

Mineral exploration site in Keo Seima District Mondulkiri

Photo by: THY Try, EISEI

CRRT Welcomes Cambodia's First Mining Association, But Clear Membership Selection Criterion Needed

Mam Sambath, chairperson of Cambodians for Resource Revenue Transparency (CRRT), expressed his satisfaction that a mining company association has finally been established in Cambodia.

"I am absolutely happy to see a mining company association in our country," Mam Sambath. "Establishing this association is showing that private companies are willing to support transparency and accountability as well

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In Search of Aluminum: China's Role in Bauxite Mining in the Mekong Region

China has a huge thirst for natural resources and sources them from across the world. Despite a reduction in economic growth from a high of 13 percent in 2007 to 9 percent in 2008, the lowest rate since 2002, China continues to invest overseas to meet its growing need for natural resources.

In 2008 China's overseas mergers and acquisitions were worth US\$52.1 billion, and in the first two months of 2009 Chinese companies invested US\$16.3 billion abroad. These investments include those made by both Chinese corporations and the Chinese government, and in

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VISION:

The vision of CRRT is that wealth generated from extractive industries is managed in a socially responsible manner that is transparent, accountable, and participatory to equitably benefit all Cambodians.

Knowledge and Transparency Go Hand in Hand

In their influential book, "Escaping the Resource Curse" ¹, Nobel laureate Joseph E. Stiglitz and his colleagues argue there is clear evidence that improved transparency in the petroleum sector leads to improved economic outcomes for a country. The arguments for transparency, they say, range from "impacts that it might have on competition between firms", "enhanced efficiency of negotiating processes", the credibility of a government's negotiating po-

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as examine social and environmental impact in this sector."

The Cambodian Association of Mining and Exploration Companies (CAMEC) registered with the Ministry of Commerce at the beginning of January.

In elaborating on the mining association's mission to The Daily, CAMEC president Richard Stanger, also the managing director of Liberty Mining International, said "The basic objectives are to promote mining exploration in Cambodia and it's also a voice for the industry going forward."

To date, Liberty Mining International, Southern Gold, Indochine Resources, Cambodian Resources Limited, OZ Minerals, and Kingdom Resources have all joined the association with several other companies currently going through the application process, reported The Cambodia Daily.

China is the largest foreign investor in Cambodia, so it is critical that Chinese mining companies want to join this association.

"Chinese companies are committing to take social and environmental responsibility. However, the association must have clear selection criteria for private companies to comply with in order to become a member of the association," said Mam Sambath.

Mam Sambath also told The Daily that he hoped CAMEC would be able to have constructive dialogue on matters such as corporate and social responsibility, transparency, and best practices for social and environmental impact mitigation.

Open, honest dialogue, said Mam Sambath, "could help to attract the responsible mining companies to come to invest and promote the sustainable development in Cambodia."

"Consultations are to ensure that the concerns of the public

are taken into consideration as well as transparent assessments of the impact on the environment and social impact [on local communities] should be encouraged," elaborated Chhith Samath, CRRT's vice chairperson and executive director of NGO Forum, in The Cambodia Daily.

Over the past decade, the mining industry in Cambodia has expanded from traditional gemstone mining to encompass large international operations that exploit land-based minerals such as bauxite, copper, gold, and iron ore.

Foreign investors from Australia, China, the U.S., Thailand, and South Korea have moved in to mineral-rich provinces such as Mondulkiri and Rattanakiri, and the country's mining sector is booming. With the goal in mind of helping to regulate this burgeoning sector, Cambodia's first mining association was formed earlier this year.



What Is Extractive Industries Transparency Initiative EITI

What is the EITI?

The EITI sets a global standard for transparency in oil, gas and mining. It is...

An effort to make natural resources benefit all

3.5 billion people live in countries rich in oil, gas and minerals. With good governance the exploitation of these resources can generate large revenues to foster growth and reduce poverty. However, when governance is weak, it may result in poverty, corruption, and conflict. The Extractive Industries Transparency Initiative (EITI) aims to strengthen governance

by improving transparency and accountability in the extractives sector.

The EITI supports improved governance in resource-rich countries through the verification and full publication of company payments and government revenues from oil, gas and mining.

A coalition of governments, companies and civil society

The EITI is a coalition of governments, companies, civil society groups, investors and international organisations. This is reflected not only in the EITI processes in the countries implementing the EITI,

but also on the international level: the EITI Board consists of members from governments, companies and civil society, and is appointed at the bi-annual EITI Global Conference. EITI's current governance structure was formalised at the latest EITI Global Conference in Doha, February 2009.

A standard for companies to publish what they pay and for governments to disclose what they receive

The EITI has a robust yet flexible methodology that ensures a global standard is maintained throughout the different implementing



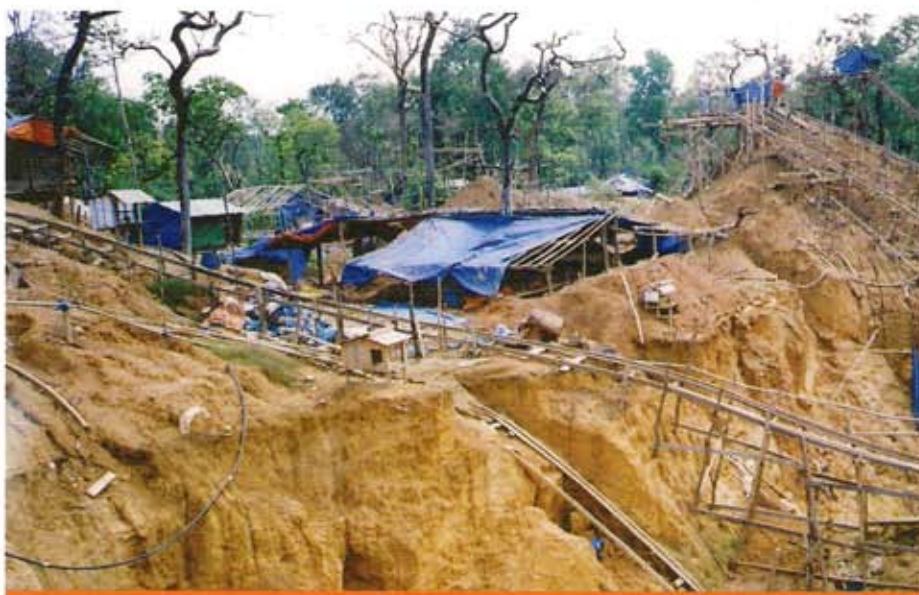
China's Role...

many cases include extractive industries for which costs were once prohibitive, but which are now making economic sense.

China's economic relationship with the world also continues to undergo a rapid transformation. The 10th Five Year Plan for National Economic and Social Development (2001–05) set out a strategy for China to proactively make use of overseas natural resources, driven by its 2004 "Going Global" (or 'Going Out') strategy. This strategy, which intends to meet the country's growing demand for natural resources, both regionally and globally, aims to spur outward investment by subsidizing investment by Chinese companies in the acquisition of natural resources overseas.

China's insufficient domestic mineral resources necessitate overseas investments

Chinese mining firms are strategically looking for opportunities abroad to invest in joint ventures, acquire mining projects and companies, and secure long-term contracts at set price levels. In order for China to maintain a steady supply of mineral and metals for its economy, strong growth in its foreign direct investment is necessary, given that its domestic exploration and expansion of existing mines has not been sufficient to balance depletion and maintain growth. The Chinese government has encouraged the formation of bigger economic corporations



Mineral exploration site in Keo Seima District Mondul Kiri

Photo by CRRT

through the merger of domestic companies and the acquisition or buying of shares in foreign companies. In the early to late 1990s China began investing in various mining projects overseas, and by the 2000s that investment had increased significantly.

Bauxite, the source of aluminum

Bauxite, the chief material used in the production of aluminum, is one of the economically most important minerals. With the current speed of exploitation, it is expected that bauxite reserves can meet the needs of the aluminum industry for the next 170 years. At present, there are 24 countries exploiting bauxite both locally and in other countries around the world, of which the 12 most productive countries produce 97 percent of total bauxite production. In the aluminum sector, the Aluminum Corporation of China (Chinalco) is the largest aluminum company in China and is a financially powerful corporation globally in the mining sector. Chinalco

proved its financial potential after merging with and acquiring many domestic companies and expanding into the international market.

The Mekong region: A new source of bauxite

Cambodia, Laos and Vietnam are rich in mineral resources; however, the exploitation of these resources has typically been on a small scale and long delayed due to conflict, lack of foreign investment, and limited capital and capacity to establish extensive mining operations. The regulatory framework in the three countries has also hindered investment because of bureaucratic inefficiency and lack of implementation, which has complicated the process of obtaining concessions and permission for mining operations. Mining laws in the region are generally lacking in terms of clear tax regulations and royalty structures (often these are calculated on a project basis), and regulatory systems are complicated.

In all three countries, public



China's Roles...

disclosure of information is severely lacking, making it difficult to fully assess how companies plan to mitigate the environmental and social impacts of their activities. And where there is a plan, government capacity and will to regulate the industry and ensure compliance by the companies are minimal.

The Mekong region is becoming a strategic partner for China in terms of mineral investments; however, the full extent of the potential output for and demand by China is difficult to estimate. The Mekong region provides opportunities for the exploitation of cheap natural resources and is strategically located close to China, thus providing great opportunities for China to extract the bauxite resources and turn the mineral into alumina and aluminum fairly easily and cheaply. While high quality bauxite deposits are found in Cambodia, Laos and Vietnam, access to these sites, energy availability and likely costs are significant constraints to harnessing the bauxite potential.

Chinese investors dominate the region

China's relationship with the three Mekong region countries, Cambodia, Laos and Vietnam, is dynamic and complex, and Chinese financiers have moved into the region to take advantage of the favourable investment climate and abundance of natural resources of China's most immediate neighbours. China brings a different kind

of investment package to the table that is built on relationships and friendship. China is also seen as a 'soft power' of culture and ideas, one making friends all across the region, with friendship spearheading business activities.

Bauxite mining in Cambodia

In Cambodia, there is an expectation that the potential for exploitation of large deposits of bauxite that could generate huge revenue for the country is great. However, the nature of this potential is not well understood, as the companies looking to invest in bauxite are all in the exploration phase. Only recently the largest investor, Australian company BHP Billiton, in collaboration with the Japanese company Mitsubishi, has pulled out of bauxite exploration in Cambodia, leaving a void to be filled by other major players such as Chinese investors.

Environmental and social impacts of bauxite mining

Bauxite does not come without side effects, and transboundary impacts are expected to be significant, including loss of fisheries and changes to the hydrology of the rivers and water quality, which will affect the livelihoods of indigenous people living in the mining area. Mining bauxite involves the discharge of toxins that must be stored safely and permanently. There are significant potential impacts beyond the mining site, including contamination of the surrounding and downstream areas.

Towards improved decision-making and environmentally and socially sustainable invest-

ment in bauxite mining

Vietnam and Laos, and to a lesser extent Cambodia, are experiencing an unprecedented interest in exploiting their bauxite resources. As many Chinese companies 'go out' to find investment, they will need to comply with their host countries' laws and regulations. However, where these regulations are weaker than China's, an opportunity can be created for China to become a global leader in environmentally and socially sustainable investment in bauxite. This can be achieved by adopting and ensuring compliance with global best practices and principles such as the Equator Principles for banks and the International Council on Mining and Metals Sustainable Development Framework. Additionally, China should carefully monitor Chinese overseas investments and strengthen its own investment regulations. This does not necessarily have to come at the expense of investment inflows, but could ensure that high environmental and social standards are met.

This article summarizes the findings of a recent study by the Heinrich Böll Foundation, WWF and the International Institute for Sustainable development. The full report of "In Search of Aluminum: China's Role in the Mekong Region" can be downloaded from www.boell-cambodia.org.



Knowledge and...

sition", "the stability of a political environment", "the attitudes of populations toward governments", and "the ability of basic mechanisms of accountability"².

The authors go on to consider how transparency can be improved. Recognizing that the challenges are complex, they point out that a first step is to determine which oil & gas documents should be made public, since there is a legitimate place for confidentiality in commercial relations. They therefore propose that governments adopt a "transparency principle". Elements of such a principle can include requirements to make payments and contracts public, or to post information on financial transactions on government websites.

UNDP Cambodia arranged to bring Prof. Stiglitz to Cambodia in late 2007. During his visit, extensive discussions were held with senior government officials and others. Recently, UNDP has translated the publication by Stiglitz, et. al. into the Khmer language. A copy was sent to the Prime Minister, Samdech Hun Sen, and copies will shortly be widely distributed to interested Cambodians.

Bringing international experts, as well as knowledge of international best practices, to Cambodia is one way that UNDP Cambodia hopes to support the transparent development of Cambodia's oil & gas and min-

eral wealth for the benefit of all Cambodians. Another important approach for UNDP, and partner organizations in Cambodia, is to build opportunities for informed and respectful dialogue among stakeholders in the extractive industries (EI). Stakeholders include CRRT and other member of civil society, the private sector, development partners and government.

International best practise should once again inform how dialogue and engagement on EI issues is conducted. These practises have been considered in detail by organizations including the International Petroleum Industry Environmental Conservation Association (IPIECA), the International Council on Minerals and Metals (ICMM), and the World Resources Institute (WRI) and others. Each organization emphasises different aspects of the dialogue process. However, a common theme from all is the high importance of dialogue to successful resource development. As IPIECA stated in their report, "to local stakeholders, how the company engages is more important than what the company does."

UNDP Cambodia has drafted its own EI engagement strategy. It is built around three types of activities: 'Knowledge Translation – bringing knowledge and experience to bear in solving problems, 'Policy Seminars' – focused discussions on specific EI issues, and 'Dialogue Platforms' – working towards creating new structures for Cambodians that allow for problem solving among

stakeholders.

In this context, one innovative United Nations approach being brought to Cambodia is Solution Exchange™. Already in place in India, Indonesia and Bhutan, Solution Exchange is being introduced in three areas of UNDP Cambodia's work, including extractive industries. The idea is to build an EI 'Community of Practise' that allows Cambodia to benefit from rapid access to international knowledge and experiences using moderated, web-based tools. Members can tap into a managed global network in order to seek new ideas and get support in addressing Cambodian challenges. Among other benefits, Solution Exchange contributes to greater transparency in the availability of information for decision-makers in Cambodia. UNDP will soon formally introduce Solution Exchange, and looks forward to active involvement by the cross-section of Cambodian EI stakeholders.

UNDP Cambodia will continue to do its part to support the inclusive, transparent development of Cambodia's extractive industries, and appreciate the opportunity to work with CRRT and its partners on these issues.

Glenn Kendall

*Policy and Management Advisor,
Extractive Industries*

UNDP Cambodia

February 24, 2010

¹ *Humphreys, M., Sachs, Jeffrey D., and Stiglitz, Joseph E., Escaping the Resource Curse, Columbia University Press, 2007*

² *ibid., page 331*



Extractive Industries...

countries. The EITI Board and the international Secretariat are the guardians of that methodology. Implementation itself, however, is the responsibility of individual countries. The EITI, in a nutshell, is a globally developed standard that promotes revenue transparency at the local level. The EITI Rules establishes the methodology

countries need to follow to become fully compliant with the EITI.

This article is available on www.eiti.org

March 2010 marks the most significant public disclosure of oil revenues by the Royal Government of Cambodia (RGC) since Chevron first struck oil in Cambodia's offshore area in 2005.

The RGC received USD\$26 million from oil companies in January 2010 alone, announced the Ministry of Economy and Finance Secretary General Hang Chuon Naron, during his March 17th presentation at the Cambodia Outlook Conference.

Elaborating on Dr. Naron's disclosure, an official from the

PetroVietnam and Total Pay \$26 Mill in Signature Bonuses/ Social Funds to the RGC in January

Cambodian National Petroleum Authority (CNPA) confirmed to The Phnom Penh Post on March 23rd that both PetroVietnam and Total paid a total of US\$26 million in signature bonuses and social funds to the RGC in January. PetroVietnam made payments following the signing of an exploration deal for onshore Block 15, while Total's payment related to the 2,430 square-kilometer Area III, an offshore block in Cambodia's

Overlapping Claims Area with Thailand, the CNPA official said.

The CNPA official, who refused to disclose his name to the Post, was unable to break down the total amount given by each company, but the combined revenues marked a huge rise on the \$800,000 in oil revenues the RGC reported it had received in December of 2009.

According to Dr. Naron's presentation, \$20 million of the

combined revenues from Total and PetroVietnam related to signature bonuses, while the remaining \$6 million constituted a social fund payment. This disclosure was cited in Dr. Naron's presentation as part of the Extractive Industries Transparency Initiative (EITI), despite the fact that the Cambodian government has yet to become a signatory to EITI—the global standard for revenue transparency within the energy industry.

The opinions expressed herein are those of the authors and do not necessarily reflect the views of all donors.

CRRT Activities Calendar

23 April 2010

What : Roundtable discussion with Prof. José Ramos-Horta on "Transforming Natural Resource Wealth in Cambodia into a Source for Sustainable Growth and Democratic Development"

Where : Cambodiana Hotel

When : H 9:00 - H 11:00 am

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