Early Warning System

IFC-29007

Oyu Tolgoi LLC

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Quick Facts

Countries	Mongolia
Financial Institutions	International Finance Corporation (IFC)
Status	Active
Bank Risk Rating	A
Voting Date	2015-12-15
Borrower	OYU TOLGOI LLC
Sectors	Mining
Potential Rights Impacts	Cultural Rights, Housing & Property, Labor & Livelihood, Right to Food, Right to Health, Right to Water
Investment Type(s)	Loan
Investment Amount (USD)	$ 400.00 million

Project Description

The mine at Oyu Tolgoi ("the Project" or "OT") is a copper and gold mine in the South Gobi region of Mongolia. The Project's developer is Oyu Tolgoi LLC ("the Company"), a Mongolian corporation that is jointly owned by the Mongolian government and Turquoise Hill Resources Ltd. (a subsidiary of Rio Tinto PLC, which acquired former Project partner Ivanhoe Mines in 2012). One of the world's largest known copper and gold deposits, the OT deposit contains an estimated 80 billion pounds of copper and 45 million ounces of gold. Mining operations will be divided between open pit mining of a near-surface deposit at Southern Oyu)where the Company has constructed an ore concentrator capable of producing 100,000 tons of ore per day (tpd)+) and underground block-cave mining of the high-grade deposit at Hugo North. The Company, which announced in August 2012 that the mine's infrastructure was 94% complete, projects that the first ore from Southern Oyu will enter the concentrator in September 2012. (Production at Hugo North is expected to begin in 2016 or 2017, bringing OT's production to full capacity by 2018.) The projected mine life is 27 years, and the Project's operational workforce will number approximately 3,500. The construction workforce, estimated by IFC to have peaked near 14,800 in late 2011, includes over 9,000 Mongolian workers.

In addition to the ore concentrator and other infrastructure required to support open pit and underground mining operations, the Project will require construction of:

- Sites for disposal of tailings, waste rock, and other waste;
- Transportation infrastructure, including access roads and an airport;
- Mine equipment maintenance facilities, a heating plant, and fuel storage and warehouse facilities;
- Water borefield and pipeline from the Gunii Hooloi basin to OT mine site;
- Water treatment facility and potable water bottling plant;
- Administration and training buildings, housing (temporary and permanent), a fire station, and a medical center;
- A 750 MW on-site coal-fired power plant;
- Transmission towers and lines (to import power from China before the on-site power plant is complete).

The Project is located approximately 550 km south of Ulaanbaatar in the mngovi province (aimag). Of the relatively nearby South Gobi communities, the nearest is Khanbogd, a town with a population of around 2,500 located 35 km east within the district (soum) of the same name. The Bayan Ovoo community, with a population of 1,600, is 55 km west. The most prominent nearby community is the small city of Dalanzadgad, which is located 220 km northwest; with a population of 15,000 and facilities including a regional hospital, technical colleges, and a domestic airport, it is expected to serve as OT's regional recruitment and training center. Approximately 310 km north, on the road between OT and Ulaanbaatar in the Dundgovi province, is the town Mandalgovi (population 13,500). An 80-km gravel road leading to the Mongolia-China border crossing at Gashuun Sukhait is being upgraded to a tarred highway in order to facilitate the trucking of mine output to China, the Project's primary target market.

+An expansion of capacity to 150,000-160,000 tpd is under consideration. A Project expansion will require regulatory approval by the Mongolian authorities, including additional environmental approvals, and will necessitate the identification and permitting of appropriate water resources. The IFC will require updated project documentation, and an expansion proposal will be subject to full consultation and disclosure per IFC policies. Similar updated documentation and further consultation and disclosure procedures will be required for construction of the power plant.

Early Warning System Project Analysis

RISK CATEGORIZATION

The IFC classifies Oyu Tolgoi as a Category A project according to its Environmental and Social Review Procedure *because it is a very large, complex project with correspondingly significant risks and impacts on the environment and way of life in the Southern Gobi.* Potential adverse impacts identified by IFC include a burden on freshwater resources, dust and noise nuisance to herders and vegetation, biodiversity and habitat concerns, potential contamination resulting from use of chemicals (e.g., frothers and settling agents) used for ore processing and other hazardous materials like fuels and lubricants, emissions from mobile mining equipment, process heaters, the ore concentrator, and power generation, impacts on tangible and intangible cultural heritage, and social impacts resulting from a sudden influx of workers to Khanbogd (including overburdening of existing municipal infrastructure, services, and facilities as well as risk of conflict between native and settler populations). The Company's ESIA also noted the risk of recurrence of unregulated artisanal mining activities as a result of the population influx.

APPLICABLE IFC PERFORMANCE STANDARDS

According to the IFC, the Project will have impacts that must be managed in a manner consistent with the following Performance Standards:

* PS1: Social and Environmental Assessment and Management Systems
* PS2: Labor and Working Conditions
* PS3: Pollution Prevention and Abatement
* PS4: Community Health, Safety, and Security
* PS5: Land Acquisition and Involuntary Resettlement
* PS6: Biodiversity Conservation and Sustainable Natural Resource Management
* PS8: Cultural Heritage

There is no evidence that the Company undertook a separate Human Rights Impact Assessment pursuant to the IFC's Guide to Human Rights Impact Assessment and Management. According to the IFC Sustainability Framework Performance Standards, "In limited high risk circumstances, it may be appropriate for the client to complement its environmental and social risks and impacts identification process with specific human rights due diligence as relevant to the particular business," but HRIA is not required of all projects (see footnote 12). However, Rio Tinto has developed a Human Rights Guidance document for use by its managers, which includes a checklist of human rights indicators.

Project appraisal by the IFC, which commenced in 2010 and continues through 2012, has included:

- Site visits (6), including visits to important infrastructure, the town of Khanbogd, the new homes of relocated herders, and cultural heritage sites.
- Meetings with the Company in London (4) and Seoul (1).
- Meetings with a wide range of stakeholders including community members, relocated and other herders, government representatives, and NGOs.
- Weekly teleconferences with key parties.

According to the ESIA, consultations have indicated that Mongolian stakeholders (including local populations, government and administrators, civil society groups and NGOs) support the project overall, so long as adverse impacts are minimized and adequately managed and the benefits to the public actually materialize at the district level. Of the community's various expectations, the provision of direct employment opportunities is the highest priority. The ESIA notes that the general approval was coupled with stakeholders* will to be consulted moving forward with design and implementation of the Project.

People Affected By This Project

ENVIRONMENTAL AND HUMAN RIGHTS RISK ASSESSMENT

Labor Rights

Although the construction workforce peaked around 15,000, the permanent operational workforce will be 3,500. As part of the Investment Agreement, the Company has committed to making best efforts to ensure that at least 60% of the permanent labor force is made up of Mongolian nationals. However, according to a January 2012 report (see link to Spirited Away report), employment opportunities *remain limited* in Khanbogd and some 3,000 of the Mongolian employees counted to achieves the 60% were students on vocational training. While the workforce has been sourced primarily from within Mongolia, there are three major Chinese sub-contractors whose workers are recruited, mobilized, and demobilized in China. According to IFC, during working rotational periods, all contractor workers remain on-site in a separate camp and are not permitted off-site for recreational purposes during working periods, which may raise concerns related to the right of employees to leave the premises at the end of their shifts. In April 2011, OT Watch reported complaints from workers at Oyu Tolgoi about long, 12-14 hour days, a lack of sufficient lunch break time, and a lack of hot meals for workers at the mine construction site and those working underground. (However, it appears that IFC due diligence has not revealed these types of concerns.) During ESIA, stakeholders expressed additional concerns about impacts associated with loss of employment after conclusion of the construction phase and eventual mine closure.

Working hours and pay are set in compliance with the Mongolian Labor Law, which also prohibits workplace discrimination, and the Company *endeavors to work in good faith with trade unions and any other bodies that employees collectively choose for their formal representation.* The Company has developed a Labor Management Plan aimed at achieving compliance with Mongolian labor laws and regulations, international standards, local and national employment targets, and fair and transparent recruitment and training procedures. (A copy of the plan is available here.) The integrated Rio Tinto HSEQ health and safety management standard, which IFC found to conform with good international industry practice and IFC guidelines, sets out minimum requirements to be verified during performance audits. (The Rio Tinto standard is available here.) The Company has established an employee grievance mechanism called the Speak OUT Program, as well as a fair treatment policy intended to provide a formal process for employees to raise concerns with Project managers. According to IFC, the Company *endeavors to work in good faith with trade unions and any other bodies that employees collectively choose for their formal representation.* The Company must ensure that contractors and subcontractors comply with all of the Company's requirements, and that the requirements are reflected in contractual provisions; all suppliers are also expected to comply with Mongolian labor standards, relevant ILO standards, and applicable human rights standards.

Given the information above, the following survey questions related to labor rights should be raised among communities and individuals affected by Oyu Tolgoi:

- Are working conditions in your community and/or in this industry safe and healthy?
- Do company policy and procedure dictate that all employees are provided with the protective equipment and training (in a language workers understand) necessary to safely perform the functions of their position, and are workers and managers trained to respond to workplace emergencies?
- Is overtime voluntary, and are workers allowed to leave the premises at the end of a shift?
- If a worker gets injured on the job, what sort of relief can he or she expect from the company?
- Does the company provide reasonable notice of impending changes in operations that will affect employment at the company?

Right to Health

Hazardous Chemicals and Mine Tailings:

Investment Description

- International Finance Corporation (IFC)

Estimated projections for total cost of the Project range from $12 to $13 billion. The IFC's proposed investment is a $300 million senior A loan as well as a B loan, the full amount of which could reach $600 million, to be syndicated to international commercial banks. According to IFC, other lenders include EDC, EBRD, Standard Chartered, BNP Paribas, US EXIM, Australian EFIC, and MIGA.

Private Actors Description

Ivanhoe Mines is an international mining company focused on mineral exploration and development primarily in the Asia Pacific region. In addition to its ownership in OT which is its primary asset, Ivanhoe owns 58% of Mongolian coal producer SouthGobi Resources; 59% of Ivanhoe Australia and 50% of Altynalmas Gold, a private company developing the Kyzyl Gold Project in Kazakhstan. Ivanhoe's majority shareholder is international mining major Rio Tinto Group ("Rio Tinto"). In 2006 Rio Tinto entered into a strategic partnership with Ivanhoe to develop and fund the Project and, since December 2010, to manage OT LLC. In January 2012 following a series of equity injections used primarily to fund the development of the Project, Rio Tinto became 51% owner of Ivanhoe. Rio Tinto is a diversified multinational mining and resources group with headquarters in London and Melbourne. Rio Tinto is the world's fifth largest copper supplier and is an industry leader in sustainable mining practice, conservation, land rehabilitation, biodiversity, climate change and water and energy use. Erdenes Oyu Tolgoi LLC is a state-owned holding company established for purpose of representing the Government of Mongolia with regard to its ownership into OT LLC as provided for under an Investment Agreement between the Government, OT LLC, Ivanhoe Mines and Rio Tinto signed in October 2009.

As noted, Oyu Tolgoi LLC is owned jointly by the Mongolian government (34%) and Turquoise Hill Resources (66%).
The Project is managed on behalf of Oyu Tolgoi LLC by Turquoise Hill's parent company, British-Australian mining giant Rio Tinto, which signed a 30-year comprehensive Investment Agreement with the government of Mongolia in 2009. (Rio Tinto assumed full control in 2012 upon its acquisition of a majority stake in Ivanhoe Mines, which was later renamed Turquoise Hill). The Investment Agreement also established the Southern Gobi Regional Development Council (SGRDC), a broad stakeholder group charged with the coordination and management of regional and community development issues and impacts associated with the Project, and members of which include representatives from the national government, local governance organizations, private entities, civil society, potential aid donors, and international financial institutions. The Company serves as a member of the SGRDC governing board.

According to the Company's integrated development plan, procurement and construction will also involve the participation of Western engineering contractors, heavy industrial work by Chinese contractors, and components of the infrastructure by Mongolian and Chinese contractors. As of 2012, reported contractors include Fluor (program and construction management), Redpath (primary mine development), AMEC (feasibility studies), SGS (on-site laboratory work), GRD Minproc Limited (open pit mine design), SRK Consulting (geotechnical engineering), McIntosh Engineering (block cave design), MinnovEX Technologies (testwork and modeling), AMMTEC (testwork), Knight Piesold (design and road-building), Aquaterra Consulting (hydrogeology work and borefield design), Eco-Trade Co. Ltd. (baseline environmental study; EIA), Sustainability Pty. Ltd. (coordination of environmental, archaeological, and socioeconomic assessments), and Teshmont LP Consultants (power supply study).

PAST IFC FUNDING:

Oyu Tolgoi LLC was created in 2011 specifically to carry out this Project; as such, the joint venture has not received any IFC investments before this instance. However, Rio Tinto has sponsored projects that received IFC investment in the past:

"In 2006, IFC approved an equity investment (5%) of $5 million for the Simandou Iron Ore ('Simandou I') project in Guinea. The project involves exploration of high-grade iron ore resource targets in the Simandou Mountain Range in eastern Guinea. The Mining Convention covering the concession area is held by a locally incorporated Rio Tinto subsidiary, SIMFER S.A. Simandou I was classified as a Category B project.

- In 2007, the board approved a further investment of $30 million by IFC ("Simandou II,).
- In 2012, the IFC obtained board approval to invest an additional $150 million; in its current phase, the project is classified by the IFC as Category A.

ALLEGATIONS OF PAST ENVIRONMENTAL & HUMAN RIGHTS ABUSE:

Private Actor 1	Private Actor 1 Role	Private Actor 1 Sector	Relation	Private Actor 2	Private Actor 2 Role	Private Actor 2 Sector
-	-	-	-	Ivanhoe Coal Pty Limited	Undisclosed	-
-	-	-	-	Ivanhoe Mines Ltd.	Undisclosed	-
-	-	-	-	Oyu Tolgoi LLC	Client	-
-	-	-	-	SouthGobi Resources Ltd.	Undisclosed	-
-	-	-	-	Turquoise Hill Resources Ltd.	Parent Company	-

Contact Information

Oyu Tolgoi LLC
Monnis Tower, Chinggis Avenue 15 Sukhbaatar District, 14240 Ulaanbaatar, Mongolia
Tel: +976-11-331880 (ext. 3374)
Email: GanzorigT@ot.mn

CONSULTATION PROCESS

All of the Project's components, including the transportation and infrastructure corridor between the Project and the border, are located within the administrative district of Khanbogd in the mngovi province. However, because the Project will undoubtedly have indirect effects on other areas, stakeholders from additional districts were included in some rounds of community consultation. For consultation purposes, "affected parties" include herders who have been physically or economically displaced, local residents and businesses, and Company employees. "Other interested parties" include residents from adjacent districts (Manlai, Bayan-Ovoo, and Dalanzadgad), NGOs/civil society, business owners throughout Mongolia, and the Government of Mongolia.

The Company reports it conducted several rounds of consultation with herders and other stakeholders during ESIA:

- 2003: In-depth interviews with members of the herder community and government officials; identification of Exclusion Zone and herder households residing within it.
- 2003: Company launched Herder Relocation Programme, with formal and informal consultation during resettlement process (no records of the consultations were retained).
- 2004: Agreements, negotiated in consultation with herders, signed between herders, Company, and district government. (The agreements provided a year to complete physical resettlement and provide livelihood restoration and other support to resettled households.)
- 2007: Follow-up meetings with resettled households; negotiations initiated with herders that would be economically displaced in order to develop mitigation strategies and compensation measures; 55 'vulnerable' households identified for special assistance.
- 2007-2010: A series of communities held with directly affected parties and national and regional interest groups, involving open question-and-answer periods and a survey regarding attitudes, experiences, and concerns (transcripts and minutes available in ESIA documents); focus group discussions involving 200 participants were held (included group and individual interviews, workshops, and engagement with women).
- 2007-2008: Water perception survey (290 households) and water use study (21 families) were conducted.
- 2010-2011: Frequency of consultation increased during construction, in the form of quarterly community meetings and implementation of community programs related to economic development, participatory environmental monitoring, cultural heritage, community safety, and other topics.

ACCOUNTABILITY MECHANISM OF IFC

The Compliance Advisor Ombudsman (CAO) is the independent complaint mechanism and fact-finding body for people who believe they are likely to be, or have been, adversely affected by an IFC or MIGA- financed project. If you submit a complaint to the CAO, they may assist you in resolving a dispute with the company and/or investigate to assess whether the IFC is following its own policies and procedures for preventing harm to people or the environment. If you want to submit a complaint electronically, you can email the CAO at CAO@worldbankgroup.org. You can learn more about the CAO and how to file a complaint at http://www.cao-ombudsman.org/

Bank Documents

- A1.pdf
- A2.pdf
- A3.pdf
- A4.pdf
- A5.pdf
- A6.pdf
- B1.pdf
- B10.pdf
- B11.pdf
- B12.pdf
- B13.pdf
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- C3.pdf
- C4.pdf
- C5.pdf
- C6.pdf
- C7.pdf
- C8.pdf
- C9.pdf
- D1.pdf
- D10.pdf
- D11.pdf
- D12.pdf
- D13.pdf
- D14 Brochure.pdf
- D14.pdf
- D15.pdf
- D16.pdf

Other Related Projects

- FMO-45022 OYU TOLGOI LLC