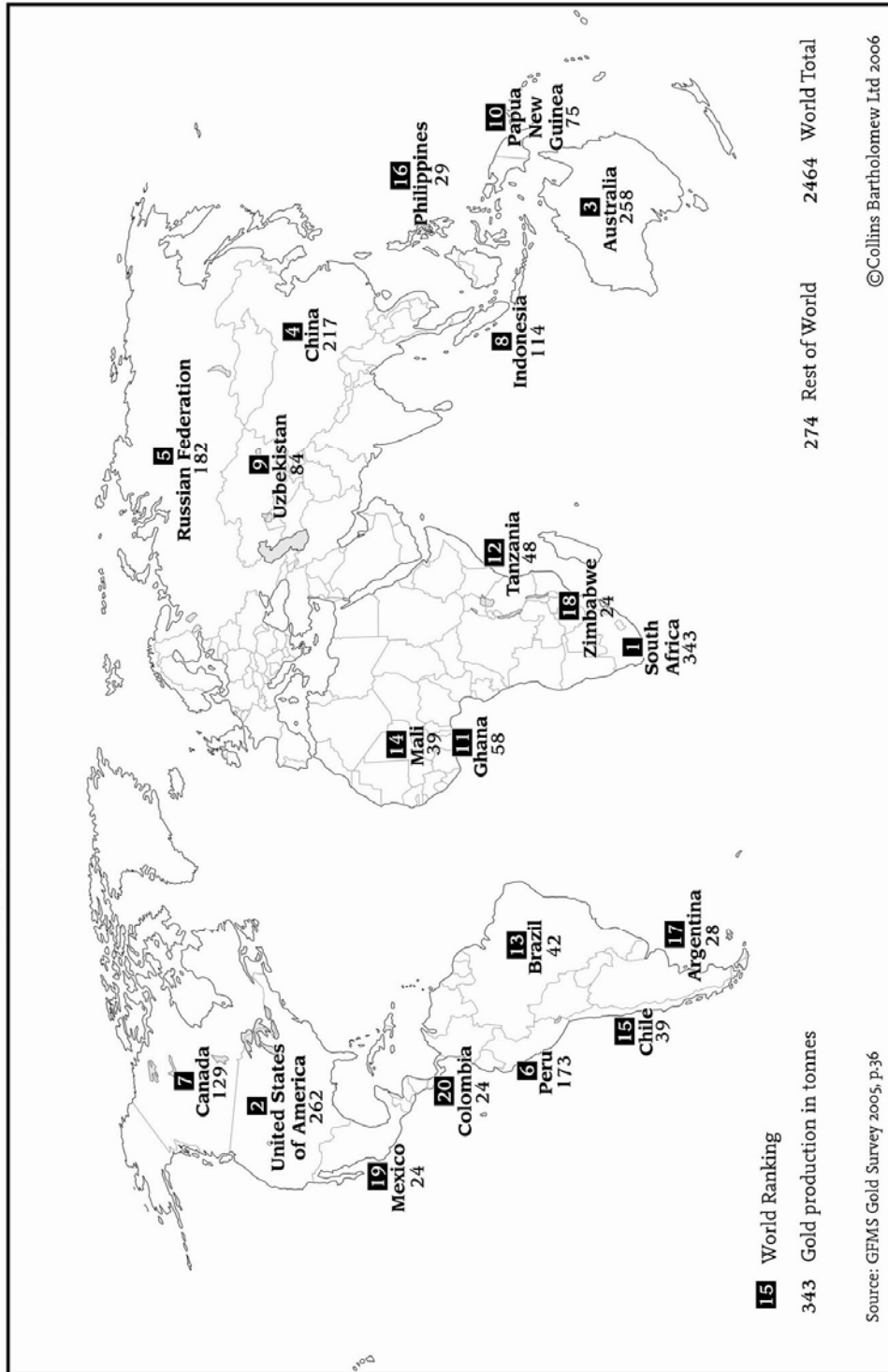
## **Gold-mining and the developing world**

Developing countries are producing an increasing share of the world's gold.

The two largest open cast gold mines are both in the developing world: Grasberg in West Papua and Yanacocha in Peru. This is part of a long-term trend with the proportion of gold produced by the 'big four' (South Africa, United States, Australia and Canada) falling relative to the rest of the world. This is partly due to deposits being mined out but also because it is more difficult to meet environmental requirements in some industrialised countries and labour costs are higher.<sup>6</sup> Over 70 per cent of world gold production is now from developing countries.<sup>7</sup>

In some developing countries such as the Philippines and Peru, significant numbers of people mine gold for themselves. Artisanal and small-scale gold mining was estimated as accounting for approximately 20 per cent of world gold production in 2002.<sup>8</sup> Gold is particularly suited to this kind of small-scale mining activity because it is of a high value and requires very little processing.

TOP 20 GOLD PRODUCING COUNTRIES 2004



## The role of the private sector

Formal gold mining activity is dominated by multinational companies, primarily from the United States, Canada, South Africa, Australia and the UK, which have the capacity to carry out large-scale operations. As in other industries, there has been a pattern of mergers over the last decade. The top five gold producers accounted for 32 per cent of production in 2004. As well as the large global players, there are a number of medium-sized companies with a limited number of mines, typically in a particular geographical area.

### The Top 10 Gold Producers in 2004

		Output in tonnes
1. Newmont	USA	211.8
2. AngloGold Ashanti	South Africa	188.2
3. Barrick	Canada	154.2
4. Gold Fields Limited	South Africa	128.5
5. Placer Dome	Canada	113.6
6. Harmony	South Africa	101.5
7. Navoi Metals and Mining	Uzbekistan	58.3
8. Cia De Minas Buenaventura	Peru	51.3
9. Kinross	Canada	49.5
10. Rio Tinto	UK	48.3

Source: GFMS Gold Survey 2005, p. 37

A large number of gold mining ‘juniors’ are active at the exploratory stage. These smaller companies are often prepared to take on higher risks, for example operating in an area of political instability, to identify gold prospects. Concessions are then frequently sold to the larger mining companies for actual exploitation.

## Financing gold mining activities

The expense and risk attached to large-scale gold mining operations means that companies require substantial amounts of external finance and insurance. This has traditionally been provided by both public and private financial institutions. Without their support large-scale mining would not be able to go ahead. This gives lenders considerable leverage over how gold mining projects around the world are developed.

## Export Credit Agencies

These are government agencies which provide financial support to help domestic companies win contracts overseas. Through guarantees and insurance they provide companies with protection against the risk of not being paid for exports of goods and

services. Despite the fact that they spend taxpayers' money on support for the private sector, it is difficult to get information about many of their transactions. Export Credit Agencies are important players because they lend more to the mining sector than commercial banks and multilateral institutions combined.<sup>9</sup> They are also a vital source of political risk insurance. This means that an agency underwrites projects in the developing world which are considered to be high risk, for example due to political instability or fear of contracts being cancelled.

## **The International Finance Corporation (IFC)**

The World Bank has promoted liberalisation of national mining codes to increase foreign investment through transnational mining companies. Within the World Bank Group, the IFC has also played an important role in supporting the mining sector. The IFC financed 33 mining projects between 1993 and 2001 to the tune of US \$681million; while this was only about 18 per cent of the total cost of these projects, support from the IFC is often crucial in attracting other sources of finance.<sup>10</sup> Recently the IFC provided support to the Marlin gold mine in Guatemala. The Bank's Multilateral Investment Guarantee Agency has provided political risk insurance for gold mining projects such as the Grasberg mine in West Papua, Yanacocha in Peru, Kumtor in Kyrgyzstan and Lihir in Papua New Guinea.<sup>11</sup>

The IFC recently reviewed its safeguards policy which sets out its criteria for providing finance. Some groups are concerned that the newly adopted performance standards represent a step backwards, especially on the issues of public consultation and providing land for displaced communities<sup>12</sup>, both of which are highly relevant to mining projects. This is particularly worrying because the IFC's social and environmental standards have been used as a benchmark by the private banking sector and Export Credit Agencies.

## **Private investors**

The number of banks capable of providing financial support for a major mining project has fallen, owing to their concern that they will be associated with widely publicised problems in the mining industry (reputational risk) and a recent history of poor financial returns.<sup>13</sup> The strong increase in gold prices in the last three years may change this situation.

A number of gold mining juniors have been using the Alternative Investment Market (AIM) of the London Stock Exchange (LSE) to raise capital for exploration activities. AIM provides a way for these smaller companies to raise capital relatively easily by offering them access to a market with limited regulatory requirements. There are over 200 oil, mining and gas companies, making this one of AIM's most important but volatile sectors. Given the risks attached to exploration activities, there were concerns in 2005 over whether investors were receiving sufficient information. In March 2006 the LSE introduced additional disclosure guidelines specifically for companies seeking to be admitted to AIM from the oil, gas and mining sectors.

## Chapter 2

# Gold in the UK

The United Kingdom plays a significant role in the global gold market. London, along with Melbourne and Toronto, is a major centre for raising finance for gold mining. Two of the largest mining companies, Rio Tinto and the Anglo American Group, have their headquarters in the UK. As a financial centre and home to the London Gold Market, the UK is also a transit point for bullion shipments, with high levels of imports and exports. For example in 2003 the UK imported 1402 tonnes of unwrought gold, most of which was refined gold bullion used for inter-bank transactions.<sup>14</sup> The top countries for exports of bullion to the UK are the US and Canada.

### Gold production

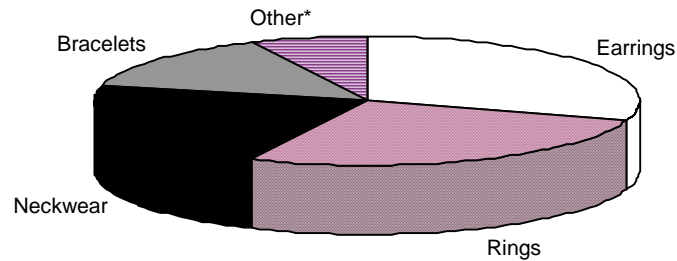
Like most European countries, the UK depends heavily on gold mined in other parts of the world. In the past gold mining took place in Wales, with alluvial production in Scotland and Devon. Between 1860 and 1909 over 3.5 tonnes of gold was produced.<sup>15</sup> A small company, Cambrian Goldfields Ltd, still holds an exploratory licence for the Dolgellau Goldbelt in North Wales and produces very small quantities of gold for wedding rings.

### Gold on the high street

Gold jewellery remains extremely popular in the UK. Sales have fallen since a peak in 2002 and interest in platinum is growing, but the market for gold is still strong. It is estimated that in 2003 over £2 billion was spent on gold jewellery in the UK.<sup>16</sup> Almost 19.5 million gold articles were sold in 2005, accounting for 68 per cent of all hallmarked jewellery items.<sup>17</sup> This is roughly equivalent to a third of the population buying a piece

of gold jewellery in one year and does not include gold items such as earrings which weigh less than 1 gram and are exempt from hallmarking. The bulk of the retail jewellery market in the UK is for 9-carat gold jewellery.

### Gold jewellery sold in the UK in 2001 by type



\* including brooches, stickpins, cufflinks, tiepins, body jewellery etc.

Source: Mintel Precious Metal Jewellery, Market Intelligence, 2004, p.22

Market research has identified changes in consumer behaviour, with increasing numbers of women now buying articles of jewellery for themselves or as gifts and more men wearing jewellery. Another trend is for consumers to trade up to more expensive items. Mintel forecasts that by 2007, the value of the precious metal jewellery market in the UK will be £2.96 billion.<sup>18</sup>

### Jewellery manufacture

More than half the gold jewellery bought in the UK is manufactured abroad. Until recently Italy was a major source of jewellery imports (including unfinished and finished items) but it has been overtaken by China, Thailand and India. Lower carat gold jewellery is now increasingly fabricated abroad and imported.

Jewellery manufacturers in the UK are a diverse group ranging from G&A Ltd., which sells to retailers such as Signet and Argos, to small independent designers and craftspeople.<sup>19</sup> A recent trend in the UK has been the growth in high quality, handcrafted gold jewellery.

### Gold retailers in the UK

The jewellery retail sector is very fragmented, including up-market independent jewellers, regional and national chains, catalogue showrooms and discount stores. There are many small, independent jewellers with a single outlet. Consumers can also buy gold jewellery in department stores, via the internet and home-shopping TV channels. The biggest player in terms of market share and shop numbers is the Signet group. Signet is the largest jewellery retailer in the world with outlets in the US and the UK. In 2005 the group had 598 outlets in the UK, including the H Samuel and Ernest Jones chains.<sup>20</sup>

## Consumer confidence in gold

In the UK ethical concerns about jewellery have tended to concentrate on conflict diamonds from Angola, Liberia and Sierra Leone. High profile campaigns by NGOs such as Global Witness and Amnesty International have encouraged consumers to ask retailers for a guarantee that diamond jewellery is conflict-free.<sup>21</sup>

There has been less awareness among consumers of the social and environmental costs of gold. One of the reasons for this is that the link in the gold supply chain from mining via refining, semi-finished and finished product manufacturing to shops, is often not very clear to customers or indeed retailers.

A study part-funded by the UK Department for International Development and published in 2003 identified the key ethical, social and environmental issues for the jewellery sector with the aim of helping industry bodies to address these concerns.<sup>22</sup> Due to lack of funding, its proposals for follow up research were not taken forward but some small jewellery businesses have been trying to establish schemes for ethically sourcing precious metals.

**“The inherent value and beauty of a piece of jewellery must be judged by the impact it has on the whole supply chain, from miners to customers...there can be no beauty in exploitation.”**

Greg Valerio, Founder of Cred Jewellery.

### Case study: a small business taking steps towards Fairtrade gold

Greg Valerio set up Cred Jewellery with the aim of improving the situation of artisanal gold miners, who frequently see little return for their backbreaking work.

Cred buys its gold from the Corporacion Oro Verde (the Green Gold Corporation) in Colombia. Oro Verde is made up of local non-government organisations and collectives of small-scale miners. Its gold is independently certified against the Institute for Environmental Research of the Pacific Region's social and environmental policy. This includes ensuring that no mercury, sulphuric acid or cyanide is used during the mining process and that local indigenous people and community councils have agreed that mining operations can go ahead. Royalties from gold mining are declared and registered as paid to a specific municipality.

Greg's ultimate objective is to secure gold, platinum, silver and diamonds that bear the international Fairtrade label. To do this he is working with the Fairtrade Foundation and the Association for Responsible Mining ([www.communitymining.org](http://www.communitymining.org)), a network of independent organisations set up in 2004 to promote responsible standards and criteria for artisanal and small-scale mining, drawing on the Oro Verde experience.<sup>23</sup>



## Increasing pressure for 'clean' gold

In the United States the No Dirty Gold campaign launched by Oxfam America and Earthworks in 2002 has been successful in highlighting a shared responsibility between mining companies and retailers, who are more directly affected by consumer action.

The campaign asks gold retailers, mining companies and individuals to sign up to a set of 'Golden Rules' to ensure that gold is mined in a way that minimises damage to the environment, communities and workers.

### The Golden Rules

The Golden Rules call on mining companies to meet the following basic standards in their operations:

- Respect for basic human rights outlined in international conventions and law.
- Free, prior and informed consent of affected communities.
- Safe working conditions.
- Respect for workers' rights and labour standards (including the eight core ILO conventions).
- Ensure that operations are not located in areas of armed or militarised conflict.
- Ensure that projects do not force communities off their lands.
- No dumping of mine wastes into the ocean, rivers, lakes or streams.
- Ensure that projects are not located in protected areas, fragile ecosystems or other areas of high conservation or ecological value.
- Ensure that projects do not generate sulphuric acid in perpetuity.
- Cover all costs of closing down and cleaning up mine sites.
- Fully disclose information about social and environmental effects of projects.
- Allow independent verification of the above.

The industry responded to this campaign with the creation of the Council for Responsible Jewellery Practices in 2005.

Then on 14 February 2006, a number of companies – including Tiffany's, the Signet Group and Cartier – publicly committed to support the Golden Rules. For the retailers this means working with their suppliers to track the sources of their gold; sourcing from mining operations that respect the Golden Rules, when such sources become available; and supporting independent third party verification that the standards are being met. These developments have had a knock-on effect in the UK, where awareness of the need to act to maintain consumer confidence is growing.<sup>24</sup>

An important issue is how commitments to the Golden Rules are now translated into concrete action to improve standards in gold mining.

## The Council for Responsible Jewellery Practices

This is an ideal time for the industry to act collectively. The Council for Responsible Jewellery Practices (CRJP) could potentially become a useful body for addressing concerns about the impact of mining in the developing world. Its objective is ‘reinforcing confidence in the diamond and gold supply chain’ and it aims to reach ‘from mine to retail.’ Experience from other sectors has shown an industry-wide approach can help to tackle problems in the supply chain but there is also the danger that laggard companies water down any industry standards. The communities directly affected by gold mining are not represented in the membership of the Council.

Members of the Council for Responsible Jewellery Practices include:

- AngloGold Ashanti
- BHP Billiton
- British Jewellers Association
- Cartier
- Jewelers of America
- Newmont
- Piaget
- Placer Dome
- Rio Tinto
- Signet
- Tiffany & Co
- World Gold Council

If this voluntary industry initiative is to drive change and have credibility, it needs to set robust standards for its members. At the time of writing the CRJP’s draft code of practices was open to consultation. A number of weaknesses include:

- Consultation “where appropriate” rather than requiring companies to gain consent from the communities directly affected by mining activity.
- Vague environmental standards rather than specific actions in relation to acid drainage or cleaning up after a mine has been exhausted (although the Council has said that additional requirements for the mining industry will be developed later).
- No mention of mining companies publishing their payments to national and local governments so the public knows how much revenue a mine is generating. This is surprising given the fact that several of the mining companies have already signed up to the Extractive Industries Transparency Initiative which aims to reduce corruption through increased transparency of revenue payments from oil, gas and mining.

If the Council is going to get to grips with some of the most damaging aspects of mining activity, it will have to address these points.

Jewellery retailers have an important role to play in keeping up the pressure for changes in the way gold is mined. Here the trade associations and larger retail chains probably have more chance of influencing gold producers. A number of retailers, for example

Tiffany & Co., Cartier and the Signet Group, have committed to support both the Golden Rules and the CRJP. These companies can now act to ensure that the more robust Golden Rules form the basis of the new CRJP sector code of practices. Jewellery retailers can also take steps towards establishing a chain of custody by beginning to audit their own supply chains and asking where their existing suppliers are sourcing gold.

## Chapter 3

# Weighing up the cost of gold for the developing world

Developing countries are producing a growing share of the world's gold. Many gold mines will have quite a limited life of ten to twenty years and gold is a non-renewable resource so it is essential that reserves are used wisely. There is potential to use this mineral wealth to reduce poverty but does mining in fact benefit the poor? Is it possible to carry out gold mining in a way that will contribute to poverty reduction and sustainable development?

**Sustainable development is “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”**

World Commission on Environment and Development

In the face of protests and campaigns from communities and international NGOs, some of the largest mining companies have been forced to examine the social, environmental and economic impact of their activities. In 1998 nine mining companies set up the Global Mining Initiative and initiated the Mining, Minerals and Sustainable Development study. Likewise the World Bank Group commissioned an independent Extractive Industries Review from July 2001 to 2003 to test the assumption that involvement in oil, gas and mining projects was consistent with its objectives of reducing poverty and promoting sustainable development. As a result there is now a broader understanding of the negative impacts of gold mining on the developing world but the debate over the best ways to address these impacts remains highly controversial.

In many ways mining illustrates the ‘resource curse’ - the paradox that developing countries rich in natural resources are still some of the poorest countries in the world. One analysis has found that the greater a country’s dependence on mineral exports, the worse its performance on human development indicators such as infant mortality, life expectancy and child education.<sup>25</sup>

Mineral-dependent states tend to have higher levels of inequality than other states with similar incomes. This means that the more a state depends on mineral exports, the smaller the share of income that will go to the poorest 20 percent of the population<sup>26</sup>. Local communities in mining areas are likely to be most adversely affected by mining activity but may experience few of the benefits.

This chapter briefly highlights some of the problems associated with gold mining that help to explain why countries rich in gold have often not been able to translate this advantage into development benefits.

## 1. Economic impacts of gold mining

The World Gold Council, arguing the importance of gold mining to the developing world, lists its benefits as export revenue, royalty and tax income, technology transfer, skilled employment and training for local populations and improvements in infrastructure.<sup>27</sup> During the last two decades the World Bank Group has actively promoted oil, gas and mining projects in the developing world on the grounds that they would promote economic development and poverty reduction. In fact the conclusion of its own Extractive Industry Review was that extractive industries could only contribute to sustainable development if the right conditions were in place: namely “pro-poor public and corporate governance, much more effective social and environmental policies; and respect for human rights.”<sup>28</sup> The Review also outlined changes needed to achieve these conditions but the Bank Group chose to take only some of these recommendations on board.

### Increased income

Export revenues from gold are an important source of income for a large number of the world’s poorest countries. Royalty and tax income from gold mining also provides developing countries with revenues at national and local level. However the taxation rate is often set at a relatively low level to attract inward investment, limiting the amount of revenue raised.

Revenues generated by mining may not be spent in a way that supports development. The industry-sponsored Mining, Minerals and Sustainable Development project recognised that: “The ability to manage mineral wealth effectively has lagged behind the ability to attract mineral investment.”<sup>29</sup>

This situation is a particular concern because gold is a non-renewable resource. If a country’s mineral wealth is not exploited wisely, its population has lost out for good.

Too great a dependence on a single commodity can also be a problem. This leaves a country more exposed to market fluctuations in gold price and exchange rates. The 2005 Gold Survey calculated that if the gold price fell \$10, the heavily indebted countries as a group would lose about \$75 million in export revenues.<sup>30</sup> In addition other export sectors such as manufacturing and agriculture may suffer as a result of a booming natural resource export sector, so called 'Dutch Disease'.<sup>31</sup> Overall, in the 1990s, mining countries with a 'dominant' mining sector (over 50 per cent of exports) saw their GDP per capita fall at rate of 2.3 per cent each year.<sup>32</sup>

## Employment

Large-scale gold mining is no longer a labour-intensive industry. Globally the number of people employed in formal mining is falling as changes in technology and increased productivity mean that fewer employees are needed. Perhaps as a result, the trend has been for international companies to try to recruit as many people as possible from the local population. Those able to get a job are more likely to experience direct economic benefits and so be in favour of mining. Very few women will fall into this group. Indeed, overall women are less likely to have control over and access to any benefits from mining, as a result of which they can become more dependent on men. In some countries, women are not allowed to work in mines at all.<sup>33</sup>

Small-scale and artisanal mining on the other hand, is highly labour intensive. More people are now involved in informal as opposed to formal mining. The International Labour Organisation suggests that globally artisanal mining involves 13 million people directly (1 million of whom are children)<sup>34</sup> and affects the livelihoods of a further 80-100 million.<sup>35</sup>

Artisanal mining is usually unregulated. The miners lack capital, have poor access to markets, exploit marginal or small deposits and have low rates of recovery. Miners themselves earn very little, with traders and intermediaries making the majority of the profits on sales. Ultimately artisanal mining provides a means of survival for many people. There is a strong incentive for governments to regulate this sector, given that they also lose out on taxes when minerals are exported illegally.<sup>36</sup> However, many difficulties have arisen with attempts to formalise and regulate artisanal mining, not least because miners often operate in remote areas.

## Improvements in infrastructure

A mining company will typically construct and maintain roads, sanitation systems and electricity supplies to support its own operations. Local communities may benefit as a result. Companies may also run clinics or schools serving the area of the mine. A key issue for local communities is what happens when the mine closes.

In under-developed or remote regions, mining companies may effectively take on some of the responsibilities of the state. This can create a situation where roles are blurred and confused. Communities and management have very different expectations about what the company should provide. In the past state mining companies in Africa have often played quite a broad, paternalistic role towards local communities. The Mining, Minerals

and Sustainable Development report notes that when private companies take over state-owned companies they frequently do not want to be responsible for the broader social support that the company previously provided.<sup>37</sup>

## Social and development projects

Mining companies often fund projects to help affected communities. Examples include providing small grants or loans for local people to set up enterprises, sponsoring local events, etc.

**“The promised economic benefits of mining by these transnational corporations are outweighed by the dislocation of communities especially among our indigenous brothers and sisters, and the risks to health and livelihood and massive environmental damage.”**

Statement by the Catholic Bishops of the Philippines, 2006

Overall gold mining brings some economic benefits but these are often not shared on an equitable basis. In addition, short-term profits have to be weighed against the longer term costs. Gold mining projects can be comparatively short-lived, for example 10-20 years. Benefits such as jobs and business for local shopkeepers will end when a mine closes, while the environmental and social effects are likely to continue to be felt long afterwards.

## 2. Environmental damage

The environmental impacts of gold mining are particularly severe because of the chemical processes often used to extract gold.

In artisanal mining, mercury is frequently used to recover tiny particles of gold. The mercury is then burned off in the open air, which is highly damaging to the environment and people’s health. This is one of the reasons why regulation is desirable.

In large scale mining, the first stage is the prospecting or exploratory stage to identify a gold deposit or ore body and assess its value. It can then be exploited through underground or more usually opencast mining. Underground mining is used for deep veins of high quality ore. Opencast mining provides a cheaper way of extracting lower grade ore which is close to the surface. This allows mining companies to reopen and expand mines containing what were previously unprofitable mineral reserves. Opencast methods increase the environmental impact of gold mining.

## Heap leaching

Heap leaching is one of several gold mining techniques which use cyanide. This process involves denuding enormous areas of vegetation and topsoil, blasting and drilling away the rock, crushing or grinding it and piling the extracted ore into heaps several hundred feet high and covering many acres.

A dilute solution of sodium cyanide is sprayed over the heaps so that the cyanide trickles down through the ore, bonding with microscopic flecks of gold. A heap pad (a rubber blanket), underlying the heap, channels the solution into a holding pond.

The gold laden-solution is then collected and the gold removed by chemical process. The wastes left over are called *tailings* and often contain residual cyanide acids and other pollutants such as arsenic.

The removal of huge amounts of earth and rock for an open-pit mine frequently means the loss of land used for agriculture. For example in 2003, the mining company running the Yanacocha mine in Peru removed 516,000 tonnes of soil daily.<sup>38</sup>

Opencast mining can also cause deforestation. In the case of the San Martin mine in Honduras, the state forestry department, COHDEFOR made an official complaint against the mining company Entre Mares for cutting down between 1,000-2,000 trees illegally in order to construct its mine operation area.<sup>39</sup>

Open pits can also lead to the destruction of villages and relocation of communities. Women are particularly likely to suffer from these negative effects as they are more likely to be working in agriculture and less likely to gain employment from the mine.

## Cyanide

There have been a number of significant cyanide spillages connected with gold mines including in three US states in the 1990s, three cyanide spills in Ghana in 2001<sup>40</sup>, a spill at the Kumtor mine in the Kyrgyz Republic and the Baia Mare spill in Romania in 2000. The latter contaminated drinking water supplies for 2.5 million people, was measurable 2,000 km away from the spill source four weeks later and killed 1,240 tonnes of fish. The mining company was required to pay a fine equivalent to US\$170.<sup>41</sup> As a result of spills the state of Montana in the US has banned cyanide heap-leaching for new mines. Heap leaching has also been banned in the Czech Republic.

A significant issue here is not only the breakdown in safety procedures which leads to spills but secrecy which delays local communities and authorities from responding to the emergency. For example in the case of the Kumtor cyanide accident it was five hours before the company notified villages that a spill had taken place.<sup>42</sup>

Although cyanide will destroy ecosystems in the short term, some of the other pollutants resulting from gold-mining cause even worse problems in the longer term.



## **Acid Rock Drainage**

Most water contamination from mining comes from Acid Rock Drainage (ARD).<sup>43</sup> This occurs when sulphides in the rock are exposed to oxygen and water as a result of mining and react to produce sulphuric acid. The acid releases poisonous metals in the mine waste such as arsenic, mercury and lead. This toxic cocktail seeps into streams and contaminates groundwater.

It is possible to contain acid rock drainage but this requires expensive procedures which need to be maintained indefinitely. Careful testing for likelihood of ARD should therefore be part of any Environmental Impact Assessment before a mine goes ahead. Monitoring should also be continued during the life of the mine in case ARD begins to occur.<sup>44</sup>

## **Waste management**

Opencast mining in particular creates vast quantities of waste materials. One of the most controversial issues is what happens to both tailings and waste rock dumps, which frequently contain acid-generating materials. In a few developing countries tailings are dumped directly into rivers or the sea although this practice is illegal in the US and Europe.

## **Water**

The sheer volume of water used by open-pit mining means that it often depletes rivers, streams and even underground reserves. Analysis of conflicts over mining in Peru showed that 60 per cent related to water resources.<sup>45</sup> With increasing evidence of climate change, the issue of water use for gold mining can only become more controversial.

As well as water shortages, problems can arise through waste water being discharged by mines into local streams or rivers, and through spillages when rainfall is higher than expected.

## **Need for regular, independent monitoring**

The environmental problems outlined above mean that opencast mining can have a damaging impact on the ordinary activities of people living in rural areas. This, combined with potential health risks, shows how important it is that mining sites are regularly monitored by independent experts to ensure that companies are complying with environmental standards and national laws. But this requires resources and technical skills which are frequently not available to national agencies or local administrations in the developing world, limiting the degree of protection that governments can offer to their citizens.

### 3. Potential Health Impacts

Studies on the health impacts of gold mining have focused mainly on the effects of mercury used in artisanal mining. Many such studies have revealed between 40 and 70 per cent of workers showing mercury intoxication. Some studies on gold mining have also indicated an increased mortality from lung cancer 20 years after exposure, and a lifetime risk of silicosis in 35-47 per cent of gold miners. This illustrates that exposure to mining can have serious long-term effects, and the impact of past exposures can be felt long into the future of a miner's life.<sup>46</sup>

In both underground and opencast mines, exposure to dust is a major problem. This is true for workers, but can also be a problem for communities located near mines, especially in areas where roads are unpaved. Another problem with mining is mercury air emissions, which can pose risks to human and ecological health. Monitoring of air emissions around mines tends to be poor.<sup>47</sup>

To date there has been little consideration of whether mining may have different health impacts on men and women, although an international network of Women in Mining has paid some attention to this, pointing to negative impacts on women's reproductive health, amongst other effects.<sup>48</sup> There has also been little consideration of the impacts of noise – caused by blasting and the movement of large vehicles – and the mental health of workers and those living near mines.

In general it is difficult to access information on the potential health impacts of mining, particularly in developing countries. Most studies that exist are based on the impacts on men in developed countries. Studies carried out in developing countries are often based on a very small sample number and have inadequate control data. In order to understand fully the potential health impacts of mining more attention would need to be paid to gathering and analysing reliable data.

### 4. Gender

Since women often take the responsibility for their family's health and nutrition, they may be affected more severely by a decrease in water quantity and quality. Likewise deforestation may have more of an impact on women in societies where they are responsible for collecting firewood. Women may also lose the small plots of land where crops are produced for consumption or sale. As a result, mining can negatively affect women's position and status within their households and communities. Women may become more dependent on the income provided by their husbands or move into occupations increasing their vulnerability, such as domestic service or prostitution.

When solutions are sought in consultation with affected communities, special attention is needed to ensure that the voices of the most excluded women and men are heard. Otherwise there is a danger that mining will increase inequalities along gender and other

lines, for example by creating a situation where men have more control over how compensation payments are spent or where new land titles are only granted to men.

## 5. Governance and corruption

Mining can increase the risk of corruption. Research conducted by the International Monetary Fund (IMF) concluded that extractive industries are a ‘major determinant of corruption’ and are much more likely to induce corruption than other sectors of the economy, such as agriculture.<sup>49</sup> Competition for lucrative concessions means that a great deal depends on the granting of a particular licence or permit.

Whether a country’s resource wealth has a positive or negative effect on economic growth depends on the quality of its institutions. Boschini and Petersson argue that natural resources will have a positive impact on the economy in countries with good institutions and that this is most crucial for countries rich in diamonds and precious metals.<sup>50</sup> Unfortunately many of the countries most dependent on gold are places where corruption is perceived as endemic. Bribery is often difficult to prove and local communities can experience a sense of powerlessness – believing that even if they follow the correct legal procedures they will not be able to influence outcomes.

All too often citizens do not know who is benefiting from their country’s natural resources. The Publish What You Pay (PWYP) campaign calls for extractive companies to publish a breakdown of all their payments to governments (taxes, royalties etc.) on a country-by-country basis.<sup>51</sup> Publish What You Pay wants publication of this information to be a mandatory requirement for stock exchange listing and incorporated into national and international accounting standards to drive change across the oil, gas and mining sectors. Greater understanding of the profits that are being generated from mining is the first step in enabling civil society to hold their governments to account for how those revenues are spent. Public disclosure by both companies and governments will make it harder to hide corrupt practices.

A number of leading mining companies have stressed the importance of revenue transparency at local as well as national levels.<sup>52</sup> Since local communities experience most of the negative impacts of gold mining, it is in the companies’ own interest to demonstrate clearly the revenue which is being generated for the community. In some countries governments are responsible for reallocation of taxes to the local level, in others companies make direct payments to local bodies. Mining companies can take action themselves to increase awareness of financial benefits and reduce the risk of corruption by including details of all payments made in their annual reports and in local and national media in the communities where they are operating.

## 6. Mining and conflict

The strong link between natural resources and conflict is one of the reasons why oil, gas and minerals become a curse rather than a blessing for many people in the developing world. A snapshot of about 50 wars and conflicts in 2001, revealed that in at least a quarter of cases resource exploitation had been either a trigger for conflict or helped to pay for its continuation.<sup>53</sup> Mining of diamonds, tantalum, cassiterite and gold played a significant part in prolonging conflicts in Angola, Sierra Leone and the Democratic Republic of Congo.<sup>54</sup>

The involvement of the private sector, particularly international companies, adds a further dimension (see table below). Community level conflict is often linked to the environmental or social impacts of mining operations.<sup>55</sup> Perceptions that some individuals have benefited more than others from a mine may cause deep divisions.

### Company/conflict scenarios

1. Displacement of local communities to clear land (e.g. for a mine) leads to conflict between communities and a company, and within communities.
2. Company operations exacerbate pre-existing tensions either among communities, or between communities and regional/national authorities, triggering violence.
3. Revenue payments to government have a destabilising influence on already poor governance structures, increasing the likelihood of conflict in the long term.
4. Revenue is used to purchase arms, sustaining or escalating conflict.

Reproduced from: International Alert *Conflict-Sensitive Business Practice: Guidance for Extractive Industries*, 2005, Section 1, p. 6

The Grasberg gold and copper mine in West Papua has been a continuing source of conflict for decades. The granting of a licence to Freeport in 1967 by the Indonesian Government inflamed existing tensions due to a long-running struggle by the population to remain independent. The presence of Indonesian security forces guarding the mine has led to disappearances, killings, rape and torture.<sup>56</sup>

The co-existence of artisanal and large-scale mining has also given rise to conflict. There are many examples of larger companies using high-level security to keep artisanal miners at bay. A Tanzanian NGO has alleged that in 1996 the Kahama Mining Corporation used police to forcibly displace and evict up to 400,000 artisanal miners and their families from its proposed mine site.<sup>57</sup> How artisanal miners and large mining companies interact – and not least how they can do so without fomenting violent conflict – is a key issue for the sector.

## 7. Impact on indigenous peoples

It is estimated that half the gold mined between 1995 and 2015 is likely to come from the traditional lands of indigenous peoples.<sup>58</sup> In the case of indigenous peoples their whole culture and way of life can be threatened by gold mining. Spiritual connections to a particular region or locality mean that relocation and compensation are unlikely to be an acceptable substitute for loss of traditional lands. The international community has recognised the particular situation of indigenous communities in international human rights law and that states should not infringe these rights in order to pursue development.<sup>59</sup> The International Labour Organisation Convention 169 on Indigenous and Tribal Peoples also recognises ‘the right of indigenous peoples to participate through their traditional organisations in all government decisions affecting them.’<sup>60</sup>

Often companies will bring pressure to bear on indigenous communities to agree to mining projects going ahead. This can create lasting divisions and conflict. The case of the Subanon people on the island of Mindanao in the Philippines provides an example of an indigenous community which has been riven with conflict as a result of gold-mining.

The Canadian company TVI Pacific is now mining gold in traditional Subanon lands after years of resistance from local indigenous people.<sup>61</sup> Local people report that the mining is destroying a mountain sacred to the indigenous people, though the company disputes this claim. It is clear that the conflict over the development of the mine has led to a bitter split within the community.<sup>62</sup> Some Subanon believe the company manipulated their traditional institutions to get the consent that it required to move ahead with mining operations. The region around the mine is now militarised with armed security guards and road blocks.<sup>63</sup> A number of Subanon leaders who actively oppose the mine report that they have received death threats.<sup>64</sup>

The World Bank’s Extractive Industry Review, which looked extensively at the indigenous rights issue, decided that mining should go ahead only if indigenous communities who had had sufficient information about the project agreed without undue pressure or interference from mining companies – the term for this is ‘**free, prior and informed consent**’. This principle was also to be applied to other communities directly affected by mining.

“The EIR concludes that indigenous peoples and other affected parties do have the right to participate in decision making and to give their free prior and informed consent throughout each phase of a project cycle. This consent should be seen as the principal determinant of whether there is a social license to operate...”<sup>65</sup>

Under pressure from the mining industry and national governments, the World Bank watered down this recommendation to one of “free, prior and informed consultation.” This is a very weak formulation. Consultation means that there is no binding commitment to take on board the views of the affected communities.

The issue of consent remains one of the most contentious issues in the whole mining debate. Genuine free, prior and informed consent would give communities the ability to stop projects which may be commercially viable but may not generate benefits which outweigh the social and environmental costs. It would be simplistic to say that developing a process of free, prior and informed consent for potential mining projects is

straightforward. However this issue has to be addressed by the industry, national governments and international financial institutions if they are serious about developing a model for sustainable mining. Two major mining companies state that they have already incorporated free, prior and informed consent into their own policies.<sup>66</sup> Ultimately no one benefits if mining operations go ahead in the face of resistance, only to be closed down due to instability and conflict.

## 8. HIV and AIDS

The presence of a mine can increase people's vulnerability to HIV infection. Extractive industries attract migrants in search of direct employment, or indirect opportunities to provide goods and services to both miners and companies. Existing trade routes receive increased volume of traffic or new routes are established. The link between migration and HIV vulnerability of migrants, their families and host communities is already well documented.<sup>67</sup>

Opportunistic and economic migrants are away from home for long periods, creating opportunities for increased numbers of sexual partners. Extended periods away from home can lead to other coping mechanisms such as alcohol and drug use. Women migrants who cannot find employment and members of the host community may engage in prostitution. Sexual violence may also lead to the spread of AIDS. Migrants can typically be slow to access medical and support services in an unfamiliar situation, and this is compounded by insecure legal status, or precarious working conditions. The women left behind are also vulnerable if their partners return HIV positive.

The South Africa White Paper on Minerals and Mining (1998)<sup>68</sup> shows an understanding of how corporations contribute to HIV infection. But on the whole industry as a cause of *vulnerability* to HIV infection is rarely addressed and the extractive industries could have a key role in averting the conditions that lead to HIV infection. The industry must complement the many existing guidelines and tracking tools for mitigating the impact of HIV and AIDS on the workplace with a more proactive approach to analyse the impact of their activities and their very presence in a country or region on HIV infection. When mining companies understand and recognise their role in increasing people's vulnerability to HIV infection, they will be able to demonstrate how seriously they take their responsibility towards employees and the wider communities.

## Ending the resource curse

The debate over the value of gold mining is extremely polarised. While there is growing awareness of the potential problems and dangers linked to gold mining, the groups most closely involved hold very different views on the actions required.

The mining industry has promoted a range of voluntary standards and initiatives. Of course this is a very diverse sector and companies' operations and approaches vary considerably. Drawing on technical knowledge and expertise, industry bodies representing the biggest transnational companies point to examples of good practice. The discourse is one of 'transition to sustainable development' and 'moving beyond the resource curse.' Reform of the gold mining industry rather than radical change is the objective here and, above all, companies advocate a voluntary approach rather than mandatory requirements.

Many local community groups, national and international NGOs and indigenous peoples are sceptical about the difference between corporate policies and what is happening at ground level. Grassroots community activists are particularly concerned about the dangers of being co-opted. This has led to boycotts of initiatives and debates. The strength of the industry lobby both at national and international level and past experience create scepticism about whether involvement in dialogue will lead to any substantive change. For many civil society groups the critical question is not how to improve mining practice but whether mining should go ahead or not. In the light of the social and environmental costs to communities, some grassroots organisations take a clear anti-mining stance, for instance, the ongoing campaign to close Glamis Gold's controversial Marlin mine in San Marcos, Guatemala.<sup>69</sup>

## Recent initiatives relevant to the gold mining industry

### Industry initiatives:

#### **International Council on Mining and Metals (ICMM)**

ICMM is an industry body that sets the objective of "a viable mining, minerals and metals industry that is widely recognised as essential for modern living and a key contributor to sustainable development."

Its membership includes AngloAmerican, Newmont and Rio Tinto. Ongoing projects include investigating the development benefits of mining by focusing on countries deemed to be success stories with a view to replicating this success elsewhere. ICMM has produced a Sustainable Development Framework and various tools to support companies in improving their practices.<sup>70</sup>

#### **Global Reporting Initiative (GRI)**

The GRI is a multistakeholder process which aims to develop and disseminate globally applicable sustainability reporting guidelines. A special sector supplement for the Mining and Minerals Sector was launched in February 2005. The information covered is

useful but ultimately companies choose which elements they want to include in their sustainability or corporate social responsibility reports.

### **International Cyanide Management Code**

The gold industry and the UN Environmental Programme have developed a voluntary code for safe management of cyanide in the production of gold. As of March 2006 twelve mining companies had signed up to the code.<sup>71</sup>

### **Council for Responsible Jewellery Practices**

Mining companies, refiners, retailers and trade associations set up the CRJP in 2005. It is currently developing a code of practices for its members.

### **NGO initiatives:**

Numerous community-led initiatives and networks including: World Council of Churches Indigenous Peoples Program, JATAM (Indonesian Mining Advocacy Network), WACAM (Wassa Association of Communities Affected by Mining), Mines, Minerals and People in India and the Red Muqui mining network in Peru.

**Conflict Sensitive Business Practice: Guidance for the Extractive Industries** a practical tool produced by International Alert in March 2005.

**Framework for Responsible Mining**, produced by NGOs, retailers, investors, insurers and technical experts working in the minerals section, this comprehensive overview of the impacts of mining was launched in October 2005. The framework is designed to provoke discussion and raise standards. It sets out existing industry practice on a broad range of social and environmental issues and identifies 'leading edge' practice. The project is led by the Center for Science in Public Participation, a non-profit group formed to provide technical assistance on mining to public interest groups and indigenous communities.

### **Multi-stakeholder initiatives:**

#### **Extractive Industries Transparency Initiative (EITI)**

Launched by the UK in 2002, EITI is a multi-stakeholder initiative involving national governments, extractive companies and civil society representatives. It is designed to address one particular problem faced by natural resource rich countries: corruption.

The objective is for countries to publish details of the payments that they have received from all extractive companies operating in the territory. These figures are independently audited and civil society is expected to be involved at all stages of the EITI process.

So far Azerbaijan and Nigeria have published their receipts from oil revenues. After initially promising interest in mining dependent countries, the initiative seems to have stalled in both Ghana and Kyrgyz Republic. Other gold-mining countries which have expressed an interest in participating include Peru, the Democratic Republic of Congo, and Mongolia.



## **Multilateral Agency Initiatives**

The World Bank, UN Development Programme and the UK Department for International Development have been involved in a global undertaking to regularise activities in artisanal mining, to educate miners on key environmental issues, diversify livelihoods and develop sustainable credit and equipment sharing programmes. Millions of dollars have been pledged to formalise and assist the sector, but one academic has argued that this has been of little real benefit to miners because they have not been consulted properly and not enough attention has been paid to understanding fully the context in which they operate.<sup>72</sup>

Mining companies can take action now, either acting unilaterally or as a sector, to improve their practices and reduce the negative effects of gold mining in the developing world. But voluntary initiatives alone will not be enough to drive lasting changes. Only a small number of gold mining companies have chosen to participate in the initiatives described above and progress is patchy. Industry initiatives should not be seen as a substitute for mandatory requirements. Companies which are genuinely committed to a sustainable approach to mining should not resist attempts to make national or international legislation more robust.

## **National and international regulation of company activities**

Ending the resource curse requires strong national legislation to regulate the mining industry and for this to be enforced effectively. Such legislation should set high environmental standards and a robust, transparent consultation procedure for granting mineral concessions as well as including a tax regime that benefits the population. In many resource-rich developing countries these conditions are not present. National governments have legislated to attract international investment through favourable taxation regimes and streamline the process for granting concessions. Often this has occurred under pressure from the World Bank and the IMF.<sup>73</sup> As the case study of Honduras shows, even when a degree of popular consensus has been reached, it can be difficult to change a mining law once it is in place. Those countries with a more equitable legal framework governing mining may still lack expertise and institutions capable of ongoing monitoring and enforcement.

Ultimately binding international standards are also needed, with an effective means of redress if these standards are not met. The UN Norms on the Responsibilities of Transnational Corporations and other Business Enterprises with Regard to Human Rights provide a useful starting point for developing such international standards. Governments in countries where mining companies are based also have a responsibility for setting high standards of corporate accountability. In the UK the CORE Coalition is pressing for changes in company law to require companies to report on their social and environmental impacts and ensure access to justice for communities overseas which are affected by UK companies<sup>74</sup>.

## **Conclusion**

Gold mining is a mixed blessing for developing countries. The negative environmental and social impacts are very apparent, particularly to those communities affected directly by mining, but the economic benefits of gold mining are harder to demonstrate. While a

## Unearth Justice

limited number of people will be better off, the profits that are generated by mining frequently do not lead to significant improvements in development for the wider population. In the light of this it becomes clear that communities need information about plans for mining, the social and environmental impacts of ongoing operations, and revenues generated, as well as a greater say in whether mining projects should go ahead or not and how the revenues from mining are used.

## Chapter 4

# Case study: A golden opportunity for Honduras?

**“At least with the Spanish invaders it was their different geopolitical and anthropological vision that led them to assume our colonial possessions were theirs by right, in this case it’s our own Government giving away our possessions for free.”**

***Cardinal Rodriguez, May 2005***

*Honduras is one of the poorest countries in the Western hemisphere. In 1998, devastated by Hurricane Mitch and overwhelmed by external debt, the Government reformed the Mining Law in an effort to attract inward investment. But large-scale gold mining has not generated significant revenues for the Government or the Honduran population. It is far from clear that the benefits of mining activities over the last ten years outweigh the considerable costs to the environment and communities.*

*The case of Honduras illustrates how difficult it can be to achieve a more equitable distribution of the profits of gold mining. A Civic Alliance of church, community and environmental groups, NGOs, human rights supporters and municipal governments has been campaigning to reform the law so that it protects the interests of the people of Honduras. A compromise text was agreed by the mining industry, government and civil society, which increases the amount of taxes that mining companies pay, proposes measures to improve environmental monitoring and gives local communities a greater say over the granting of concessions. But the reform of the law has been repeatedly delayed.*

*The Civic Alliance has successfully called for the suspension of the granting of new concessions from the end of 2004 to date. Meanwhile, with CAFTA coming into force, US and Canadian companies are waiting for decisions on new concessions which could drastically increase the scale of gold mining in the country.*



Source: CIA World Fact Book

Honduras has an area of 112,492 square kilometres and a population of about seven million people. Poverty is a fact of life for most Hondurans: 64 per cent of the population live below the poverty line and 44 per cent below the extreme poverty line.<sup>75</sup> Access to clean water is a problem for one in ten of the population.

Inequality is another important issue: while the richest 20 per cent of Hondurans receive nearly two-thirds of the national income, the poorest 20 per cent receive less than 3 per cent.<sup>76</sup> In 2002 Honduras had the lowest ranking of all the Central American states on the 'control of corruption' governance indicator. In 2005 Transparency International's Corruption Perception Index ranked Honduras 106<sup>th</sup> out of 158 countries, on a par with Kazakhstan and Zimbabwe.<sup>77</sup>

Historically the country has suffered very high levels of debt. In 2003 external debt stood at \$5,641 million or 54 per cent of Gross National Income (GNI). Debt relief under the World Bank's enhanced Heavily Indebted Poor Countries initiative will surpass US\$1 billion over time.

## **The political context of gold mining in Honduras**

Like neighbouring Guatemala, Honduras has a tradition of gold mining stretching back many centuries. Foreign control of exploitation has also been a recurring theme. During the fifteenth century the Spanish forced the indigenous people to mine gold. In the 1880s North American businesses revived mining activities in Honduras but little of the profit remained in the country and mining activity tailed off in the 1950s as higher grade reserves were exhausted.

In the 1980s gold mining began to be commercially viable again. The introduction of cyanide heap leaching meant it was possible to extract gold relatively cheaply from low-grade deposits. The down side of this technique is that opencast mining has a devastating impact on the environment. The scale of operations means whole mountainsides are destroyed and vast amounts of water are required. The use of cyanide also creates new potential dangers which have to be managed carefully.

With a diverse range of exports, Honduras is not classed as a mineral dependent developing country. Minerals have historically represented a small percentage of overall exports, although this increased from 2000-2002 as the following table shows.<sup>78</sup> As well as gold, Honduras produces small amounts of zinc, silver, platinum and lead.

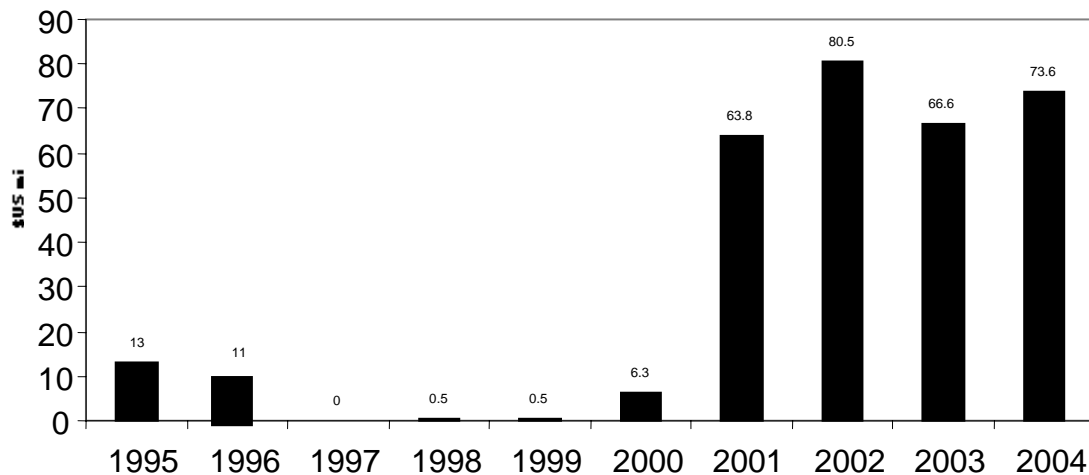
**HONDURAS: MINERAL EXPORTS AS A PERCENTAGE OF OVERALL EXPORTS**  
**Millions of US dollars**

	1995	1996	1997	1998	1999	2000	2001	2002
Total Exports	1,763.1	1,944.3	2,211.0	2,529.9	2,383.3	2,600.7	2517.5	2517.5
Mineral exports	47.4	44.1	64.9	47.3	59.3	72.4	113.5	117.5
Minerals as % of overall exports	2.7%	2.3%	2.9%	1.9%	2.5%	2.8%	4.5%	4.7%

Source: Honduran Central Bank

In 2003, gold was the fourth most valuable export for Honduras, accounting for US \$80.5 million.<sup>79</sup> Most exports of Honduran gold are to the United States and Canada.

**Gold Exports in US\$ Millions**



Source: Honduran Central Bank/IMF

## A controversial legal framework for foreign investment

Like many other mineral rich developing countries, such as Peru, Ghana and the Philippines, Honduras revised its Mining Law in the 1990s to attract inward investment from foreign companies. In 1998 debt was overwhelming the country and many of the development gains of the previous decades had been destroyed by Hurricane Mitch. In December 1998, just weeks after the hurricane, a new mining law was passed. While most Hondurans were simply trying to cope with the aftermath of the disaster, the new legislation was drafted with involvement from the association of mining companies (ANAMIMH) as well as independent consultants. As a result, the law granted significant benefits to international mining companies at the expense of local communities and the environment.

### Key elements of the 1998 General Mining law:<sup>80</sup>

- The law allows for exploration and exploitation of **the entire country**, contrary to national laws and international conventions there are no exemptions. Areas of tourist interest, cultural heritage, residential settlements, ecological reserves and water sources are not respected.
- The law authorises mining companies to have **free use of water**, both inside and outside the concession, triggering an unprecedented scarcity of supply for local communities.
- The law authorises **right of way onto private land** even if the owners refuse permission. Furthermore, if the mining companies are unable to implement their concession or acquire right of way they may request **forced expropriation** citing utility and public need of the land. These two formulations violate articles 103 and 106 of the Constitution, which recognise, promote and guarantee the existence of private property.
- The law gives local communities and other interested parties only **15 days to lodge any objection** after a proposal to grant an exploration concession has been published in the Official Gazette.
- A **tax regime** which is very attractive for foreign mining companies (see below.)
- DEFOMIN, the government body tasked with promoting mining, is also responsible for deciding whether or not to award concessions and carrying out environmental monitoring.

## Campaign for a fairer mining law

The new law passed in 1998 was very successful in attracting mining companies. According to DEFOMIN, between October 1999 and May 2004, some 82 mining concessions were granted to 10 different companies originating in the US, Canada, Italy and Honduras. Gold production rose rapidly as a result. What is less clear to the population is how mining is benefiting Honduras, given the terms on which these concessions had been granted.

The perceived indifference of Government authorities led to civil unrest and mass demonstrations in 2001. Participants demanded respect for their rights and enforcement of the Honduran Constitution and laws. These events led to growing recognition that the current legislation on mining was flawed and at least some measure of reform was needed. In May 2002 Congress invited the organisations campaigning on the issue of mining to a series of talks, with a view, if necessary, to making recommendations regarding reform of the 1998 law.

Civil society groups joined together to articulate their views through the *Alianza Civica* or Civic Alliance for Reform.<sup>81</sup> The Alliance has strong links with the Catholic Church, environmental groups and grassroots organisations as well as a good working relationship with Government. It used media campaigns to call for a law which respected human and individual rights, gave affected communities a greater say in the decision of whether to grant a mining concession and included better checks and balances within Government. At the same time the Alliance successfully pressed for the granting of new mining concessions to be suspended until the law reform was completed.

In July 2004 the Civic Alliance presented the National Congress with a proposal for a reform of the mining law. After months of negotiation, common positions were reached in July 2005 between the Civic Alliance, mining companies (represented by ANAMIMH) and the government (Defomin and DECA - Office for Environmental Evaluation and Control and the legislative commission.) The articles agreed upon consist of 26 pages contained in a document called the Dictamen. Given the controversy surrounding gold mining, the agreement of a compromise text was a major achievement. All that was needed was for this document to be approved by Congress. See a summary of the reform proposals on the next page.

Although all key parties are publicly agreed on the content of the Dictamen, the progress of the Mining Law reform bill mysteriously stalled in 2005. A new Government came to power in January 2006. It has stated that it will continue the freeze on granting new concessions until February 2007 but has initiated revision of the hard-won reforms to the Mining Law. The result of the new Government position is that the Civic Alliance is forced to defend a position that is a compromise as it already represents the outcome of a negotiation between the various stakeholders. The political debate has become more polarised, with suggestions that opencast mining per se should be prohibited. At the time of writing, the reforms have finally passed the second debate in Congress (out of a total of three).

**Summary of mining law reform proposals agreed in July 2005, included in the Dictamen document**

- An increase from 15 to 30 days for people to make known any opposition to requests for mining concessions (radio should be used to transmit information on proposed new concessions).
- An increase in the taxes paid. The proposed increase is from 1% to 2%. The split will be 1.5% for the municipalities and 0.5% to a social investment fund for affected municipalities.<sup>82</sup>
- AMHON (Association of Municipalities of Honduras) will administer the social investment fund.
- Requirement for wide community consultation prior to granting an exploitation concession: the decision on whether a mine goes ahead will be subject to citizen approval through a process of open consultation in community assemblies (*cabildos abiertos*).
- Municipal Environmental Units (UMA) will participate in environmental control and follow-up activities carried out by DECA and Defomin.
- A Mine Closure Plan, setting out how the company will mitigate the environmental impact of the mine, will need to be included from the outset.
- A study of water use (*estudio hidrológico*) will need to be included as part of the Environmental Impact Assessment. The principle of domestic use being at the top of the hierarchy of water uses as established in the Law on Drinking Water and Sanitation (*Ley de Agua Potable y Saneamiento*) is upheld.
- Mining will be prohibited in zones which are part of the National System of Protected Areas; in areas which have been declared watershed by the competent authority; in beaches and zones which have been declared areas for tourism; in environmental recuperation zones defined as such by the environmental authority; in cities and areas of organised population, and in zones which are declared excluded by law, and/or by international agreement. These areas make up 34% of the Honduran territory.
- Stronger environmental controls on mining activity and the creation of a guarantee fund to pay for damages caused.
- Better protection for the rights of property owners who live alongside or are affected by a mineral concession.



## CAFTA

This is a crucial time for the future development of the mining industry in the country. On 1 April 2006 the Central American-Dominican Free Trade Agreement (CAFTA) came into force.

CAFTA promotes trade liberalisation between the US and El Salvador, Nicaragua, Guatemala, Honduras, Costa Rica and the Dominican Republic. Under its terms foreign investors will be able to challenge decisions by governments concerning oil extraction and mining contracts.<sup>83</sup>

This could significantly limit the future powers of the Honduran Government to improve environmental and social standards in mining. Mining companies could invoke clauses in CAFTA which protect foreign investment in order to prevent application of the reforms in the new Mining Law.

Like Chapter 11 of the North American Free Trade Agreement (NAFTA), CAFTA's provisions mean a foreign company can sue a national Government for damages on the grounds that the federal, state or local government in that country has acted in a way that can be considered a direct or indirect expropriation of the company's investment. So for example, a company can claim that its investment has been 'expropriated' if complying with environmental regulation means a project is no longer commercially viable.<sup>84</sup>

While limiting governments' freedom to act at national level, CAFTA does not expand or improve environmental protection and only requires countries to enforce their existing environmental laws, which, in the case of Honduras, are very weak. The investment rules do not place greater responsibilities on international investors but they do make it harder for national governments to act in the interest of their citizens.<sup>85</sup>

Most worryingly, one of the companies operating in Honduras has already made use of chapter 11 of NAFTA. Glamis Gold Ltd has applied for US\$50 million compensation for losses of projected future profits from the US Government for protective measures taken in California to protect indigenous sacred sites from the damages of opencast mining. This case is still unresolved.

Despite broad recognition of the need to improve the Honduran Mining Law so that it contributes to development and better represents the interests of the population and future generations, there is a real danger that CAFTA will transfer yet more power to international mining companies. According to one former MP, CAFTA was passed in the Honduran Congress in a matter of days and with very little debate.

## Gold mining companies operating in Honduras

All of the mining companies producing gold in Honduras are foreign-owned. There is also a number of foreign-owned companies seeking new concessions. ANAMIMH, the trade association for the industry, lists 23 member companies, some of which are service providers. Their parent companies are from Canada, the USA and Italy<sup>86</sup>. ANAMIMH is keen to present its members' activities in as positive a light as possible. For example it

has collaborated with UNICEF to produce a book aimed at Honduran children, extolling the benefits and understating the potential environmental risks of mining.

At present there are three gold mining operations in Honduras. AMPAC also has small amounts of gold, though its focus is on zinc and lead.

The largest opencast mine is the **San Martín mine** in the Siria Valley. The concession for San Martín was awarded in 1999 for 20 years. It is made up of ten adjoining concessions totalling 14,100 hectares, of which 349 hectares is currently being exploited. San Martín is run by Entre Mares, a Honduran subsidiary wholly owned by the Canadian-US company Glamis Gold Ltd. Glamis Gold operates gold mines in Nevada, Mexico, Guatemala and Honduras. In Honduras the company reports proven and probable reserves of 264,000 ounces.<sup>87</sup>

Glamis has invested \$77 million since it started operations in 1999. Revenues from the mine in 2004 were approximately \$42.8 million and earnings before tax US\$ 12.7 million.<sup>88</sup> Production peaked in 2002 at over 129,000 ounces but Glamis still expects San Martín to produce approximately 81,000 ounces of gold in 2006.<sup>89</sup> In 2004 San Martín produced 102,152 ounces of gold. Because the gold is of a low-grade, many tonnes of rock have to be excavated to produce just one ounce of gold.

Entre Mares employs 218 people, the majority of whom live in the nearby town of San Ignacio.

The **San Andrés mine** is a medium-size opencast mine in the municipality of la Union, department of Copan. The concession was granted in 1983 for 40 years and covers 988.93 hectares, of which 400 are being exploited. San Andrés has been run by Minerales de Occidente (MINOSA) a Canadian/Honduran owned company. In December 2004 this mine was bought by Yamana Gold, which is headquartered in Toronto, Canada. It has received direct investment of \$44.4million; 2003 revenues were approximately US\$18 million and the cost of production \$100-130 per ounce of gold. Volume of production was around 4000 ounces of gold per month.<sup>90</sup>

**Cerros del Sur** is owned by the US company Mayan Gold. It is a small operation, and according to DEFOMIN's National Mining Plan exported only US \$41, 650 worth of gold in 2004. Cerros del Sur is an underground mine which is being converted to an opencast mine.

## Counting the costs and benefits of gold mining in Honduras

**“People had the idea of a gold mine as something which would bring them riches and development.”**

Carlos Amador, Teacher in El Porvenir, Siria Valley

### Economic benefits of gold mining

The Honduran economy depends heavily on agriculture. Coffee, bananas and shrimp are all more significant exports than gold. As in other Central American countries, many people depend on the money sent home by family members working abroad. Remittances sent home by Hondurans working in the US are the country’s largest source of income, reaching \$862 million in 2003.<sup>91</sup> Mining contributes to the economy through employment, taxation payments and indirect benefits, such as from purchases of goods and services by the companies and their employees. The key issue for the people of Honduras is exactly how much does mining contribute and whether this outweighs the significant social and environmental costs.

#### 1. Employment

The jobs created by the mining industry are important as unemployment is a serious problem but the total number is relatively small. A generous estimate would be 1500 in direct employment. In comparison tourism creates over 34 000 jobs. Wages paid in the metal mining sector are higher than the average daily wage, at 87.9 lempiras (US\$ 4.77) compared to 77.4 lempiras (US\$ 4.2).<sup>92</sup> This is on a par with port services, banana exporting and financial services. The entire mining sector accounted for less than one per cent of the total amount of wages, salaries and benefits paid in 2003.<sup>93</sup>

#### 2. Taxation payments

Mining generates additional taxation for developing countries but this revenue is considerably reduced by the financial incentives designed to attract companies in the first place. Data on tax revenue generated by mining is almost impossible to obtain from the Honduran authorities.

In an interesting innovation, Entre Mares has a billboard outside the San Martín mine indicating how much money it has paid in taxes to the national Government and the municipality as well as spending on social projects. The billboard is not always easy to read though and it would be helpful if the company published this data, with a clearer breakdown as well. Sequential data also would allow local people to compare payments over a specific period.

The amount that mining contributes to the Honduran budget is relatively small. One of the reasons for this is that mining companies enjoy a significant number of benefits

under the current tax regime. For example, foreign firms pay less than half the rate of corporate income tax, just 10 per cent compared to a standard rate of 25 per cent.<sup>94</sup> Above a certain overall payment threshold the standard rate of 25% is used. Mining companies are exempt from sales tax and exempt from paying tariffs on imports. At a local level, the companies pay a one per cent municipal sales tax to the municipality. Licensing and concession fees for mining are set at a sliding scale; mining companies pay an annual fee for each hectare of their concessions:

US \$0.25 per hectare in the first four years  
US \$0.75 in the fifth and sixth years  
US \$1.50 in the seventh and eighth years  
US \$3.00 in the ninth year.<sup>95</sup>

According to calculations by the Civic Alliance, rather than benefiting financially, Honduras has lost out on an estimated 32 million lempiras (approximately \$1.8 million) annually due to the changes in the tax framework and the 1998 mining law. The Civic Alliance calculates that actual taxes paid are only a third of what they would have been in the past.<sup>96</sup>

Companies can also offset the costs of developing the mine against their tax payments to central Government. For instance in 2004 Glamis Gold Ltd. had deferred tax liabilities of approximately \$10 million. Given that the mining operations may only continue for another four years, it is not clear when and how this amount will be paid. The company has stated that it would not leave the country without fulfilling all its obligations and has paid more than 130 million lempiras in tax<sup>97</sup>.

The company has also mortgaged the San Martín concession for \$30 million to the International Minerals Finance Corporation, another subsidiary of Glamis Gold Ltd. which is based in Barbados.

### **3. Development projects for the local communities**

Entre Mares has set up a foundation to pay for social development projects in the area around the mine. The company spends 1.5 million lempiras (approximately US\$ 80 000) annually on social projects around San Martín, such as schools, scholarships, health and pharmaceutical services. The San Ignacio municipality also has benefited from the one per cent municipal sales tax paid by the company. Surrounding municipalities do not receive tax payments.

Before 1998 the old Mining Code required mining companies to assume certain community health and education projects, and make other contributions in communities in the area where they worked. Companies are no longer obliged to do this; social development projects are purely voluntary.<sup>98</sup>

# Environmental and social costs of gold mining in Honduras

## 1. Water shortages

Opencast mining uses huge amounts of water and so not surprisingly water use has been at the centre of the controversy around mining in Honduras.

During the construction of the San Martín mine, Entre Mares used more than 60 000 gallons of water a day. While the general mining law says that both water inside and outside the concession can be used, this cannot be to the detriment of the interests of the collective. A technical study by the Environmental Ombudsman's Office in 2000 found that the damming of a local river, the Agua Tibia, had led to difficulties for local residents in watering their animals. Extraction of more than 30,000 cubic meters of sand from the River Playa for construction purposes had also damaged aquatic and land life and caused a diversion in the river channel. Even before the mining operation started, the Siria Valley suffered from serious water shortages during the dry season (February-June) because the area is subject to very low rainfall. In 2002, when water shortages were particularly acute, Entre Mares had to buy water from private properties in the neighbouring valley for 19 lempiran cents a gallon.<sup>99</sup>

The villagers in the Siria Valley report that water sources are drying up. People now have to buy water for themselves and their animals. The company has paid for the construction of a number of wells and water tanks but three wells have had to be closed. The water supplying these wells was found to contain arsenic so cannot be used for human consumption.

## 2. Cyanide and arsenic contamination

There have been a number of cyanide-related accidents caused by mining in Honduras. On January 6 2003 an incident at the San Andrés mine operated by Minerales de Occidente (MINOSA) led to over 300 gallons of a toxic cyanide solution leaking into the Lara River, which provides food and water for nearby communities.<sup>100</sup> An estimated 18,000 fish were killed. The Center for the Research and Control of Pollution identified heavy metals in water and fish as a result of the release of contaminated waters by the El Mochito zinc and lead mine. Another study by the Center revealed problems with discharge waters from the San Andrés mine. The discharge waters were found to contain cyanide levels that contaminated the river system on six or seven occasions in less than three years.<sup>101</sup>

In November 2003 the Caritas of the Archdiocese of Tegucigalpa carried out a joint study with Entre Mares on the water contamination risks around the San Martín mine. This study showed a problem with arsenic. Arsenic frequently occurs in hard rock containing gold and can be released as a result of the mining process. The maximum concentration of arsenic for safe drinking water according to both the Honduran state and the World Health Organisation is 0.01microgrammes per litre (mg/l). In two different sites around the San Martin mine levels of 0.02 mg/l and 0.0223 mg/l, i.e. at least 0.01 mg/l above the permissible levels, were found.<sup>102</sup> The company says that the presence of arsenic is due to the natural geology of the area.

Most recently in December 2005 a DEFOMIN inspection found dangerous levels of cyanide in the water at the San Martín mine. Samples taken from the Guajiniquil stream which runs through the mining concession and the ‘duckpond,’ where treated water is stored, contained between 2.11 and 3.71 parts per million (ppm) cyanide. The company contests the validity of this set of readings. The duckpond is located within the mine, alongside the periphery of the mine and, unlike the other ponds, has no waterproof liner. Separated by no more than a fence, the duckpond is therefore part of the wider ecosystem and natural water system of the area. These levels were more than four times the Honduran norm of 0.5ppm, beyond which cyanide becomes dangerous to the environment.<sup>103</sup> The Guajiniquil stream flows into the Playa river, which downstream is used for watering cattle, washing clothes and irrigating plots.

Among the local communities there is widespread concern and fear about water supplies. Many people describe wells as contaminated.<sup>104</sup> There is a real need for regular, systematic measuring of water volumes and water quality to address this problem. The information obtained should also be shared with local communities in an accessible form.

DEFOMIN has publicly stated that there is a huge capacity problem within the Government itself to implement laws and regulations effectively.<sup>105</sup> Resources are urgently needed to build the technical capacity of the Government departments responsible for upholding environmental and fiscal standards. In the meantime the mining companies should share information and reports directly with the local population.

### 3. Loss of farming land and deforestation

A large area of the Siria Valley has been destroyed by the San Martín mine. Agriculture is the main source of livelihood for people in the region. A socio-economic study in 2003 estimated the impacts on farming of the Entre Mares mine by comparing the situation with baseline data from 1993. The survey showed that the quantity of land under crops (in 2003) was well below the levels of 1993. Comparison was made of coverage of different kinds of maize and beans crops and it was found that in the best of cases (for a type of maize - *maicillo asociado*) there was only 38 per cent of what was previously sown. In the worst of cases there was only 2 per cent and 3 per cent of previous acreage of crops.<sup>106</sup> The number of cattle in the region had fallen by 24 per cent, from 14,274 to 10,908 according to 114 ranches consulted (which represented 13 per cent of the ranches with farming activity)<sup>107</sup> Between 1,000-2,000 trees were cut down by the company to build the patios when the mine was established. Deforestation also exacerbates the problems of water shortages and soil erosion in what was already a dry area.

**“My land is close to the mine. When they started moving the earth, the sand came down and completely covered my land. I grow sugar-cane – it’s fodder for the animals. Every time it rains, they bring a machine in again and it happens again. I can’t get my cows on to my own land. All our land is covered and the mining company cleans it up for us. Plenty of other people are affected. We have protested, but this time it’s**

**worse. Wherever there is a mine, it's going to destroy the land around it. We just didn't imagine it would be so bad."**

**Arnulfo Velasquez, farmer, Siria Valley**

A huge issue for the people in the mining areas is what will happen when the gold has been exhausted and the companies leave. This is particularly relevant in the case of Glamis-owned San Martín, as the mine is reaching the end of its life. Here there are significant differences in perceptions of how successful reclamation work has been. The company has planted more than 22,000 trees. According to Glamis Gold, 'reclamation of the mined-out Rosa pit at the San Martin mine in Honduras has been extremely successful.'<sup>108</sup> However the local Environmental Committee disagree with this assessment. Entre Mares urgently needs to involve communities in working out a viable economic strategy for when mining activity in the Siria Valley finishes.

#### **4. Displacement of communities**

**"In Honduras ... Glamis developed its successful formula to work closely with local communities and seek their involvement in all phases of project development. This experience-based knowledge has served the Company well in the subsequent development of its El Sauzal mine in Mexico and the Marlin project in Guatemala."**<sup>109</sup>

Pure Gold, Solid Growth, Glamis Gold annual report 2004

Several communities were relocated to make way for the gold mines at San Andrés and San Martín. Research by the Center for Economic and Social rights found the people living in San Andrés felt pressured by the Government to be relocated and unable to resist the mining company.<sup>110</sup>

The small village of Palo Ralos was demolished to make way for the San Martín mine. Fourteen families were relocated to a new settlement with the same name 900 metres from the mine. Within the community opinions are divided; some people are content with their new homes, others still traumatized by the move and find their new houses substandard. Five years after relocation several families have still not received legal titles for their new land and houses from Entre Mares. Those families who did eventually receive land titles from the company found that they contained errors, for example the wrong name or identity card number, which they fear could undermine their legal validity. There is a local campaign to secure proper legal titles.

There is a real need for the open assemblies outlined in the Dictamen which would give local people a greater say over the decision to grant mining concessions. Members of the El Porvenir, San Ignacio and San Andrés communities all complained of a lack of involvement and adequate consultation before the mining licenses were approved.<sup>111</sup> Staff of DEFOMIN at the time stated that they thought it inappropriate to consult the community about mining decisions due to their lack of education.<sup>112</sup>

The experience of the communities reveals the inadequacy of the concessions process under the current law. Applications for mining licenses were advertised in the official

gazette which the people of San Andrés do not receive, and there were only 15 days to lodge a formal objection to the mine. Community members also were concerned that key sources of information, such as the Environmental Impact Assessment, were not available for public reading.<sup>113</sup>

## 5. Conflict within communities

Within Honduras gold mining has divided communities. There is a real split between the few people who have benefited from the presence of the mine, usually those who have direct employment, and those who have not. For example some members in the San Ignacio community, close to the San Martín mine, said that while there were now more shops, incidences of alcohol abuse had increased as well since the opening of the mine. In addition migration into the town had driven up housing and building costs.<sup>114</sup>

A further source of controversy is that local tax payments are only made to the government of the San Ignacio municipality. Communities in the neighbouring Porvenir municipality actually live closer to the mine, and are more affected by it, but because of administrative boundaries the municipal government of Porvenir does not receive any of the municipal taxes paid by the mine.

The Civic Alliance conducted a questionnaire among local communities in 2003.

Q: Do you believe that the presence of the mining company and mining activities in the municipality

	Frequency	Percentage
Is fundamental for development?	11	7.4%
Brings with it some benefits?	13	8.8%
Are more damaging than beneficial?	26	17.6%
Are highly damaging?	97	65.5%
Don't know/no answer	1	0.7%
Total	148	100.0%

Source: Table 11 Civic Alliance report, p12

- **89.9 per cent of those surveyed said they believed that the community was threatened by problems of environmental contamination.**<sup>115</sup>
- **Air and drinking water contamination were considered to be the worst problems, with noise another significant factor.**

In some circumstances disagreement has escalated into violence. One local priest who has spoken about the environmental costs of mining reported that he has received a number of death threats. In February 2006 the conversion of the Cerros del Sur mine from underground mine to opencast mining sparked conflict between miners and local people.



## Recommendations:

- All parties, Government, parliamentarians, civil society and the mining industry should work together to ensure that the agreed text of the Mining Reform Bill is adopted as soon as possible and certainly before any new concessions are granted.
- The Government must ensure that sufficient resources are allocated to the national and municipal administrations to enable the new law to be enforced effectively.
- The population must have clear information about the potential costs and benefits of gold mining. Mining companies should publish information on all relevant aspects of their operations in Honduras in a timely and appropriate manner: all tax payments made; data and studies on environmental and health impacts; the company's operational plans such as emergency plans, environmental impact mitigation plans and closure plans.
- Glamis and other gold mining companies should support the principle of open community consultation (*cabildos abiertos*) which was agreed by government, civil society and the mining companies in the Dictamen. At every stage of the process from exploration to closure of the mine, communities need to be informed and involved in decision-making. This is particularly relevant as the San Martín mine approaches the end of its life.
- Water in and around the gold mines should be monitored by an independent expert. If the companies grant access to the mines this will show good faith on their part. This needs to be backed up by publication of periodic reports on the condition and quality of water, soil, air and the forest. Both the municipality and the company need to find suitable ways to guarantee that the information reaches those living in the area.

## Chapter 5

# Case study: Lifting the curse of gold in the Democratic Republic of Congo

*The Democratic Republic of Congo epitomises the paradox of the ‘resource curse.’ Although the country is rich in minerals, diamonds and oil, its people have seen few benefits from this abundance of natural resources. This case study looks at the prospects for breaking that destructive pattern in one area of north-eastern DRC. South African mining company AngloGold Ashanti is exploring a concession in the gold-rich area of Mongbwalu in Ituri district. The local population has high expectations of what the company will deliver. It is essential that the company has a coherent strategy for working with the community and taking its views on board if it wants to support stable economic development and avoid further conflict.*

**“It’s painful for us all to see how much gold is produced and yet how difficult life is for that whole community in Mongbwalu. The community should benefit from those mines that give so much gold.”**

Monsignor Dieudonne Uringi Uuci, Bishop of Bunia

The Democratic Republic of Congo (DRC) covers an area the size of western Europe and has a population of just 60.1 million. Despite being rich in copper, diamonds, gold, oil and other minerals, it is one of the poorest countries in the world. Life expectancy was 51 years in 2005 and severe malnutrition rates among children under five have

reached 30 per cent. An estimated 1,200 people die every day from conflict-related causes, including disease, hunger and violence.<sup>116</sup>

## The political context of mining in the DRC

The DRC has been at the centre of a major African conflict. From 1998 to 2003, an estimated 4 million people died in a series of wars which pitted DRC Government forces supported by Angola, Namibia and Zimbabwe against rebels backed by Uganda, Rwanda and Burundi. The UN recognised the role that plundering of natural resources was playing in “perpetuating the conflict in the country, impeding economic development of the DRC and exacerbating the suffering of the Congolese people.”<sup>117</sup> Despite a peace deal and the formation of a transitional government in June 2003, the threat of civil war remains. Armed militias, other armed groups and foreign rebels are still operating in the more remote areas of the country.

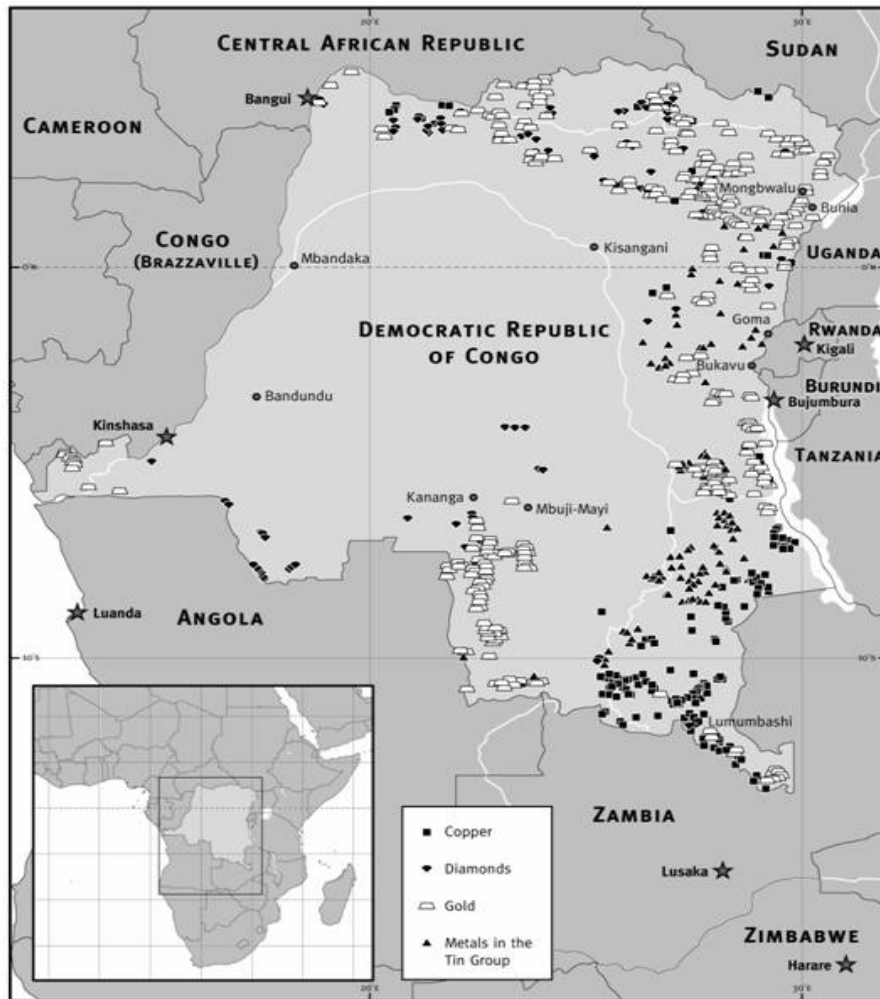
### Attempts to revive the mining sector

War, lack of investment, mismanagement and the breakdown of administration have all contributed to a dramatic decline in the formal mining sector. In 2004 mining and mineral processing contributed only 8.7 per cent of GDP. This is a huge contrast to the situation in 1985 when mining accounted for three quarters of the country’s exports, a quarter of fiscal revenues and a quarter of GDP.<sup>118</sup> The conflict has also led to a rise in informal mining, with individuals desperate to find a way of supporting their families and militias frequently using forced labour to exploit mines under their control. Hundreds of thousands of people are now engaged in small-scale mining, often in desperate and dangerous conditions.<sup>119</sup> The IMF estimates that about 20 per cent of the DRC’s population is dependent on artisanal mining of diamonds, gold, coltan, cassiterite and other minerals.<sup>120</sup>

The Government faces a serious challenge in increasing its revenues from mining.

The DRC Mining Code was revised in 2002 under the auspices of the World Bank but there are concerns about the extent to which it is actually being enforced, even in areas which have remained under the control of the national Government.

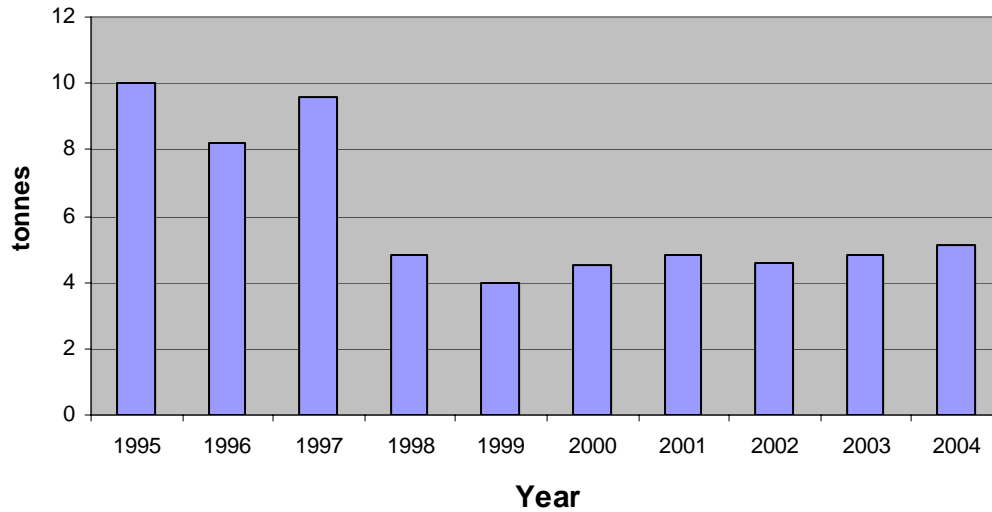
Official figures show a decline in exports of gold from the DRC (see table below) but it is clear that substantial amounts of revenue are being lost due to gold being smuggled out of the country. In 2003 an estimated US\$ 60 million worth of Congolese gold was exported from neighbouring Uganda.<sup>121</sup>



Major Mineral Deposits in the Democratic Republic of Congo

Source: Human Rights Watch 'The Curse of Gold' 2005

### DRC Gold Production (tonnes)



Source: GFMS Gold Survey 2005

Another legacy of the conflict is confusion over rights to mineral concessions. As power shifted between 1996 and 2003, different Government and rebel groups granted a range of mining concessions.<sup>122</sup> A 2005 report by the Lutundula Parliamentary Commission recommended that sixteen business contracts should be renegotiated because they were either illegal or of limited value for the country's development. The Government has yet to act on this recommendation.

Tackling corruption is of central importance if the people of DRC are to see lasting benefits from natural resource exploitation. Transparency International rates the DRC as 136<sup>th</sup> in its corruption perceptions index and a recent IMF report recognised that "Corruption remains deeply ingrained and is major obstacle to the improvement of the business climate."<sup>123</sup> The Government has signalled its interest in the Extractive Industries Transparency Initiative and established a National EITI Committee in November 2005. At present progress with the initiative has slowed due to the forthcoming elections.

### The role of the private sector in economic recovery

Increasing private sector investment in mining is a key part of the Government's economic recovery strategy. Despite the problems outlined above, international gold mining companies are returning to the region. The value of the DRC's mineral deposits creates a strong incentive. The Canadian Banro Corporation is carrying out exploratory drilling of the Twangiza-Namoya gold belt in the South Kivu region of DRC. AngloGold Ashanti has been conducting exploratory work in the north eastern Ituri region, near the town of Mongbwalu. Moto Goldmines is also carrying out exploration work in the northeast of the country. In the east of DRC the national Government has little authority on the ground. The limited capacity of the administration places a great responsibility on

the companies to ensure that the way in which they operate contributes to a stable economic recovery and does not re-ignite conflict.

## **Gold mining in the Ituri region**

Gold has been mined in north-eastern Congo for over a hundred years. During colonial rule a Belgian company, SOKIMO, owned gold mines in the region. In 1966 the company was nationalised and renamed the 'Office des Mines d'Or de Kilo-Moto' (OKIMO). OKIMO has entered into various joint ventures with privately owned foreign mining companies since 1992. The situation was further complicated by the Government of President Laurent Kabila revoking agreed contracts and negotiating new ones while the conflict in the region meant that mining activities were suspended. Through its merger with Ashanti Goldfields, AngloGold Ashanti acquired the exploratory rights to the whole of concession 40, a mining area centred around the town of Mongbwalu, in 2001.

## **Natural resources and conflict**

The war had a devastating impact on north eastern DRC. Positioned close to the border with Uganda and Rwanda, the region was fought over by national armies from those countries and the militias that they backed. These were ethnic conflicts between the Hema Union of Congolese Patriots militia and the Lendu Nationalist and Integrationist Front (FNI), who received support from Rwanda and Uganda respectively but the various groups also sought to control the gold mining areas. There were five battles to control Mongbwalu which led to at least two thousand civilians being killed between June 2002 and September 2004.<sup>124</sup> Many more people fled their homes and fell victim to starvation, sickness or exposure.

AngloGold Ashanti revisited the region in 2003 and re-established the camp in 2004, despite the fact that the area was still under effective control of the militia. Human Rights Watch detailed links between the company and the FNI in its 2005 report 'The Curse of Gold'. It alleged that by dealing with the militia in this way, AGA gave prestige as well as financial assistance to an organisation which had committed serious human rights abuses. The company has responded by cutting all links with the FNI and also denies having given the FNI financial assistance. In the meantime Government forces have increased their control over Mongbwalu and driven the militias back into the surrounding countryside.

## **How is gold mining benefiting the local economy?**

The people of Mongbwalu face a daily struggle to survive as they rebuild their lives after the recent conflict. The town's infrastructure is non-existent, despite its location on one of the richest goldfields in Africa. Profits from the gold mined in Ituri are not being used to improve people's lives or rebuild the community. Since the exploitation is informal and much of the gold is being smuggled over the border to Uganda for export and refining, income from tax revenues is minimal. It is not clear how the money that

OKIMO does receive from artisanal mining and in the form of rent from AngloGold Ashanti is being spent.

Artisanal mining is a way of life in the Mongbwalu district. One local leader estimates that of approximately 40 000 people living in Mongbwalu, around 20 000 are involved directly in mining. This is difficult and dangerous work and almost impossible during the rainy season. As well as the opencast mining, miners are exploiting two old underground mines. Last year twelve miners died when there was a partial cave-in.

Many people in Mongbwalu are effectively trapped in a hand to mouth existence of artisanal gold mining. The population is isolated – because of the poor roads a trip to Bunia just 90 km away can take days. Prices in the town are high and miners report that they barely earn enough to cover their living costs. Income is unpredictable as it depends on the amount of gold found each day. Most people have plots of land to grow vegetables to supplement their earnings. At the same time there is a chronic lack of alternatives to mining.

**“Sometimes it rains so hard that all the mud washes back into the hole and you are right back where you started. It’s very hard work to earn a living, but when there are no other jobs here, you have to do what you can.”**

Artisanal miner in Mongbwalu

In these circumstances it is not surprising that artisanal miners see an international mining company as a potential source of more secure jobs and better working conditions.<sup>125</sup> Yet even if AngloGold Ashanti does go ahead with large scale operations, they will not create enough jobs for all the people who currently depend on mining.

## AngloGold Ashanti’s operations in DRC

AngloGold Ashanti is the world’s third largest gold producer. Its global operations produced 188 tonnes of gold in 2004. Based in South Africa, it is currently part of the Anglo American group and operates open pit gold mines in Ghana, Mali, Namibia, Tanzania and underground mines in Ghana and South Africa.

In the DRC, AngloGold Ashanti operates through its subsidiary AngloGold Ashanti Kilo (AGK). This company is a joint venture between AngloGold Ashanti and the Congolese state mining company OKIMO. AngloGold Ashanti is the controlling shareholder in the joint venture. AGK is only at the exploratory stage of mining. The current exploration area represents just 150km<sup>2</sup> of an exploration licence covering 10 000 km<sup>2</sup>. Ashanti pays a monthly rent to OKIMO in Kinshasa for the concession. The concession covers a significant area of gold-rich territory and the company holds an 86.22% stake in the joint venture. There is an ongoing debate as to whether OKIMO and AGA should now renegotiate the contract governing the concession, so that it better reflects the interests of the people of DRC. The Lutundula report specifically recommends a renegotiation of the contract. AGA has publicly stated that it welcomes a government review of the agreements.

## **Challenges for sustainable mining in Mongbwalu:**

AGA bases its social licence to operate on the principle that “Communities must be better off for AngloGold Ashanti having been there. If the company is to ensure that the people of Mongbwalu are better off for its presence, it will need to address five key challenges:

### **1. Managing expectations to prevent conflict**

AngloGold Ashanti has chosen to operate in a conflict or near conflict situation. In Mongbwalu the state has very limited control. It is also an area of considerable ethnic tension and armed militias are still operating outside the town. The company will need to take a carefully planned, proactive approach if it is to avoid exacerbating ethnic tensions in the region.

There are already ongoing concerns within the local community about Ashanti’s employment and recruitment practices.<sup>126</sup> Approximately 500 workers who had been employed by KIMIN, the previous holder of the concession, had their contracts annulled by Ashanti in 2003 and were not given adequate severance pay. In January 2006 a number of ex-workers called for the national Government to suspend the company’s licence to operate until their cases have been investigated.<sup>127</sup> The company says that an agreement has now been reached with the representatives of the ex-workers.

Ashanti currently employs about 100 workers, approximately half of these are contractors. Local people were concerned that AGA was recruiting people from outside Ituri rather than those from the concession area. Some of the Nyali people, who are indigenous to the area, said that the company should have been in contact with them regarding its plans.<sup>128</sup>

### **2. Effective consultation with communities**

In January 2005 AGA set up a Social Development Committee which meets with the company on a monthly basis to discuss social development projects. Membership includes the local priest, the Chef de la cité and the school headmasters. Its members have questioned the usefulness of the current committee and the extent to which the company listens to its views.<sup>129</sup> AngloGold Ashanti has plans to reform the committee to make it more representative and turn it into a Stakeholders Forum. This reform needs to be taken forward carefully, working closely with the local community.

In addition to reforming the composition of the Committee, its mandate could be expanded beyond the choice of social development projects to address the company’s core operations. AGA cites multi-stakeholder engagement as one of the elements of its social licence to operate and is developing a strategy for open dialogue with the community. At present there is no forum or structure for this type of broader consultation about the company’s operations and plans for the concession. The restructured Committee, if adequately set-up with a clear mandate and broad representation, could play a helpful role here.



If AGA does decide to go ahead with large scale gold mining, it will transform the region. For instance many of the people in Mongbwalu assume that the company will operate an underground mine like the ones operated by the former Belgian companies. In fact the company is also considering opencast mining. While the exploratory phase is still ongoing, it is essential that AGA consults with the community at as early a stage as possible about its plans for the development of the concession and shares information from its environmental and social impact assessments about the full implications of large scale gold mining activity for Mongbwalu. Genuine consultation will give the local people the opportunity to influence the way in which the company operates, rather than just informing them of decisions which have already been reached.

**“We want the Committee to include all the chiefs of the villages around Mongbwalu, representatives from the business committee, the gold mining artisanal committee, schools, the hospital, local churches, the drivers’ committee and all local committees. All the different ethnic communities need to be represented. If it is really representative, the committee will be in a good position to discuss the local development of the community.”**

Jean-Pierre Bikilisende Badombo, Committee member and Chef de la cité

### **3. Local expectations: corporate philanthropy or legal duty?**

Local people have a very broad view of the role that AGK should play in Mongbwalu. Expectations are that the company will fulfil the same obligations as KIMIN since it has taken over KIMIN’s contract. This has led to dissatisfaction with what the company is doing, while company representatives reported an endless stream of requests. For example, many people saw it as a priority for the company to improve the road between Mongbwalu and Bunia.

In the past the only hospital in Mongbwalu belonged to KIMIN. AGA has paid for medicines for the hospital but the staff are uncertain about their relationship to the company. AGA is already contributing to the costs of the Kilomoto primary and secondary school in Mongbwalu. According to the headteacher, the company contributes \$2,000 per month for 38 staff but this is not enough to cover a living wage in the town. As with the hospital, there is the same sense of uncertainty among the staff at the school – “who do we belong to?”

The company sees its role as more limited, because the Mongbwalu concession is currently an exploration site rather than a mine – but has recognised that it needs to do more to communicate this clearly to local people.<sup>130</sup> To avoid tension it is essential that the company provides clear information about which contributions are part of the legal obligations of the contract with OKIMO and which are voluntary. Publishing the existing contracts for the concession will be a helpful first step here.

**“The Government has not paid teachers here for years. So I just get \$30 a month out of the school fees paid by parents. The school is for six to twelve year olds. It costs the parents one dollar per child, per month. Many children leave school and start mining because they can’t afford the fees. Some of them even mine in the afternoons after school. Each year we have lots of children at the beginning, but after a while, fewer and fewer come. The parents all want to educate their children but they are helpless.”**

School teacher, Mongbwalu

#### **4. Artisanal and small-scale miners**

If AngloGold Ashanti goes ahead with large-scale mining operations in Mongbwalu, this will still create only a limited number of jobs. KIMIN used to operate a system of buying gold from the miners’ association and some artisanal miners hope that Ashanti will take on a similar role. Another option could be a form of workers’ cooperative. At present 30 per cent of what the artisanal miners earn should be paid to OKIMO, though this often does not happen. Many miners recognise that they are in a precarious situation as they are working on the AGA concession.

**“Ashanti needs to organise how to help miners with materials, how the gold can be sold to Ashanti, how Ashanti, the Government and the population can take advantage of the gold to rebuild life here after the war.”**

Nyali people miners’ association representative

AngloGold Ashanti already has experience of working with artisanal miners in other countries. Given the dangerous nature of much small-scale activity this will not be a straightforward task. For instance, mercury is frequently used as part of the artisanal process and many of the current activities represent real health and safety risks. However for thousands of people in the district this is their means of survival. Both the company and OKIMO have a responsibility to review current artisanal activity and help miners to organise themselves and formalise their activities. AngloGold Ashanti has recently initiated a review of ASM mining on the concession in collaboration with PACT, USAID, DFID, OKIMO and other stakeholders. A successful programme, drawn up in conjunction with representatives of the mining community, is needed to avoid exacerbating conflict and poverty in the district.

#### **5. Supporting a transparent, anti-corruption agenda**

Although AngloGold Ashanti is participating in the tripartite Extractive Industries Transparency Initiative in DRC, the lead civil society organisations were not actually aware of this. It would be to the company’s advantage to address some of the rumour and uncertainty by providing clear information about the payments it is making at local and national level.

**“Transparency between Ashanti and the Government also needs to be improved. Ashanti is definitely paying something to the Government but it’s not clear how much. Transparency is also needed between Ashanti and the population and the Government and the population so people know what percentage belongs to the population and they can decide how it can be used to develop the whole area.”**

Monsignor Dieudonne Uringi Uuci, Bishop of Bunia

The company states that it is already disclosing to the government of the DRC all payments made to the state and its agencies, though it has not yet made this data more publicly available.<sup>131</sup> This is part of the package of measures AngloGold Ashanti has put in place to reduce the likelihood of being viewed as complicit in human rights abuses or contributing to conflict because it is operating in such a high risk area. There are encouraging signs that the company intends to include information on payments to Government within its report on the DRC exploration project.

There is a clear opportunity for the company to set a standard for good practice by publishing all payment information, including for example the rent that it pays to OKIMO. This would show that AngloGold Ashanti takes transparency seriously and set a valuable precedent for other companies operating in the DRC. Likewise it would make sense for the company to publish a breakdown of the support that it provides to social and community-based projects. This could help ensure that the money was being spent effectively and prevent allegations that the company was favouring particular individuals or ethnic groups.

## Recommendations

### Recommendations to AngloGold Ashanti:

- Ensure that the restructured Social Development Committee is representative of the whole concession, and includes women and different ethnic groups. The mandate of the Committee should be expanded beyond just social development projects so that it provides a forum for discussing all aspects of the company’s core activities that affect the community.
- The company should recruit a dedicated social development specialist to be based in Mongbwalu run those projects designed to benefit the community, working closely with local people.
- The company should develop a clear communication strategy for sharing information with the local community, allowing for feedback and ongoing discussion.
- In line with Congolese labour law, the company should resolve the dispute with the workers whose contracts were annulled and ensure that remaining workers can form their own union.
- Ensure that the company employs a range of different ethnic groups.
- Working with OKIMO, fully involve the local artisanal mining representatives in the development of the programme dealing with artisanal and small scale miners.

- AngloGold Ashanti should set a positive example of revenue transparency for the DRC as a whole by publishing details of its payments to and contract with OKIMO and engaging actively in the EITI process at national level.
- As one of the mining company members of the Council for Responsible Jewellery Practices, AngloGold Ashanti should press for a robust CRJP code of practices in line with the Golden Rules (see page 14).

**Recommendations to OKIMO:**

- Review its policy on artisanal exploitation of abandoned mines and work with miners and AngloGold Ashanti to develop a more formal and sustainable programme for artisanal miners.
- Publish details of the payments that it has received and make it clear how this money is being spent.
- Publish all contracts that it has granted in relation to gold concessions. If the contract with AGA is renegotiated, OKIMO should ensure that this reflects the interests of the people of DRC and sets out clearly the responsibilities of both parties towards workers, local communities and the environment.
- Work on conflict resolution and diffusing ethnic tensions inside its own workforce to avoid perceptions of discrimination.

## Chapter 6

# Recommendations for change

The experiences of Honduras and the DRC demonstrate that for the poorest countries in the world, gold is often a very mixed blessing.

As prices continue to rise, more and more communities in developing countries are likely to be directly affected by the activities of gold mining companies. In addition, millions of artisanal gold miners are struggling simply to survive.

There is a window of opportunity to address the harmful effects of gold mining and try to ensure that mineral wealth can benefit the countries in which it is found. If this is to be successful, it will require a range of actions by national governments, the mining industry, financial institutions, retailers and consumers.

CAFOD calls on:

### **National Governments of resource-rich developing countries**

- To ensure that there is a balanced national legal framework in place that recognises the interests of the broader population as well as the wish to attract foreign investment. Such a legal framework should:
  - Respect international human rights obligations;
  - Ensure that those most directly affected by mining activity are able to influence the decision to award mining concessions;
  - Protect the rights of indigenous peoples;
  - Set high environmental and health and safety standards;
  - Be enforced effectively by independent officials; and
  - Require the publication of details of contracts and all revenues received from mining companies.

- To work with mining communities and companies to formalise the position of artisanal and small-scale miners and improve their living and working conditions.

### **UK Government and other G8 Governments**

- To support the development of binding international standards for transnational companies, building on the UN Norms, and an effective means of redress for affected communities.
- To introduce a legal requirement for companies to report on the social and environmental impact of their activities.
- To require extractive companies listed on the stock exchange to publish details of all payments to governments, broken down by country and to incorporate this requirement into accounting standards.
- To ensure that the Extractive Industries Transparency Initiative remains credible by adopting a robust mechanism to show whether countries and companies are meeting their commitments under EITI and making sure civil society groups can play an active role throughout the process.
- To work proactively within the OECD Export Credit Agency Working Group to ensure that adequate safeguards, particularly regarding human rights protection, revenue transparency and environmental standards, are built into the conditions of export credits and risk insurance for all mining and extractive activities.

### **Banks and International Financial Institutions**

- To include free, prior and informed consent of indigenous people as a prerequisite for providing financial support to mining projects.
- To ensure that guarantees regarding human rights protection, revenue transparency and environmental standards are in place before agreeing to fund any mining projects.

### **Mining companies**

- To uphold human rights and ensure that their practices do not exacerbate existing community/ethnic tensions or conflict.
- To incorporate the principle of free prior and informed consent into their own procedures.
- To put effective mechanisms in place for community consultation if mines do go ahead.
- To publish information about their operations, including environmental, social and human rights impact assessments, closure plans, plans for voluntary assistance to surrounding communities, etc.
- To publish details of all their payments to national and local government, on a country-by-country basis.
- To comply with the highest environmental and health and safety standards during the working life of a mine and post closure, whether they are operating in the developed or the developing world.
- To develop programmes with mining communities to deal with relationships with artisanal miners where they operate on company concession land.

### **Gold retailers**

- To examine their own supply chain to identify the source of their gold.
- To work proactively within the industry to develop a robust code of practices based on the 'Golden Rules'. (see page 14)

### **Consumers**

To ask retailers to work to ensure that the gold in products they sell has been mined in accordance with the 'Golden Rules,' respecting the rights of communities and workers and minimising damage to the environment.

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- <sup>131</sup> Email correspondence between CAFOD and AGA.

# Unearth Justice

## COUNTING THE COST OF GOLD

This report has been written to underpin CAFOD's Unearth Justice campaign, launched in May 2006. Unearth Justice looks at the impact of extractive industries – those that exploit non-renewable resources such as oil, gas and metals – on the developing world.

While mining generates revenue and creates jobs, it can also cause lasting damage to communities and the environment. Gold mining has been closely linked with conflict, corruption and social problems – and these problems can be exacerbated by the activities of foreign mining companies.

This report weighs up the real costs of gold mining and makes recommendations to ensure that gold is a blessing, not a curse, for local communities in gold-rich developing countries.



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Registered charity no. 285776

Cover image: Coney/ Jay  
Photography: Richard Wainwright, Annie Bungeoth  
Printed on recycled paper.

CAFOD is the official overseas development and relief agency of the Catholic Church in England and Wales and part of the Caritas International Federation.