

FDI network meeting

Responsible and Sustainable FDI
in the Natural Resources Sector in
Asia and the Pacific



Purpose of session

- Presentation of study findings
- Country presentations on challenges relating to natural resources investments
- Discussion on common challenges and solutions, and needs for regional collaboration and knowledge sharing



Background

- Last years' FDI network meeting: raised issues related to managing FDI in natural resources sector (mining, etc.)
- ESCAP commissioned study on “Responsible Business and Sustainable FDI in Natural Resources in the Asia-Pacific region”



Study focus

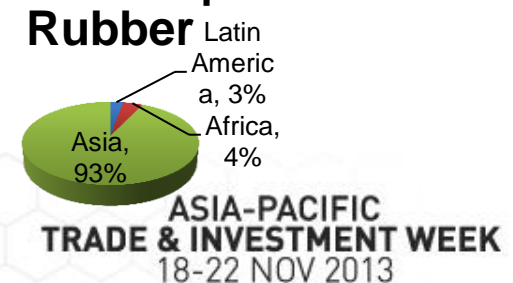
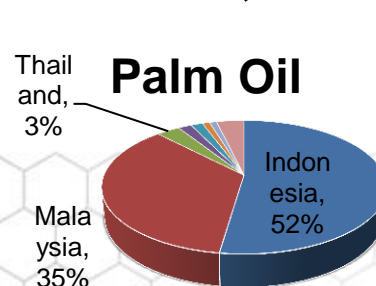
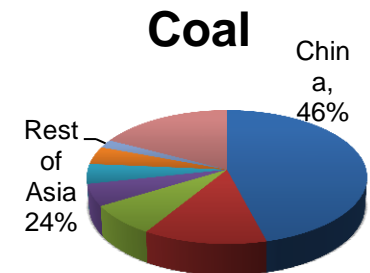
- Focusing on investments in mining, oil, gas, hydro and large tract/land (plantations).
- Why?
 - Common issues
 - High macroeconomic importance, but low labour creation
 - Land acquisition, involuntary resettlement, human rights, environment, governance
 - Capital intensive, and environmentally sensitive



Natural resources importance

- **The Asia-Pacific region is a major producer:**

- More than 1/4 of the world's oil and gas
- Over 70% of the world's coal
- Sizeable percentages of other metals and minerals (e.g. 79% of tin, 42% of zinc, 29% of nickel, 24% of gold)
- A third of all energy produced from hydropower
- The world leader in exports of intensive plantation commodities such as timber, rubber and palm oil
 - 91% of all palm oil
 - 93% of all rubber

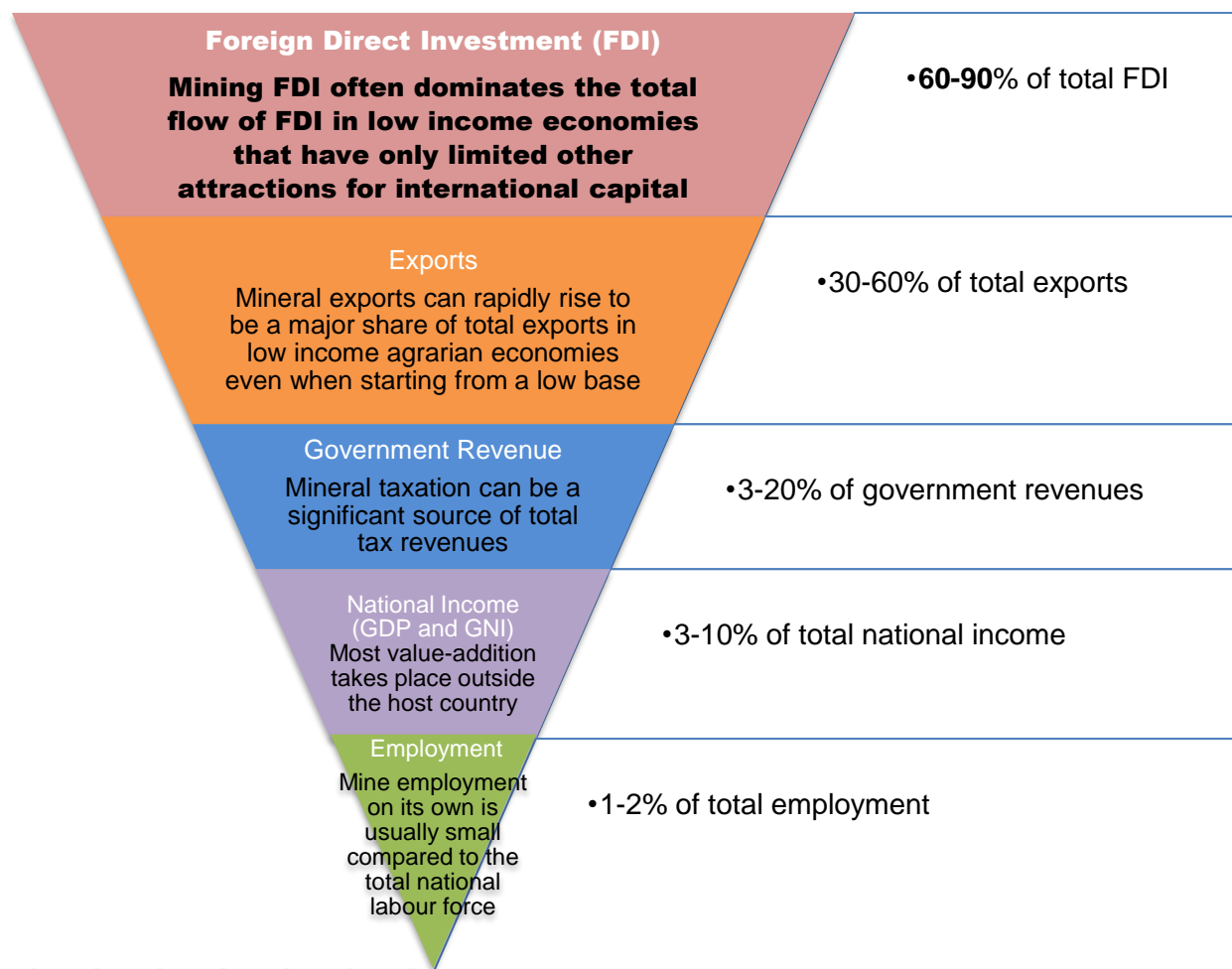


Natural resources importance

- **Natural resources account for a large share of FDI and exports in some countries:**
 - Coal, oil and the natural gas accounted for 17.5% of all greenfield foreign investments in region between 2009 and 2011.
 - FDI higher in resource rich countries (e.g. Turkmenistan 71%, Uzbekistan 57%, Myanmar 40%+, Vietnam 37%).
 - In 2010, mining and minerals represented around $\frac{3}{4}$ of Mongolias' exports, 54% of exports from Papua New Guinea, and 40% of Australia.



Contribution of mining to low and middle income economies



Source: ICCM "Mining's Contribution to National Economies" 2012



Mineral sector challenges

- *The industry creation challenge*
 - Creating a viable, integrated and diversified mining industry that can add economic value throughout the value chain
- *The investment challenge*
 - Investing transitory mineral revenues to ensure lasting wealth and deciding how much ought to be saved and how much should be invested and in what.
- *The distributional challenge*
 - Distributing benefits from mining equitably, balancing and managing conflicting local and national-level concerns and interests and deciding what form the allocation should take to promote pro-poor growth
- *The governance and macro-economic challenges*
 - Ensuring sound systems of governance and a stable macroeconomic policy, which curbs rent seeking and corruption, addresses issues such as the Dutch Disease and externalities such as unstable commodity prices, and enhances public interest in wealth conservation.

To that should be added environmental and social challenges.

Source: Economic Commission for Africa



Common natural resource related challenges

- **Macroeconomic**
 - Revenue maximization, ensuring sound long-term management of proceeds
 - Commodity price swings
 - Uncertainty in government revenues
 - Exchange rate appreciation
 - Reduced competitiveness of other (export) sectors
- **Environmental**
 - Land use change, pollution (water), deforestation, loss of ecosystems
- **Social**
 - Land acquisitions and involuntary resettlement
 - Human rights, labour rights, occupational health and safety
 - Distributional aspects
- **Governance**
 - Large investments, few actors
- **Private sector development and local value addition**
 - Adding value throughout the supply chain, and attracting complementary industries
 - Ensuring value addition also takes place in local community



Addressing challenges

- Strong and clear laws, consistency in law making and implementation
- Optimizing fiscal revenue and management
- Maximizing national and local economic benefits, e.g. local content.
- Integrating inclusive and sustainable issues in all public policy tools (IIAs, contracts, etc)
- Ensuring responsible business practices are upheld
- Ensuring transparency in payments, and public/stakeholder participation in processes



Some examples

- Mongolia:
 - Mining fuelled growth
 - Large scale mining projects
 - E.g. Oyo Tolgoi copper-gold mine (Rio Tinto, 2009)
 - Key concerns
 - Livelihood of herders (water)
 - Benefit sharing
 - New license issuing suspended awaiting revision of mining law initiated in 2010
 - More inclusive process
 - Relying more on national experts, studying practices of other resource based economies



Example of national legislation to enhance transparency of payments

- **US - Section 1504: “Cardin-Lugar Amendment” on Payment Transparency**
- In 2010 an amendment to the Dodd-Frank Wall Street Reform and Consumer Protection Act was passed requiring ***all extractive companies listed on US stock exchanges*** to
 - Report on payments (taxes, royalties fees, license fees, production entitlements and bonuses) made to both US and foreign governments in the countries where they operate.
 - Report to cover both the type and total amount of payments made for each project and to each government.

Compliance will be required starting in 2013.

Subject to the law are 8 of the 10 largest mining companies and 29 of the 32 largest internationally active oil companies.

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Recommendations

For business/investors:

- Implement international responsible business instruments – general and sectoral - and report on progress, using sector relevant metrics/guidance documents
 - General: Global Compact, OECD Guidelines, Guiding principles for business and human rights, ISO 26000, ILO, IFC, etc
 - GRI sector supplements (e.g. oil and gas)
 - Disclose public payments: Publish what you pay, EITI
 - Apply Equator principles for project finance
- Seek certification for sectors it exists
 - E.g. RSPO
- Invest in local development
- Take a lead on sustainability issues, and engage with NGOs early in project/investment and other processes
- Require high ESG standards to be met in investments
- Monitor performance of standards



Recommendations

For Governments:

- Aim for clear, strong laws that are well enforced
- Improve processes for assessing social and environmental impacts
- Review fiscal regimes (taxes, royalties), address transfer pricing, and strengthen revenue management
- Develop model investment contracts and ensure negotiating skills and strategy to ensure governments' fair share of proceeds
- Integrate sustainable and inclusive development goals/issues into investment contracts and strengthen such aspects of IIAs (local content, environmental and social standards, etc.)
- Build investment promotion strategy for complementary industries, to promote diversification



Recommendations

For Governments (cont'd):

- Encourage natural resource companies to follow international performance standards and responsible business practices
- Perform due diligence of investors, and prioritize those with good social/environmental/governance standards and track record
- Increase transparency and disclosure requirements
 - including joining and reporting to EITI, publishing investment contracts, and project-level reporting.
- Increase public participation in all stages of process
- Clarify land rights and ensure the principle of free prior and informed consent is upheld
- Implement policy recommendations of the Guiding Principles for Human rights.



Some resources

- ECA (2002), Managing Mineral Wealth, training materials
- UNCTAD (2012), Investment Policy Framework for Sustainable Development (on IIAs+)
- IIED/ Cotula (2010), Investment contracts and sustainable development: how to make contracts for fairer and more sustainable natural resource investments
- Moran (2006), Harnessing Foreign Direct Investment for Development: Policies for Developed and Developing Countries, Chapter 3 “FDI in Extractive industries and infrastructure)
- OECD, Policy framework for investment, OECD Guidelines for Multinational enterprises, and sectoral guidance such as OECD due diligence guidance for responsible supply chains of minerals from conflict-affected and high-risk areas



Questions for discussion

- What are the main challenges in relation to natural resources investments in your countries from an FDI policy making perspective?
 - How are they being addressed?
 - What are the lessons learned for others?
- Any of these policy issues where network members would like deeper discussions / sharing of experiences, or tools?



Thank you!

