



Business and Industry Advisory Committee to the OECD

Comité Consultatif Economique et Industriel Auprès de l'OCDE

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Foreign Direct Investment and the Environment
Lessons to be learned from the Mining Sector**

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BIAC Background Paper

Over the last few years, one of the brightest characteristics of the world economy has been the strong growth in Foreign Direct Investment (FDI). The economic benefits of FDI are well-known: job creation, innovation and spread of new technologies, increases in competitiveness, improvements in efficiency and transfer of intangible resources such as new forms of organisation. Globalisation, with its increased economic interactions, and the spread of the market-based economy serve to reinforce and consolidate the political, market and economic reforms already well under way. A successful policy for sustainable growth aims to make societal well-being, environmental protection and economic growth and integration mutually supportive. Indeed, FDI can be a vehicle for real improvements in the standard of living, especially in the environment, through its positive impact on production, including the transfer of modern environmentally-friendly technology and know how, and the spread of efficient management practices.

What is clear is that FDI is continuing to expand. This trend also involves large and medium-scale investment projects in resource-intensive and environmentally sensitive industries, such as mining. The project scale in the mining and metals industry can often be quite large. Given the huge capital investment that is necessary, once a mine begins operation, the company is captive to the geographic location of its resource and can't easily move its operation. It is therefore important to identify and correctly understand the factors that drive investment decisions. These include project-specific criteria, environmental health and safety issues, the legal framework as well as the socio-political environment and fiscal regime.

Appropriate incentives to encourage private investment are:

- a stable economic, financial and tax system;
- a transparent legal structure, with sound rules regarding governance, foreign ownership, security of tenure and reliable protection of confidential information and property;
- free capital flows and stable rules for foreign currency exchange;
- a stable and consistently applied regulatory framework fostering innovation in a cost-effective manner, implemented by well-functioning administrative structures;
- sound environmental laws and standards, based on scientific assessment, and encouraging innovation;
- a long-term commitment and dedication of resources by all partners; and
- regular and open communication between government, industry and communities of interest.

Mining has some special qualities, which enable it to serve as a springboard for countries seeking to industrialise. It is at the beginning of the value chain and has a capacity to start economic development that few other businesses offer. It does not require a well developed supply chain in

the country where it takes place and it does not require developed local markets. In addition, modern mining operations are on a scale where the capital needed to undertake them can make a material impact on the economy of host developing countries. They create opportunities for local suppliers of goods and services, they bring with them technology and skills which can be transferred to other sectors of the economy, they open a window onto the operation of world markets and they have a demonstration effect in relation to how modern businesses can be run.

Many companies have determined that they need to take an active part in ensuring that the regions in which they are operating receive a reasonable share of the economic benefits and help lay down the basis for sustainable economic activity. Opportunities for partnerships often exist whereby mining companies can work with government and civil society to find solutions to common problems. The true relationship between resource investment on the one hand and the optimal economic, social and environmental development on the other need to be carefully understood to optimise the wider effects of the investment. Support from the local community for the project is crucial. In addition, any foreseen closure of a plant has to be planned up-front and is a consideration to be included in the initial investment deliberations. Investment requires trust, long-term commitment and clearly demonstrated mutual benefits for all partners to support an integrated approach.

It is important to take into account right at the beginning of a project the environmental impacts of exploration, mining and processing activities and plan for the operation, remediation and closure of facilities in a manner that takes into account economic, social and environmental considerations. Companies also need to take into consideration the efficient use of energy and natural resources and the responsible management of materials.

As numerous studies have illustrated, many health and environmental impacts can be associated with poverty. Mining can serve as a powerful engine of wealth creation in developing countries and is one of the few large-scale industries some of the very poorest countries can attract. In general, foreign investors operate to high environmental standards, but evaluations of their performance are often adversely affected as a result of the damage caused by operators who are working to lower or inconsistently applied standards. The international mining industry has been able to play a unique role in bringing modern environmental practices to remote areas and in promoting the development of appropriate modern environmental perspectives.

The development and application of environmentally friendly technologies and management know-how are already making a significant contribution to reducing the environmental impact of economic activities. The international transfer of environmentally friendly technology should be encouraged as the spread of innovative approaches to non-OECD countries will be crucial for environmental improvements.

Mining has the potential to make a major contribution in terms of direct and indirect employment, foreign exchange earnings, transfer of skills and best practices, local community services, urban development and provision of infrastructure. Approached in a responsible manner, such activities will help alleviate poverty, particularly in remote areas, which often have no sources of income. The mining industry, like many other sectors, can make a positive contribution to sustainable economic growth by promoting financial progress and creating sustainable livelihoods while at the same time decreasing the environmental footprint along the entire value chain. Properly managed, resource development can make a significant contribution to the sustainable development objectives of society.