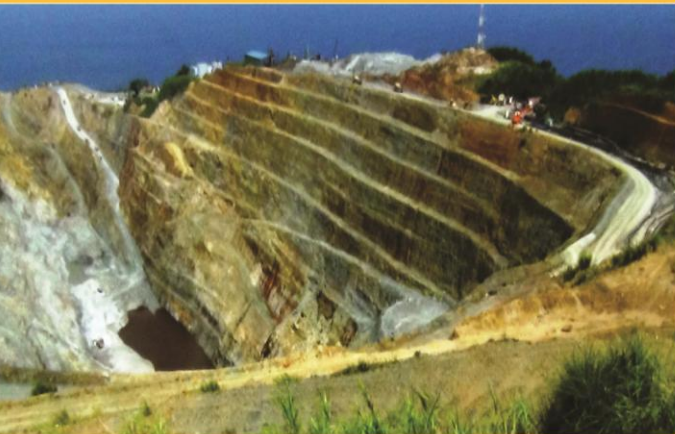




**Asia-Pacific  
Economic Cooperation**

**Corporate Social  
Responsibility  
in Mining  
for  
APEC Economies**



**PARTICIPANTS  
CASE BOOK**

**APEC**

**Mining Task Force  
2013**



**Asia-Pacific  
Economic Cooperation**

Corporate Social Responsibility in Mining for  
APEC Economies

## **PARTICIPANTS CASE BOOK**

APEC

Mining Task Force  
2013

**Prepared By**

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## PREFACE

In 2011, the Asian Institute of Management developed teaching material on Corporate Social Responsibility (CSR) in the mining sector. The material, prepared by the Institute's Ramon V. del Rosario, Sr. Center for Corporate Social Responsibility (AIM-RVR Center), highlighted best CSR practices and relevant regulations and guidelines in the mining sector in Asia Pacific Economic Cooperation (APEC) economies.

This APEC-funded project is geared towards implementing sustainable development initiatives in the mining sector. In 2012, the AIM-RVR Center carried out Phase 2 of the project, aimed at promoting responsible and sustainable mining practices in APEC economies through a multi-stakeholder training program on CSR.

The main activities of Phase 2 are 1) the training program itself and 2) the development of a CSR Trainers Guidebook. This guidebook provides material and guidance for trainers handling the course.

The course presented in the guidebook has the following learning objectives:

To provide the participant with: An overview of the mining sector to put into context the positive and negative impact of mining; An understanding of CSR and Strategic CSR and its application in the mining industry; An awareness of the changing interests and concerns of stakeholders and how these can be better understood and addressed; and Insights on how to develop a sustainable CSR strategy.

This course is designed to be hands-on and interactive, and focuses on participative learning, including the use of teaching cases. The teaching cases are examples from different companies operating in APEC economies and are designed to allow the student to analyze both best practices and approaches to addressing serious mining concerns through CSR.

By promoting best practices, trainers can encourage mining stakeholders to effectively carry out their CSR programs and help achieve sustainability in mining. The teaching cases can also provide insights to other companies that are implementing CSR programs. Session briefs and teaching notes in this Guidebook offer trainers specific guidance on the conduct of the course and the use of the material. The key elements of the pilot training program have been compiled in this Guidebook, too, to help trainers handle their own training programs.

As the project overseer, I would like to congratulate and thank the following individuals for their significant contributions in making this research endeavor a great success.

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I would also like to acknowledge the cooperation of Rapu-Rapu Minerals Inc., as represented by Cecille Caleja (VP for Public Relations and Corporate Affairs) for making their mining facilities available for a site visit for the participants of the Train-the-trainers Program.

Finally, I hope that this CSR Trainer Guidebook will offer practitioners useful directions in training for and improving CSR programs.

Thank you.



**Prof. Francisco L. Roman**  
**Project Overseer**

## ABOUT THE PROJECT

This APEC-funded project entitled, “Capacity Building of Mining Stakeholders in APEC Economies on Corporate Social Responsibility (Phase 2)” hopes to enhance the sustainability and information exchange within the mining sector in the APEC region through a multi-stakeholder training program that addresses relevant CSR issues and practices.

Mining is a significant global industry for both the producing and consuming economies. However, in many places, the economic potential of mining has been offset by problems such as environment degradation and resistance from communities. The project’s goal is to find ways to address these concerns, balance and assess the needs of multiple stakeholders, and help create a mining industry that contributes to the common good.

In many places, the mining industry is burdened with a history of mistrust. Those who oppose mining cite environmental destruction, damage to biodiversity, and its impact on local culture and communities. The concerns include both the impact of ongoing mining operations as well as the ensuing impact on both the environment and communities after mine sites are decommissioned. Therefore, the challenges are economic, environmental, and social. On top of these concerns, the reality of mining is that mineral deposits are finite. This means that all mining sites have a finite lifetime. For purposes of this project, sustainability is defined to be the pursuit of practices that not only seek to eliminate the negative impact of mining during and after the life of a mine but also to promote the positive effects of mining beyond the life of the mine.

Corporate Social Responsibility (CSR), which is built on the belief that business must address human needs, can help promote and enhance sustainability. Embedding the CSR concept and its practices in the mining industry could serve as a catalyst for the growth of sustainable mining practices.

There are several activities under the project: 1) the holding of a train-the-trainers program, 2) the development of the CSR Trainers Guidebook and 3) the sharing of experiences with the public through this Guidebook. The train-the-trainer’s program was conducted to pilot test the training design and the teaching cases developed in Phase I. All the participants were expected to present the status of the mining industry in their respective economies and contribute to the exchange of information. After the program, the participants had the opportunity to conduct the training in their respective economies and share their knowledge with others who might also conduct the program.

The evaluation and results of the pilot train-the-trainers program conducted in Legaspi City from 4-8 June 2012 served as source materials for the development of this CSR Trainers Guidebook, which should help other trainers conduct a course on CSR in mining in the different APEC economies.

## **ABOUT THE TRAINING PROGRAM**

A key concern of stakeholders in the mining industry is the need for training and education in the different aspects of mining, which includes impact assessment and stakeholder empowerment. The main purpose of the training program is to promote responsible and sustainable mining practices among APEC economies.

The program will enhance the participant's ability to evaluate and manage CSR in all of the different stages of mining operations: pre-exploration, exploration, operations/extraction, and decommissioning and rehabilitation. Participants from different mining stakeholders (company, APEC member economy government and local community) would receive the following benefits:

- Training on realistic and effective evaluation of positive and negative impacts of mining operations, thus improving sustainable development strategies of mining communities and affected areas.
- Increased understanding of the practice of sustainable development in the mining sector by providing a multi-stakeholder, stage-by-stage approach to CSR in mining that highlights best practices.
- A venue for sharing experiences and fostering dialogue, which would allow participants to build alliances with other stakeholders.

The program can also be lengthened or shortened depending on the accessibility of a mine site visit, level of training and expertise of participants. However, based on the research project results and evaluation, the training program is best conducted for four days and may be extended to five or six days depending on the time needed for a mine visit. It is also necessary for the training program to end with a half-day workshop to serve as an integrative and evaluation session for the improvement of the program.



# **Readings on Strategic CSR**

## SUSTAINABILITY IN MINING: THE STAGES APPROACH

At first glance, the concept of sustainability seems incompatible with an industry that deals with the extraction of finite resources. However, it is specifically this characteristic of the mining industry that makes it so important to ensure that sustainable approaches are used by the mining industry.

In this note, a strategic approach to CSR, one that specifically addresses the unique challenges of mining operations, will be discussed. This is a stages approach that takes into account the reality of the finite lifetime of a mine site and hence takes into account the specific stages of a mining operation.

### DEFINITION OF SUSTAINABILITY IN MINING

Sustainability as applied to the mining industry should take into consideration its unique characteristics. Only by understanding the uniqueness of the mining industry would a sustainability plan be able to effectively address footprint and stakeholder concerns.

### Characteristics of the Mining Industry

At least two characteristics of the mining industry are important in developing an approach to defining the meaning of sustainability in mining.

**Finite Mineral Resources.** Mining companies have a finite lifetime because operations are dependent completely on a finite quantity of mineral deposits. When these deposits are depleted, mining operations cease. This is a key concern for mining companies. Clearly, mining operations in any area would have a specific, finite lifetime. Hence, sustainability is not about ensuring that mining operations continue indefinitely. Sustainability in mining involves the management of its impact; first, ensuring that the negative effects are mitigated over the long term, including after the mine shuts down and second, ensuring that positive impact continues beyond the lifetime of the mine.

**Heavy Footprint.** Mining operations create both positive and negative effects that have the potential to profoundly affect the economy, environment, and society. As a result of this heavy impact, the mining industry is subject to intense scrutiny and unrealistic expectations. A careful analysis of this impact and an open, positive stakeholder engagement process are critical to managing CSR concerns.

*This reading material was written by Assoc. Prof. Maria Elena B. Herrera and Maria Cristina I. Alarilla for the project entitled, "CSR in Mining for APEC Economies (Phase 2)." This APEC funded project was implemented by the RVR Center for Corporate Social Responsibility. Copyright 2013, APEC Secretariat. This teaching material may be used for educational and research purposes without fee or charge. For soft copies of this material, please contact [info@apcc.org](mailto:info@apcc.org) and [www.apcc.org](http://www.apcc.org).*

- *Economic Impact:* Mining companies directly affect the economy of their host community as well as the country where they are located through taxes, royalty payments, employment, and growth of businesses related to the mine's supply chain. When economic sustainability is not considered, communities are subject to the boom-and-bust effect, resulting in the existence of mining "ghost towns." During the lifetime of a mine, large segments of the local community can become dependent on the mining company for jobs as well as for business income. Much in the same way that a mining operation plans for a land use program for the mine site post-operations, there must be a plan for the economic transition of families and businesses to a post-mining operations environment. For employees, this might involve retraining, placement and livelihood programs. For the community, this would involve a long-term economic and development plan for the community. In the best of all possible worlds, the programs for the employees would dovetail with community programs. On a larger scale, care must also be taken to work with the national government in to ensure that the income from mining ultimately results in helping build a foundation for continuing economic activity after mining operations have ceased.
  
- *Environmental Impact:* Mining companies have a direct impact on the environment in which they operate. Mining operations could affect the biodiversity, geography and geology, flora and fauna, ecosystem, and bodies of water. More often, environmental issues include water, air and noise pollution; changes in land formation; acid mine drainage; and disruption of the ecosystem. Efforts to mitigate these environmental effects must include long-term solutions for by-products and wise technology choices for operations. In addition, mining companies can also help create a positive impact through projects such as helping build new habitats.
  
- *Social Impact:* Mining companies also affect the social fabric of the communities in which they operate. When companies begin operation, it is important that they understand the culture of the local community. In certain cases, operations could affect ancestral lands or flora or fauna that are culturally important to indigenous communities. Local practices and traditions may also be threatened by mining operations. Management of these effects could include the protection of certain areas, the building of new habitats and resettlement of fauna, or even the establishment of foundations, schools or museums to help preserve local culture.

**Stages and Mismatches.** Each mine site goes through distinct stages. The activities of the company and its impact vary at each stage. One of the more important characteristics of mining is that there are mismatches between the natural flow of funds and funding needs for many mining stakeholders. A strategic approach to CSR in mining would involve a plan that spans all of the stages from pre-exploration to decommissioning and rehabilitation. This across-all-stages approach would allow the company to work with its stakeholders in addressing these mismatches.

## **SUSTAINABILITY AND IMPACT**

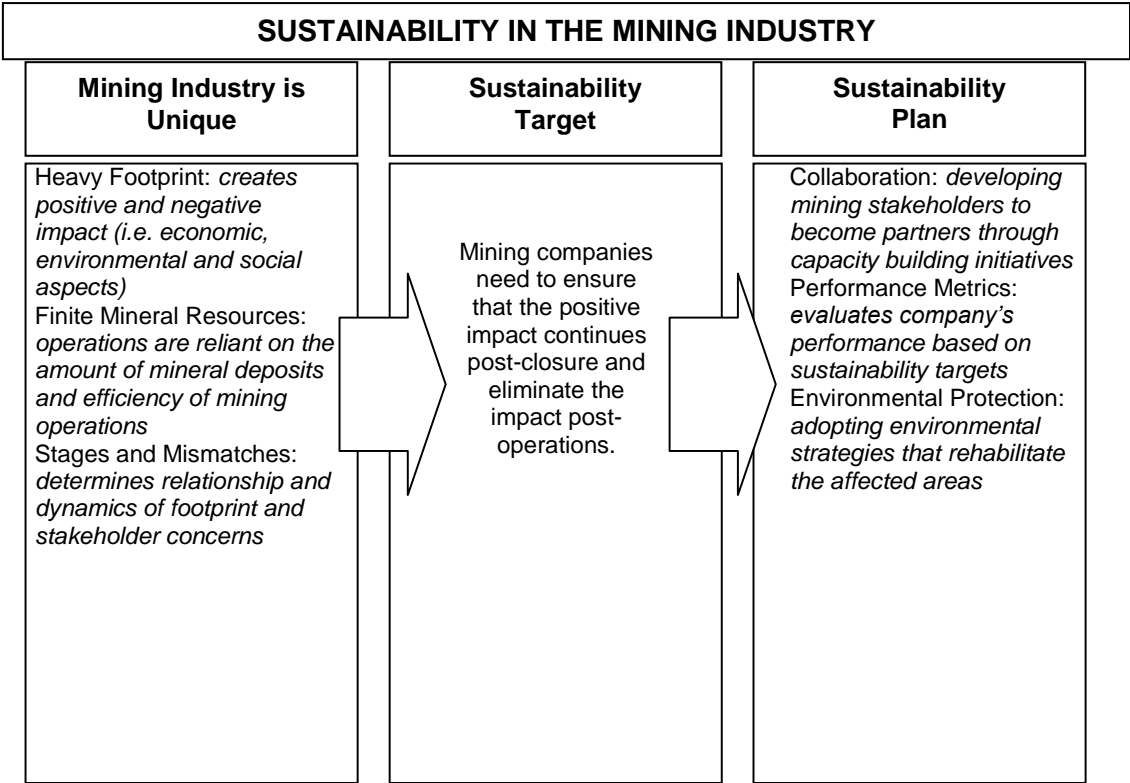
Sustainability is important for the mining industry—not only for the mining companies, but also for the government, community and the environment.

Developing a sustainability plan acts as a risk management tool for mining companies to ensure that their reputation and future operations are protected and secured. The sustainability plan also guards the environment and interests of all mining stakeholders.

In developing a sustainability plan, mining companies need to ensure that the positive effects continue after the mine closes. The sustainability plan must also mitigate the negative effects both during and after operations.

To address these concerns, mining companies need to develop a sustainability plan that will:

- Equip the stakeholders with the proper skills and competencies to become partners towards social development;
- Identify metrics and monitoring programs that would evaluate and assess the company’s performance; and
- Develop environmental programs that would rehabilitate the disturbed and mined areas.



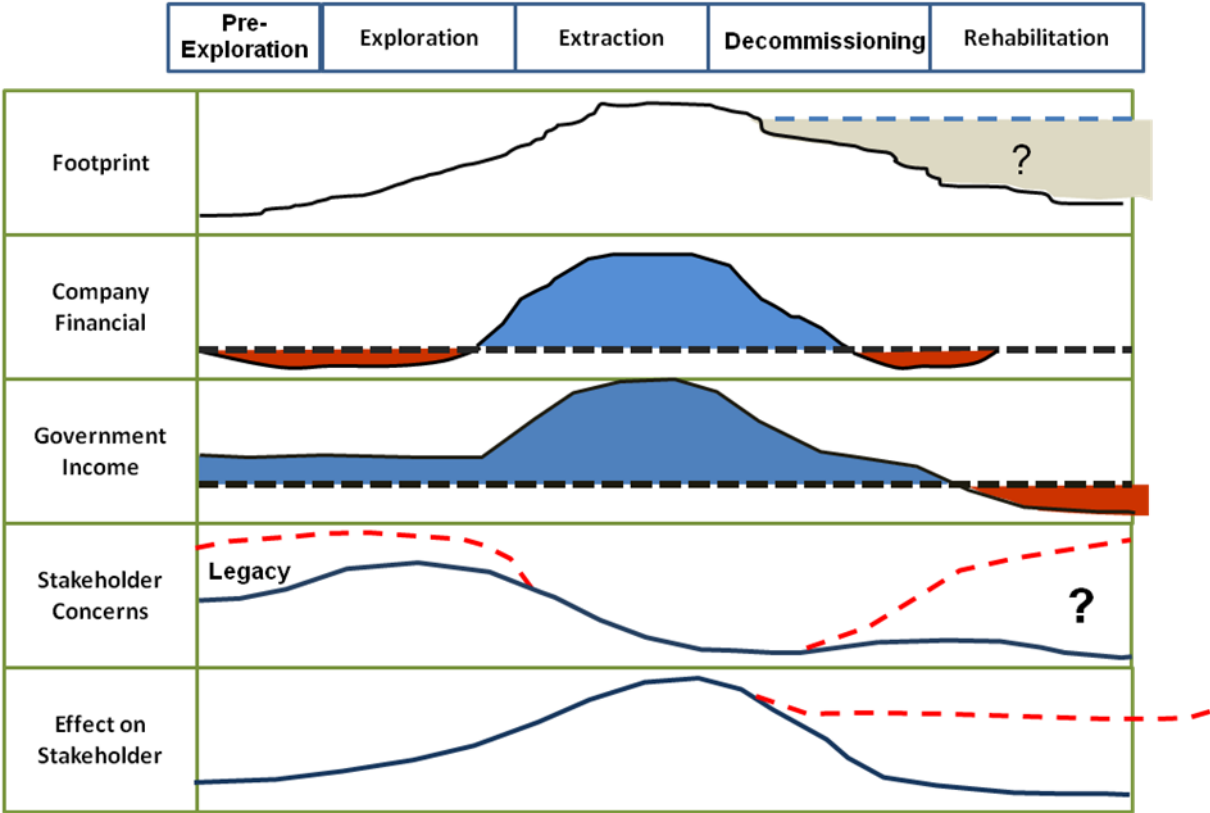
**Figure 1: Sustainability in the Mining Industry**

**MAPPING FOOTPRINTS AND STAKEHOLDERS IN THE MINE LIFE CYCLE FRAMEWORK**

To develop a sustainability plan for mining, it is important to first understand that each mining site goes through specific stages in its life cycle. These stages include pre-exploration, exploration including feasibility and planning, extraction (which begins with construction), decommissioning and rehabilitation. As the mineral deposits are finite, each mine site also has a finite lifetime. As a result, one of the key goals of sustainable mining is to plan for a positive and orderly exit from mining operations.

In addition to understanding that there are distinct stages in the mine life cycle, it is important to note that the company’s footprint (its impact on the community, environment and society),

corporate financial results, government income, stakeholder concerns and impact on stakeholders vary across the life of the mine.



Source: Herrera, M.B., Alarilla, M.I., Decena, M.S. and de Jesus, M.C. (2011). Corporate Social Responsibility in the APEC Mining Sector (Educational Framework). In APEC Secretariat, *CSR in the APEC Mining Sector*. APEC Secretariat.

**Figure 2: Mapping Footprint and Stakeholders in the Mine Life Cycle**

**MISMATCHES IN MINING**

**Footprint.** The company’s impact on the environment, and on the local community and society -- both economic and cultural -- increases steadily from pre-exploration to production. In the ideal situation, the company engages in staged rehabilitation during the production stage and the company’s negative impact is completely eliminated at the end of rehabilitation. In addition, the best result would be if the positive economic and development impact of the mine is sustained beyond decommissioning. Too often, the reverse is true – negative environmental impact is not eliminated and the community develops a dependence on mining operations and experiences devastating financial consequences after a mine is closed. To avoid this negative outcome, the company needs to work with local communities and governments to develop a plan for post-decommissioning land use as well as an economic and development plan for the host community (and sometimes, country) that can be well in place by the time the mine closes. This requires foresight and early planning and implementation. In addition, in the case of environmental rehabilitation, it requires that funds be available during the period when the mine has stopped producing economic flows for both the company and the government.

**Financial, Company and Government.** Economic flows to both the government and the company are highest during the extraction phase. For the company, the early stages of the

mine are an investment. For government, the early stages of a mine create small revenue flows. It is important for government to understand that the mining company pays fees during pre-exploration and exploration in anticipation of economic income during the extraction phase. It is also important for both government and company to take into account the need to set aside some of the economic flows during the extraction phase to lay a foundation for post-decommissioning environmental rehabilitation and to develop a foundation for economic activity after the mine is closed.

**Stakeholder Concerns and Effect on Stakeholders.** Stakeholder concerns are typically highest early in the life cycle of a mine. This is the point at which an often uninformed sector is anticipating both the positive and negative effects of mining operations. Previous negative experiences with mining operations can result in a legacy of bad blood and high anxiety. If a company works well with the community and is able to mitigate the negative effects, then the level of stakeholder concern goes down. In a well-planned exit, the legacy of mining is positive and stakeholder anxiety continues at a low level. In a badly managed mine or badly implemented exit, stakeholder concerns escalate. Negative mining legacies can result in opinion contagion, poisoning public opinion for other mining companies in other areas.

An examination of these dynamics across the stages of the mine life cycle will show that a significant part of the challenge in sustainable mining involves essential mismatches resulting from the characteristics of mining operations. The most important mismatch has to do with the mismatch in the economic flows from mining operations and the need for funding during the decommissioning and rehabilitation stage. Another mismatch stems from the need of the mining operation to secure investor commitment at a point when there is uncertainty both with regard to the true value of the mineral deposit as well as with the ability of the company to secure the necessary permits and approvals. There is also a potential mismatch between the desire of the local community and government to invest in long-term development projects for post-decommissioning at a time when the need is not apparent. There is the potential mismatch between the high anxiety running during the pre-exploration and exploration stage and the fact that the actual economic flows to the community and the government as well as the ability to witness the actual ability of the company to manage the environmental impact are still in the future. Finally, there is the potential mismatch between the actual intention and ability of a mining company to manage its impact and the beliefs and opinions of the local government and community.

For these reasons, it is important for the mining industry to consistently manage well so that opinion about it remains positive. Also, it is important for mining companies to plan well in advance for an orderly and positive exit. Finally, it is exceedingly important for companies to work closely with the local community and government to ensure that the capabilities, institutions and infrastructure necessary to manage post-decommissioning activities can be handled by the community and government once the mining company has exited.

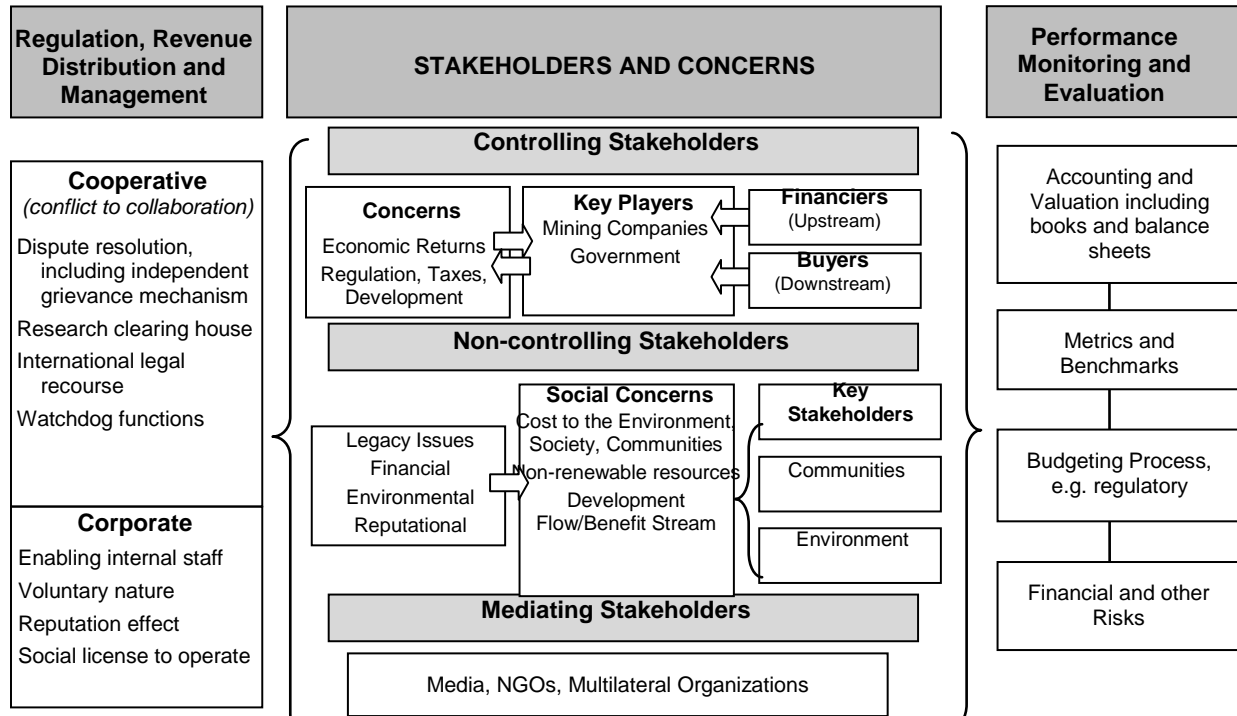
## **SYSTEMS FRAME FOR UNDERSTANDING CSR IN MINING**

Clearly, a positive orderly exit and a sustained positive impact require a collaboration between the mining company and its stakeholders, especially the government and the local community.

A panel of representatives of multiple sectors involved in the mining industry in APEC were asked to map out the players and dynamics of sustainable mining and what the requirements are for enhancing the ability of the mining industry to consistently engage in sustainable mining practices.

The approach taken was to map out the players, their concerns and influences, identify challenges and opportunities and identify desired governance, control and capacity-building mechanisms.

With the help of facilitators from the AIM RVR Center, a Systems Frame was developed. The Systems Frame has three sections: 1) Stakeholders and Concerns; 2) Performance Monitoring and Evaluation; and 3) Regulation, Revenue Distribution and Management.



Source: Herrera, Maria Elena. (2011). "Corporate Social Mining Sector for APEC Economies", *CSR in Mining for APEC Economies*. Asia Pacific Economic Cooperation Secretariat.

**FIGURE 3: The Environment of CSR in Mining: A Systems Approach**

**Stakeholders and Concerns.** Mining industry stakeholders can be classified into: 1) key players who are the primary controlling stakeholders, 2) non-controlling stakeholders who have an interest in and influence over mining operations but have no direct control over mining operations, and 3) mediating stakeholders.

Key players are the mining companies and government because they have direct control over mining operations. Mining companies control the activities and processes within the mine site. Their main concern is earning a profit from mining operations as well as compliance with government regulations. Government has the power to regulate mining operations in accordance with national and local laws. Government can create laws, withhold or grant licenses and permits and hence has the ability to significantly influence company operations. The government is also a major beneficiary of mining revenues through taxes, royalties and development.

Financiers (or investors) and Buyers (or customers) are also considered key players but are only able to influence mining operations based on their interactions with the company. They expect the mining company to be compliant with mining policies and regulations (i.e. environmental protection, labor issues, and sustainability). Investors expect to gain a return and buyers expect product that is acceptable in quality as well as price.

Non-controlling stakeholders are those that influence or are greatly affected by mining operations. These are the communities and the environment. Communities refer to direct impact areas as well as society in general. The environment is directly affected by mining operations through loss of biodiversity, disruption of the ecosystem, and pollution. General social concerns include: cost to the environment, depletion of natural resources, development effects, impact on local tradition or culture, impact on families and impact on local institutions. Legacy issues from previous financial and environmental events can also affect public opinion on current operations.

Mediating stakeholders are those that influence mining operations but are not directly affected by mining. These include the media, non-government organizations (NGOs), and international organizations. They act as advocates, representatives and mediators and can influence company reputation and social legitimacy.

The remaining two sections of the systems frame refer to the mechanisms deemed desirable to achieve sustainability in mining.

**Performance Monitoring and Evaluation.** Performance monitoring and evaluation are critical as the potential impact of mining, both positive and negative, is large.

Mining companies need to monitor environmental footprint (i.e. environmental impact—biodiversity, ecosystem, pollution, geography and geology, flora and fauna). The challenge for mining companies is to ensure that the environmental effects are fully mitigated even after the mine has closed.

Mining companies also need to monitor their social and economic impact, particularly on the community and government.

Monitoring and evaluation must be conducted at each stage of the mine life cycle. Mitigation activities and their effects must also be monitored at each stage. This ensures that necessary changes can be made as early as possible.

It is particularly important that the performance measurement be conducted using metrics that are acceptable to all shareholders and that measurement be conducted using methods and processes that result in credible reports.

Possible mechanisms and areas for measurement suggested were: 1) financial mechanisms using accounting and valuation; 2) metrics and benchmarks; 3) budget processes; and 4) financial and other risks.

**Regulation, Revenue Distribution and Management.** To balance the concerns of the different stakeholders, address potential conflicts and mismatches, and generally enable and enhance the ability of the industry to engage in sustainable mining practices, two general categories of mechanisms were proposed: 1) mechanisms for enhancing cooperation and 2) mechanisms for enabling companies.

The collaborative approach focuses on creating partnerships and coalitions to address specific issues. The challenge for the key players, non-controlling stakeholders, and mediating stakeholders is to make the transition from conflict to cooperation. Mining stakeholders could cooperate in developing a dispute resolution system (including an independent grievance mechanism); a research and clearing house for development and maintenance of independently verified and hence widely acceptable information;



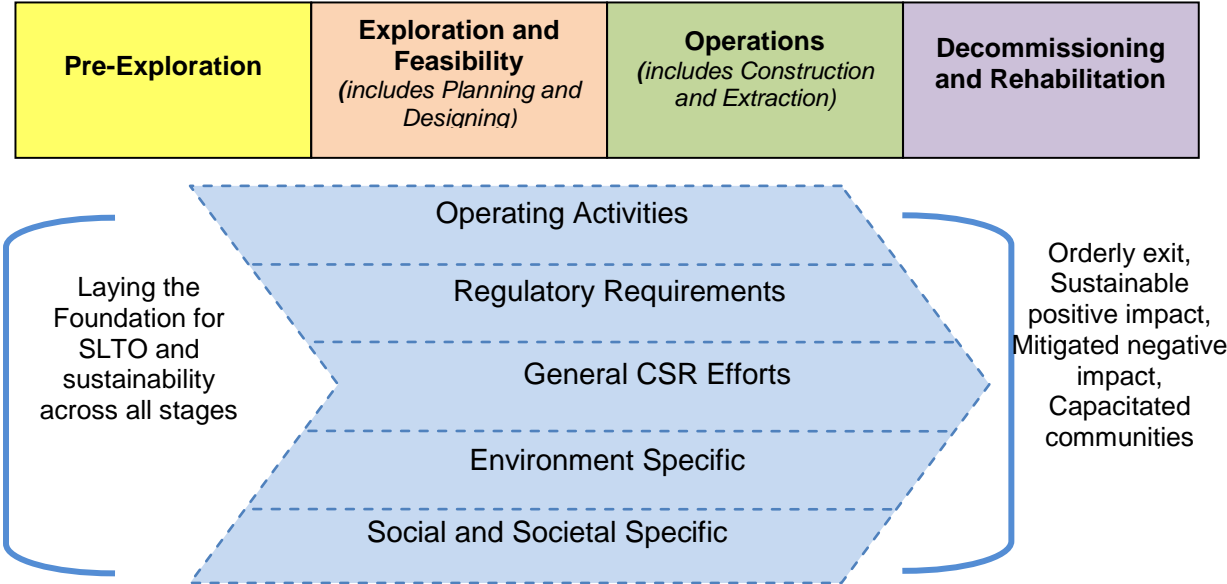
mechanisms for international legal recourse; and institutions designed for surveillance (watch dog functions).

In terms of enhancing company capabilities, the focus areas were: 1) capacity-building and resourcing for internal staff, 2) the encouragement of the voluntary adoption of sustainable practices, 3) a better understanding of the effects of responsible mining practices on the reputation of a company, and 4) an appreciation of the effects of responsible (and irresponsible) practices on the company’s social license to operate.

**STRATEGIC CSR IN MINING: THE STAGES APPROACH TO SUSTAINABLE MINING**

At the heart of sustainability in mining is the preparation for an eventual orderly exit, one that ensures the continuation of positive impact and that continues protection against negative impact. The Stages Approach to Sustainable Mining underlines the need for mining companies to develop and implement an engaged and orderly approach to CSR. Across the different mining stages, mining companies engage in different activities and initiatives. The first two activities are the general operating activities and compliance activities. In addition, three other types of activities must also be initiated: general CSR efforts, environment-specific initiatives, and social and societal initiatives. At the pre-exploration stage, the first two activities aim to gain the approval of both regulators as well as investors. The other three activities are designed to provide a foundation for both the development of a full CSR and sustainability program across all the stages and the development of a social license to operate. The relative focus and aims change across the stages but the eventual aim of all activities is to have an orderly exit; one that leaves a lasting positive impact as well as a long-term solution to any negative effects.

*Engaged and Orderly Approach to Ensuring Sustainable Positive Impact and Mitigation of Negative Impact*



**FIGURE 4: The Stages Approach to Sustainable Mining**

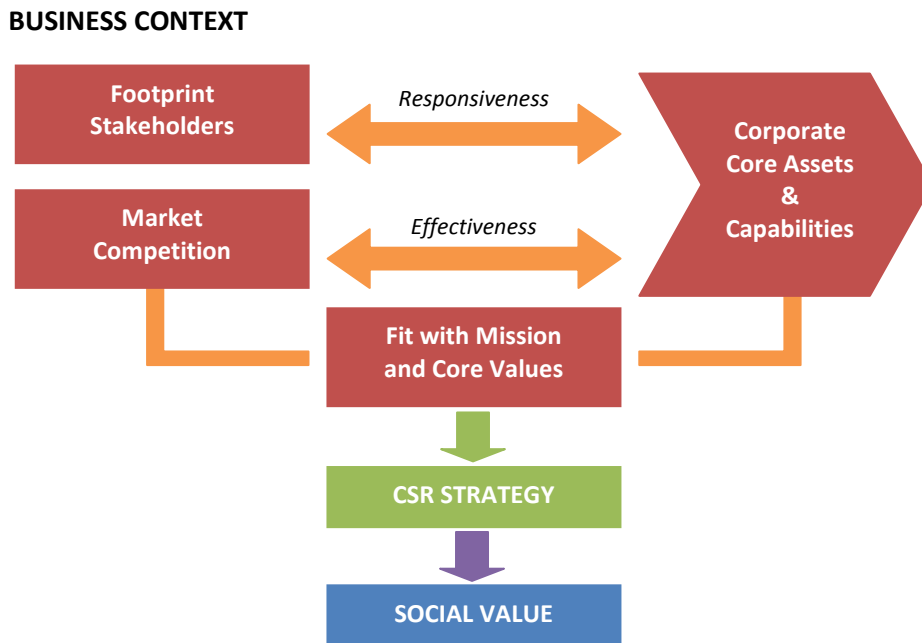
	<b>Pre-Exploration</b>	<b>Exploration and Feasibility</b> <i>(Includes Planning and Designing)</i>	<b>Operations</b> <i>(Includes construction and Extraction)</i>	<b>Decommissioning and Rehabilitation</b>
<b>Operating Activities</b>	Secure funding; Establish preliminary feasibility report	Evaluation of commercial viability of mineral resources; Designing the facilities	Construction of mine site and auxiliary facilities	Removal of infrastructure; Rehabilitation of mine site; Orderly conversion or Dismantling of institutional entities
<b>Regulatory and Compliance</b>	Application for government permits	Application government licenses and certificates; Construction plan that takes into account mitigating measures that need to be in place	Maintenance of regular permits and compliance with reporting requirements	Monitoring of closure activities to ensure they meet government standards; Secure of clearance and certificates
<b>General CSR</b>	Assessment of land use and ownership	Completion of environmental and social impact assessment; Designing the environmental, social and economic development plan; Formulation of exit strategy	Monitoring of mine facilities, external situation and mining operations impact; Updating the decommissioning and rehabilitation plan	Rehabilitation of mined out areas and gradual exit of socio-eco programs
<b>Environment</b>	Preliminary environmental impact analysis	Development of environment monitoring and impact management program	Continuous monitoring of environmental impact; Progressive rehabilitation	Implementation of environmental rehabilitation plan
<b>Societal</b>	Stakeholder analysis and initial stakeholder engagement	Secure SLTO; Community relocation and resettlement initiatives	Continuous monitoring of societal impact; Implementation of socio-eco programs	Progressive exit from socio-economic programs; Final review and planning with stakeholders
<b>Important Notes</b>	The company needs to negotiate with surface claimants of the land to be able to proceed with exploration activities	The results of the initial feasibility study are used in designing the mine. The final design of the mine results in the initial business plan for the mine.	Community development activities must be started early in order to ensure the sustainability of the community post mining operations.	At the end of a successful decommissioning and rehabilitation, the community is ready to implement the new land use and economic development plans without further assistance from the mining company.
<i>In all the stages, the key activities include the following: Compliance to regulation, monitoring the company's impact, stakeholder engagement, community development programs, and environmental sustainability initiatives.</i>				

**Table 1: Mining Stages and Key Activities**

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Herrera, M.B. (2011). Corporate Social Responsibility in the APEC Mining Sector (Educational Framework). In APEC Secretariat, *CSR in the APEC Mining Sector*. APEC Secretariat.

## A STRATEGIC APPROACH TO CSR



Source: Herrera, M.B., Alarilla, M.I. and Uy, R.L. (2011). *Towards Strategic CSR: Aligning CSR with the Business and Embedding CSR in the Organization: A Manual for Practitioners*. Makati City: Asian Institute of Management.

**FIGURE 1: DEVELOPING A CSR STRATEGY**

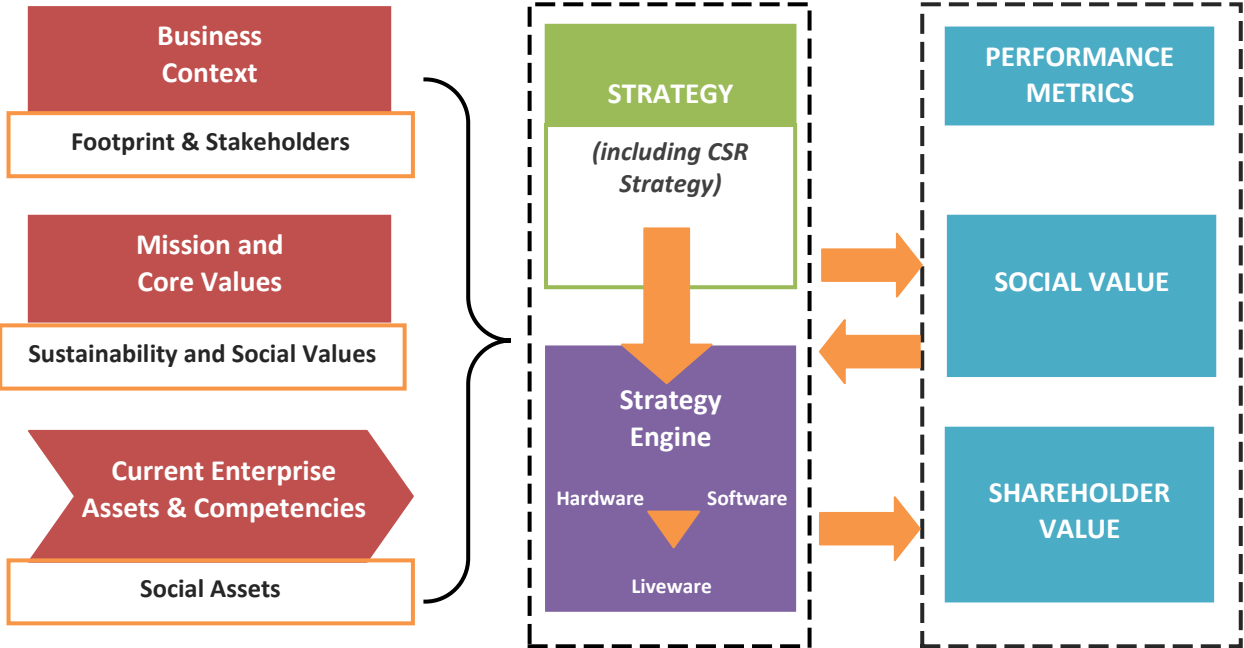
Corporate Social Responsibility (CSR) is about the interface between the enterprise and its environment. Developing a CSR strategy involves looking at the operating environment of the enterprise, taking into account both market and non-market environment. This means taking into consideration its footprint as well as its stakeholders. “Footprint” refers to the impact of the company’s operations, including environmental (i.e., gas emissions) and social (i.e., relocation, impact on local culture) considerations.

The primary objective of CSR initiatives with respect to footprint is to minimize the negative impact and maximize the positive impact. Analysis of the footprint helps the enterprise identify its stakeholders. Both key internal and external stakeholders have a legitimate concern and can affect operations. It is also important to look at the key concerns of each stakeholder as well as the influence on each other.

*This reading material is an excerpt from the “CSR in Mining for APEC Economies” published material prepared by the Asian Institute of Management – Ramon V. del Rosario Center for Corporate Social Responsibility (AIM-RVR Center) for the Asia Pacific Economic Cooperation (APEC) Secretariat. This reading was written by Maria Cristina I. Alarilla under the supervision of Assoc. Prof. Maria Elena B. Herrera. Copyright 2013, APEC Secretariat. This teaching material may be used for educational and research purposes without fee or charge. For soft copies of this material, please contact info@appec.org and www.appec.org.*

The enterprise also needs to evaluate its key assets and capabilities vis-a-vis its footprint and stakeholders so that the enterprise has an idea what it can use to manage its footprint, address stakeholder concerns and ensure that the business remains profitable. Profitability is important to ensure the sustainability of business.

Taking these factors into consideration, it is important then to fit all CSR objectives with the organization’s mission and core values. This is important especially in determining which footprint and stakeholder issues should be addressed first. Unless the CSR strategy is linked to the company’s objectives and values it would be difficult to sustain. This is also important to ensure that the company's CSR strategy has value to its identified stakeholders.



Source: Herrera, M.B., Alarilla, M.I. and Uy, R.L. (2011). *Towards Strategic CSR: Aligning CSR with the Business and Embedding CSR in the Organization: A Manual for Practitioners*. Makati City: Asian Institute of Management.

**FIGURE 2: INTEGRATING SOCIAL PERFORMANCE**

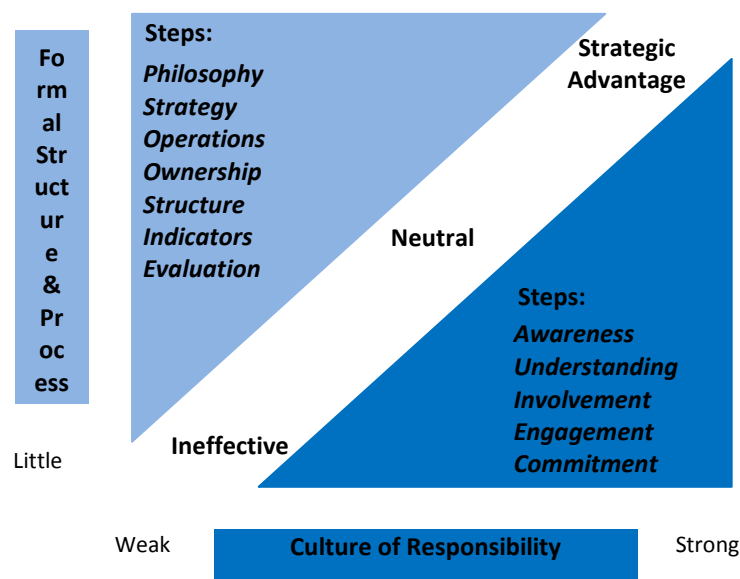
In integrating social performance into the business, three factors need to be considered: 1) business context 2) mission and core values, and 3) current enterprise assets and competencies.

Business context refers to the company’s footprint, which is its environmental and social impact, and its stakeholders (internal and external). Stakeholders are identified based on the footprint of the enterprise.

Mission and Core values include sustainability and social values the company adheres to. Current Enterprise Assets and Competencies refer to the company’s resources and capabilities. In evaluating the competencies of the company, it is also important that the company look at the capabilities of other stakeholders to see how it can work together with these stakeholders.

These three factors are taken into account in the development of a business strategy, including the company's CSR strategy. This is operationalized through the strategy engine of hardware (infrastructure and equipment of the company), software (resources/connections of the company) and "liveware" (capabilities of employees).

Integrating CSR into the core business and operations of companies creates social value and shareholder value. Social value refers to the benefits generated for the community—through either employment, poverty alleviation, livelihood, education, or health benefits. Social value, in return, benefits the company through ease of business operations, license to operate, a peaceful community, and high community morale, which can benefit the corporation's productivity and operations. Shareholder value refers to the benefits gained by the company through an improvement in its reputation or image, an increase in financial performance, an increase in employee morale, and a competitive advantage. The social and shareholder value derived from the CSR strategy is the measure of its effectiveness.



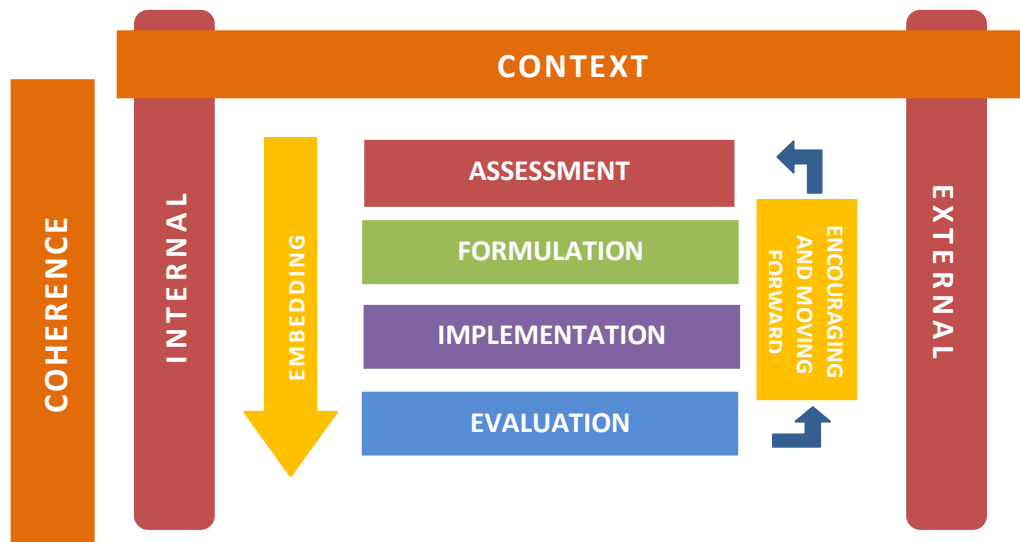
Source: Herrera, M.B., Alarilla, M.I. and Uy, R.L. (2011). *Towards Strategic CSR: Aligning CSR with the Business and Embedding CSR in the Organization: A Manual for Practitioners*. Makati City: Asia Institute of Management.

**FIGURE 3: RESPONSIBLE BUSINESS**

CSR in a company stems from: 1) formal structures and process and 2) a culture of responsibility. Formal structures and processes mean that CSR is embedded in the company's business philosophy (i.e. mission-vision) and operations. For example, it might be integrated into its supply chain, with the company adhering to international standards and ensuring that its local suppliers also follow at least the minimum of these standards.

However, formal structures are not enough. It is also important that these shared values are understood and embraced by members of the organization. There is a need to engage rank-and-file employees and ensure their buy-in into CSR programs. For CSR to be a strategic advantage, there must be formal structures and processes and a strong culture of responsibility developed by the organization.





Source: Herrera, M.B., Alarilla, M.I. and Uy, R.L. (2011). *Towards Strategic CSR: Aligning CSR with the Business and Embedding CSR in the Organization: A Manual for Practitioners*. Makati City: Asian Institute of Management.

**FIGURE 4: INTEGRATING AND ALIGNING CSR**

Looking at a more detailed framework in integrating CSR into the core business, corporations must be able to identify the social and business context where it operates. Specifically, it must consider the 1) business situation and values; 2) business footprint; 3) macro-environment; and 4) stakeholders: concerns, issues and influence. These aspects need to be taken into consideration because in doing so the company can identify key business and social issues and identify which are in line with the company's objectives and which will be given priority.

After issues are identified and prioritized, the company can develop its CSR strategy. From an overall CSR strategy standpoint, it is important to operationalize this plan with respect to how it can be implemented in different aspects of operations. It is important to include communication in the implementation to ensure the key stakeholders (both internal and external) are knowledgeable of the company's plans to ensure their buy-in. Also this is a way to tap into the assets and capabilities of other stakeholders to create mutual value. If partnerships or collaboration are appropriate, it is important that all parties are involved and take ownership of the strategy.

The social programs under the CSR strategy can either be in the form of corporate giving, compliance with environmental or business regulations, value chain management (i.e. development of MSMEs as local suppliers), or business strategy (i.e. social entrepreneurship). It is important to note the stakeholders may change in different stages. Thus it is important to identify stakeholders in all the stages (formulation, planning, implementation and evaluation stage).

Furthermore, in implementing the CSR strategy, the company must be able to identify the content, context, actors and processes. It must also consider if the strategy is consistent with corporate policies, local laws and international codes of conduct. Accountability and responsibilities must be clearly defined to ensure that the different people involved are doing their part to ensure the successful implementation of the CSR strategy. The company also needs to align corporate incentives with CSR efforts.

## **RECOMMENDED EXTRA READING**

Herrera, M.B., Alarilla, M.I. and Uy, R.L. (2011). *Towards Strategic CSR: Aligning CSR with the Business and Embedding CSR in the Organization: A Manual for Practitioners*. Makati City: Asian Institute of Management.

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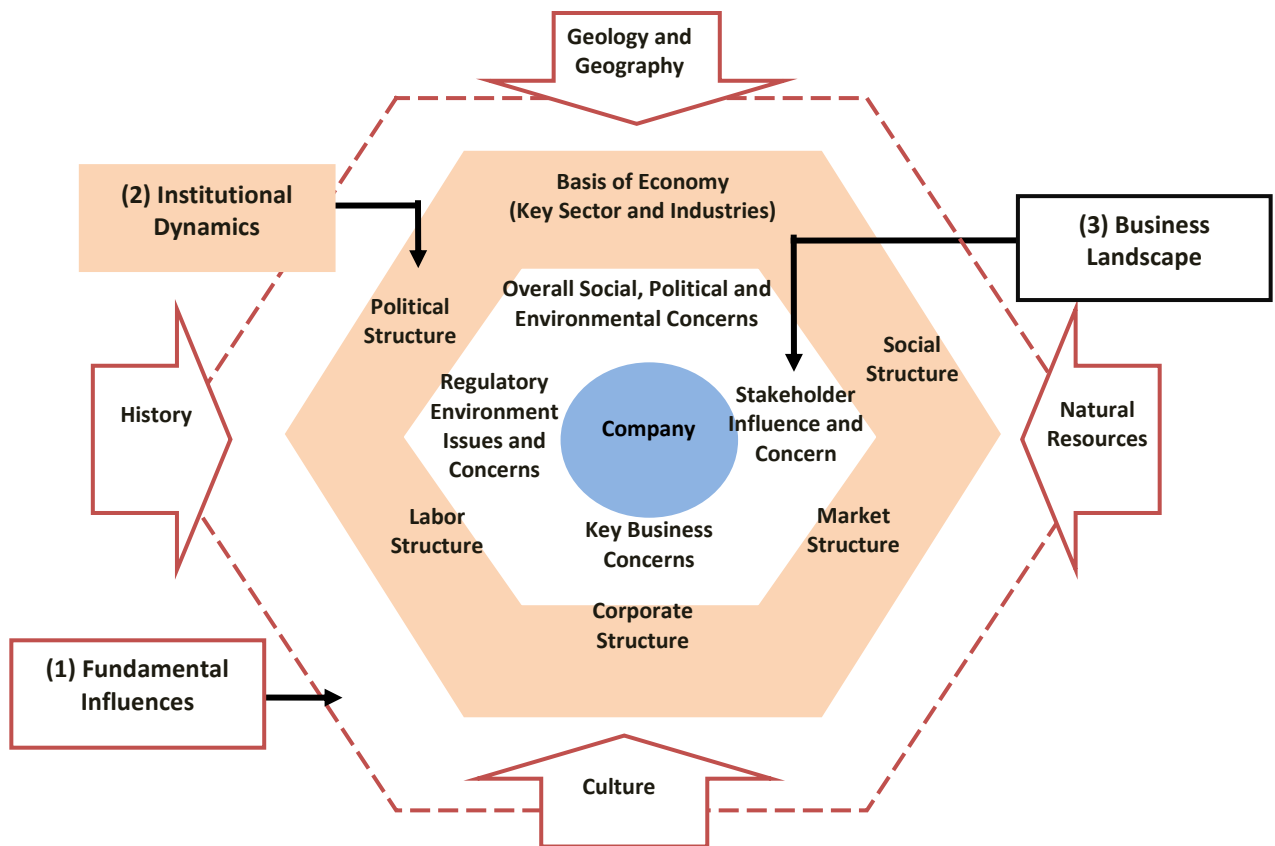
Herrera, M.B. (2007) "CSR and Value Creation." In the book *Doing Good in Business Matters: CSR in the Philippines (Volume 1: Frameworks)*. Asian Institute of Management and De La Salle Professional Schools: Makati.

Herrera, Maria Elena. "Achieving Common Ground: CSR and Sustainability in Mining in the APEC Economies." *Presentation to the Asian Forum on Corporate Social Responsibility*. Kuala Lumpur, Malaysia 21-22 October 2010



## THE ENVIRONMENT OF CSR: THE INFLUENCES (HEXAGON) FRAMEWORK

Macro concerns and trends such as local laws as well as industry standards and practices influence the company's operations. The framework below specifically considers formal and informal structures that affect and influence the company's operations based on its location and area of operation.



*This reading material is an excerpt from the "CSR Corporate Social Responsibility in Southeast Asia: An Eight Country Analysis", a published material prepared by the Asian Institute of Management – Ramon V. del Rosario Center for Corporate Social Responsibility (AIM-RVR Center) which was partially funded by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). This reading was written by Maria Cristina I. Alarilla, Marie Kirstin C. de Jesus and Ryan Vincent L. Uy under the supervision of Assoc. Prof. Maria Elena B. Herrera and Prof. Francisco L. Roman This teaching material may be used for educational and research purposes without fee or charge. For soft copies of this material, please contact [www.rvr.aim.edu](http://www.rvr.aim.edu)*

**(1) FUNDAMENTAL INFLUENCES** include geography and geology, natural resources, history, and culture.

- Geography and Geology	Geographical landscape and geological make-up of the location (e.g. an island, a city, neighboring provinces and cities, presence of bodies of water or types of land forms, or presence of metals or minerals)
- Natural Resources	Natural resources found at or near the location (e.g. operations near bodies of water, impact on flora and fauna, proximity to forest reserves, presence of endangered animals)
- History	Location's history (e.g. history of mining spills, community revolts, disease outbreaks)
- Culture	Religion and culture of the community living in the location (e.g. culture of indigenous peoples, Muslim or Roman Catholic, civilized or not civilized)

The heart of this framework is the hexagon of **(2) INSTITUTIONAL DYNAMICS**. These six factors are: basis of the economy, social structure, political dynamics, market structure, labor dynamics and corporate structure.

- Industry	Type of major industries and major products in the area of operation (e.g. tourism, manufacturing, mining, agricultural products, services, etc.)
- Social Structure	Location's ethnic diversity; gender ratio; presence of social, academic and religious institutions; presence of media and multilateral organizations; income disparity; unemployment rate; educational attainment of target consumers; poverty statistics
- Political Dynamics	Governing bodies present in the location (i.e. monarchy, feudal, federal, democracy, etc.); the interaction of political actors and institutions (i.e. LGUs); the powerful actors and influences in the political sphere; presence of armed conflict; civil disputes
- Market Structure	Market activities in the location (i.e. free market or controlled; presence of monopoly); presence of market information and available choices for the consumers
- Labor Dynamics	Labor concerns in the location (e.g. presence of labor unions, migrant labor and overseas workers; and level of worker skill sets)
- Corporate Structure	Types of corporations (MNC, large local companies, or MSMEs) operating in the location; the influence of business associations and regulatory agencies on the practices of firms located in the location

## THE INFLUENCES (HEXAGON) FRAMEWORK

In the hexagon, the **(3) BUSINESS LANDSCAPE** affects operations and the four factors are:

Key Social and Environmental Concerns and Initiatives, Regulatory Environment, Stakeholder Influence, and Key Business Concerns and Initiatives.

<ul style="list-style-type: none"> <li>• Key Social and Environmental Concerns and Initiatives</li> </ul>	Key social and natural concerns of the location such as education, health and safety, environment, workforce, staff, pay, watershed and pollution
<ul style="list-style-type: none"> <li>• Regulatory environment</li> </ul>	Laws, policies and regulations of the location (i.e. national and local)
<ul style="list-style-type: none"> <li>• Stakeholder Influence</li> </ul>	Interests, relative influence and initiatives or programs of major stakeholders in the location (e.g. individuals, organizations, business associations, government, NGOs, civil society, technical partners or multilateral organizations)
<ul style="list-style-type: none"> <li>• Key Business Concerns and Initiatives</li> </ul>	Key business interests in the location—in terms of financial or social concerns, including the industry codes and regulations, whether mandatory or voluntary (e.g. Global Compact)

A clear understanding of Institutional Dynamics and its effect on the Business Landscape for key business sectors can help explain the roles, interests and relative influence of key stakeholders, and can help all players evaluate the roles they play and how they can best express their roles.

# Teaching Cases

## AUSTRALIA ECONOMY REPORT

### Introduction

The Australian economy has experienced continuous growth and features low unemployment, contained inflation, very low public debt, and a strong and stable financial system. By 2012, Australia had experienced more than 20 years of continued economic growth, averaging 3.5 per cent a year. Australia's positive outlook is underpinned by a record pipeline of resources investments, solid growth in commodity exports and a strong fiscal position.

Australia welcomes foreign investment and recognises the key role it plays in bolstering economic growth, employment and competitiveness. Foreign investment also strengthens links into regional and global supply chains. A robust economy, strategic location and track record of innovation make Australia an attractive location for foreign investors. The stock of foreign investment in Australia was \$2.0 trillion at the end of 2011. A large number of foreign companies are registered in Australia. Many have developed close links with local firms, which has generated cooperation on research and development and resulted in Australian companies becoming drawn into global and regional supply chains<sup>1</sup>.

Australia is a significant exporter of natural resources, energy, and food. Australia's abundant and diverse natural resources attract high levels of foreign investment. A series of major investments, such as the US\$40 billion Gorgon Liquid Natural Gas project, will significantly expand the resources sector. Australia is an open market with minimal restrictions on imports of goods and services. The process of opening up has increased productivity, stimulated growth, and made the economy more flexible and dynamic.

Over the last decade mining has been a key driver of economic activity in Australia. This period, commonly referred to as the 'Resources Boom', has been characterised by strong demand growth from emerging economies in Asia and high commodity prices. Australia, with large natural resource endowments, has benefited greatly from the 'boom', especially in terms of export income and investment in mining. Over the period 2000-01 to 2010-11, the value of Australia's exports of mineral and energy commodities increased at an average annual rate of around 10 per cent. Over the same period, exports of mineral and energy commodities have increased from 37 per cent of the total value of Australia's exports to 60 per cent.<sup>2</sup>

*This case study was written by Ryan Vincent Uy under the supervision of Assoc. Prof. Maria Elena B. Herrera based on published and secondary materials. Copyright 2011, APEC Secretariat. This teaching material may be used for educational and research purposes without fee or charge. For soft copies of this material, please contact [info@apec.org](mailto:info@apec.org) and [www.apec.org](http://www.apec.org).*

<sup>1</sup> <[http://www.dfat.gov.au/aib/australia-and-the-world.html#mining\\_and\\_resources](http://www.dfat.gov.au/aib/australia-and-the-world.html#mining_and_resources)>

<sup>2</sup> Bureau of Resources and Energy Economics (2012) *Australian bulk commodity exports and infrastructure – outlook to 2015*. Available <[http://www.bree.gov.au/documents/publications/\\_other/Export-Infrastructure-Report.pdf](http://www.bree.gov.au/documents/publications/_other/Export-Infrastructure-Report.pdf)>

In the March 2012 Resources and Energy Quarterly, analysis by the Bureau of Resources and Energy Economics (BREE) indicates that the volume of Australian mineral exports is expected to grow at an average annual rate of nearly 10 per cent over the next five years. These large volume increases are supported by assumed robust demand from the emerging economies of Asia, such as China and India. Australian exports of iron ore, coal and Liquefied Natural Gas (LNG), in particular, are projected to increase substantially over the next five years.

The continued capacity of export infrastructure, notably port facilities and rail networks, to deliver projected export volumes is essential to maintain growth in Australia's mineral and energy exports. In the past decade there has been large infrastructure investment in Australia; and there are numerous infrastructure projects under development in various regions.

The scale of the resource industry has helped Australia become a world leader in the development and manufacture of mining equipment, technology and services. Australian firms are competitive across the supply chain, including in exploration, engineering, processing, environmental management, mine safety, training, and research and development.

## **History of Mining in Australia**

Mining and the production of minerals in large quantities commenced upon European settlement. A clear and important part of Australia's history is the series of mining booms, which provided significant economic returns. Minor variations in annual production were attributed to the economic conditions prevailing at the time.

Small to medium-scale mining operations began with the discovery of coal in the late 18<sup>th</sup> century. Traces of gold were reported from 1823 onwards, and occurrences of other metals were reported from time to time. The first metalliferous mining was of silver-lead, at Glen Osmond near Adelaide, in 1841. Copper mining began at Kapunda in 1842, and at Burra, to the north, in 1844. At the end of the same decade, the first pig iron was produced from a small deposit of iron ore near Mittagong, New South Wales.

It was the discovery of payable alluvial gold in 1851 near Bathurst in New South Wales and, soon after, the rich Victorian fields which led to the gold rush and gave impetus to the metalliferous sector of the mining industry. Around this time, Australia was producing almost 40 per cent of the world's gold, effectively spurring its transition from an agricultural and pastoral economy toward industries that supplied the machinery and transport facilities needed by the mines.<sup>1</sup>

While the mining industry continued to prosper in the early years of the 20<sup>th</sup> century, it was severely affected by the collapse of metal prices after the end of World War I (1918). As a result, mineral exports fell from US\$15.3 million in the period between 1919 and 1920, to US\$7.6 million between 1921 and 1922.

The 1950s to the 1970s saw the emergence of the modern Australian mining industry, which was characterized by the discovery of major new base metals, iron, manganese, nickel and

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1 Australian Bureau of Statistics. "Special Article: The Australian Mining Industry from Settlement to 2000," October 2000, <<http://www.abs.gov.au/ausstats/abs%40.nsf/94713ad445ff1425ca25682000192af2/93136e734ff62aa2ca2569de00271b10!OpenDocument>> (16 September 2010).

uranium deposits. The period saw the expansion and growth of production and exports. By 1960, Australia was a world leader in black coal, bauxite, iron ore, nickel, manganese, titanium, zirconium and uranium.

One of the reasons for the surge in discoveries in Australia was the increased geological knowledge due to the establishment of the Bureau of Mineral Resources Geology and Geophysics (1946), now Geoscience Australia, and the increase in surveys of mineral resources by State and Territory Geological Surveys. Political stability also led to the influx of foreign mining companies that sparked an increase in exploration and investments, ushering in new expertise and ideas.

In 1975, the Olympic Dam Copper-Gold-Uranium Mine containing one of the world's largest deposits of uranium was discovered. The gold boom in the 1980s also led to the development of 24 new major gold mines and many smaller operations.

### **The Australian mining industry<sup>1</sup> (2012-2013)**

In 2012–13, the gross value added by the Australian mining industry, in chain volume measures, increased 8.8 per cent, relative to 2011–12, to total \$151.2 billion. Mining activities accounted for \$140.4 billion of this total with exploration and mining support services contributing \$10.8 billion. The Australian mining industry accounted for 10.1 per cent of Australia's GDP in 2012–13, up from 9.6 per cent in 2011–12.

Employment in the Australian mining industry, including services to mining, remained at around two per cent of Australia's total workforce in 2012–13. The average number of workers in the mining industry increased 6.7 per cent to around 266,146. Although the 2012–13 average was higher, the number of workers in the mining industry in the June quarter 2013 was around 15,900, or 5.7 per cent, lower year-on-year. This decrease in the mining workforce reflected the cost savings programs many mining companies have been implementing in Australia in response to lower commodity prices.

### **Australian resources and energy commodities production and exports**

In 2012–13, Australian mine production increased 4.1 per cent, relative to 2011–12, underpinned by 6.2 per cent and 1.9 per cent increases in the output of energy and mineral commodities, respectively. Mine production is forecast to increase a further 1.4 per cent in 2013–14 as a result of substantial growth in iron ore and black coal production. Over the outlook period, further growth in iron ore and coal production, as well as a significant increase in LNG production, are projected to support total mine production increasing at an average annual rate of 5.4 per cent.

Australia's energy and mineral commodity export earnings decreased by 8.3 per cent in 2012–13, relative to 2011–12, to total \$177.4 billion. Mineral commodities export earnings accounted for 61 per cent, or \$107.9 billion, of this total and energy commodities export earnings accounted for 39 per cent, or \$69.6 billion.

In 2013–14, total export earnings for mineral and energy commodities are forecast to increase 15 per cent, supported by robust growth in both mineral and energy commodity export volumes and a lower Australian dollar exchange rate. Mineral commodity export earnings are forecast to increase 18 per cent to total \$127.7 billion, mainly due to substantial

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<sup>1</sup> BREE 2013, *Resources and Energy Quarterly*, September Quarter 2013, BREE, Canberra, October 2013.

growth in iron ore exports. Export earnings from energy commodities are forecast to increase 9 per cent to total \$76.1 billion, underpinned by higher earnings for LNG as well as thermal and metallurgical coal.

### Australia’s approach to mining regulation

State and Territory Governments are the principal authorities for regulating onshore mining and exploration in Australia. Each state has a Mining Act and Mining Regulations (or equivalent) that regulates the ownership of minerals and operation of mining activities in that state, including licensing, royalty charges, environmental assessment and approvals as well as land access arrangements. In addition, the states have laws that address other areas including mine operation, mine inspection, occupational health and safety, environment, and planning. The government agency administering mining law in each state administers and sets out guidelines and policy statements relating to state mining legislation.

Some Commonwealth laws may affect the mining industry because the Commonwealth legislates over areas such as corporations, competition and trade practices, interstate and overseas trade, taxation, and defence and foreign affairs.

The Australian Government is involved in the environmental regulation of a resources activity if it is likely to have significant impacts on matters of National Environmental Significance (NES). Under the Environmental Protection and Biodiversity Conservation (EPBC) Act 1999, matters of NES include: listed threatened species and communities; listed migratory species; wetlands of international importance; nuclear actions; Commonwealth marine areas; World Heritage properties; and National Heritage places.

**TABLE 1: AUSTRALIAN GOVERNMENT VS STATE TERRITORIES**

	<b>Federal/Australian Government</b>	<b>State/Territories</b>
<b>Role</b>	Sets economy policy, including fiscal, monetary and taxation policies, foreign investment guidelines, immigration, competition policies, trade and customs, company law, international agreements, and native title.	Manage and allocate mineral and petroleum property rights, have primary responsibility for land administration, regulate operations (including environmental, and occupational health and safety), and collect royalties on the minerals produced
<b>Distribution of power</b>	Fiscal policy and investment regime; reduction of risk exploration either through various geosciences programs and resource access for natives.	Allocate mineral rights based on ownership vested in the Crown, implement geoscience programs, regulate exploration and mining including environmental and safety provisions, collect royalties from mining companies and operators.
<b>Common Roles</b>	Both establish the macroeconomic environment, look for ways to remove or reduce impediments to industry competitiveness, reduce commercial risk in exploration by generating and disseminating information at reasonable cost, and provide a regulatory framework for exploration, development, project approval, safety and environmental assessment.	
<b>Others</b>	In terms of ownership, the Australian government’s jurisdictional involvement is limited to the resources found outside the first three nautical miles of the territorial sea, while the day-to-day administration is under the State or	



	Territory. However there are some cases where the Australian government can exercise control over the environmental impact of mining through its constitutional power over exports, trading corporations and external affairs--this is especially true for the Northern Territory, insofar as uranium mining is concerned.
Source: <a href="http://www.ret.gov.au/resources/enhancing/Pages/guideforinvestors.aspx">http://www.ret.gov.au/resources/enhancing/Pages/guideforinvestors.aspx</a>	

## Native Title

In 1992, the High Court of Australia held that the common law of Australia recognized a form of native land title. The Native Title Act 1993 includes 'future acts' that is an activity that occurs on land covered by a native title and includes resource and energy exploration and extraction. The Native Title Act 1993 sets out the ways in which activities affecting native title are undertaken. This includes procedural rights such as the right to be notified, the right to comment or the right to negotiate. This has resulted in dramatic improvements in the relation between the mining industry and Indigenous communities.<sup>1</sup>

## Aboriginal Land Rights (Northern Territory) Act 1976

The Aboriginal Land Rights (Northern Territory) Act 1976 (ALRA) provides for detailed regulation of exploration and mining on Indigenous land in the Northern Territory. The process is initiated by a company obtaining consent to negotiate from the Northern Territory Government. The consent allows the company to negotiate with Traditional Owners for an agreement which covers exploration and provisions about possible mining.

Amendments to ALRA in 2006 and delegation of responsibility for administering the exploration licence applications to the NT Government have improved the procedures to enable companies to access country.

## Sustainable Development<sup>2</sup>

The Australian government encourages sustainable development and in 2006, the Government launched the Leading Practice Sustainable Development Program for the Mining Industry, which provides the mining sector and its stakeholders "practical information and case studies to move beyond what is set down in regulation for mining activities."<sup>3</sup> The objectives of the program are as follows:<sup>4</sup>

- INFORM – provide credible information on the practice of sustainable development in the Australian mining industry to build capacity and understanding among those who have an interest in Australia's mining industry, including non-government organizations, mining

<sup>1</sup> Working with Indigenous Communities on-line  
<[http://www.ret.gov.au/resources/resources\\_programs/lpsdpmining/handbooks/handbooks-English/Pages/English.aspx](http://www.ret.gov.au/resources/resources_programs/lpsdpmining/handbooks/handbooks-English/Pages/English.aspx)>

<sup>2</sup> Department of Resources, Energy and Tourism (2011) *A Guide to leading practice sustainable development in mining*. Available  
<<http://www.ret.gov.au/resources/Documents/LPSDP/guideLPSD.pdf>>

<sup>3</sup> Ibid.

<sup>4</sup> Australian Government-Department of Resources, Energy and Tourism. "Leading Practice Sustainable Development Program for the Mining Industry,"  
<[http://www.ret.gov.au/resources/resources\\_programs/lpsdpmining/pages/default.aspx](http://www.ret.gov.au/resources/resources_programs/lpsdpmining/pages/default.aspx)>(3 August 2010).

communities, students and international stakeholders information, on leading sustainable development practices.

- INFLUENCE – seek the commitment to lead the practice of sustainable development principles from high-level decision-makers in key organizations such as mining companies, government agencies, regulators, industry bodies, and mining contractors and service providers;
- IMPLEMENT – practically implement leading sustainable development practices at the operational level by on-site mine management and consultants, academics and regulators who work at the site level, provide training for those working at site level or regulating the mining industry.

The incorporation of sustainability into mining operations is an on-going challenge as new problems emerge and solutions are developed, or better solutions are devised. The challenge is meeting the expectations of shifting community and stakeholder expectations while continuing to meet legislative requirements.

In the minerals sector, sustainable development means that investments in minerals projects should be financially profitable, technically appropriate, environmentally sound and socially responsible. Businesses involved in extracting non-renewable resources have come under mounting pressure to embed the concept of sustainability into strategic decision-making processes and operations. In addition to these considerations, responsible corporations have been able to move towards sustainability by developing a range of appropriate stewardship initiatives.

Recently, a range of sustainable development policy frameworks have been developed by industry and other organisations that are now acting as drivers for improved practice. One such approach is that of the International Council on Mining and Metals (ICMM) which adopted a set of 10 Sustainable Development Principles in 2003 to harness the industry's commitment to sustainable development within a strategic framework (ICMM, 2003). To give practical and operational effect to the ICMM commitments, the Minerals Council of Australia (MCA) developed Enduring Value – the Australian Minerals Industry Framework for Sustainable Development (MCA, 2004). Enduring Value is designed to assist minerals sector managers to implement the sector's commitment in a practical and operational manner that is targeted at the site level.

In adopting Enduring Value, the Australian minerals sector is recognising that its future is linked to the pursuit of sustainable development, which means operating in a manner that is “attuned to community expectations and which acknowledges that business has a shared responsibility with government, and with broader society, to help to facilitate the development of strong and sustainable communities” (MCA, 2004).

## **SMI AND THE BLAANS: A SUSTAINABLE DEVELOPMENT ALLIANCE**

Sagittarius Mines, Incorporated (SMI) took over the Tampakan Copper-Gold Project in 2007. The project adhered to the national environmental codes, the Philippine Mining Act, as well as the Sustainable Development Framework of Xstrata (one of the major shareholders of SMI). It operated beyond simple compliance in terms of its environmental and social commitments. When the provincial government of South Cotabato considered a ban on open pit mining, SMI sought the support of those who would be directly affected--tribal communities called Blaans--to overturn the initiative.

### **SAGITTARIUS MINES, INCORPORATED**

Sagittarius Mines Incorporated (SMI) managed the Tampakan Copper-Gold Project under a financial and technical agreement with the Philippine government.

SMI was a Filipino company that represented investors: Xstrata Copper (XCu), Indophil Resources NL, Alsons Corporation, and the other Tampakan Group of Companies. In March 2007, Xstrata Copper bought 62.5% of SMI and took over the management of the Tampakan project. The entry of senior managers from Xstrata was expected to strengthen the technical aspects of the project. Xstrata also continued the community and social development programs initiated by SMI.<sup>1</sup>

### **The Tampakan Copper-Gold Project**

The Tampakan Copper-Gold Project was located 65 kilometers north of General Santos City at an elevation of 1,380 meters above sea level. It was considered one of the largest undeveloped copper-gold deposits in the Southeast Asia-Western Pacific region.<sup>2</sup> Once in operation, it was projected to be the “the largest mine in the Philippines, and the fifth largest copper mine in the world by 2016.”<sup>3</sup>

*This Case Study was written by Maria Cristina I. Alarilla based on secondary materials. SMI was informed of this research project. A copy was given to the company before publication. Copyright 2013, APEC Secretariat. This teaching material may be used for educational and research purposes without fee or charge. For soft copies of this material, please contact [info@apec.org](mailto:info@apec.org) and [www.apec.org](http://www.apec.org).*

<sup>1</sup> SMI Press Release, “SMI welcomes entry of new Senior Officials,” <http://www.smi.com.ph>

<sup>2</sup> SMI, “Tampakan Project: Sustainability Report 2008,” <http://www.smi.com.ph/userfiles/file/Tampakan%20SR%202008%20FINAL.pdf>.

<sup>3</sup> SMI, “Sagittarius Mines, Inc.” <http://www.smi.com.ph/>

Covering 9,460 hectares,<sup>1</sup> the proposed mine site was situated along the boundaries of South Cotabato, Sultan Kudarat, Saranggani, and Davao del Sur.<sup>2</sup> Surrounded by tribal communities called Blaans, the area covered 10 barangays,<sup>3</sup> four municipalities, four provinces and two administrative regions. SMI's indirect impact areas, on the other hand, would include the communities surrounding its port and power plant; more than half of which were indigenous Blaans. The project area facilities consisted of an open pit mine, an ore overland transport conveyor, a copper concentrator, a tailings storage facility, a waste rock facility, an aggregate quarry and borrow pit, water treatment plants, a fresh water storage facility, administration facilities, and site services facilities. In addition, off-site facilities would be constructed to facilitate mining operations. These included a concrete pipeline, a power station, transmission lines, a ship loading facility, and mine site access roads. (See Figure 1



Source: SMI. "Fact Sheet: Securing Free and Prior Informed Consent (FPIC)." [http://www.smi.com.ph/userfiles/file/Free\\_Prior\\_Informed\\_Consent\\_Fact\\_Sheet\(1\).pdf](http://www.smi.com.ph/userfiles/file/Free_Prior_Informed_Consent_Fact_Sheet(1).pdf)

**FIGURE 1: THE TAMPAKAN PROJECT LOCATION**

In December 2009, the Tampakan Project was in its initial exploration phase. The feasibility study, the Environment and Social Impact Assessment (ESIA), and consultations with the stakeholders were expected to be finished in 2010.

By 2016, the Tampakan Mine would start production and was estimated to last 20 years, depending on the processing rate. The highest possible annual processing rate was estimated at 66 million metric tons, while the estimated yearly output was projected at 340,000 metric tons of copper and 350,000 ounces of gold.

<sup>1</sup> SMI. "Environment: EIA Frequently Asked Questions (FAQs)" [http://www.smi.com.ph/environment\\_questions.cfm](http://www.smi.com.ph/environment_questions.cfm)

<sup>2</sup> SMI, "Tampakan Project: Sustainability Report 2008."

<sup>3</sup> A *barangay* is the Filipino term for "village." It is considered the smallest political unit (Source: <http://encarta.msn.com>).

“The Tampakan Project has the potential to increase the economy’s gross domestic product (GDP) by an average of 1% per year for 25 years,” said Mark Williams, general manager of SMI. “These significant economic benefits will flow through to both the national and local levels, and are just part of the overall social and economic benefits the project will deliver.”<sup>1</sup>

## THE INDIGENOUS PEOPLE CALLED BLAANS

The SMI mining area was located in the ancestral domains of the Blaans. The Blaans constituted one of the major non-Islamic tribal groups living in the Southern Philippines (Island of Mindanao) provinces of Davao del Sur, Saranggani, South Cotabato, Sultan Kudarat, North Cotabato and Maguindanao.<sup>2</sup>

The Blaans had their own language, namely, Blaan; but some members of the tribe could also speak Filipino and Cebuano. Skilled in weaving abaca fibers, they also made clothes (from abaca or woven cotton fabric) and beaded accessories whose designs usually depicted the environment and the solar system. In addition, the Blaans were known to be masters of the “art of smelting brass and copper.” They made small bells and long knives with intricately designed brass work.<sup>3</sup>

*Bla* in Blaan meant "opponent", while *an* meant "people".<sup>4</sup> The Blaans were often depicted as a warrior tribe. For a Blaan “the risk of combat is always present.... Blaans are seldom caught with their defenses down”<sup>5</sup> This culture was also evident in aspects of their everyday lives, where conflicts among tribesmen were resolved through violence and death. For the Blaans, the most important value was self-preservation at any cost.

The Blaans valued their families highly, especially their wives, even as their culture allowed for multiple wives. For this reason, “wife-grabbing” was a regular occurrence within the tribal group. One man could forcibly take another man’s wife, with or without her consent. Due to jealousy, conflicts usually arose between the parties involved.

Roles within the family were clearly defined among the Blaans, for example: “The man does all the heavy work while the woman the less burdensome. The men open and prepare the farms, the women tend to the crops until harvest.”<sup>6</sup>

In terms of spirituality, the Blaans were “strong believers” in the “interdependency with the environment.” They believed that they were “part of the grand design of creation” and that everything evolved “around the great creator” called *Malu* or *D'wata*. They also believed that the creator was:

The source of everything whether living or inanimate and that he controls the movement of everything on earth... Man, despite his being the more favored of the

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<sup>1</sup> SMI. (October 22, 2010) “Media Release: Sagittarius Mines Inc. shares CSR Best Practices of Multi-Billion Dollar Mining Project.”

[http://www.smi.com.ph/userfiles/file/22102010\\_Press%20Release\\_SMI%20shares%20CSR%20best%20practices%20of%20multi-billion%20dollar%20mining%20project.pdf](http://www.smi.com.ph/userfiles/file/22102010_Press%20Release_SMI%20shares%20CSR%20best%20practices%20of%20multi-billion%20dollar%20mining%20project.pdf)

<sup>2</sup> Antonio P. Kinoc, “*The Blaans*,” <http://www.ncca.gov.ph/about-culture-and-arts/articles-on-c-n-a/article.php?i=237&igm>

<sup>3</sup> Ibid.

<sup>4</sup> Louie Rodaje, “B'laan elder sings for quality education,”

[http://services.inquirer.net/print/print.php?article\\_id=20100925-294296](http://services.inquirer.net/print/print.php?article_id=20100925-294296).

<sup>5</sup> Antonio P. Kinoc, “*The Blaans*,” <http://www.ncca.gov.ph/about-culture-and-arts/articles-on-c-n-a/article.php?i=237&igm>

<sup>6</sup> Ibid.

creatures, must respect the will of the creator... he cannot touch or molest any creature or object without seeking permission from the creator through his guardians.<sup>1</sup>

The Blaans had difficulty understanding the concept of the eight-hour work period. For this reason, they worked for less than a week but expected to be paid a full week's salary. This mentality was derived from a previous practice (even before mining was present) when the Blaans were paid large amounts (more than farming) to act as guides (and do nothing).<sup>2</sup>

**The Blaans' Concerns with SMI.** The majority of the affected households in the resettlement program were Blaans. SMI contracted a handful of Blaans as rotational workers, charged mostly with manual labor like shoveling, plowing, or the hauling of drilling supplies. SMI hired an average of 202 local community residents (composed of indigenous and non-indigenous people).<sup>3</sup>

*Employment.* Due to the long history of mining in the area, the Blaans compared their experiences with the different mining companies, especially Western Mining Corporation Philippines (WMCP) and SMI. From 1991 to 2002, WMCP was the first to conduct formal and systemic mining exploration in Tampakan. SMI took over WMCP in 2002 due to "financial constraints" on the part of WMCP and "growing opposition to mining operations from the local residents."<sup>4</sup>

According to a tribal community member, in 1995, despite the work rotation scheme followed by WMCP, more people were hired and there was more regular work available. The hiring system was simpler, they said, making it easier for them to get jobs.

WMCP followed a direct hiring scheme, and hiring was based on the recommendation of the tribal council and the *barangay* council. Furthermore, WMCP gave 13<sup>th</sup> month pay. In contrast, SMI hired the Blaans through an agency that resulted in lower take-home pay. In addition, SMI imposed more requirements on rotational workers, such as the submission of a *barangay* clearance.

*Housing and Relocation.* A few Blaans wanted a better place but somewhere near enough for them to be able to see their ancestral place. They did not want to be relocated near the city or any urban area because of the high cost of living and the noise.

*Other social concerns.* The Blaans recognized that they received a number of benefits from SMI, specifically scholarships and enrollment in Philhealth, a government social insurance program. However, they requested more benefits, such as increase in the allowance of the scholars, flood control, livestock, electrification, acquisition of land titles, a water system, as well as radio and communication equipment. In addition, they also wanted their houses to be made of concrete and furnished with appliances (a refrigerator, a washing machine, a bed with a mattress), money and a vehicle for their livelihood and personal use, sponsored vacations and even vehicles. As of 2009, the Blaan Tribal Foundation and Tribal Council met every month to discuss various issues like housing. Formed during the WMC days as

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<sup>1</sup> Ibid.

<sup>2</sup> Unpublished interviews by the author for the RVR Center for Corporate Social Responsibility, South Cotabato, 2010.

<sup>3</sup> SMI, "Sustainability Report 2009,"

<http://www.smi.com.ph/userfiles/file/SR09%20Final%20Copy%283%29.pdf>

<sup>4</sup> PNA, "Indophil strengthens hold in Tampakan Mining,"

[http://www.op.gov.ph/index.php?option=com\\_content&task=view&id=18890&Itemid=2](http://www.op.gov.ph/index.php?option=com_content&task=view&id=18890&Itemid=2)

stipulated in the principal agreement, the Tribal Foundation was the avenue through which community projects were coursed.

Still another major concern of the community was the possible impact of mining on the environment. The Blaans wanted SMI to tell them how the company planned to reduce the negative effects of the mine's operations.

**Continued Support for SMI.** Some of the elderly Blaans wanted to see SMI operating in full before they die of old age. They hoped to experience progress and development, and to see more job opportunities in the community. Some Blaans said that if they did not meet the qualifications and requirements set by SMI, they were willing to take on menial jobs or any regular paying job like that of janitors.

The Tribal Council of Pula Bato put it this way: "We see the economic benefits that the mining operation can provide; thus, we are all for mining."<sup>1</sup>

When asked about the influence of the anti-mining groups, the council said that even before SMI was around, the NGOs and the Church already had a strong presence in the community. However, the Blaans also realized that these groups could not present any real alternative to improve economic or social conditions.

As of 2010, there were no urgent or major complaints against SMI. The members of the tribal council said they would follow the will of the chieftain for so long as it was for the greater good of the community. They appreciated SMI's initiatives of touring them around the other mine sites, and informing them about the positive and negative effects of mining, as well as the different types of mining. They were happy about the trip to Atlas, Philex, and the TVI mine sites. By observing how mining was conducted by these companies, the Blaans began to see the potential contributions of mining to their community.

**The Diocese of Marbel and The Blaans.** The local Diocese of South Cotabato was critical of the Blaans' support of SMI. Fr. Romeo Catedral, director of the Social Action Center of the diocese, said the "change of heart" of the indigenous people came as a surprise to the Church because the Blaans were among the Church's major allies when WMC was operating the mine in Tampakan. He said that the entry of SMI in Tampakan appeared to have spilt the the Blaans, some of whom he said had a change of heart because of "materialism."

One newspaper reported:

Catedral said the Blaans agreed in favor of the mining activities after monetary rewards and other material things lured them, including vehicles, school buildings, scholarships, and the water system that the company gave them. "We don't call it bribery, but deception. We believe that they were forced to go with the flow because of the present development projects, but with this they are endangering the future generation," the priest said.<sup>2</sup>

**Security Concerns of SMI.** There were news reports of various security concerns, namely roadblocks from local residents, security incidents with the New People's Army (communist rebels) and protests of local farming communities.

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<sup>1</sup>Unpublished interviews by the author for the RVR Center for Corporate Social Responsibility, South Cotabato, 2010.

<sup>2</sup>Jeffrey M. Tupas, "Koronadal church firm versus Tampakan mining," *Mindanews*, 10 October 2004.



In 08 September 2007, local residents blocked a road leading to *barangay* Tablu because they were not hired by the company. The local police said they did not allow SMI people to pass going to the base camp.<sup>1</sup> Officials from the local government and the police conducted a dialogue but the issue remained unresolved. Newspapers said this was the second roadblock organized. The first was in October 2006, when an estimated “100 workers also padlocked several facilities of the firm to demand regular positions.”<sup>2</sup>

A company official said: "We suspended operations in the base camp since Thursday (September 04) because of the road blocks. Unfortunately, we're always blamed when bad things such as these road blockades occur."

In 01 January 2008, about 100 communist New People's Army rebels forcibly entered SMI's base camp and burned its administration building and the office of the United Philippine Drillers (UPD).<sup>3</sup> The South Cotabato police said there were exchanges of gun fire but no one was reported injured. The quarters of security guards and other buildings were also destroyed.<sup>4</sup>

In January 2011, a protest against SMI was organized by the Federation of Irrigators Associations in Davao City and Davao del Sur. Some 1,000 protestors from 57 irrigation associations said they were worried about pollution.

The farmers feared that the tailing ponds for the wastes of the mining operation which will be built in the hinterlands of Kiblawan town would destroy the sources of water irrigating thousands of hectares of farmland in the nearby municipalities in the province. They also opposed the construction of a dam at Barangay Kimlawis in Kiblawan that will impound water to be used for washing and cleaning of mineral ores. Although SMI vowed to use rainwater for this purpose, farmers doubted that they will utilize the water of the Mal River. Mal River is the main supply of water for irrigation to at least three municipalities reputed as the rice granary of the province.<sup>5</sup>

## **SMI'S RELATIONSHIP WITH THE BLAANS**

SMI considered the Blaans as major stakeholders in its operations because the company needed to secure their free and prior informed consent (FPIC). Since the Blaans were indigenous peoples, SMI had to observe laws and policies in engaging with them on issues relating to their ancestral domain. The practices and beliefs of the Blaans had to be considered in the development of the framework and the resettlement program of SMI, in order to gain their consent.

The Cultural Sustainability Team formulated a strategy to secure the FPIC and to map the Blaans per clan and tribe in the direct impact areas. (See Exhibit 1.) In securing the FPIC, SMI followed the Indigenous Peoples Rights Act (IPRA), and worked closely with the

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<sup>1</sup> Sarmiento, Bong. "Tampakan mining operation suspended due to road blocks set up by locals." <http://www.insidemindanao.com/article76.html> September 08, 2008.

<sup>2</sup> Sarmiento, Bong. "Tampakan mining operation suspended due to road blocks set up by locals." <http://www.insidemindanao.com/article76.html> September 08, 2008.

<sup>3</sup> Maitem, Jeffrey. (January 03, 2008) "NPA warns of more attacks on South Cotabato mining firm" [http://services.inquirer.net/print/print.php?article\\_id=20080103-110186](http://services.inquirer.net/print/print.php?article_id=20080103-110186)

<sup>4</sup> Sarmiento, Romer. "Communist rebels attack mining firm's South Cotabato base." *Business World*, Vol. XXI, No. 108. 2nd January 2008

<sup>5</sup> Gold Star Daily. "57 irrigators associations start protest vs mining." January 28, 2011. [http://www.goldstardailynews.com/index.php?option=com\\_content&task=view&id=606&Itemid=239](http://www.goldstardailynews.com/index.php?option=com_content&task=view&id=606&Itemid=239)



National Commission on Indigenous Peoples. Using the framework as its guide, the Cultural Sustainability Team needed to secure the FPIC, promote socio-cultural development, conduct heritage and cultural studies, and strengthen the IP governance system from mid-2009 to 2012.

Informally, the Blaan elders still played a major role in the decision-making process because the community trusted them. Given that the elders were an integral part of the community, SMI also believed that their influence and support were important in securing the FPIC.

The preservation of the cultural heritage of the Blaans was also important. In this regard, SMI worked on the allocation and distribution system for the “royalties from the land” to the indigenous people. Mapping the tribes and clans would help SMI identify the consent mechanism and establish the manner of sharing economic benefits. As nomads, some of the Blaans often wandered off to different lands that they no longer recalled where they originally came from.

With the mapping, the tribal families and clans could be informed of the location of their other members.

**The Sustainable Resettlement Program Strategy.** The target beneficiaries included both the receiving host community and the original settlers. The goal was to make housing resettlements livable and viable through social infrastructure capacity building (See Exhibit 2.) Specific objectives included the establishment of replacement housing and housing facilities, and the provision of rural infrastructure support for social welfare. The infrastructure support was inclusive of a community system, daycare, schools, irrigation, and livelihood projects to restore the income of people affected by the projects. The provision of rural infrastructure support also covered increasing the capacity of community-based People’s Organization to manage their resources, and to access basic education and basic health care.

SMI’s resettlement program adopted international policies and standards on land acquisition and inventory resettlement. Among them were the IFC Performance Standard No. 5, the United Nations Human Settlements Standard, and the Millennium Development Goals. To ensure sustainability, SMI integrated its future community development programs into its own value chain. A tripartite partnership among NGOs, SMI and the local government office would be formed to facilitate the implementation of the resettlement program.

The challenge for the resettlement team was how to address the sometimes excessive demands of the tribal community. For example, the tribal community asked for relocation sites with various amenities and houses furnished with appliances. In addition, there were overlapping claims on the lands, which had to be resolved before the resettlement plan was carried out.

The design of the resettlement area was based on the cultural activities of the Blaans. The draft blueprints of the houses, recreational parks, and the indigenous activity areas (i.e., the tribal council hall) were based on the inputs of the cultural sustainability team and would be presented to the Blaans for final approval.

**Changing The Local Community’s Mindset.** The local communities around the Tampakan mine heavily relied on the assistance of mining companies that operated in the area (e.g., Western Mining Corporation). As a result, when SMI came in, they expected the mining firm to take care of them.

SMI wanted to change this expectation. To start, SMI strictly implemented its employment and social investment policies. For example, the Corporate Community and Sustainability Department expected all departments and teams that hired rotational workers to observe the employment qualifications of SMI. In so doing, it limited “cutthroat hiring” among the tribal communities. Still, there remained some issues regarding the hiring process of SMI.

To further strengthen its policies, SMI began to institute education campaigns that would help the local community understand the role of the company, which was to guide the community toward development. SMI reinforced the information campaign and consultations through its livelihood programs.

SMI offered a farmer training program for the local communities, especially the Blaans. The Farmer Field School was organized by SMI to “improve the farming practices of tribal farmers in Tampakan and will allow participants to experience the different stages of vegetable farming - from land preparation to harvesting their yield.”<sup>1</sup> SMI partnered with the Department of Agriculture, the Tablu local government, the DA-Central Mindanao Integrated Agricultural Research Center and the Office of the Municipal Agriculture.<sup>2</sup> (See Exhibit 3.) One Blaan farmer observed that his income increased after he underwent training. For the first harvest of bell peppers, his income was PhP 1,250, “which was far more than what he used to earn from corn.” For his second harvest, he earned PhP 2,565. In an interview, the Blaan farmer said:

I have added income now and there is more food on our table...I am really happy because my life is beginning to change. From what I have already sold I have been able to pay off part of my loan for the preparation of my farmland, brought new clothes for my family and added food on our table.<sup>3</sup>

**Understanding The Blaans.** In 2009, SMI implemented a Cultural Induction Program, which provided its employees with the “understanding of the local culture, specifically that of the Blaans.”<sup>4</sup> The program was composed of three modules: 1) an introduction to the Blaan culture, through an extensive discussion of the Blaans’ history, belief systems, worldviews, customs and traditions; 2) tips on practices that should be observed when in a Blaan village, and dealing with Blaans in an office setting; 3) focus on cultural commonalities with other dominant Philippine ethno-linguistic groups by encouraging the participants to understand and respect cultural differences.<sup>5</sup> By December 2009, 173 SMI contractors and employees had undergone the Cultural Induction Program.<sup>6</sup>

## **SMI AND THE BLAANS: A PARTNERSHIP TOWARDS SUSTAINABLE MINING**

The Blaans were regarded as stakeholders, but now were considered partners in development.

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<sup>1</sup>SMI. “Tampakan upland farmers attend school.”

[http://www.smi.com.ph/userfiles/file/MEDIA%20RELEASE\\_12%20April\\_Tampakan%20upland%20farmers%20attend%20sch\(1\).pdf](http://www.smi.com.ph/userfiles/file/MEDIA%20RELEASE_12%20April_Tampakan%20upland%20farmers%20attend%20sch(1).pdf)

<sup>2</sup>SMI. “Tampakan upland farmers attend school.”

[http://www.smi.com.ph/userfiles/file/MEDIA%20RELEASE\\_12%20April\\_Tampakan%20upland%20farmers%20attend%20sch\(1\).pdf](http://www.smi.com.ph/userfiles/file/MEDIA%20RELEASE_12%20April_Tampakan%20upland%20farmers%20attend%20sch(1).pdf)

<sup>3</sup>Malaya. “Blaan farmers see more food on the table.”

<http://www.malaya.com.ph/09142010/news14.html>

<sup>4</sup>SMI, “Sustainability Report 2009.”

<sup>5</sup>Ibid.

<sup>6</sup>Ibid.

Blaan tribe chief Juanito Malid, together with his tribe, supported SMI's mining activities. He said:

Years back, we were not so keen on allowing mining companies in our lands. Our good relationship with SMI erased our doubts. In fact, we are now reviewing our principal agreement that will expire in 2012. The principal agreement is due for review every four years.<sup>1</sup>

The support the Blaans gave mining was apparent even during the threat of closure due to the Environment Code promulgated in South Cotobato that banned the use of open pit mining in the province. While the code was being reviewed, various stakeholders expressed their support for SMI. The Blaans, in particular, were vocal about their support for mining. Tribal chief Gideon Salutan of Kiblawan Municipal Tribal Council in Davao del Sur said:

We have a national law that allows responsible mining while, at the same time, this project should abide by the national law on environmental protection ... Our tribe is for the protection of the environment. But we are also for responsible mining... The tribe has scholarships, health services and jobs because of the mining project and we need these... We know the law, and we will protect the environment according to national laws.<sup>2</sup>

### **EXHIBIT 1: SMI'S POLICY ON SECURING FREE AND PRIOR INFORMED CONSENT<sup>3</sup>**

**Definition of Free and Prior Informed Consent.** The Indigenous Peoples Rights Act (IPRA), specifically Section 3g, defines FPIC as the consensus of all members of the indigenous cultural communities (ICCs)/indigenous peoples (IPs) to be determined in accordance with the irrespective customary laws and practices, free from any external manipulation, interference and coercion, and obtained after fully disclosing the intent and scope of the activity, in a language and process understandable to the community.

Under the Act, a non-member of the ICCs/IPs, such as SMI, should obtain consent from the concerned IPs before it could be allowed to take part in the development and utilization of natural resources, such as forest and mineral resources, within the ancestral domains of the IPs (Section 57).

**SMI secured the FPIC for its Exploration Activities.** Under the Act, a non-member of the ICCs/IPs, such as SMI, should obtain the consent of the concerned IPs before it could be allowed to take part in the development and utilization of natural resources, such as forest and mineral resources, within the ancestral domains of the IPs (Section 57).

**Benefits of the Indigenous Peoples from the Tampakan Project.** SMI believed that IPs should benefit and get a share of the profits from the development and utilization of the natural resources found in their ancestral domains. In the event that that the FPIC was obtained for the Tampakan Mine, SMI would then agree with IPs on the terms and conditions of this benefit sharing through a Memorandum of Agreement (MOA). SMI also recognized the right of IPs to receive a royalty payment equivalent to 1% of the gross mining output as stipulated in the Philippine Mining Act.

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<sup>1</sup> Othel V. Campos. "Sagittarius bullish on Tampakan mine works," <http://www.manilastandardtoday.com/insideBusiness.htm?f=2011/february/28/business4.isx&d=2011/february/28>

<sup>2</sup> *Business Mirror*, "B'laan chief supports responsible mining," 2 February 2011.

<sup>3</sup> SMI, Briefing documents, [http://www.smi.com.ph/userfiles/file/Free\\_Prior\\_Informed\\_Consent\\_Fact\\_Sheet.pdf](http://www.smi.com.ph/userfiles/file/Free_Prior_Informed_Consent_Fact_Sheet.pdf)

In consultation with IPs, SMI would also prepare an Indigenous Peoples Development Plan (IPDP) that would identify specific community development projects that would be supported by the company.

**How would SMI engage with Indigenous Peoples?** SMI adhered to international standards on engaging with IPs, including the following:

- The United Nations Declaration on the Rights of IPs;
- The World Bank's (WB) Operational Policy on IPs;
- The International Finance Corporation's (IFC) Performance Standard on IPs;
- The International Labor Organization (ILO) Convention 169; and
- The International Council on Mining and Metals (ICMM) Sustainable Development Framework Principle on IPs.

SMI would consult all IP stakeholders in the project area regardless of age, sex, gender, class, rank, organizational affiliation, educational attainment, ability, economic status, or religious belief. It would ensure that no sector or individual was deliberately excluded from its community consultation processes and would respect the culturally accepted manner by which the specific IP communities arrived at a decision.

SMI would ensure that the FPIC consultations were open and transparent, and that documents relevant to the process, such as information materials, the Environmental and Socio-Cultural Impact Assessment (ESCIA) document, and MOAs, were translated into Blaang and other IP languages, and distributed to all IP stakeholders.

**Who would participate in the FPIC and the Mine Environmental Impact Assessment Processes?** SMI would undertake the EIA and FPIC activities simultaneously. All project stakeholders, whether IP or non-IP, would be involved in the EIA process, while only IPs would be involved in FPIC activities.

Following the EIA, SMI would prepare an Environmental Impact Statement (EIS) on the proposed Tampakan Mine. This statement would be summarized and translated into Blaang and other indigenous languages, where feasible, to form the Environmental and Socio-Cultural Impact Assessment (ESCIA) document. The ESCIA document would then be submitted to the NCIP and discussed with IPs during the Community Consultative Assemblies.

**Role of NCIP in the FPIC Process.** The NCIP facilitated FPIC activities in the IP communities and acted as a third-party witness to the Memorandum of Agreement (MOA) between SMI and the IP community once the community gave its consent. Once the consent was secured, the NCIP also issued a Certification Precondition (CP) which confirmed that SMI had complied with the 2006 FPIC Guidelines.

**Role of the local government in the FPIC Process.** In some cases, IP ancestral domains might not match the politico-administrative boundaries of a barangay or municipality. Therefore, the area covered by FPIC activities would correspond with the traditional boundaries of ancestral domains rather than with local government boundaries. However, SMI would coordinate with local government units before undertaking FPIC activities in a particular locality.

## **EXHIBIT 2: SMI'S POLICY ON RESETTLEMENT<sup>1</sup>**

SMI's policy was to avoid the need for resettlement wherever possible. However, where resettlement was required, SMI would adhere to national laws and international best practices including the World Bank (WB) and the International Finance Corporation (IFC) guidelines on Involuntary Resettlement. SMI was committed to communicating with the affected communities in a culturally appropriate and transparent manner to ensure that its efforts met their needs and that the affected communities understood the impacts and benefits of resettlement.

### Guidelines of the SMI's Resettlement Program:

- The affected population included both communities that were physically displaced and communities whose economy was directly affected by the project.
- SMI recognized both legal land title holders and traditional title holders and would offer both groups appropriate compensation packages based on a Resettlement Action Plan.
- Community members impacted socially or economically by the Project would be compensated for the loss of assets at replacement cost.
- There would be emphasis on vulnerable groups, e.g., indigenous peoples (IPs), the elderly, persons with disabilities, women and children.
- SMI would ensure that resettlement activities were implemented in line with international standards and with appropriate disclosure of information, consultation, and the informed participation of affected communities. Informed consent in the development of mitigating measures would be carried out.
- Resettlement would only proceed after Free and Prior Informed Consent (FPIC) was granted by IP land occupants, following successful negotiations with non-IPs.

**Implementing the Resettlement Program.** SMI would partner with the appropriate provincial governments through the Provincial Development Council (PDC) in the planning and implementation of SMI's resettlement program for the communities living within the proposed final area. As embodied in Municipal Principal Agreements (MPA) between SMI and the host municipalities, four committees would be activated to ensure the effective and efficient implementation of the resettlement program in the proposed final area.

- The Joint Committee, composed of the local government units, the DENR, the National Commission on Indigenous Peoples (NCIP), the Tribal Council, the People's Organizations, and SMI, was tasked to lead the project census; and the conduct of parcellary surveys of the lands owned and occupied by landowners, traditional occupants or tenants, and settlers; and of the improvements, surface structures and crops located within the area.
- The Land Use Compensation Committee would be established to determine just and proper compensation for lands identified for the non-exclusive and long-term use of SMI.
- The Crop Inventory and Damage Compensation Committee would be formed to establish and facilitate the systematic determination and payment of just compensation for crop damages on lands.
- A Resettlement Core Committee would be organized to ensure that project-affected persons and other stakeholders were involved in developing the resettlement plan and community development strategy.

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<sup>1</sup>SMI, Briefing documents, [www.smi.com.ph/userfiles/file/Resettlement\\_Action\\_Plan\\_Fact\\_Sheet.pdf](http://www.smi.com.ph/userfiles/file/Resettlement_Action_Plan_Fact_Sheet.pdf)>

- The various committees established under the *barangay* and Blaan Principal Agreements would also be activated to increase community participation in the resettlement activities.

**Evaluation of the Resettlement Program.** SMI would develop a suitable monitoring and evaluation system for its resettlement program in accordance with the IFC standard. As such, the system would look at three components: performance, impact, and completion audit. Performance monitoring would track and evaluate the Resettlement Action Plan accomplishments with respect to timetable, budget, procurement, and physical delivery of goods, structures and services. Impacts monitoring would gauge the effectiveness of the Resettlement Action Plan in meeting the needs of the affected population. The completion audit would determine whether the proper restoration of the living standards of the affected households had been accomplished. It would verify that all physical inputs and services committed in the Resettlement Action Plan had been delivered, and would evaluate whether the mitigation actions prescribed in the plan had had the desired effect. The outcomes of the Resettlement Action Plan-monitoring and evaluation would be presented and discussed regularly with the project-affected persons and other stakeholders.

**EXHIBIT 3:  
SMI RECEIVES PRESIDENTIAL AWARD FOR INDUSTRY LEADING PRACTICES IN THE  
TAMPAKAN PROJECT  
(GENERAL SANTOS CITY, 24 NOVEMBER 2010)<sup>1</sup>**

Sagittarius Mines, Inc. (SMI) received its third Presidential Mining Industry Environmental Award (PMIEA) at the 57<sup>th</sup> Annual National Mine Safety and Environment Conference held in Baguio City on 20 November. It was a back to back win for SMI which was also awarded the PMIEA in 2009.

SMI General Manager, Mark Williams, said the company was honored to receive the prestigious Presidential Award which recognizes SMI's industry leading sustainable development practices.

"We are committed to balancing social, environmental, and economic considerations in how we manage our activities at the Tampakan Project.

"Our policies and standards are aligned with the sustainable development framework of our major shareholder, Xstrata Copper, and our stakeholders can be confident that the proposed Tampakan project reflects global best practices," said Mr Williams.

The PMIEA is awarded annually to mining companies in recognition of best practices relating to performance in health and safety, environmental management, community development, and stakeholder engagement.

SMI received an overall rating of 98% for its Social Development and Management Program (SDMP), Information, Education, Communication (IEC), Environmental Management and Safety and Health programs.

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<sup>1</sup> SMI. (November 24, 2010) MEDIA RELEASE: SMI receives Presidential award for industry leading practices in the Tampakan Project  
[http://www.smi.com.ph/userfiles/file/24112010\\_SMI%20Press%20Release\\_SMI%20receives%20Presidential%20award%20for%20industry%20leading%20practices%20in%20Tampakan%20Project.pdf](http://www.smi.com.ph/userfiles/file/24112010_SMI%20Press%20Release_SMI%20receives%20Presidential%20award%20for%20industry%20leading%20practices%20in%20Tampakan%20Project.pdf)

SMI received its first PMIEA in 2006 for its industry leading practices.

SMI's sustainability performance was also recognized further in two categories, with awards for Best Mining Forestry Program and Safest Mine (exploration category).

The company's Maleh Tu Kayo initiative (Blaan for 'let us plant trees') received the Best Mining Forestry Program Award (exploration category) from the Department of Environment and Natural Resources for its multi-sectoral approach to reforestation involving volunteers from host and neighboring communities.

SMI maintains two large-scale nurseries that provide stock for reforestation activities in the region.

Since 2005, the company has trained local residents in seedling propagation and overseen the distribution and planting of over 500,000 seedlings. The Maleh Tu Kayo program has received multiple honors with previous awards in 2006 and 2008.

The Safest Mine Award (exploration category) was presented to SMI in recognition of its outstanding safety performance in achieving five million man hours without Lost Time Injury (LTI) in January 2010.

"SMI would like to dedicate these three awards to our host communities and other key stakeholders who have continued to support our sustainable development programs and initiatives."

Through a Financial and Technical Assistance Agreement, SMI is the Philippine Government's contractor for the exploration, development, and operation of the Tampakan Copper-Gold Project in southern Mindanao. The Tampakan Project is a world-class 2.4-billion ton resource containing 13.5 million tons of copper and 15.8 million ounces of gold.

## REBUILDING TRUST: THE RAPU-RAPU EXPERIENCE

In April 2008, Philco Resources Limited (Philco), a joint venture company registered in Malaysia and owned by the Korean firm LG International Corporation and the state-owned minerals explorer Korea Resources Corporation (Kores), bought the 74% stake of Lafayette Minerals Ltd. in the Rapu-Rapu Polymetallic Project (RRPP). At that time, RRPP was popularly referred to as Lafayette and was the Philippine government's flagship mining project. The mine was expected to resume operations under the new Korean owners. However, Church groups, the community and environmental groups demanded that the Korean investors leave just as the Australian-owned Lafayette had packed up and left, according to news reports. By July 2008, the Korean firm prepared to resume mine operations. However, the Bicolanos who lived in the vicinity objected, given their experience with environmental destruction, loss of livelihood, and the deterioration of the people's health.

### THE MINING PROJECT

The RRPP was a copper and zinc mine located in the island of Rapu-Rapu, one of the three islands comprising the municipality of Rapu-Rapu in the Province of Albay. There were two distinct companies running the operations: Rapu-Rapu Minerals Inc. (RRMI), which focused on extraction, and Rapu-Rapu Processing Inc. (RRPI), which processed the ore into copper and zinc powdered concentrates, with gold and silver by-products.

Initially, the Rapu-Rapu Mining Project was majority-owned and operated by an Australian mining company, Lafayette. But the project was mired in controversy ever since it was conceived in the early 1990s, and almost immediately encountered opposition from a variety of local and international organizations in the Philippines. Although the Rapu-Rapu project generated almost 1,000 jobs during its construction stage in 2005, several groups continued to protest the possibility that mining in Rapu-Rapu Island would threaten the health of people who lived there and destroy the fragile land ecosystem, the flora and fauna, water resources, aquatic and marine life, corals, sea grasses, mangroves and fish.

Rapu-Rapu Island, with its scenic beaches, lush and abundant flora and fauna, rich mineral resources, and marine bio-diversity, is a gateway to the Pacific Ocean and serves as the natural breakwater of the Albay Gulf. It consists of narrow coastal plains (12% of the land area), rolling-to-steep slopes (81% of the land area), and very steep slopes and mountains (2.3% of the land area).

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Narrow straits connected Rapu-Rapu Island with the other two islands, Batan and Guinanayan. Within each island, the communities were accessible only by boat, as there were no connecting road systems; the roads, which were basically footpaths, were used only inside the villages. Thus, residents tended to travel to and from the mainland of Legazpi City, more than within the island.

Most people resided in isolated narrow coastal plains in small villages because of the rough topography. As of the 2007 government census, the 34 villages of the municipality of Rapu-Rapu registered a population of 32,646 residents. The largest of these was Barangay<sup>1</sup> Poblacion, the “town center,” with 5,187 residents. It was here where the Rapu-Rapu Community College, the Rapu-Rapu High School, the Sta. Florentina Parish Church, the Rapu-Rapu Municipal Hospital, and the municipal hall were located. The Sta. Barbara barangay, a former mining area, had only 128 inhabitants. Technically, the islands formed part of what the Albay Provincial Environment Code described as “environmentally critical areas” (Section 6,G).<sup>2</sup> Historically, however, the Island had long been a mining area.<sup>2</sup> Copper ore mining in the Island might have started during the Spanish occupation, while already-old mine pits possibly existed as early as 1935.

An environment impact study of the new mining project identified three direct and three indirect impact areas. The three direct impact areas were Binosawan, Malobago, and Pagcolbon; and the three indirect impact areas were Linao, Tinopan, and Sta. Barbara. Pagcolbon, the site of the mining camp, was a farming and fishing community but was almost fully transformed into a mining site since the whole area around it was rich in mineral resources. In 2000, some 147 residents from 24 families occupied the area. Among the 13 families from Pagcolbon that were relocated, six sold their lands to the company and left the island, while seven families accepted the offer to live in a company-built relocation settlement close to the mine site. However due to the employment opportunities provided by the mining project, the population in these areas grew; as of the 2007 government census, Pagcolbon’s population grew more than threefold to 699 residents. Population increases were also observed in Malobago and Binosawan.

## **The Mine Tailings**

In 2005, Rapu-Rapu Island experienced two mine tailing spills. The first spill occurred in the first week of October when the pump transporting the tailings and wastewater from the detoxification plant to the tailings dam broke down. As a result, cyanide-contaminated tailings and wastewater back-flowed and spilled into the “events pond”—a construct specifically intended to contain spills from the processing area. The events pond overflowed and the contaminated tailings and wastewater spilled into the nearby Alma Creek and the Pagcolbon Creek.

Two weeks later, a second spill occurred. Prolonged heavy rains caused run-off rainwater to accumulate at the lower tailings dam, together with cyanide-contaminated wastewater and tailings. The water elevation in the dam rose and threatened to damage the embankment of the dam. As a result, an emergency drain canal was dug, where contaminated wastewater and tailings were allowed to flow out into the Ungay Creek and Hollowstone Gully.

Although the nearby communities supported the mine, Church authorities based in Poblacion, the mainland of Legazpi City and Sorsogon province, the environmentalists from the academe based in Legazpi City and Camarines Sur (a neighboring province north of Legazpi City), and from civil society organizations opposed the company's operations.

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<sup>1</sup>A barangay is the smallest unit of government in the Philippines

<sup>2</sup>Arthur Kinkel and S. Samaniego, *Geology of Copper Deposits of the Nixbar Gold Mines, Inc., Rapu-Rapu Island, Albay* (1956), 12.

Moreover, residents from the other seven barangays in the island of Rapu-Rapu and the other 21 barangays from the rest of the municipality of Rapu-Rapu harbored negative perceptions and had misconceptions about the project. For example, some fishermen opposed the mines because they said that they had to travel twice as far, pay twice as much for fuel, and spend longer fishing hours since the mine was driving the fish away. Others said they feared the open-pit because it would make a hole in the island which would cause it to sink.

## **The Investigation**

In compliance with the 1995 Philippine Mining Act and in response to growing community concerns, two government-initiated studies were conducted. In addition, then President Gloria Macapagal Arroyo issued an administrative order creating a commission to investigate the effects of the operations of Lafayette Philippines, Incorporated—on top of the assessment report of the Department of Environment Natural Resources (DENR).

The DENR report found that the failures were breaches of “basic industry practices” and that measures outlined in the project documents submitted to government had not been implemented on the ground. The DENR report found that not “only were the spills preventable,” but that Lafayette could be “faulted for its numerous lapses.”

The environmental impact statement (EIS) showed that Lafayette had a number of inadequacies. For example, the company failed to sufficiently explore alternatives to managing the serious environmental issues such as acid mine drainage, or to ensure that the most sound management options were selected. It also failed to take into account the cumulative impact of its operations.

Furthermore, the EIS was inaccessible to the local people since it was not translated into the local dialect. Environmental issues were laid out using technical language incomprehensible to the local people, and there was no attempt to ensure that these would be understood. Moreover, the fishermen of the coastal communities of Sorsogon were not included in the discussions when, in fact, they had the right to be consulted and heard because they were likely to face the environmental risks associated with the project. Oceanographer Cesar Villanoy admitted before the presidential commission that depending on the currents, tides, and wind patterns, it was possible for discharges from the mine to reach Sorsogon province. The non-governmental organizations (NGOs) and people’s organizations such as Sagip-Isla and Umalpas-ka, which were opposed to mining on the island, were not included in consultations either, and were, in fact, barred from joining hearings and proceedings.

Allegations of fish kills caused by mercury poisoning surfaced in November 2005, affecting the coastal waters of Sorsogon and practically the whole of Albay Gulf.<sup>1</sup> This caused a fish scare that convinced people to stop buying fish caught in Albay Gulf near the rich fishing grounds between the island of Rapu-Rapu and the coastal areas of Sorsogon. As much as 80% of the fish trade in five coastal towns of Sorsogon facing the Albay Gulf was affected.<sup>2</sup> The resulting economic upheaval prompted President Arroyo to release PhP10 million to the provincial government of Sorsogon in emergency funds to alleviate the suffering caused by the fish scare. However, a subsequent independent study by the UP National Science Research Institute funded by the Sorsogon provincial government found that the waters around Albay Gulf near Sorsogon were compliant with the DENR standards.

Kalikasan PNE Coordinator Clemente Bautista said that the mine spills and water contamination in October 2005 for which Lafayette was responsible were not reported in

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<sup>1</sup>Commission Report, 7.

<sup>2</sup> Ibid.

time. Lafayette, in fact, initially denied the incident. “The government should first put the safety and welfare of the local residents and the environment in the island; they [the government] should stop the operation of Lafayette and launch a full investigation now, before a tragedy happens again [sic],” Bautista said.

“Mining has been part of Bicol’s economic activities for more than a century, but the industry remains backward and has hardly uplifted the lives of the local population,” said Beverly Quintillan, spokesperson of the Bicol chapter of the Bagong Alyansang Makabayan (Bayan, New Patriotic Alliance) and member of Defend Patrimony, an alliance opposing the mining liberalization program of the Arroyo administration. She added: “Foreign corporations like Lafayette and their government sponsors have been the only ones profiting from the wiping out of Albay’s rich mineral resources.”

### **The Outcome of the Investigation**

Recognizing the importance of mining to economic development, Congress enacted the Philippine Mining Act, which instituted a system of mineral resources exploration, development, use, and conservation. (See Exhibit 1.) In 2003, the government emphasized that mining should be pro-people and pro-environment.

With the two cyanide spills, the Pollution Adjudication Board (PAB) of the Philippines ruled that RRPI had violated the Clean Water Act. Mining operations were first suspended after the October 11 incident, then again in November 2005. Finally, in January 2006, the DENR suspended the operations of RRPP and charged the company PhP10.4 million.

The work stoppage resulted in monthly losses amounting to PhP150 million on top of the rehabilitation cost that increased to US\$5 million from US\$2.8 million. In May 2006, a presidential fact-finding commission declared that the project had indeed violated the provisions of the Environmental Compliance Certificate (ECC) and recommended the mine’s closure. The sanction was an implementation of the government’s “polluter pays” principle.

### **EFFORTS TO REBUILD TRUST**

RRPI had 39 conditions for the resumption of operations, among them the speeding up of the certification of its Environment Management System (EMS) and the approval of its ISO 14001 certification. Toward the end of 2006, two super typhoons in the region damaged the camp facilities. However, the environmental infrastructure remained intact and there was no reported overflow from the tailing storage facilities.

In June 2006, the government allowed a three-stage test that ran for about 150 days. The DENR then assessed the situation and reported that the company was now in a better position to operate, as it had put in place measures to prevent the occurrence of spills. Finally, in February 2007, exactly 15 months after the closure, operations were allowed to resume. Furthermore, the company installed a majority of Filipinos in management positions. With the reopening of operations, the project hired more than 800 permanent employees.

### **Socio-Economic Development for the Community**

One of the Mining Act’s requirements was the creation of the Social Development Management Program (SDMP) to guarantee that the community would be able to share in the benefits derived from mining activities such that the lives of its residents would improve.

The SDMP sought to enhance the socio-economic conditions of the community by supporting efforts to preserve and express its cultural heritage, while addressing concerns

related to environmental protection. The SDMP framework covered the following aspects to safeguard community welfare: infrastructure, livelihood, education and training, health and sanitation, socio-cultural, and capacity building.

In compliance with the provisions of the law, the company implemented the SDMP in the six affected communities, in two stages. Officials and representatives from the different sectors of these barangays, in consultation with their residents, identified the programs to be implemented. The results were then communicated to the community relations department of RRPP, so that the ideas could be translated into specific project proposals. The projects were then submitted to top management for approval, after which budgets were allocated. SDMP planning usually occurred in October and November, preceding the calendar year of implementation.

The Community Action, Relations, and Education (CARE) department integrated and managed the SDMP plan for the six barangays (75% for the direct barangays and 15% for the indirect barangays) and operated with a separate budget in accordance with the requirements of the Mining Act, and with the approval and strict monitoring of the Mine and Geosciences Bureau (MGB). Project implementation was also based on a five-year plan and on an annual development plan. The budget for SDMP was PhP5 million in 2009, PhP7 million in 2010, and PhP24 million in 2011.

In November 2008, the then newly hired CARE manager, Marilanie Lanuzo, observed that at the start of the SDMP, the barangays mainly requested infrastructure improvements of, for example, the barangay hall, the water system and the sanitary toilets. She noticed that the communities perceived the company to be part of the government. She also recalled that most miscommunication between the barangays and the company could be attributed to the communities' ignorance of the Mining Act, particularly with regard to the amount of the SDMP fund and how to use it.

It was hard to gain the trust of the people. Lanuzo had to explain to the communities the problems in granting some of their requests. Furthermore, she had to make unpopular decisions. One example involved the over-charging for crude oil. The company rented boats to provide free boat service to employees. It supplied the boat operator with free fuel. Only around one gallon of crude oil was consumed by a boat traveling from the site to the Poblacion or town center; but somehow it became the practice to charge 10 gallons against the SDMP account. Lanuzo found a way to reduce the charge to five gallons, by talking to one of the boat providers. She asked if the cost could be brought down. The boat provider agreed on the condition of exclusivity.

Another example was the discontinuance of the barangay's PhP7,000 honorarium charged to the SDMP. Lanuzo noted that this financial assistance ran counter to the Philippine Mining Act. As a result, she initially received a number of complaints from the different barangay heads. Later, the barangay captain of Malobago was level-headed enough to agree with her decision after some discussion.

Lanuzo added that the company recognized the need for balance in implementing the SDMP, to ensure that the company was not intruding but merely assisting in the implementation of the development plan of the barangay. Recognizing that it could help through capability building—teaching the people how to craft proposals and resolutions, conduct meetings, etc.—the company sponsored special training for the communities.

For example, the Technical Education and Skills Development Authority (TESDA) was invited to orient the barangays on its programs, with the hope of triggering new ideas and encouraging barangay officials to allocate their resources for training to develop the communities' entrepreneurship skills, so that these communities would eventually initiate

their own livelihood projects. Most of the projects requested, e.g., the construction of the bridge and the granting of scholarships, were realized, and the scholarships are still ongoing. In 2008, there were 82 scholars, in 2009 there were 201, and in 2010 there were 266 scholars produced in the elementary and high school levels. In 2010, the company had 28 college scholars.

Aside from livelihood projects, cooperative development seminars were a continuing initiative. Lanuzo believed that people should be given seminars to develop their critical thinking so that the community could determine what was good for the people. She said discernment and self-actualization would help the community recognize that they had power within themselves to plan for the future.

The manager recalled that before operations resumed in October 2008, there were numerous complaints. By 2010, the complaints appeared to be rather minor. In the process of implementing the SDMP projects, the CARE manager asked the community members to identify those whom they respected and considered to be natural leaders. The active anti-mining group seemed to be temporarily hibernating, and the Church was not complaining either. Lanuzo observed that the barangays were occasionally defending the company before the activists.

The formation of a people's organization (PO) was an idea that the community revived in September 2009. Lanuzo regarded this initiative as the communities' way of asserting their rights. She noted that the law itself did not mandate the organization of a people's organization, unlike the SDMP. At first, the barangay resisted the formation of the PO since it could mean some degree of displacement of power on the part of the barangay. "This was healthy because if there was only one power source, then there would be dictatorship," the manager argued. In Malobago, the barangay captain supported the organization of the POs. Since the Security and Exchange Commission required a large capital for the organization of a people's organization, the community opted to form cooperatives, instead. Initially, 100 participants signed for PO membership and raised PhP15,000 among themselves, which was enough for them to start their own cooperative. A team-building and leadership training program was launched to assist in the establishment of the cooperative, followed by the preparation of an action plan for the year. These were the requirements for the cooperative to be registered.

The CARE manager said she was happy fighting for the rights of the people through the creation of a balance of power in the community, with the formation of the POs. She believed that her efforts in providing team-building and leadership seminars further empowered the community. She added that the company would be supportive of the POs but they would be managed fully by the community.

### **The Community Development Assistance Program (CDAP)**

In 2006, the company went beyond the SDMP with the implementation of its own corporate social responsibility initiative called the Community Development Assistance Program (CDAP) and handled by the Public Relations and Corporate Affairs (PRCA) department.

The idea was to widen the area of coverage so that communities outside the SDMP's mandate but near the identified impact areas could also benefit from the presence of mining operations. CDAP projects were implemented in the barangays of the municipality of Rapu-Rapu outside the SDMP areas, the four coastal barangays of Legazpi City, and the five coastal towns of the province of Sorsogon along Albay Gulf.

Unlike that for SDMP, the budget for CDAP was a voluntary contribution of the company and was not a gesture of mere compliance. RRPP provided funds, logistical support, and

manpower skills to implement programs in partnership with the local government, government agencies, and concerned groups guided by the United Nation's Millennium Development Goals and the needs of the residents or the communities. Its major thrusts and implemented projects were the following:

**Health and Nutrition.** Together with the locally based Dios Mabalos Po Foundation, the local-based foundation Pondo ng Pinoy's Hapag Asa Feed the Children Program, the General Parent-Teacher Association of the municipality of Rapu-Rapu, and the Department of Education of Albay, CDAP implemented an in-school feeding program for the Grades 1 to 6 students of the elementary schools throughout the whole municipality of Rapu-Rapu from mid-October 2006 to mid-January 2007. This program was one of the biggest sustained in-school feeding programs undertaken by a private company in the province of Albay. Baseline data showed that 54% of elementary school children in Rapu-Rapu were undernourished. The three-month feeding program reached 6,727 children and decreased the number of malnourished children by 25%. As an added benefit, the children's academic performance dramatically improved and absenteeism was drastically reduced following the program.

In response to a barangay resolution, and in partnership with the Barangay Council and the Provincial Health Office of Albay, CDAP also undertook a community-based, three-month feeding program from February to May 2010. It benefited 225 malnourished children aged two to seven years in Barangay Poblacion. Activities included well-baby health check-ups and a seminar for mothers. As a result of the feeding program, about 60% of beneficiaries improved their nutritional status.

**Education.** Since 2007, CDAP had funded and managed a scholarship/education assistance program which had benefited over 300 high school and college students from the Municipality of Rapu-Rapu (206), the city of Legazpi (14), and the province of Sorsogon (84). In appreciation of RRPP's CDAP education programs, the Sanggunian Bayan of the Municipality of Rapu-Rapu, thereafter issued Resolution No. 255-2009 on 6 August 2009 "commending President Rogelio Corpus, and Vice President Cecille Calleja of RRMI/RRPI for having empowered community based consultative-transparent implementation of community development assistance program (CDAP) Scholarship Program in the Municipality of Rapu-Rapu."

In 2007, CDAP partnered with Synergia, a non-profit, education-focused organization; and collaborated with the Rapu-Rapu LGU, the General Parent-Teacher Association, and the Department of Education of Albay, to promote a collaborative, community-shared educational system in the municipality. Their efforts resulted in an education summit for over 100 Rapu-Rapu school teachers and local government officials, and in a reading skills assessment of Grade 1 pupils.

**Environment Protection Programs.** Since 2006, CDAP had been supporting the regular clean-up of the coral devouring Crown of Thorns in Albay Gulf, in partnership with the City of Legazpi, the Bicol Scuba Divers Foundation, Inc and other civil society groups such as the JAYCEES, Rotary Club, and the Quota International of Legazpi City.

Beginning 2008 and in response to the town council's request, CDAP helped maintain the cleanliness and greening of Barangay Poblacion in Rapu-Rapu. This assistance was continued as the town progressed toward the adoption of a comprehensive solid waste management program.

**Coastal Resource Management.** In partnership with the local barangay council and the Provincial Environment and Natural Resources Office of the DENR, a mangrove reforestation program called Bantay Bakawan was implemented in 2010 in the sitio of Acal,

barangay of Mananao, Rapu-Rapu that included the establishment of a nursery and the creation of a marine sanctuary. This became the initial phase of a three-year reforestation program that became part of the DENR's green nation project and which committed RRPP to reforest about 100 hectares of coastal and upland areas outside the mining project site.

**Culture and Sports.** Through the CDAP, the mining project regularly participated in the annual fluvial festival Our Lady of Penafrancia celebrated by the Sta. Florentina Parish of Poblacion, Rapu-Rapu. The CDAP also regularly supported youth sports activities. It took an active role in the promotion of the health, education, and welfare of the indigenous people of Rapu-Rapu, the Taboys, through the extension of medical and educational assistance.

## **BEYOND 2010**

RRMI and RRPI were determined to erase their shaky past and become model companies. In 2006 and 2007, the two companies received their ISO 14001 certifications. Thereafter, two RRMI personnel were recognized in 2009 for their excellent performance: Rogelio Corpus, president of RRMI who was awarded one of the Ten Outstanding Mining Engineers, and Carmelita Pacis, assistant vice-president of the Environment Management Department, who was named one of the Ten Outstanding Pollution Control Officers.

In May 2010, the project passed its reassessment audit with zero non-conformity. However, its more prominent awards that year were: a) the Titanium Achievement Award for Surface Mining given by the Presidential Mineral Industry Environmental Award (PMIEA) Selection Committee "in recognition of its satisfactory environmental, safety and health management, and community development in the conduct of its operation," b) the 2010 Safest Mining Operation, c) the Safest Surface Operation, d) the Safest Mineral Processing, and e) the Industrial Safety Award of Honor from the Safety Organization of the Philippines for achieving four million man-hours without any lost-time accident.

With increased funding for its socio-economic programs, the CARE department gained more room to amend and improve the SDMP. An amendment to the PMA increased the amount of funding for SDMP. Before 2011, mining companies had to allot an amount equivalent to 1% of mining and milling costs to SDMP; after that, this was increased to 1.5% of operating cost. This amendment was considered large because operating costs were larger than direct milling and mining costs. "This increase is good because there is more room to move in for capability building, like education and governance, entrepreneurship, livelihood, food security, and skills training," Lanuzo said.

In the 2010 SDMP, the proposed activities anticipated the closure of the mine within the next four years (until 2014). The main objective was to empower the communities through self-management of development initiatives. The 2010 SDMP noted how the barangays recognized that sustainable development was an integrated effort that did not rest on one or two projects only. The initiatives were geared toward the establishment of educational institutions, coastal resource management, livelihood initiatives and health projects. (See Exhibit 2.)

However, the company still recognized that the main challenge was sustainability. "Although the barangays received a lot of money, absorption and the effective use of the funds would always be questioned. The legacy of the mine had to be felt by future generations," Calleja said.

## **EXHIBIT 1: THE PHILIPPINE MINING ACT (PMA) OF 1995**

The PMA regulated mining activities in the Philippines. According to a paper written in 1994 by the Citizens' Assessment of Structural Adjustments,

The PMA is hailed as a progressive law compared to previous mining laws, mainly for the following reasons: (1) the provision requiring social acceptability and free prior and informed consent (FPIC) would ensure consultative and democratic process with the people to be affected by mining; (2) belief that it would encourage the implementation of the best practices in mining; and (3) provisions instituting social development and safety nets components, e.g. social and community plans and programs, rehabilitation funds.

Some of the provisions of the law included aspects of corporate social responsibility to safeguard the interest of communities and the environment affected by mining.

The law also stipulated how efforts to preserve such interests should be funded. Mining projects were to set aside a minimum of 1% of the projects' annual mining and milling costs, 10% of which would be for the development of mining technology and geosciences; while the remaining 90% would be used for the implementation of a Social Development Management Program (SDMP). The SDMP was to be used to develop the welfare of mining communities via such examples as the establishment and maintenance of public infrastructure; the provision of utilities and basic services; and the creation or rendering of support for sustainable means of income generation.

The law also prescribed that when hiring personnel, mining projects should give priority to members of the surrounding communities. It even went so far as to say that if the communities did not possess the necessary expertise, the project should mount a training and recruitment program at its expense. The law also regulated the hiring of foreigners, clarifying that this would be allowed only for technical and specialized work which required highly-specialized training or experience, not to exceed five years or the payback period of the project, whichever was longer. It also prescribed that foreigners in a position lower than a managerial one would be hired on a consultancy basis only.

The law contained provisions on environmental protection. It defined suitable conditions in terms of prevention of water, air, and noise pollution. The second objective of the law was to ensure that the land would be restored to its original state of usefulness or prepared for a predetermined purpose, as agreed with the community and the local government. Another aim of the law was to make sure that indigenous traditions and strategies of environmental protection were respected, with the usual penalties imposed to compel compliance and other mechanisms.

Four mechanisms to ensure that environmental objectives would be realized were as follows: First, the law stipulated plans<sup>1</sup> that identified in detail the environmental impact of the activities related to exploration, mining, and processing. For each impact there had to be corresponding controls and rehabilitation activities. The cost of such activities had to be identified in the plans to ensure that there were sufficient funds allocated for them. To monitor the implementation of the plan, regular reporting to authorities on the progress of the implementation was required twice a year.

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<sup>1</sup> Environmental Work Program or EWP; Environmental Protection and Enhancement Program or EPEP; Annual Environmental Protection and Enhancement Program or AEPEP.



The second mechanism was to create a Mine Environmental Protection and Enhancement Office (MEPEO) that would be responsible for implementing the environmental management program. Third was the environmental monitoring and audit mechanism. Mining companies

were expected to join a Multipartite Monitoring Team (MMT) that would compel them to conduct quarterly monitoring on their compliance with the standards and strategies defined in the plans. Aside from monitoring by the MMT, the law prescribed that an independent environmental audit be conducted regularly as a way to continually enhance the Environmental Management System (EMS).

Finally, whenever damage to the environment occurred, there was an environmental guarantee fund mechanism that could be tapped—the Contingent Liability and Rehabilitation Fund or CLRF. The CLRF was composed of two funds: the Mine Rehabilitation Fund and the Mine Waste and Tailings Fees.

## **EXHIBIT 2: EXAMPLES OF FUTURE PROJECTS**

**The Electrification Project.** Electrification consisted of registration with the power cooperative that extended subsidy of PhP400 a month per household. Electricity from the cooperative was available for only short periods during the day. For the remainder of the time, households required generators. The SDMP therefore covered the cost of fuel, rental of the generator set, and reasonable honoraria for the operator of the generator. The SDMP also covered labor and materials for house rewiring until the final switchover to the power cooperative was complete.

**Sustainable Fishing.** All communities identified the need to find a way to conduct fishing while preserving the productivity of the coastal areas in their barangays. To address this issue, strategic partnerships were forged with the Bicol University College of Fisheries and the Southeast Asian Fisheries Development Center.

**Education and Training.** While all six communities had schools that offered primary education, none of them had schools that offered secondary education. Students had to go to the town center several kilometers away via a boat ride. To support the students' education, the SDMP purchased a boat for the students' use and provided them with a monthly allowance to cover board and lodging; tuition was free in public schools. Similar assistance was extended to college students.

## ANTAMINA AND THE MINING FUND

In November 2009, Compania Minera Antamina (or Antamina) located in the Peruvian Andes announced its plan to reinvest its profits to increase production and extend the useful life of its mine to 2029. Under the reinvestment program, the company would pay less tax to the government in the region of Ancash. The scheme would also mean a reduction in the incomes received by the region through the “mining canon.”

Under this scenario, Antamina agreed with the Council Presidency of Ministers, the regional government of Ancash and the municipalities to put in place a mitigation program aimed at easing the effects of the lower tax payments and income. Antamina’s mitigation efforts included direct and indirect compensation programs that involved social development projects and productive programs.

With the infrastructural benefits brought by the mining companies in the area and the amount of money pouring into the communities from government revenues and social development programs, the community had grown increasingly dependent on mining operations.

### **The Mining Canon**

The Mining Canon Law was enacted in 2001. Based on Peruvian law, 50% of the income taxes generated by the mine were to be distributed among the regional and local governments. The distribution is realized through the Ministry of Economy and Finance, and must be invested in projects focused on reducing poverty, improving the quality of life, and research and technology development in the universities. (See Exhibit 1.)

Projects were selected during meetings between local authorities and communal organizations, a practice also known as “budget by participation.” Examples of the projects implemented were the improvement of the irrigation system under the Project Chincas and infrastructure development projects (i.e highways and roads) in the Ancash region.

In 2008, funds from the mining canon were distributed among education and culture (29%), administration and planning (18%), transport (17%), and health and plumbing (14%). The next year (2009), money transfers with the mining canon were valued at more than 3,671 million soles (US\$1,266 million), of which amount the Ancash region received 25.4%. The San Marcos District received the highest amount among all the districts.

*This teaching material was abridged by Jilla Phoebe S. Decena under the supervision of Prof. Francisco Roman from the case study entitled, “CSR in the Peruvian Mining Sector: The Case of the Antamina Mining Company,” written by Paula Carrion under the supervision of Assoc. Prof. Maria Elena B. Herrera. Copyright 2013, APEC Secretariat. This teaching material may be used for educational and research purposes without fee or charge. For soft copies of this material, please contact [info@apec.org](mailto:info@apec.org) and [www.apec.org](http://www.apec.org).*

However, according to a report prepared by Apoyo Consultoria, even when the Ancash region received 969 million soles (about US\$340 million dollars) in 2008, only 42% of this budgeted income was used because of the lack of projects and responsible and skilled local government officials. Corruption and scarce technical skills at the local level hurt project implementation.

Established in 1996, the Antamina international joint venture started operating the mine in November 2001. The project was financed by 22 international financial institutions, including export and import agencies. In addition, during the construction of the mine, it had to obtain a total of 300 separate permits or authorizations.

Antamina represented the most significant investment in Peruvian history, with the project valued at about US\$2.54 billion. It created direct and indirect employment for 12,000 Peruvians and contributed US\$1.2 billion to the Peruvian economy through taxes, transfers and the national procurement of goods and services in 2007. (See Exhibit 2.)

## **THE ANTAMINA MINING OPERATIONS**

Antamina Mine, one of the largest copper zinc ore deposits in the world, is located 4,300 meters above sea level in the heart of the Peruvian mountain ranges in Ancash Peru.

The Antamina mine had an estimated operating life of more than 25 years, with an expected annual production output of 675 million pounds of copper and 625 pounds of zinc in the first 10 years of operation. The construction of the mine took three years. To reach the mineral deposits, the tops of several mountains had to be removed and a lagoon drained. The mine, which was located in the district of San Marcos, and the port at Punta Lobitos were connected through a 302-km long slurry pipeline that transported concentrates to the port facility. (See Exhibit 3.)

Initially, the delivery of the concentrates used the existing road which crossed the Huascarán National Park (HNP) and constructing a highway was necessary. The HNP was recognized by UNESCO as a Biosphere Reserve in 1977 and as a World Natural Heritage Site in 1985. During the construction stage, there was pressure from the communities, HNP, Peruvian National Institute of Natural Resources (INRENA), TMI<sup>1</sup> and UNESCO to look for alternative routes. The communities also voiced their bad experiences with the mining companies that operated in the Ancash region in the past. Antamina eventually decided to build a “bypass” access road around and outside the southern border of the park and included the construction of a pipeline that went around the park’s southern border.

In March 1998, Antamina submitted its Environmental Impact Assessment to the government of Peru. The EIA covered the socio-economic and archaeological issues, as well as environmental and safety aspects. It was made public in the district of San Marcos and Huarmey in 2001<sup>2</sup> so the people living in the area could send their corresponding comments and queries. The communities, however, did not have the right of veto.

As the project design progressed, changes and alleviation measures were incorporated to address Peruvian, World Bank and Canadian environmental, health and safety standards and guidelines.

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<sup>1</sup>The Mountain Institute (TMI) is an international private voluntary organization based in the US. Its support to HNP has included assistance with the park management planning tools, community development projects, publications and research. TMI was in contact with the managers at Antamina and suggested alternative routes for the transportation

<sup>2</sup>The presentation of the EIA was done after the construction of the mine.

The Antamina project included securing US\$1.32 billion in senior loans from 22 international financial institutions, which included five import-export credit agencies. The EIA set a new standard in environmental protection.

## **Mining Production**

The Antamina mine was an open pit truck/shovel mine, measuring 2,000 meters long, 1,000 meters wide, and 500 meters deep. It first produced in 2001, and by the following year, it went into full capacity production. By then, Antamina became the third largest zinc producer, the seventh largest copper producer and the third largest producer of copper zinc concentrates in the world. Given its rated capacity of 70,000 tons per day, it was expected to produce 295,000 tons of copper and 163,000 tons of zinc annually over its mine life.

It had an in-pit resource of 560 Mt, with grading of 1.24% copper, 1% zinc, and 13 g/t of silver, lead and molybdenum concentrates. In 2008, the deposit was calculated to contain 745 million tons of reserves, with 1.06% copper, 0.67% zinc, 11.7g/t of silver and 0.026% molybdenum concentrates. Antamina also had a concentrator plant, which was the world's largest polymetallic treatment plant located 270km northeast of Lima.

In 2008, following its 77% increase in mineral reserves, Antamina was evaluating growth alternatives with an expanded production capacity of around 40%, as indicated in a pre-feasibility study. In terms of returns, Antamina grossed earnings of over US\$6 billion from 2006-2009. Its earnings had doubled from US\$837 million in 2005 to US\$1.6 billion in 2007. According to the Ministry of Energy and Mines (MEM), the government allowed Antamina to reinvest its US\$900 million in profits tax-free in 2001, an arrangement that was to expire in 2015 with the legal stability contract signed by Antamina in 1998.<sup>1</sup> Critics questioned the granting of tax incentives, because mining companies operated in relatively stable environment, and had high economic growth and revenue levels. For example, Antamina had been able to recoup its initial investment of US\$2.2 billion in the first three years of operation rather than after 10 to 15 years, as originally estimated.

## **AREAS AFFECTED BY ANTAMINA'S MINING ACTIVITIES**

A study conducted in 2008 by the National Institute of Statistics and Informatics of Peru found that the level of extreme poverty affecting the population living in the zones directly influenced by the mining activity was 16.7%, which was higher than the 14.7% regional average.

Only 17.7% of the population had telephones, 12.8% had refrigerators and only 31.6% had kitchens fueled with gas. As for basic services, 36.7% of the houses lacked a waste pipe, while only 83% had electricity. Wood was the main fuel used for cooking (68.2%), and houses were principally made of adobe bricks (72.6%).

The illiteracy rate was 18.5%, with women having a higher rate (26.4%) than men (10.4%). Illiteracy rates were higher for people living in the rural areas or those speaking Quechua or other languages different from Spanish. The study also showed that respiratory illnesses remained the main cause of infant mortality and that the percentage of chronic malnutrition affecting the people living in the direct area of influence was 39.4%, while the severe chronic malnutrition rate was 15.6%.

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<sup>1</sup>Milagros Salazar, Mining in contact with the managers at Antamina and suggested alternative routes for the transportation The presentation of the EIA was done after the construction of the mine. Company's making a mint, tax-free Inter press Service News Agency, 09 February 2010,

The main economic activity in the area directly affected by Antamina was agriculture (75.7%), with particular focus on cattle and forestry. As for employment and salaries, the average income received was 407 nuevos soles per month, with the amount averaging 519 nuevos soles for men and 239 nuevos soles for women. In addition, the family income in the rural areas averaged around 545 nuevos soles per month, while in the urban areas it was 1153 nuevos soles.

## **ANTAMINA'S CSR AND COMMUNITY PROGRAMS**

In November 2007, Antamina ranked first among the socially responsible companies in Peru based on the 11th annual survey of managerial leaders by the University of Lima. The survey respondents noted the company's application of social responsibility policies across the following areas: strategic associates, constant care for health and safety, care for the environment on and off-site and harmonious relationships with neighboring communities.

In consultation with the local communities, the company gave priority to several efforts to improve the quality of health and educational services, enhance agricultural and livestock production levels, to increase revenues of local communities, to improve their living conditions and to establish the basis for sustainable development.<sup>1</sup> Antamina voluntarily initiated a community development plan (CDP) to support education, economic and cultural activities. The company deemed the CDP as important in developing a good relationship with the local community.

The three major units of Antamina, which were devoted to CSR and environmental concerns, were under the Vice President of Corporate Affairs. (See Exhibit 4.)

*Association Ancash.* The Association Ancash formed in 2002 was a nonprofit civil organization financed by the donations of Antamina's shareholders and devoted to sustainable community development. In its first phase, the association received US\$1.5 million per year from the mother company to promote sustainable development and the historic and cultural patrimony in the region.

Association Ancash worked with proposals presented by organized social groups and on projects related to the conservation of the environment, sustainable tourism and the improvement of the local culture. For example, one of the most important projects of the association was the promotion of "Callejon of Conchucos" as a tourist destination. The project included training programs on tourism and the creation of the Institute for Touristic Development of Conchucos in cooperation with an NGO, Swisscontact. This project received a positive response and led to the employment of 300 Peruvians and increased the number of tourists visiting the area by 25%.

*Antamina Mining Fund (AMF).* The AMF promotes regional development to improve the living conditions of the communities and towns near Antamina's operations and emphasized programs related to education, primary health, infrastructure and income generating activities. It also encouraged local initiatives generated through consensus, working groups and other collectively established consultation mechanisms to identify sustainable projects, set priorities, foster cooperation among public, private and co-finance initiatives with support from international technical cooperation organizations.

*Community Relations Office (CRO).* CRO had an annual CSR budget of US\$5 million to US\$7 million a year. The activities for education, health, and productive programs covered a population of 26,000 across 27 communities in San Marcos and nine sectors close to the operation area. (See Table 1.)

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<sup>1</sup>The dawning of Antamina. ORBIT. Winter 2001/Spring 2002

**TABLE 1: PROGRAMS DEVELOPED BY THE COMMUNITY RELATIONS OFFICE**

<b>Program</b>	<b>Activities</b>
Education Programs	<ul style="list-style-type: none"> <li>- Information technology training for 300 teachers</li> <li>- Improvement of computer skills of 1500 students</li> <li>- Improvement in the quality of education</li> <li>- Training in hotel management: 200 young people</li> <li>- Scholarships for undergraduate studies</li> </ul>
Health Programs	<ul style="list-style-type: none"> <li>• Joint work with the Regional Health Authority</li> <li>• Programs to prevent alcoholism in young people and family violence</li> <li>• Agreement with the NGO VIDA to provide equipment for the Local Committees on Health Management</li> </ul>
Productive Programs	<ul style="list-style-type: none"> <li>• Experimental Center for the development of cattle (Shahuanga)</li> <li>• Program "Potato seed"</li> <li>• Programs to improve agricultural management</li> <li>• Programs to improve the rearing of alpacas in Yanacancha</li> </ul>

*Source: Antamina Corporation (2010)*

### **Antamina Mining Fund (AMF)**

Enacted in December 2006, the "Mining Program in Solidarity with the Population" was a five-year bilateral agreement between the companies operating in Peru and the Peruvian government. With this agreement, the 39 mining companies in Peru committed a percentage of the proceeds from direct mining operations (from 1% to 3.75% of the companies' utilities after tax over a five-year period) to be divided between the local and the regional funds devoted to social responsibility efforts in education, health, nutrition and infrastructure. The funds collected did not have to be exclusively used within the period and the life of the fund could go beyond the collection period.

Antamina signed an agreement with the Peruvian government that established the AMF to administer the contributions and execute social investment as defined in the mining program agreement. In 2007, AMC was the first company that formalized its individual voluntary contribution, which was valued at US\$64.3 million by 31 May 2010. AMFs area of responsibility was the entire Ancash region, the District of Llata in Huanuco and several villages located in the district of Paramonga.

Also in 2007, local technical and regional committees were formed to receive information and suggestions on AMC projects. The local committee was made up of representatives from Antamina, the regional government, and the municipalities of Huari, San Marcos and Huarmey. The regional committee was made of representatives from Antamina, the Ancash regional government, University Santiago Antunez de Mayolo and the University of Santa.

The distribution of the funds was determined by the levels of poverty in the communities. Around 73.3% of the contributions to the local mining fund would be invested in the implementation of projects and programs. There was also a regional fund consisting of 26.7% of the contributions for the eight other provinces of Ancash.

In 2008, there were 110 project commitments valued at US\$120 million for the following areas: health and nutrition (US\$28 million), education (US\$28 million), institutional capacity building and basic infrastructure (US\$50 million), productive development (US\$14 million), and peace reparations (US\$0.7 million).<sup>1</sup>

<sup>1</sup>APEC Study Centres Consortium Conference, Piura Peru, 19-21 June 2008

In 2009, more than US\$ 159 million was set aside for these areas: institutional strengthening (43%), health (24%), education (14%) and productive development (14%). As of May 2010, the AMF had a budget of US\$207.9 million. It used up US\$145.3 million and committed 100% of the resources.

The AMF worked through partnerships with NGOs, universities and civil society organizations, while focused on areas such as institutional capacity building, local and regional nutrition, and specialized health care. In 2008, more than US\$104 million was used and disbursed across the following concerns: institutional strengthening (42%), health area (24%), education (18%), and productive development (15%).

The 2007-2009 ENDES Survey on family health reported that cases involving chronic malnutrition among children decreased by 7.5%. Furthermore, the AMF projects also helped reduce cases of diarrhea, while increasing vaccination coverage by 96% and decreasing the number of breastfeeding mothers. (See Table 2.)

**TABLE 2: SAMPLE OF AMF PROJECTS WITH OTHER ORGANIZATIONS**

Partner Organizations	Programs
CARE	<p>This organization had the following programs:</p> <ul style="list-style-type: none"> <li>- Prenatal and mother-child health care program</li> <li>- Health infrastructure, equipment and facilities development program</li> </ul> <p>Antamina worked with CARE in Peru to strengthen the capacity of 196 doctors, 157 nurses, 159 obstetricians, 651 technical personnel and 47 biologists. As a result, the quality of health care services was expected to improve. In addition, one component of this project was also the repair and improvement of health facilities.</p>
Asociacion Civil Mision Caritas Felices	Its Rebuilding Smiles Program helped children suffering from congenital anomalies like harelip and cleft palate.
Servicios de Salud Corporativa	Its Assistance Program provided medical assistance to isolated communities that had limited access to health facilities.
Caritas del Peru <sup>1</sup> and ADRA Peru	<p>The “Ally Micuy” program addressed chronic malnutrition in 905 communities and 126 districts in Ancash.</p> <p>For the local and regional nutrition project, the objectives were to improve the health, nutrition and overall living conditions of children and pregnant women, as well as to get accreditation for healthy communities: 34 healthy cities and 18 health promoting schools. The total cost of the project was US\$8 million and it was fully financed by the AMF.</p>
Apoyo, Macroconsult Goberna	An institutional Capacity building project worth US\$6 million was implemented to improve the capacity of local governments to manage basic services and utilize their budgets. The project also aimed to develop and generate projects for implementation using the Canon fund.

<sup>1</sup> Caritas del Peru is an institution promoted by the Peruvian catholic church. Its main objective is to develop and promote programs for the poor people in Peru. ADRA Peru is an Non Governmental Organization working in more than 120 countries.

UPCH (University of Lima) plus local universities	This US\$2million project aimed to improve the supply of basic and specialized medical attention to populations lacking health coverage through mobile health clinics. It also aimed to strengthen the Regional Health office's network of services by incorporating "tele-medicine."
<i>Source: APEC Study Centres Consortium Conference, Piura Peru, 19-21 June 2008</i>	

AMF's education programs sought to improve the equipment and the quality of education in the schools. They also built recreational centers for children under 3 years and distributed desks and libraries in the provinces of Bolognesi, Huaraz, Huari, Huarmey and Recuay. Productive development programs created new companies and boosted sales by strengthening them and increasing their production capacity. One project, for example, expanded the market for small- and medium- sized businesses by incorporating them into export supply chains. Another example is the Alli Allpa project that included the development and consolidation of eight cash crop chains for artichokes, corn, peas, tarwi, oats, dairy products, tara and fruits.

Finally, institutional strengthening trained local government to improve the management skills of officers in four municipalities. The objective of the training program was to provide local authorities with the proper tools and skills to invest in the economic resources it received through the Mining Canon and AMF.

Antamina was also engaged in other projects and co-financed a US\$400,000 economic development project to advance domestic and export markets for such products as asparagus, artichokes, fish farm trout and wood-based output. Antamina's community relations program extended beyond the highland area to communities that had provided right-of-way for the mineral duct and the electrical transmission lines extending down to the coastal town of Huarmey. In Huarmey, artisan fishermen obtained financing from Antamina to improve their production and move from subsistence to commercial farming.

Aside from community projects, Antamina developed a comprehensive system to ensure environmental compliance, including programming, sampling, testing, analyzing, reporting and presenting results to the regulatory authority, and achieved higher standards than required by Peruvian law. The company had a broad air, water and soil evaluation system. It was also regularly audited by supervising authorities who attested to the company's fulfillment of national and international environmental and social standards. For example, Punta Lobitos obtained its second ISO certificate, ISO 9001:2000, for its quality management systems.

Overall, the project provided a number of benefits to the Ancash region. (See Table 3.)

**TABLE 3: OUTCOME OF AMF PROJECTS**

Areas	Geographical Coverage	Outputs
Health and Nutrition	20 Ancash provinces District of Llata, Huanuco	<ul style="list-style-type: none"> <li>- These programs provided capacity building to 196 doctors, 157 nurses, 159 obstetricians, 651 technical personnel and 47 biologists</li> <li>- US\$ 1 million in proteins given to children of school age</li> <li>- Education of 120 districts regarding food practices as well as health care.</li> <li>- Installation of water systems, drains and ecological toilet for 656 families</li> </ul>



Education	Province of Bolognesi, Huaraz, Huari, Huarmey and Recuay	<ul style="list-style-type: none"> <li>• 300 schools improved their students' communication skills</li> <li>• 65 schools received teachers' training</li> <li>• 35,752 desks were distributed</li> <li>• 77 schools received maintenance assistance</li> <li>• 10 recreational centers were constructed in Huarmey</li> </ul>
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Areas	Geographical Coverage	Outputs
Productive Development	17 Ancash Provinces	<ul style="list-style-type: none"> <li>- US\$18.8 million in sales was generated by facilitating coordination between the producers and the market.</li> <li>- 72 projects approved and financed for US\$10 million</li> <li>- Organization of two business days obtaining sales of US\$ million</li> </ul>
Institutional Strengthening	Huaraz, Huari and Huarmey	<ul style="list-style-type: none"> <li>• Set up four municipal management units</li> <li>• 57 projects that were focused on strengthening the institutional capacity of local regulators were executed</li> </ul>

Source: Fondo Minero Antamina. Retrieved from [www.fondomineroantamina.com](http://www.fondomineroantamina.com)

## MITIGATION MEASURES FOR THE UTILITIES INVESTMENT MECHANISM

To minimize the losses associated with the reduction in taxes as a result of its reinvestment of profits, Antamina would take a number of mitigation measures:

*Indirect Compensation.* The AMF would underwrite public works (particularly water and sanitation projects) and buy heavy equipment for the regional government, all provincial governments and the 18 largest district municipalities.

*Direct Compensation.* Antamina would transfer directly to the poorest 128 district municipalities representing 88% of all districts in Ancash a total of US\$4,145,690. The amounts transferred would compensate each participating municipality for the tax income forgone, thus enabling local governments to carry out their social investment programs. To that end, individual checks would range from US\$2,000 for the smallest recipient to US\$130,000 for the largest ones. Specific institutional responsibilities to be assumed by each recipient municipality were spelled out.

## THE CHALLENGE

National statistics reported that within a span of 10 years (2000-2009), Antamina's operations increased Ancash's gross domestic product (GDP) by 6%, and the national GDP by 7%. The GDP per capita in the region was US\$3,800, which was smaller than the national GDP of US\$4,300.

At the national level, Antamina's production increased Peru's total mining output by 30%. The average annual value of the exports ranged between US\$600 million and US\$1 billion. This indicated an increase of 1.2% in GDP in Peru. On the other hand, the GDP was

expected to grow by 60% in the region of Ancash.<sup>1</sup> (See Exhibit 5.) Furthermore, the mine generated direct and indirect employment for 1,528 and 2,000 people, respectively, for different operating areas. Of this total, 96% or 1,511 people were Peruvian, a third of them from Ancash.<sup>2</sup>

With the operation of the mine, a number of new structures were built that benefited the locals. These included the access road (Conococha – Antamina) that connected several communities in Callejon de Conchucos; the pipelines, which required the laying of fiber optic cables that, in turn, made the provision of new telecommunications services to the region possible under an agreement with Telefonica (a Peruvian communication company); and the new 57 km transmission line which facilitated interconnection and improved electrical safety. These improvements were confirmed by the consultancy report of “Apoyo Consultoria” in 2010. It noted that the quality of life of people living in the mining areas had improved, with the poverty rate dropping by 6% and the incidence of malnutrition by 7%. Utilities and infrastructure also improved. More of the homes in the mining areas had access to drinking water and 10% had more access to electricity. In addition, the illiteracy rate in Antamina’s direct mining zone declined by 18.5%, with women having a higher percentage of illiterates (26.4%) than men (10.4%). This compared with an estimated national adult illiteracy rate in Peru of 10% from 2003 to 2008.<sup>3</sup>

However, some officials of Antamina felt that the communities were becoming too dependent on the company for all their needs. “The people will never be satisfied. The communities demand things that they don’t exactly need and are not relevant to them. If they don’t get what they want, they use the media and organize strikes to negotiate and obtain what they want,” one company official said. The officials had the same opinion about a recent protest against Antamina’s planned expansion. By Antamina’s estimates, the proposed expansion of the project would extend the life of the mine to 2029, and would increase the complex’s ore processing by 38%, effectively increasing national activity by 0.2%. Furthermore, it would mean an additional 1,450 new direct jobs during the construction phase and 600 additional jobs per year during the production phase. The government and community would still receive US\$2,723 million from 2009 to 2029 through the mining canon.

Although the mine was set to have another 24 years of operative life, the mining company had a closure program that has been scheduled but not yet implemented. As planned, the program aimed to reduce the environmental damage left by the mine by leaving the soil and water currents in a stable condition, restoring the land to its previous state, and reforesting the land.

It was not clear how the other projects would proceed once the AMF contribution ended. Officials said Antamina would continue to finance some of them and would be in charge of the Community Relations Area of Antamina

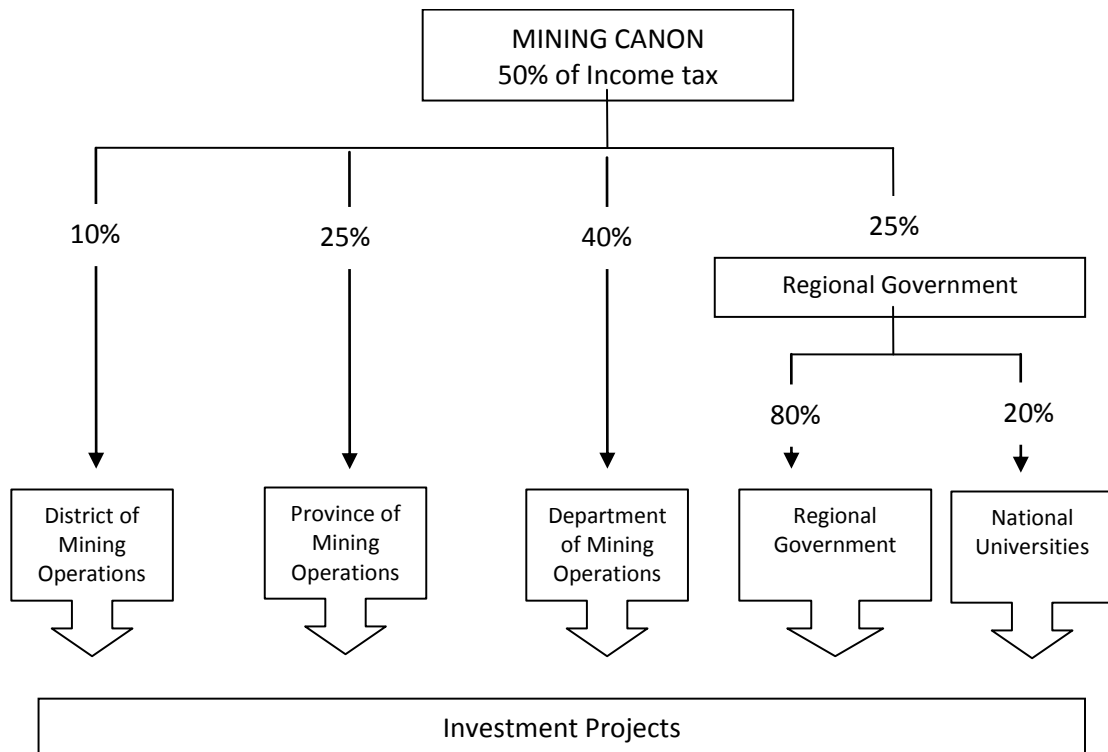
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<sup>1</sup> Retrieved from <http://www.mbendi.com/indy/ming/sa/pe/p0005.htm>

<sup>2</sup> 2007 Sustainability Summary Antamina Operations

<sup>3</sup> Based on UNICEF

## EXHIBIT 1: DISTRIBUTION OF MINING CANON



Source: Ministry of Energy and Mining

## EXHIBIT 2: PERU'S ECONOMY AND THE MINING INDUSTRY

Peru was a major world player in the world mining industry, ranking first in the production of silver, fifth in the production of gold and copper, and among the top five for zinc, lead and tin. In 2004, the mining sector contributed significantly to the economic growth of Peru. Copper, gold, zinc, lead, tin, silver and iron were the top seven mining products in 2004. By 2005, Peru's GDP was US\$71.4 billion (with inflation at 1.6%). Mining production, which consisted mainly of gold, silver, copper and zinc accounted for 13.5% of GDP and 54% of total exports (US\$8.9 billion). The global mineral market was cyclical; the country experienced a 2.5% decline in copper production in 2005.

The sector was a major contributor to exports and foreign direct investments. For example, mineral exports rose from US\$1,447 to US\$4,554 million within 13 years (1990-2003). In 2007, Business Monitor International, an international business publication, projected that the value of the country's key metals output would grow to around US\$9 billion.

Peru's National Systems of Natural Protected Areas was a collection of 51 sites, ranging in size from 690 hectares to millions of hectares, thereby representing the country's natural heritage. The Fujimori administration created tax stability contracts, and a host of legal and financial protections for large foreign investors. In 2007, President Alan Garcia stated that the government would promote mining in Northern Peru and intended to help formalize all informal mining.

The Ministry of Energy and Mines (MEM) was an agency that reviewed and approved environmental evaluations leading to the granting of concessions. Of the 271 projects listed by MEM, 255 were in the exploration stage, seven were developing feasibility studies, three were under construction, and six were expansion projects. An investment of US\$6 billion was expected in 2010. In Peru, the established mining operations were required to present environmental studies and remediation projects in their concession areas. A new mining project had to submit Environmental Impact Assessment studies to the MEM for approval, before it could be given the necessary permits. The assessments were presented to the public to gain acceptance and support from the surrounding populace. New laws and regulations were also approved to enhance the power of MEM over all decisions about a mine project, particularly its development and approval.

From 2002 to 2006, the economy expanded by more than 4% per year and was characterized by a stable exchange rate and low inflation. Services contributed the most at 55.1 percent in 2008. See Table A.

**TABLE A: ORIGINS OF GDP (2008)**

Industries	% of Total
Agriculture, livestock and Forestry	7.6
Fisheries	0.5
Mining and hydrocarbons	5.7
Construction	5.9
Manufacturing	15.5
Services	55.1
<i>Source: Peru Country website</i>	

Manufacturing included food and beverages, textiles and apparel, nonferrous and precious metals, nonmetallic minerals, petroleum refining, paper, chemicals, iron and steel and fishmeal. Agriculture included products such as coffee, cotton, asparagus, paprika, artichokes, sugarcane, potatoes, rice, banana, maize, poultry, and milk.

With higher world prices for minerals and metals and the government's aggressive trade liberalization strategies, the economy grew to 9% per year in 2007 and 2008; but fell to 1% in 2009 in the face of worldwide recession and lower commodity export prices. Peru's rapid expansion helped reduce the national poverty rate by about 15% since 2002, though underemployment remained high. Inflation experienced a decline in 2009, to below the Central Bank's 1% to 3% target.

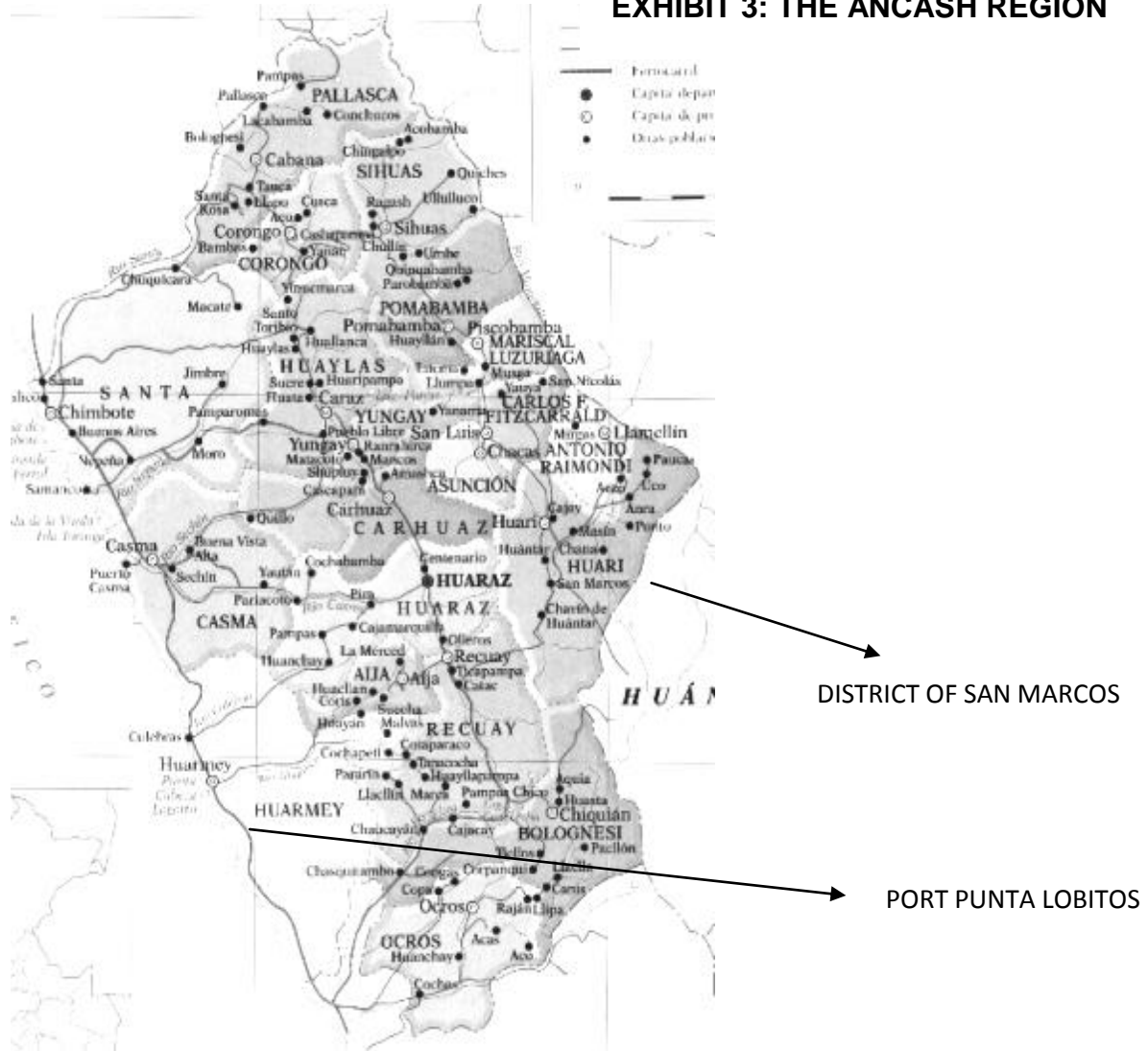
Aside from minerals and metals, Peru had other principal industries such as food processing, textiles, clothing and a substantial tourism business. In 2006, the value of total exports increased as much as 23% (US\$23.8 billion), of which US\$14.7 billion (or 62%) came from the mining sector. Two years later, principal exports valued at US\$31.2 billion were gold, copper, fishmeal, petroleum, zinc, textiles, apparel, asparagus, coffee, others. On the other hand, its principal imports were valued at US\$27.7 billion. Petroleum and products, vehicles, plastics, steel, telephones, wheat, soy oil and products, corn, machinery, processed food and others accounted for US\$19.6 billion. See Table B.

**TABLE B: MAJOR MARKET, IMPORTS AND SUPPLIERS (2008)**

Major Market	Major suppliers (2008)
U.S. (18.6%)	U.S. (18.9%),
China (12.0%)	China (13.4%),
Switzerland (10.9%)	Brazil (8.2%),
Canada (6.3%)	Ecuador (6.2%),
Japan (5.9%)	Argentina (5.0%)
Chile (5.9%)	Colombia (4.4%)
Venezuela (3.5%)	Japan (4.1%)
Germany (3.3%)	
<i>Source: Peru country website</i>	

Despite Peru's strong macroeconomic performance, its heavy dependence on minerals and metals subjected the economy to fluctuations in world prices, while poor infrastructure precluded the spread of growth to Peru. **EXHIBIT 4: ANTAMINA ORGANIZATIONAL CHART** fits of growth.

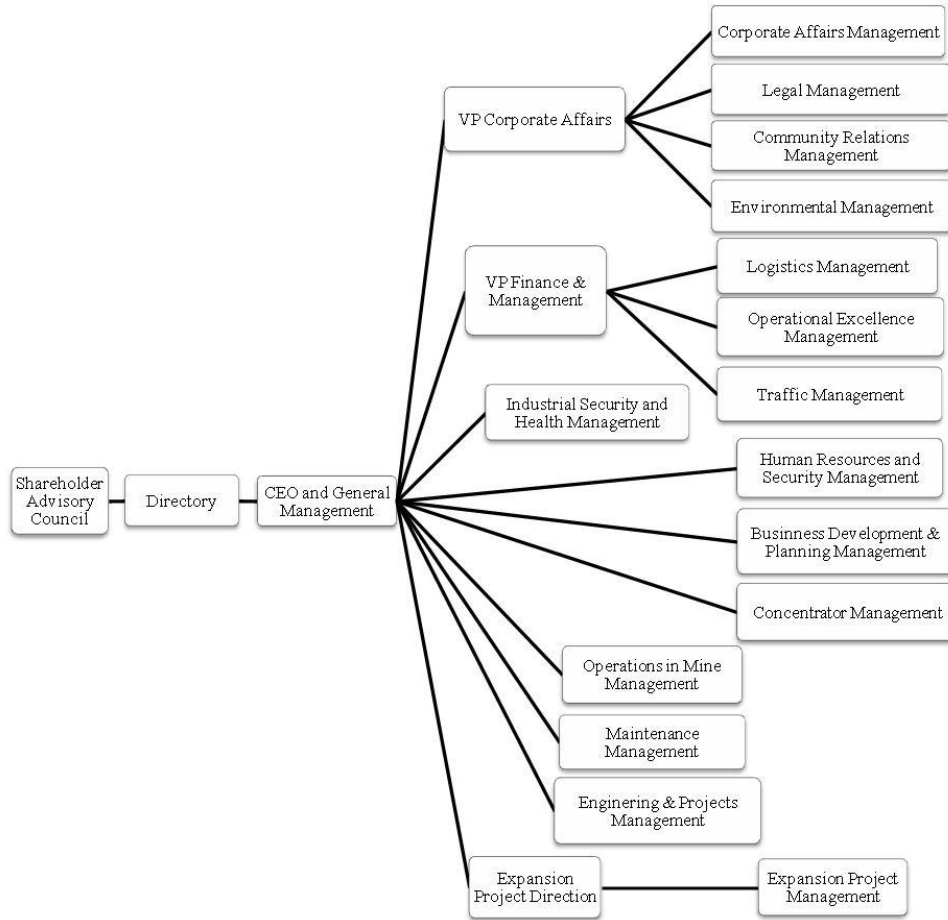
### EXHIBIT 3: THE ANCASH REGION



Ancash is a remote highland located 440 km from Lima, the capital of Peru. It is between 4,200 and 4,800 meters above sea level (see figure above). Most of the communities in Ancash, a traditionally poor area, lacked many of the basic services including water and sanitation, health and education. It had no access to capital and offered only a few job opportunities. To illustrate, only 17.7% of the population had telephones, only 1.8% used refrigerators, and 31.6% used gas as kitchen fuel. Wood continued to be the main fuel for cooking and the houses were made of adobe bricks.

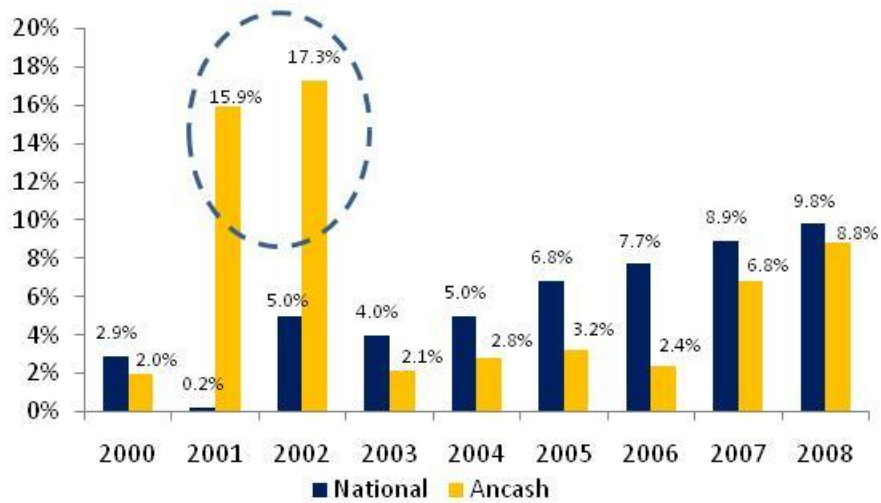
The Ancash department or region had 20 provinces. Antamina Mining Fund considered 12 of them for the local fund namely, Antonio Raymondi, Asunción, Bolognesi, Carhuaz, C.F. Fitzcarrald, Huari, Huarmey, Huaylas, Mariscal Luzuriaga, Pomabamba, Sihuas y Yungay). Also the district of Llata (Huamalíes, Huánuco department) and small communities in the district of Paramonga (Barranca, Lima) belongs to this local fund. The regional fund considered the other eight provinces of the department of Ancash. More than 80% of the region was not agricultural land. More than 1 million people (3.9% of the total population) lived in the region. The population density was 30.6 habitants for each square kilometer. The population living in the rural areas represented 38% of the total population.

### EXHIBIT 4: ANTAMINA ORGANIZATIONAL CHART



### EXHIBIT 5: GDP GROWTH

**GDP Growth**  
(Annual real variation %)



## PHILEX MINING CORPORATION: MULTI-SITE IMPLEMENTATION OF CSR

Since Philex Mining Corporation (PMC) was incorporated in 1955, it has been committed to responsible mining practices and to contributing to nation-building through its business. Company officials say PMC has always gone beyond compliance, especially in matters relating to the environment and the community.<sup>1</sup> “Corporate Social Responsibility (CSR) was a top priority of the company,” said Victor Francisco, vice president for the environment and community relations.<sup>2</sup> This was one of the reasons the company had been able to operate in its Padcal site for the last 50 years.<sup>3</sup>

To direct its CSR programs, the company established the Environment and Community Relations Department (ECD), to ensure that its environment and community relations objectives would be carried out. The ECD had a CSR framework that served as a guide across all of the company's sites, even though it could not always be rigorously implemented in all sites because of varying operating conditions.<sup>4</sup> As Vice President for the Environment and Community Relations, Victor Francisco is faced with the task of preparing the CSR strategy for the various sites of PMC.

### SECTION 1

Through the years, PMC has expanded its operations beyond its first and longest operational mine in Padcal, to include other mine sites in different parts of the Philippines. Its different mine sites were in different stages of mining —exploration in Surigao, operational in Benguet and rehabilitation in Negros Occidental.

In each case, there was a need to consider the different factors affecting mining operations: the community, the local government and the non-government organizations (NGOs), as well as other external factors such as security issues and the area's past experiences in mining or “legacy issues” from previous mining operations of other corporations.

This case focused on the CSR framework of PMC and on the implementation of CSR programs in the different mine sites, which were in different stages of the mine-life cycle. The case provided a background on PMC and its CSR principles. It also discussed the CSR framework of PMC and the best practices of the company in its CSR implementation. Lastly, the case discussed the company's CSR programs and the challenges they faced in the different mines sites, particularly in Tuba, Benguet (operational); Sipalay, Negros Occidental (care and maintenance, and exploration) and Surigao del Norte (exploration).

*This teaching material was abridged by Marie Kirstin de Jesus under the supervision of Prof. Francisco Roman from the case study she wrote entitled, “Implementing CSR in Different Mine Sites: The Experience of Philex Mining,” under the supervision of Assoc. Prof. Maria Elena B. Herrera. Copyright 2013, APEC Secretariat. This teaching material may be used for educational and research purposes without fee or charge. For soft copies of this material, please contact info@apec.org and www.apec.org.*

<sup>1</sup>Victor Francisco and Cecile Amihan-Bayas, interview by author, 2009.

<sup>2</sup>Victor Francisco, interview by author, 2009.

<sup>3</sup> Ibid.

<sup>4</sup>Vicente Servidad, interview by author, 2010.

## Background on PMC

PMC's initial site was the Padcal Mine in Tuba, Benguet, which the company had been operating since 1958. The Padcal Mine was the first underground block cave operation in the region and was the only remaining large-scale copper-gold operation in the Philippines.<sup>1</sup> In the 1980s, PMC focused on gold exploration. At the time, the company had acquired a number of gold claims throughout the country.

PMC's first gold project was the Bulawan Mine in Negros Occidental, which it operated from 1996 to 2002. Due to unfavorable metal prices relative to operating costs, the site was placed under care and maintenance. According to the Philippine Mining Act (PMA), the company was required to maintain the area for at least 10 years.

In 1996 the various gold assets of PMC, including the Bulawan mine, were spun off to Philex Gold Philippines, Inc. (PGPI). Eventually, through a swap of shares, ownership of PGPI was transferred to Philex Gold Inc. (PGI), an 81-percent Canadian-owned subsidiary.

Since 2001, PGPI had focused on the Boyongan copper-gold porphyry deposit in Surigao del Norte, discovered in August 2000 under the Silangan Mindanao Mining Company (SMMCI) a joint venture of PGPI with Anglo American Exploration (Philippines) B.V. (Anglo). On 6 February 2009, PMC acquired Anglo's 50-percent interest in the Silangan Project, giving the company control over it.

As of 31 December 2009, PMC had 46,055 stockholders on record, with foreign nationals and institutions holding 37.73% of its outstanding shares.<sup>2</sup> PMC, Philex Gold Philippines, Inc. (PGPI), its subsidiaries, and Brixton Energy and Mining Corporation were into the large-scale exploration, development and utilization of mineral resources. The parent company, PMC, operated the Padcal Mine in Benguet from which it mainly derived its income.<sup>3</sup>

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<sup>1</sup> Official Website of Philex Mining Corporation. [www.philexmining.com](http://www.philexmining.com)

<sup>2</sup> Philex Mining Corporation. Securities and Exchange Commission Form 17-A Annual Report, <http://www.philexmining.com>.

<sup>3</sup> Ibid.



## **The Regulating Environment**

The Department of Environment and Natural Resources (DENR) was constitutionally mandated to promote environmental protection, while encouraging the sustainable commercial use of natural resources. The Mines and Geosciences Bureau (MGB),<sup>1</sup> the Environmental Management Bureau (EMB),<sup>2</sup> and the Pollution Adjudication Board (PAB)<sup>3</sup> were DENR bureaus and offices involved in promoting and regulating mining.

Also considered part of the regulating environment were the Department of Trade and Industry (DTI), which was responsible for the issuance of business licenses and the Bureau of Internal Revenue (BIR), which handled revenue collection for the government.

The local government units (LGUs, i.e., provincial and municipal) of the areas where the mine was located were also important because they issued the local business permits (i.e., mayor's permits) Some LGUs also had ordinances regarding the environment and community development.

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<sup>1</sup>Under the Department of Environment and Natural Resources(DENR), the Mines and Geosciences Bureau (MGB) was directly in charge of the administration and disposition of the country's mineral lands and mineral resources. Moreover, MGB recommended to the DENR Secretary the granting of mineral agreements. It endorsed to the DENR Secretary, for approval by the President, the granting of Financial or Technical Assistance Agreements (FTAA).

<sup>2</sup>Under the DENR, the Environmental Management Bureau headed by the Director and Assistant Director, advised the DENR Secretary on matters relating to environmental management, conservation, and pollution control. It also recommended legislation; formulated environment quality standards; recommended rules and regulations for environmental impact assessments; and provided technical assistance for implementation and monitoring.

<sup>3</sup>The Pollution Adjudication Board (PAB), a quasi-judicial body under the Environmental Management Bureau (EMB) of the DENR, oversaw the adjudication of pollution cases. It was composed of the DENR Secretary as Chairman, two (2) undersecretaries as might be designated by the Secretary, the Director of EMB and three (3) others to be designated by the Secretary as members.

### **Vision-Mission of Philex Mining Company**

**Vision Statement:** A socially responsible Filipino company striving for excellence in mining.

**Mission Statement:**

We shall continue to improve our present gold and copper mining activities to make them more efficient and cost-effective.

We shall continue to expand our mining operations to take advantage of emerging opportunities throughout the Philippines.

We will develop all our employees so that they will use their talents to work professionally, harmoniously and safely toward the achievement of our vision.

In all our activities, we will aim for excellence, which means doing everything in the best possible way, striving to be the best we can be.

We will continue to be socially responsible by supporting the communities where we operate and by protecting and enhancing the environment.

By achieving our mission, we will enhance shareholder's value and our contribution to nation-building.

Aside from providing for a more liberal investment policy, the Philippine Mining Act also promoted responsible mining. The law required mining companies to secure free, prior and informed consent from the affected communities within the host area, before being granted the necessary permits by the government. The law also required mining companies to allocate at least 1% of the milling and mining costs to social development in the host area. Mining companies were also required to pay royalties amounting to at least 1% of their annual gross revenues to affected indigenous communities.<sup>1</sup> To address environmental concerns, the law required companies to submit an environmental impact statement, an environmental compliance certificate and an environmental protection and enhancement program.

In addition, the law also mandated the formation of a multi-partite monitoring team that would ensure the company's compliance with the law, particularly in terms of the Environment Protection and Enhancement Program.

### **Corporate Social Responsibility Framework**

The PMC's CSR initiative focused on community development and the environment. The company believed that by contributing to the environment, and to the social and economic progress of its

partner communities, it would be helping in nation building, in line with its mission as an organization.

Before the enactment of the Philippine Mining Act that required corporations to rehabilitate the mine sites it operated, PMC had already been practicing progressive rehabilitation. It rehabilitated tailings facilities and replanted areas that the company had finished using. This meant that as soon as a disturbed area was classified as non-operational, it underwent rehabilitation to restore it as much as possible to its original state. PMC was the first mine site in the Philippines to be ISO14001 certified, obtaining this certification even before it became a requirement of the government.

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<sup>1</sup>Philippine Mining Act



Source: Philex Mining Corporation, Philex Social Development Policy

**FIGURE 1: OUTLINE OF THE CSR FRAMEWORK OF PHILEX**

The company valued the views of the community. Therefore, it engaged the community where it operated and made it a partner in its social development activities.

PMC sought to create self-reliant communities to minimize their dependence on the corporation. PMC also strongly believed in fostering local development because it was aware that mineral resources were finite.

PMC practiced “counterparting.” For example, if a community wanted a school building, PMC required the community to also contribute to building the school. A possible division of responsibilities was for the company to provide the funds, raw materials and, if needed, the machinery; for the government to provide the land; and for the community to provide the labor.

As much as possible, PMC hired community relations officers from the area in the expectation that they would have a better understanding of the community. The community relations officers were required to stay with the identified communities for at least three days a week.<sup>1</sup>

**Communities and the Indigenous People**

We recognize the desires and aspirations of the communities and indigenous peoples (IPs) hosting our projects. To them, we commit that we will act responsibly and will obey applicable laws to:

- (1) minimize the impact of our projects on the environment;
- (2) protect the health and safety of those directly affected by our activities; and
- (3) ensure that they receive real benefits from our operations.

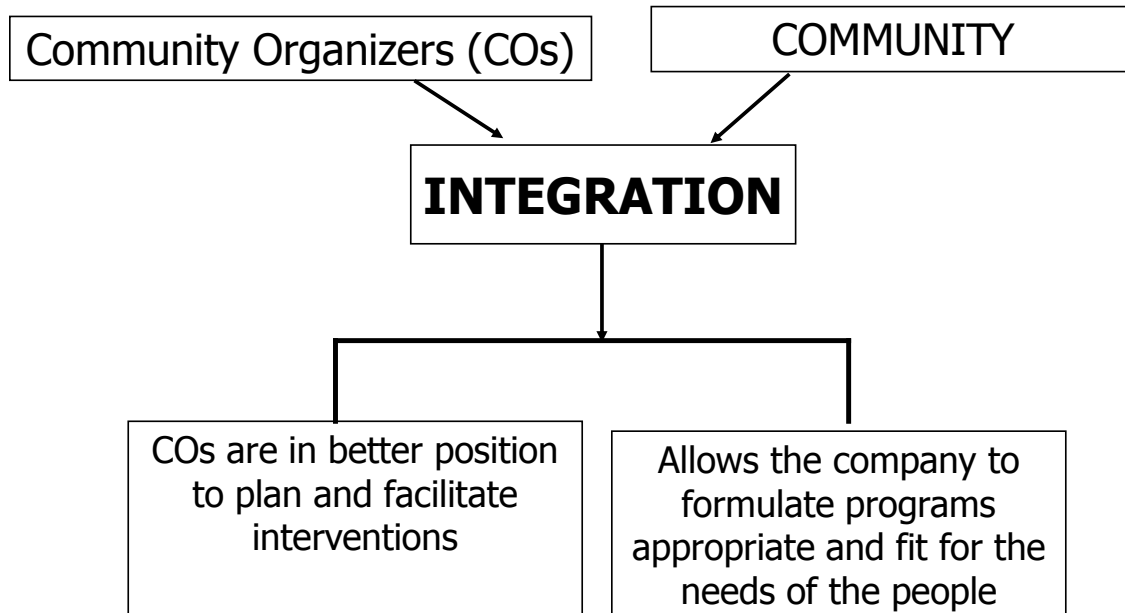
It is essential for us to engage our host communities and IPs, that they may see us as responsible, fair, honest, and law abiding corporate citizens in all phases of our operations. We treat our host communities and indigenous peoples as our partners in the exploration and development of our mining projects. To us, social acceptability is very important for long-term, stable and beneficial resource development. We strive to give the communities and indigenous peoples the real benefits from our operations and to leave them a lasting legacy by adopting programs geared towards developing their livelihood and capacity requirements and their social, cultural, educational, health, safety and environmental needs.

We respect the cultural practices of IPs.

<sup>1</sup>Community Relations Officers in Negros Occidental, interview by author, 24 February 2010.

## COMMUNITY IMMERSION / INTEGRATION

- A strategy used to gather information and more importantly to better understand the people's feelings, attitude and perceptions.



Source: Philex Mining Corporation

**FIGURE 2: CSR FRAMEWORK-COMMUNITY IMMERSION**

Within the PMC organization, ECRD was the inter-departmental coordinating division tasked to handle the company's CSR program. Specifically, it was tasked "to formulate, implement and recommend changes in policies, procedures and trainings related to environment and community development".<sup>1</sup> As vice president for the environment and community relations, Francisco reported directly to the president and chief operating officer of PMC.<sup>2</sup> The ECRD consisted of four working groups: 1) Environmental Engineering and Quality Monitoring, 2) Environmental Enhancement (Forestry), 3) Environmental Sanitation and Beautification, and 4) Community Development.

The Philex Environmental Committee (PEC), a sub-committee under ECRD, resolved environmental and community relations issues related to implementation, coordination and operational problems as they arose. PEC participated in regular community and environmental inspections and meetings, as well as in the activities of the Multi-partite Monitoring Team (MMT).<sup>3</sup>

<sup>1</sup>C. Hubo, Profiles of Corporate Social Responsibility Practices of Philippine Mining Firms, [http://siteresources.worldbank.org/INT/PSD/Resources/Philippines/phil\\_CSR\\_Case\\_Studies.pdf](http://siteresources.worldbank.org/INT/PSD/Resources/Philippines/phil_CSR_Case_Studies.pdf)

<sup>2</sup>Victor Francisco, interview by author, 2009.

<sup>3</sup>The Multi-partite Monitoring Team was a multi-sectoral group which included local government officials, relevant government officials, company representatives and members of civil society. The team's task was to conduct regular visits to the site to ensure the mine site's compliance to relevant laws.



**FIGURE 3: THE TWO PHASED CSR IMPLEMENTATION STRATEGY OF PHILEX**

The first phase of PMC's CSR implementation strategy involved creating a base for the implementation of its projects. PMC worked with the stakeholders, especially the community and the local government in the area, to ensure that the needs of the communities were addressed. This set-up guaranteed that the stakeholders would own the project and become PMC's implementation partners. The first phase thus involved going to the communities and organizing meetings to discuss which issues the community found most important. It also entailed empowering community members to improve their economic conditions and basic services. The second phase focused on assisting the community through income-generating projects and skills training.

## SECTION 2

### **The Importance of Leadership in Implementing CSR Activities**

The ECRD head, Francisco, acknowledged the strong support extended by the top management to the company's CSR activities. Top management visited the host communities to gain a better appreciation off the issues faced by the community and to find out if the community had any problems with PMC, he said.

### **Going Beyond Mandated CSR**

In Padcal the company provided free elementary education and subsidized secondary education. PMC also provided the same education to the children of its employees. The company also implemented programs on health, education, public infrastructure development, livelihood and the environment in the area surrounding the mine.

To ensure that the community would be well-informed about what the company was doing, PMC required the ECRD to enter the exploration site. Any action that the exploration team

needed to do (e.g., drill in a different site) had to be coordinated with the ECRD to ensure that the community would be informed. The presumption was that if the people were informed, there were better chances of getting their cooperation.

PMC’s environmental expenses from 1967 to 2008 came to Php 2.5 billion. The company and its subsidiaries were consistent winners in environmental contests, winning awards for: 1) its Padcal mine—Best Mining Forest, 2009 first runner-up; champion in 2007 and 2008; 2) for Bulawan, 2009 Best Mining Forest champion; and first runner-up in 2007 and 2008; and 3) for Sibutad, second runner-up from 2006 to 2008.

### Counterparting

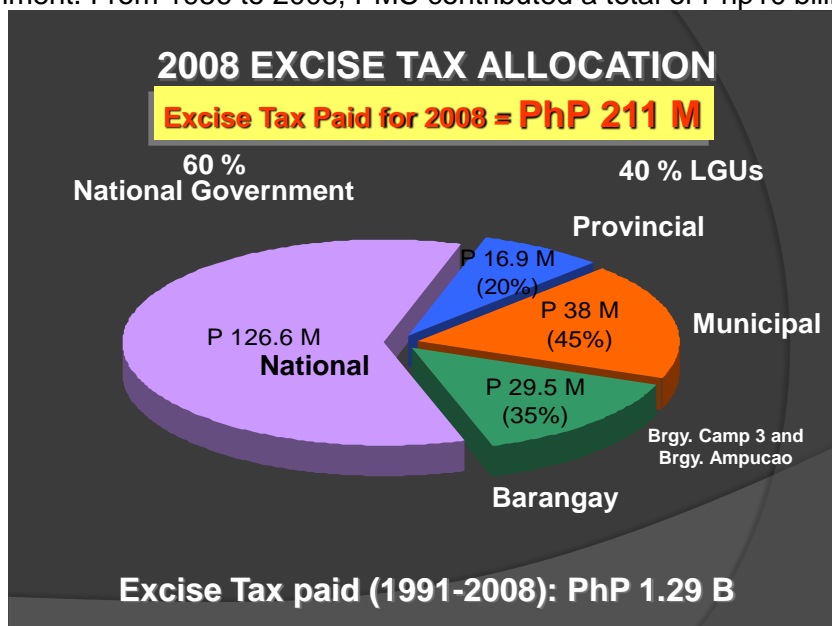
All members of the community relations team per site were required to spend at least three days a week in different host communities. This practice helped the company manage risks. For example, before anti-mining protests or barricades could take place, the community was informed so it could take preventive measures to minimize the impact of the protests. If the reason for the barricade had to do with a reported mine tailings spill, for instance, then the company could immediately take action.

## SECTION 3

### Operations in Benguet (Padcal)

In 1958, the Padcal copper mine yielded gold and silver by-products. The mine was located in the municipality of Tuba, Benguet, about 17 aerial kilometers from Baguio City. This first venture of PMC was projected to operate up to 2017.

In 2008 alone, PMC paid Php269 million in direct taxes and Php 65 million in indirect taxes to the government. From 1956 to 2008, PMC contributed a total of Php10 billion in taxes.



**FIGURE 4: DISTRIBUTION OF EXCISE TAX (PADCAL 2008)**

The company also provided employment to 2,245 individuals, 2,137 of whom worked in Padcal. Given the length of operations of PMC in Padcal, many members of the local community were PMC employees. As the mine site was in a remote area, PMC supported a school for the children of its employees.

As Padcal was an operational mine, a considerable amount of the excise tax it paid went to the barangay, the municipal and provincial governments of Benguet. Also, as required by law, the LGUs relating to Padcal were represented in the MMT to ensure that the company was complying with relevant mining laws. Also, since the Padcal Mine was operational, it was subject to regular inspections by relevant government agencies such as the local MGB and the DENR.

Also, PMC spent more than 1% of its revenues on the implementation of its social development and management plan (SDMP). Compliance with stringent government requirements for this site included a five-year SDMP that the community as well as monitoring teams had to approve.

The Padcal site was ISO 14001-certified and was now on its ninth cycle. The reassessment audit by Certification International (CI) in May 2008 confirmed the site's compliance.

About 338,868 seedlings of various tree species were planted in the reforestation areas of the Padcal site. Of this number, 220,082 seedlings were planted on newly established plantation areas covering 130 hectares. Some 118,786 assorted forest tree seedlings were planted on the existing 200 hectares of the previously established plantation areas, for enhancement purposes. As of 2008 about 1,950 hectares had been successfully reforested with more than six million seedlings of various tree species. These were being maintained and protected throughout the year.<sup>1</sup>

PMC also donated more than 3,000 assorted seedlings to various stakeholders: LGUs, DENR, schools and the Nay-en–Taluang Small-Scale Miners Association, for their respective tree planting programs.

The company participated in the Earth Month Celebration in April 2008. PMC conducted brushing and enrichment planting at the Sta. Fe Road in Ampucao, Itogon and at the Lion's Park in Kennon Road, Baguio City.

Tailings pond 1 in the Padcal site was converted into a bamboo research plantation and a grazing site, while tailings pond 2 was converted into a controlled community dump site. In its Padcal site the company spent beyond the environmental expense requirement of the law, which is 3% to 5% of milling and mining costs. From 1967 to 2008, the company's environmental expense in Padcal reached Php2.5 billion, while its milling and mining cost was Php45 billion. The average percentage of environmental expense was 5.7% per year. In 2008 alone, environmental expense was Php170 million while mining and milling costs reached Php2.8 billion. This amount was equivalent to 6% of total milling and mining costs.

Also for 2008, the company spent about PhP28 million for various programs on health, education, livelihood and public infrastructure. Under its health care program, the company's Sto. Nino Hospital provided basic health services to about 6,500 patients from the communities, free of charge. Four medical missions served 550 patients.

One of PMC's flagship projects under its education program was the College and Secondary Education Scholarship, which opened opportunities for deserving and underprivileged students from the host communities to pursue their educational goals. For SY 2007–2008, PMC supported the education of 41 students, of which number six college scholars successfully finished their studies. Twenty-nine high school students also received full scholarships from the Saint Louis High School-Philex. The PMC also subsidized the education of about 280 elementary and high school students. Some of the early students at

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<sup>1</sup>First Pacific Limited, Annual Report (2006).  
<http://www.firstpacific.com/admin/upload/ir/reports/ear2008.pdf>

the school funded by PMC are now supervisors at the mine site, among them the resident manager of its Padcal operations.

Recently, the company participated in the Alternative Learning System (ALS) program of the Department of Education to enhance the reading and writing skills of out-of-school youth, illiterates and undergraduates. The first batch consisted of 31 learners who passed the national examination and were awarded their secondary education diploma. Eighteen residents availed of the vocational scholarship in partnership with Baguio School of Business and Technology College and the Philippine Institute of Mining and Quarrying.

The Livelihood and Employment Enhancement Program was also implemented with the primary aim of building self-reliant communities. Eighty-four fresh college graduates from the host and neighboring communities joined the Work Appreciation Program to gain work experience. Technical and financial assistance was also provided to various cooperatives and livelihood associations to enhance their projects, which included agro-forestry, greenhouse farming, root crops production and livestock-raising in coordination with Benguet State University.

To support basic services, the company supported public infrastructure programs that included the concreting of 2.95 kilometers of farm-to-market roads, and the construction of several water systems for the host communities.

These paved the way for increased commerce and the delivery of basic services in the area. The company also helped put up school buildings, churches and other structures, in partnership with the communities.

## **SECTION 4**

### **Care and Maintenance in Negros Occidental- Bulawan**

The Bulawan gold mine in the municipality of Sipalay, Province of Negros Occidental began commercial operations in January 1996 and ceased operations in April 2002. As of 2010, work at the mine primarily involved the rehabilitation of the mine areas and reforestation, maintenance of the tailings pond and erosion control. Facilities and equipment were stored for eventual disposal as opportunities arose.

The company was accused of causing environmental degradation (i.e., water contamination) in Bulawan that hurt communities in the area even as local government officials acknowledged that mining had benefited the locality in terms of revenue and employment. PMC denied the allegations. Before PMC, Maricalum Mining operated in the area in the 1960s. At the time, considerable mine tailings and siltation were not properly handled so that they contaminated the rivers and changed the terrain of the community. Siltation from the years of operation of the mine site has extended to the beach front of Sipalay City.<sup>1</sup>

Earlier, PMC had also operated in the area for seven years, but closed the site for economic reasons. Unlike Maricalum Mining, however, PMC closed down the site properly, giving adequate compensation to its employees. To date, PMC was still ensuring that the facility was managed properly and the mined areas rehabilitated properly.<sup>2</sup>

As a result of its proper closure of Bulawan, PMC earned the support of the LGU to pursue exploration activities in the area once again. But the area continued to be hampered by

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<sup>1</sup> DENR CENRO Panthaleon, interview by author, 2010.

<sup>2</sup>DENR CENRO Panthaleon, interview by author, 2010; Oscar Montilla, interview by author, 2010.



limited sources of alternative livelihood, and the forest cover was denuded because of slash and burn, and illegal logging.

PMC had employed up to 3,000 people when it operated the mine. When the mine closed many businesses closed as well. Currently, PMC was conducting exploration activities in the area but would need to consider the impact of its closure in 2002, on the community. Furthermore, while resuming operations would bring revenue, an eventual cessation would lead to yet another boom and bust cycle. NGOs based in Kabankalan, a town two hours away from the host municipality, continuously visit the host communities of PMC to convince the people about the negative impact of mining.

The LGU, for its part, was concerned about the distribution of government revenue. The bulk of the taxes were paid by the head office in Metro Manila, even if the host area was a municipality in the Visayas.<sup>1</sup> Furthermore, in terms of local distribution, the provincial government received the bulk of the revenues and only a small portion went to the host community.

### **Corporate Social Responsibility Programs at the Site**

The company still supported the requests of the community but these were given priority according to the availability of resources. Furthermore, since exploration was active in the area, PMC had community relations employees who regularly immersed themselves in the area so the company would have a better understanding of the issues being faced. This practice also allowed PMC to monitor the activities of the anti-mining groups, making it possible for the company to explain its side to the community.

In 2008, PGPI-Bulawan allotted an additional nine hectares of the plantation area to jatropa and acacia mangium. Twenty-five thousand of the seedlings produced from the in-house nursery were planted. As of 2010 company could claim to have reforested 442 hectares within and around the mine site at a survival rate of 92%. The company received the second runner-up award in the “Best Mining Forest” competition and a Special Award from the MGB during the Adopt-a-Mining Forest competition in 2008. According to DENR-CENRO Pantaleon, the forest in the claim area of PMC was protected from illegal loggers and coal makers because of PMC’s efforts.

The company’s care and maintenance program entailed the regular monitoring of the tailings ponds, the existing silt ponds, the spillways and canals within the mine site. It also encompassed the regular repair and maintenance of existing access roads within the mine’s industrial areas.

To ensure compliance with environmental laws, the MMT (a multi-sectoral team composed of representatives from DENR, LGUs, the stakeholder groups identified and PGPI) regularly inspected and evaluated the active and post-drilling areas as well as the mine’s industrial areas. The company also conducted a medical and dental mission in July 2008 that benefited 2,165 patients from the three host barangays. Some 1,757 patients availed of the medical consultation, while 408 patients went through dental procedures, particularly tooth extraction.

The patient beneficiaries, composed mostly of children and elders, also received free medicine provided by PMC in coordination with the Philippine Business for Social Progress, United Laboratories, Inc., Pascual Laboratories, Inc. and Mercury Drugstore. Aside from the medical and dental missions, the company also conducted a series of supplementary

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<sup>1</sup>Oscar Montilla, interview by author, 2010.

vitamin-feeding programs for 140 students of three elementary schools located in the host communities. Another medical mission was also successfully conducted in 2010.

The Continuous Information, Education and Communication (IEC) program included community immersions, focus group discussions, house-to-house visits, formal and informal meetings with local organizations, consultations as well as sit-ins during regular sessions of the municipality and barangay, and participation in the weekly local radio program "Radyo Natin Hinobaan".

The company provided assistance in the form of construction materials, while the LGUs and the local community provided labor and saw to the implementation aspect of projects. Some of the major infrastructure projects in 2008 were: 1) the repair of the drainage canal at Sitio Village in Nabulao, Sipalay City, 2) the construction of the Binucauan spillway in Barangay Manlucahoc, Sipalay City, 3) the construction of the water intake box and the improvement of the water system in Skid 4 and Skid 8 in Sitio Vista Alegre, which benefited 14 families in the area including Vista Alegre Elementary School, 4) the renovation of the weighing post/multipurpose building in Sitio Vista Alegre, 5) the rehabilitation of the access road in Sitio Sangke, and 6) the construction of the teachers' cottage in Vista Alegre Elementary School.

## SECTION 5

### Exploration in Surigao

The exploration in Boyongan, Surigao del Norte began in 1999 under a joint venture with the Silangan Mindanao Exploration Company. By 2010, operations in Surigao were still at the exploration stage. The company had done some exploration in the 1980s, but the existing technology and the decreasing prices of gold at the time prevented commercial operations.<sup>1</sup> According to the Bureau of Mines and Geosciences, the Boyongan copper lode was one of government's 24 priority mining projects, with an estimated ore reserve of 300 million tons at 0.6 percent copper and 1 gram per ton of gold. PMC said production at the Boyongan mine could start by 2012. Based on current projections, the site in Surigao might hold more deposits than the Padcal site, which had been operating for more than 50 years.

### Stakeholders and Concerns

There were strong anti-mining groups in the area, partly because of past mining experiences. In the mid-1990s, a coal explosion had claimed the lives of 13 workers in Bislig, Surigao del Sur.<sup>2</sup> In 1999, a tailings spill from a damaged concrete pipe of Manila Mining Corporation's mine site in Placer, Surigao del Norte buried 17 homes and swamped almost 51 hectares of farmlands.<sup>3</sup>

The largely agricultural community had a total population of about 2,000 households. It faced such problems as high unemployment, lack of business opportunities and alternative sources of livelihood, poor maintenance of infrastructure (i.e., roads, school buildings), a poor water system and poor waste management.<sup>4</sup>

As the site was currently in the exploration stage, PMC could not yet give the benefits that the people were expecting.

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<sup>1</sup>Cecil Amihan-Bayas, interview by author, 2009.

<sup>2</sup>Hubo, Profiles of Corporate Social Responsibility Practices.

<sup>3</sup>FESS, Environmental Safeguards and Community Benefits in Mining: Recent Lessons from the Philippines (2006).

<sup>4</sup>C. Hubo, Silangan Mindanao Exploration Company's CSR Practices; Cecil Amihan-Bayas, interview by author, 2009.

The Mamanwa tribe was the identified indigenous people's group in some of the areas and there were several mining claims on the ancestral lands of the tribe. The tribe was already receiving royalties from the Taganito Mining Corporation. There were, however, ongoing disagreements over the distribution of funds among the different datu and their tribes.

Due to the legacy issues PMC faced in the area as a result of previous mining operations, local government officials were hesitant to allow mining operations once again. The local Bureau of Mines was nonetheless around to ensure responsible mining and fulfill its mandate to enforce existing legislation.

The Lower Anislagan Farmers Irrigators Association of Barangay Anislagan, Placer Dome Surigao del Norte and the Sta. Cruz Farmers Irrigators Association are two of the main anti-mining groups in the area. They are concerned about the water source of the community and have been protesting the exploration being conducted by PMC.

### **Corporate Social Responsibility**

Before the exploration team, the community relations team had entered the community and spoken with surface claimants to ensure that the owners were agreeable to drilling. Given the anti-mining sentiments at the site, PMC community development officers and staff immersed themselves in the community to gain a better understanding of the issues they faced.

The company brought local leaders to the Padcal site so they would have a better understanding of the benefits that the community could derive from an operational mine. This move also allowed the leaders to see that PMC was operating in a responsible manner.<sup>1</sup> Furthermore, PMC supported the creation of the Community Technical Working Group (CTWG), as recommended by the Bureau of Mines of Region 13. The CTWG was an environment and impact assessment team that allowed the active and meaningful participation of the communities in monitoring and improving the company's environmental and community development programs. It was composed of representatives from MGB13, PMC, LGUs, NGOs and the academe. The creation of this group was not required by law since the company was still in the exploration stage.

The community relations officer of PMC worked closely with the exploration team. Although PMC owned mining claims, there were surface claimants in the area of operation. Legally, the exploration team could proceed. However, PMC believed it important to discuss matters with and seek permission from the surface claimants.

Even in the exploration stage, PMC practices progressive rehabilitation. A sample is taken from each drill site by the exploration team, after which the environment and community relations team immediately implements measures such as tree planting with other concerned units to ensure that they returns the area as much as possible to its original state.

In line with the Environmental Management Program, the company rehabilitated two nurseries from the Timamana Barangay LGU and the Timamana National High School and propagated about 2,000 seedlings of hardwood and fruit trees such as falcata, mangium, narra, mahogany and mango. These seedlings were planted along the river banks of Timamana during the Araw ng Tubod Celebration in October 2008.

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<sup>1</sup>Cecil Amihan-Bayas, interview by author, 2009.

In addition, technical assistance was also extended to the nursery management group of barangays Marga, Capayahan and San Isidro in partnership with Alterdev, an NGO with a reforestation project in the areas.

A continuing program of PMC was its educational scholarship program. In school year 2008-2009, the program benefited 71 elementary and high school scholars, among them 31 students from the indigenous peoples community. PMC provided the students' uniforms, bags, shoes and school supplies; and paid for the voluntary contributions throughout the school year.

The scholars also received additional materials for their basic personal hygiene. PMC also provided assistance to other educational programs such as the annual science fair events, computer literacy training and volunteer teacher sponsorship for the schools in the community.

In 2008, PMC supported various infrastructure projects through a counterparting scheme wherein the company and the community had shared responsibility and ownership of the projects. Some of these were: 1) the water system improvement in Sitio Mahucdam; 2) school fencing and street lighting in Brgy. San Isidro; 3) repair of irrigation dam in Brgy. Motorpool; 4) renovation of the health center in Brgy. Capayahan; 5) improvement of the Roman Catholic chapel in Brgy. Capayahan and the Iglesia Filipina Independiente chapel in Brgy. San Isidro.

PMC also conducted several capability building and leadership training seminars for various people's organizations, farmer groups, the San Isidro Capayahan Timamana Livelihood Association, a rice retailing group and the Mamanwa Tribal Council, to strengthen the organizational management of local partner groups.

The Vocational Course Scholarship Program was the latest addition to SMMCI's community development initiative. The company sponsored 22 scholars in auto servicing and welding at a TESDA -accredited school. All the scholars completed their training and passed the national certification exam from TESDA, equivalent to finishing a professional course. Thus, the scholars became legitimate professionals qualified to apply for jobs locally and overseas. The CommDev Program for the the Mamanwa tribe was launched in 2008. In line with this program, PMC sponsored an indigenous peoples volunteer teacher-organizer whose primary tasks were to educate, organize, and motivate the Tribal Council. The teacher-organizer regularly immersed and integrated himself or herself with the community in Barangay Motorpool.

Other forms of assistance extended to the tribe were: an educational scholarship program, the purchase of a one-hectare resettlement site in Barangay Timamana, the provision of vegetable seeds for backyard gardening, a Leadership Skills and Capability Building Training for tribal council members and family heads, and the provision of sports facilities to the community.

**Disclaimer:**

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