Conference on FDI and the Environment:
Lessons from the Mining Sector
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Session 1: Foreign Direct Investment and Environment Linkages in the Mining Sector: Panel Remarks from Wanda Hoskin, UNEP

With respect to the 3 major issues this Conference is looking at:

1. broadly defined environmental performance in the mining industry
2. policy and institutional frameworks that integrate environmental and investment goals, and
3. ways of encouraging 'best environmental practice' through voluntary ininiatives

my remarks will make specific reference to: the Finance, Mining and Sustainability Workshop that UNEP hosted 14-15 January, 2002 with The World Bank and MMSD here in Paris; and, as an example of a new voluntary industry Code, I would like to point to the pending international voluntary Cyanide Code for the gold mining industry; and, to how voluntary codes could interface with government regulations.

First, I must start by saying that, in spite of a few industry leaders, we don't see great improvements in the environmental performance of the mining industry. The number of so called accidents is scandalous - last year there were 29 accidents excluding coal mine accidents and those in China, but including the USA, West Africa, Colombia, Australia, Ghana – and if you investigate, most can be attributable to carelessness and negligence. Tailings dams are too frequently breaking because of lapses in the consistent application of expertise that exists to manage these facilities properly – and, cyanide falling out of helicopters - I won't even comment on that! Clearly the industry needs to publicly commit to improvements, even to an objective of zero accidents.

Secondly - the recent Workshop looking a Finance, Mining and Sustainability – exploring sound investment decision processes – provided relevant points to this discussion and I will highlight four points:

1. Rather obviously, all lending carries risk and it is the lenders skill in identifying *and* quantifying the different levels of financial, environmental, social, and increasingly reputational risk that differentiates good lending decisions from bad.

2. Mining is fundamentally an economic activity which creates employment and provides economic rent to national governments but unfortunately, in the past NOT all the costs, like mine closure, rehabilitation, environment and social requirements have been adequately factored into financing decisions and, some projects have been funded which were not truly economic, and so should not have been funded.

3. There are good Guidelines available, but to what degree have they been and are they being used? I won't say more but to remind you of Bre-X – and,

4. Some financiers also said that if the mining sector had, for example, specific standards and codes, with measurable performance factors and actionable items, they would use them to allocate risk between stakeholders. BUT, certification had to be made worth having – that is, providing differentiation between the good companies and the free-riders.

Thirdly, what about voluntary codes which, almost by definition, are used by the industry leaders. Voluntary codes show what can be done. However, to really be meaningful, they need to incorporate some kind of certification – adherence to which can be verified by a 3rd party. This is the route followed for the new, international Cyanide Code for the gold mining industry – for large, medium and small operations. This is the first time an international industry code has been developed by a multistakeholder steering committee involving NGO's, cyanide producers, labour, governments (from Ontario and Peru), industry, academics, and with broad, public international consultation – an initiative which was launched by UNEP and the former ICME as one of the follow-up initiatives to the January 2000 Baia Mare cyanide tailings accident .

However, I believe that we need to see voluntary codes along a continuum that includes standards, legal agreements of one form or another, fiscal instruments and regulation.

Voluntary codes demonstrate what is possible because of public pressure, public reporting which shame companies into doing better, or whatever reason… but they also *raise the floor* of what is acceptible practice and, to make sure that companies don't operate below that level, governments need to put regulations in place to provide sanctions against the free-riders. National governments cannot abrogate their regulatory responsibility.

Regulations are also needed as they determine the parameters in which industry can operate (eg. mining is not allowed in World Heritage areas or in IUCN protected areas 1-4).

Finally, broadly speaking, the financial services community is the engine which drives the growing process of Foreign Direct Investment (FDI).

Despite the recent signs of a global economic slowdown and a reduction in overall FDI activity, the long-term role of FDI is clearly on an upward trend as we see the real world effects of liberalisation, deregulation and economic globalisation, and mining is a global activity.

We need to be aware of the impacts of FDI at a time when we are seeing a global economic slowdown. We must guard against companies becoming tempted to lower their performance standards because of tighter operating margins. It is the quality of FDI and its role in supporting true sustainability which is critical if the integrity and credibility of global capital flows are to be developed.

With an increased emphasis on environmental and sustainable development, the screening of loans, project financing, and trade financing, members of the financial services community can play a fundamental role in ensuring best environmental practice in the broad range of financial activities which – when undertaken in a sound manner - underpin the economic health and social fabric of our communities.

UNEP has assisted in the development of a comprehensive basket of environmental management tools and programmes to assist the private sector develop its environmental management capabilities. 2 of those which are creating new investment and financing opportunities include:

- UNEP's work on Cleaner Production shows the opportunities available combining greater efficiency in industrial production alongside sound environmental management and efficient resource use; and
- UNEP's work with the Global Reporting Initiative (GRI), is establishing state of the art protocols enabling companies in any sector, including mining, to undertake an objective and rigorous evaluation of their environmental performance as it relates to their broad business activities.[1]

Finally, to take us back to the big picture of FDI and the environment, let me conclude with a quote from a new Tellus Institute publication[2]:

> 'To a large extent, the future will be defined by how two global crises – ecological degradation and extreme poverty – are addressed. The human impact on the environment is becoming progressively more complex, global and interconnected. Population pressure, bioaccumulation of toxic materials, degradation of ecosystems and soaring use of non-renewable resources threaten to damage the planet's natural systems beyond their assimilative capacities. As developing nations emulate Western-style consumption patterns, the human footprint on nature grows even larger. Meanwhile, two billion people confront chronic poverty and disenfranchisement, vulnerable to environmental, economic and political shocks.'

FDI is critical, especially to those countries with rich mineral endowment.

Thank you.

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[1] More information is on the UNEP website at: http://www.unep.ch/etu/index.htm and http://unepfi.net

[2] 'Halfway to the Future, Reflections on the Global Condition' 2001