

# Media Briefing

October 2007

## Mining Madagascar – forests, communities and Rio Tinto's white wash

### 1. Summary

The island of Madagascar in the Indian Ocean is a unique “biodiversity hotspot”, home to some 200,000 species of plant and animal, many of which, like the lemur, are only found on the island or the tiny neighbouring islands next door. Mining company Rio Tinto started work on a new ilmenite mine in the Fort Dauphin region of Madagascar in 2006. Extraction is expected to start in 2008.

Ilmenite is used in the manufacturing of titanium dioxide, a whitener used globally in a range of products from toothpaste to paint. It is extracted by dredging mineral sands. Rio Tinto claims the development of their new mine, which has received World Bank funding and Malagasy Government support, is “a model for further projects which are likely to follow in Africa and the developing world” [1], emphasising the care taken by the company in managing the mine's social and environmental impacts.

This briefing highlights how, contrary to the claims of Rio Tinto and the World Bank, the project is in fact creating economic insecurity, social upheaval, and environmental destruction in Madagascar, depriving local people of their land and livelihoods while yet to demonstrate any real benefits in return. It asks who really gains from this type of “development”, draws attention to major shortcomings in Rio Tinto's management of the social and environmental impacts of the project, and urges the company and the World Bank to do more to limit the environmental damage caused and ensure that local poor people are not further disadvantaged by the major project looming in their midst.

### 2. Introduction

***“Wherever Rio Tinto operates, the health and safety of our employees is our first priority. We seek to contribute to sustainable development. We work as closely as possible with our host countries and communities, respecting their laws and customs. We minimise adverse effects and strive to improve every aspect of our performance. We employ local people at all levels and ensure fair and equitable transfer of benefits and enhancement of opportunities” (Rio Tinto, ‘The way we work’, September 2005).***

Rio Tinto is one the three biggest mining companies in the world. Its development in Fort Dauphin, Madagascar, is supposed to be a model for responsible mining. Madagascar is among the world's

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poorest countries. According to World Bank estimates, some 70 per cent of the population live on less than US\$1 a day. Many depend on subsistence farming, fishing and forest resources to survive. The US\$585 million development, operated by a Rio Tinto subsidiary, represents the largest foreign investment project the country has ever seen.

It is being supported by the World Bank as part of its “Integrated Growth Poles” project, a wider project aimed at kick-starting Madagascar’s economy by fostering rapid economic growth and development in three areas of the island [2]. Madagascar is rich in mineral resources and exploitation of further deposits of ilmenite, nickel and bauxite is likely to take place in the future.

Friends of the Earth has a long-standing interest in Madagascar, and has monitored Rio Tinto’s plans with concern for over a decade [3]. When Rio Tinto published its Social and Environmental Impact Assessment (SEIA) in 2001, Friends of the Earth pointed out the flaws in the procedure [4].

Concerned by reports about the negative impacts of the mine on indigenous forest-dwelling communities in Madagascar, Friends of the Earth commissioned independent research by the development agency Panos London. This briefing draws on the evidence gathered by Panos London in interviews with some of the mine’s key stakeholders in Madagascar. It compares the reality on the ground with the company’s commitments in their best practice document “The way we work” [5], and in the latest SEIA.

### **3. Background**

Madagascar is the world’s fourth biggest island, about two and a half times the size of the UK, and situated off the East Coast of Africa in the Indian Ocean. The ilmenite mine is located in the small coastal community of Fort Dauphin in the Anosy region in the south of the island.

On the ground in Madagascar, Rio Tinto operates through QIT Madagascar Minerals S.A (QMM), a joint venture between Rio Tinto’s wholly-owned Canadian subsidiary QIT Fer et Titane (QIT) and the Government of Madagascar, which has a 20 per cent share option in the project. Exploratory work for the mine began in 1989, and construction began in 2006 after the mining permits were issued by the Government of Madagascar. With loans from the World Bank, the Government has also contributed to the development of new infrastructure essential for the mine, including a major new port for shipping the minerals. Production is expected to start in 2008, with the ore shipped to Canada for smelting.

Madagascar’s ilmenite deposits are found in mineral sands, which will be dredged from an artificially created pond along the coastline. The ilmenite will be extracted and the remaining sands returned to the dredged pond. QMM estimate there are some 75 million tons of ilmenite deposits – enough to sustain mining operations for at least the planned 40 years at an estimated extraction rate of 750,000 tons per year.

Dredge mining is used by Rio Tinto elsewhere, including in South Africa. It is an environmentally damaging process, which in Madagascar will result in the loss of rare coastal forest. But Rio Tinto claim that their rehabilitation plans will allow for the restoration of the natural environment, once dredging is complete.

### **4. Benefiting Local People**

An estimated 6000 people live in rural villages in and around the forest and heathland area which is to be removed to make room for the mine. Other communities situated along the path of the mining operations will also be affected – some already have been displaced in order to make way for the new port and roads.

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Like the majority of Madagascar's population, most of these rural Malagasy people are subsistence farmers, growing vegetables, fishing and raising livestock to survive. Most Malagasy hold no formal titles to their land but have customary rights which command respect within communities and have been passed down from generation to generation. The Government of Madagascar wants to give people formal land rights, but progress in this area is very slow.

### ***Land Rights & Compensation***

**Rio Tinto says:**

- **Claims to land can be based on traditional tenure as well as statutory law. Local and national land use policies may also differ. Our objective is to bridge significant gaps between legislated and customary arrangements through the fullest possible understanding of the issues involved.**
- **Where property is affected, its value is assessed and appropriate compensation mutually agreed.**

Evidence gathered by Panos London suggests that QMM's compensation arrangements have breached Rio Tinto's own guidelines, and may also have breached World Bank policies, effectively breaching the conditions of the World Bank loan [6].

Criticisms centre on unfair compensation arrangements as well as a lack of clear information about entitlements under the compensation scheme. Panos London found:

- Customary land rights have not been respected, with families without formal land title being persistently disadvantaged in the compensation process despite Rio Tinto's commitment to respecting traditional land tenure.
- Some families with cultivated land received higher rates of compensation, while other villagers were reportedly advised by officials to stop cultivating their land because it was going to be requisitioned, and so missed out on compensation.
- Some families who received cash compensation for their land found it was not enough to purchase land of the same quality nearby. Others who were offered new plots found they were not of equal agricultural value. Many complained of poor quality replacement housing which let in water during the rainy season.
- Some families were excluded from the compensation process altogether because they were not present when the register of families requiring compensation was drawn up.

Villagers in Ambinanibe were so frustrated with the compensation process that in 2006 they blocked the road leading to the port construction site in protest.

### ***Openness, Transparency & Respect for Local Customs***

**Rio Tinto says:**

- **Wherever we operate, we do our best to accommodate the different cultures, lifestyles, heritage and preferences of our neighbours, particularly in areas where industrial development is little known.**
- **We promote active partnerships at international, national, regional, and local levels. They are based on mutual commitment, trust, and openness.**

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The construction of the mine has denied communities access to the natural resources of the forest on which they depend for food, firewood, and medicines. This affects their livelihoods, but also fundamentally changes the local cultures and customs, destroying a way of life which had been passed down for generations.

QMM has provided some compensation for the loss of resources from the forest, creating new plantations for firewood and investing in eco-tourism, but these will not make up for the forced change in lifestyles and customs. Some see the development of the mine as incompatible with ambitions to encourage eco-tourism. Two small areas of forest have also been set aside for conservation purposes, but with limited access for local people.

Evidence gathered by Panos London found that:

- QMM failed to provide adequate information for local people about the mine development, with many local people having “*no, or only very little, idea about the dramatic changes taking place and the reasons for them*”.
- Local people were unclear about new rules controlling access to forest conservation zones, with some saying changes had been made since they had been negotiated.
- Local businesses were unhappy with the information provided by QMM, the lack of which had made it difficult for them to invest in new potential opportunities. Some accused QMM of giving misleading information, such as suggesting there would be a need for additional rental vehicles, which has not been the case.
- Although the Malagasy mining code restricts mining on the sites of graves, several grave sites have already been destroyed during the mine construction phase.

The research also found that an atmosphere of fear has further curtailed local debate around negative impacts of the mining project and that there are limited opportunities to safely voice these concerns locally or to the company.

### **Local Benefits & Opportunities**

**Rio Tinto says:**

- **We support community based projects that can make a difference in a sustainable way without creating dependency.**
- **We also assist regional development and training, employment and small business opportunities.**

QMM committed to provide additional support to communities displaced by the mine, including training and support for specific projects including fishing, agriculture, handicrafts and literacy schemes. Panos London found local people were unhappy about the lack of progress with such schemes, particularly given the lack of other job opportunities.

One person said: “*There are plans to have a fishing project, a weaving project but we don’t know when. There are plans but nothing happens.*”

QMM said it would provide 600 Malagasy jobs at the mine and at present is employing significantly more than this. However, employment levels are at a peak and are likely to decline once the construction phase has concluded. In addition, a large number of employees are skilled workers

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from outside the region. Local people say QMM could have provided training to help them take advantage of the job opportunities, given that it has been operating in the region for nearly 20 years.

Young men locally feel particularly betrayed. With no land and no work, they have little to do and this places a strain on family life. Lack of money means they are unable to feed their families or pay for education – damaging their respect and self-esteem.

### **Local Living Standards**

#### **QMM says:**

- **At a project level, QMM recognises its responsibility to plan and execute the project in a manner that will contribute most effectively to the alleviation of poverty in the region.**
- **QMM believes that its social and environmental programmes, along with the expected economic benefits of the mining project, will contribute to increased living standards.**

The mine development has brought extra workers to the area, creating increased demand for housing and fresh food and causing the prices of basic essentials to rise. Some families have found they can no longer afford to buy food for their families, pay for healthcare or medicine. Bread can cost twice as much in Fort Dauphin as in the island's capital city.

QMM has reportedly offered four times the existing levels of rent for properties – pricing local people out of areas where they have lived for generations. Local organisations are struggling to retain staff and meet increased salary costs as a result of the local inflation.

While other factors could be contributing to the rise in inflation, the influx of wealthy foreign workers and increased levels of demand are the most likely cause.

Local people say price increases are causing social divisions which could have long-lasting effects. One person said: "*Society is dividing into two tiers: a fast developing educated class able to participate in the developments and the rest of the population who are not able to participate*".

## **5. Protecting Madagascar's Environment**

Madagascar and the neighbouring Indian Ocean island groups – the Seychelles, Comoros and Mascarene – host a unique selection of animal and plant life, having broken away from the African mainland more than 160 million years ago. Three quarters of the estimated 200,000 plant and animal species on the islands exist nowhere else in the world. This unique heritage makes Madagascar's ecosystems highly vulnerable to displacement by more competitive exotic species brought in from elsewhere.

Environmental protection has been a key focus for the project. QMM has set up an environmental department; brought in experts from Kew Botanical Gardens, Birdlife International, and the University of Madagascar; and formed an International Advisory Panel. But questions still remain about how effective these efforts can be in conserving Madagascar's diverse species.

The mine is being developed on one of Madagascar's most fragile ecosystems - the last remaining area of the island's unique littoral (coastal) forest, which once stretched for hundreds of miles, providing habitat for many different species. This forest and areas of matrix heathland will be removed to make way for artificial dredging lakes.

QMM have created two conservation areas – covering 12 per cent of the prospect area – to protect

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some of the forest biodiversity. However, several experts warn that these isolated areas are too small to sustain the numbers of species currently found, and that genetic erosion will over time reduce the species diversity to unsustainable levels.

QMM has said it will replant the mine site once the ilmenite has been removed and has collected seeds from the forest for this. But 70 per cent of the area will be planted with exotic species because QMM's specialists claim that the soil in these areas is too degraded to support the reintroduction of native species. There are concerns that this could have devastating impacts. Exotic species such as eucalyptus could over-run native trees on the island, take valuable water resources, and fundamentally change the biodiversity of the forest floor.

Friends of the Earth remains concerned that QMM was awarded a permit to mine on such an ecologically valuable site, especially given the failings in the original Social and Environmental Impact Assessment (SEIA). Sources close to the SEIA suggest that the process was not adhered to as closely as it should have been. SEIAs for the port development and for the St Luce and Petricky areas have yet to be submitted.

## **6. Economic Impacts**

The World Bank has said the mine will help to ensure “equitable, sustainable growth” [2] in the Malagasy economy, and has provided funding, including a US\$35 million loan to the Malagasy Government for the construction of the new port. But providing real development benefits for Madagascar depends on local people either benefiting directly from the development, or benefiting via the Government.

With evidence on the ground suggesting that many local people are worse off than before, questions have also been raised about the extent to which the Malagasy Government will benefit. Under the agreement reached with Rio Tinto to set up QMM, the Malagasy Government can buy a 20 per cent share in the company once production begins, at an estimated cost of US\$117 million. According to Panos London, the loan required to facilitate this purchase would require considerable annual interest and repayment servicing

If the Government does not exercise its share option, it will receive between US\$7-15 million per year in direct revenue from the mine project. If the share option is taken, this could grow to US\$11-21 million. Taking into account the cost of financing the share option, Panos London calculates that the Malagasy Government will receive between 3-18 per cent of the mine's profits, with the rest accruing to Rio Tinto. The Government will accrue maximum benefits – 18 per cent of the profits – if it does not buy-in to its share in the project.

The need for the mine depends on growing demand for ilmenite, with China a key market. But Panos London warns that this trend cannot be not be relied on, given the growing Chinese preference for direct investment in natural resources in Africa – rather than buying resources on the market. Should market conditions change, Rio Tinto's continued operations in Madagascar are not guaranteed.

Rio Tinto's own investments in the project are protected by the World Bank's Multilateral Investment Guarantee Agency (MIGA). However, the company has provided no guarantee that it will remain in Madagascar should economic conditions change. If Rio Tinto were to withdraw from the mine, the Government would be left exposed.

Even if the mine proves to be an economic success, it is unclear how much benefit will be passed on to the Malagasy people. Despite the fine promises made, there is a real risk Rio Tinto's Malagasy operations will become yet another example of a bad investment deal which will damage the

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country's natural resources and deprive them of opportunities for more sustainable development.

## 7. Conclusion & Recommendations

Panos London's findings show that the Rio Tinto Madagascar mining project is far from being an appropriate model for social and environmental best practice. The evidence gathered in Madagascar also illustrates why citizens' groups in the developing world, NGOs and even lenders like the World Bank [7], question the wisdom of using the extractive industries, such as mining, as a basis for promoting sustainable development.

Despite the best of stated intentions, Rio Tinto's mining project in Madagascar is not leading to poverty reduction. Nor is it helping to conserve and protect valuable ecological resources. Instead the company is failing to deliver on the ground, providing little of benefit to local communities or the wider economy, and undermining the rights and livelihoods of local people and the natural resources that they rely on.

With production at the mine due to commence shortly, urgent action must be taken to improve the impacts of the mine on people locally and ensure that it is made more compatible with the equitable and sustainable development of Madagascar and the preservation of the island's unique biodiversity.

### Recommendations for Rio Tinto

1. Improved transparency and communication with stakeholders, including the:
  - Disclosure of plans to comply with the current Malagasy mining code of practice;
  - Disclosure of the shareholder agreement with the Government of Madagascar;
  - Clarification of the land use required by the mine and communication of this to all parties likely to be affected;
  - Improved communication channels with affected communities, including a neutral and independent stakeholder programme that facilitates open and safe debate for all members of the community, and provides access to company representatives and mechanisms for conflict resolution, compromise, and the mitigation of negative impacts.
2. Action to limit the negative impacts of the mine on the livelihoods of local people, including improvements to the compensation and resettlement process so as to ensure compliance with the World Bank requirements and the company's own code of practice; and action to address the project's impacts on the local cost of living.
3. Further action to mitigate the negative environmental impacts of the mine, including expansion of the conservation zones in order to ensure their viability.
4. Independent monitoring of the environmental impacts of the mine, with the findings made available to all interested stakeholders.

### Recommendations for the World Bank

5. Phasing out of investment in extractive industry projects as recommended by Friends of the Earth International's public finance and extractive industries campaign [8] and the Bank's own Extractive Industries Review [7].
6. Closer monitoring of compliance with relevant World Bank environmental and social requirements for existing projects, including the Madagascar ilmenite mine, and the implementation of penalties and sanctions where requirements have been breached, for example in relation to indigenous peoples' rights and community resettlement.
7. Increased transparency in respect of foreign and private investment strategies for the "Integrated Growth Poles" project in Madagascar.

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## Recommendations for the Government of Madagascar

8. Share with the public its case for the economic and social benefits of the mine as they perceive them, and how the 20 per cent share option would be financed if it were exercised.
9. Involve the local people in discussion about how revenues from the mine should be spent and how to ensure that those most affected will be assured some of the benefits from the revenue.
10. Communicate its requirements for SEIAs for St Luce, Petricky and the port.
11. Use its influence and position to ensure that best practice is adopted as a legal requirement of all foreign investors, and full compliance to international and local mining codes are applied, in order to protect the long term interests of the country, its people and environment.

## Notes

[1] Rio Tinto Chairman, Paul Skinner: <http://www.riotintomadagascar.com/overview/index.html>

[2]

<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/0,,contentMDK:20579808~menuPK:258658~pagePK:2865106~piPK:2865128~theSitePK:258644,00.html>

[3] In 1995, Friends of the Earth's then Campaigns Director, Andrew Lees, was investigating the proposed mine in Madagascar when he died from heat stroke.

[4] Friends of the Earth research on the 2001 SEIA:

<http://www.minesandcommunities.org/Company/foemadagascar1.htm>

[5] Rio Tinto (September 2005), The way we work: Our statement of business practice:

[http://www.riotinto.com/documents/ReportsPublications/corpPub\\_BusPract\\_English.pdf](http://www.riotinto.com/documents/ReportsPublications/corpPub_BusPract_English.pdf)

[6] Panos London carried out 50 interviews with stakeholders in Madagascar as well as holding three focus group meetings with villagers.

[7] World Bank Group (2003) Extractive Industries Review:

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTOGMC/0,,contentMDK:20306686~menuPK:592071~pagePK:148956~piPK:216618~theSitePK:336930,00.html>

[8] Friends of the Earth International campaign on public finance and extractive industries:

<http://www.foei.org/en/campaigns/finance/ffm/ffm.html>

## Further Information

- Panos London (2007) Development recast? A review of the impact of the Rio Tinto ilmenite mine in Southern Madagascar: [http://www.foe.co.uk/resource/reports/development\\_recast.pdf](http://www.foe.co.uk/resource/reports/development_recast.pdf)
- Rio Tinto in Madagascar: <http://www.riotintomadagascar.com/overview/mine-port/index.html>
- Mines & Communities (for further information on Rio Tinto and mining-related issues): <http://www.minesandcommunities.org/>

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