

German Money for Philippine Gold

How German banks co-finance large-scale-mining in the Philippines

Since the Philippine government has made the promotion of mining one of its priorities, hardly a year goes by without "Mining Roadshows" aiming to attract mining investors from countries like China, Great Britain, France or Australia. Until now promotion events of this kind have not taken place in Germany, but yet German banks are involved in mining projects in the Philippines as shareholders or finance providers.

Maike Grabowski

Maike Grabowski is Social Anthropologist and staff of philippinenbüro

The Philippine mining industry is mostly controlled by foreign companies.

Since mining in the Philippines stagnated for many years, the year 1995 saw the adoption of the Mining Act, that provides foreign companies with a total right of possession (before 1995 it was only possible for them to have a 40% share) as well as ample facilities.

Given that, foreign companies are now able to lease up to 81,000 ha of land for 25 years, while Philippine companies can only lease 8000 ha per province and only 16,000 ha in total (cf. mgb.gov.ph/asomm/policy.htm).

In the face of economic incentives, foreign mining transactions are virtually tax free during the first five years. Moreover these foreign companies have preferential access to water and wood, and the Philippine government committed itself to removing every obstacle which could hinder the mining process.

Furthermore foreign companies are allowed unchecked and unbounded return on their earnings and promised protection from dispossession. According to Mining Act restraints, the local population has to be consulted and asked for permission (Free and Prior Informed Consent – FPIC) and environmental standards have to be observed. But the government inadequately observes the implementation of these restraints and in most cases compa-

nies are not held accountable for their violations (Reese 2006). With license revenues of approximately six billion US-Dollar annually, the Philippine government expects a boost for the cash-strapped national budget.

According to mining critics, however, foreign mining companies contribute only six percent to the national income, while causing 57% of the total damage to the environment (cf. nordis.net).

Marketing for mining

The aim of the Philippine government in regard to the mining industry is highly ambitious: just recently it has raised the amount of projected foreign direct investments until 2011 from 6.5 billion to 11.4 billion US-Dollar.

2007 has been declared the "take-off" year for the mining industry and the list of national mining projects, which are to be separately sponsored, has been expanded from 24 to 30 projects (the list of projects can be found at: mgb.gov.ph/miningportal/home.htm).

Since 2004 foreign mining companies have been investing 879 million US-Dollar in order to explore new mining sites and to modernize old ones.

According to the government, the country has mineral resources worth one trillion (cf. Mining investments goal now \$ 10.4 billion, Business World, 17.10.2007).

The Department of Environment and Natural Resources has received more than 2000 applications for mining licences (Stankovitch et al. 2007).

Foreign exchange is the motto

Despite political risks, foreign companies have increasingly invested in the Philippine mining sector. The first half of 2007 alone saw a foreign direct investment flow of 103 billion US-Dollars (Business World, 17.10.07). In doing so, investors haven't been bothered by the massive protests from the local population.

The Philippines regularly endure so called mining-related environmental accidents, which have severe consequences for the ecological balance and the local population.

Recently large numbers of fish were mysteriously killed in a gold and copper mining area in Rapu-Rapu owned by the Australian company Lafayette Mining.

German banks in the Philippines

Since state-owned and private financial backers were increasingly criticised in the 1990s for not caring enough about the observance of ecological and social standards while granting credits, most German banks today bring attention to their sustainable strategies. The Deutsche Bank for example wrote: "Sustainability for us means future viability – with the aim of passing on a healthy environment and stable economic and social conditions to future generations. We consider social, ethical and ecological aspects over and above legal regulations in our daily business routine" (deutsche-bank.de/csr/nachhaltigkeit.html).

But with these words, which may sound like music to one's ears, one must add the fact that out of all the German banks, only the Dresdner Bank and the WestLB signed the voluntary agreement of the Equator Principles (see box). This speaks another language. Moreover it makes one wonder, that despite all of their sustainable strategies, the Deutsche Bank, the Dresdner Bank, as well as the Allianz AG, all invest in controversial mining projects. These projects trigger massive protests from the local population, because they often go hand in

hand with significant environmental damage and negative impacts on the local population.

The Allianz AG in Nueva Vizcaya

Holding 10.2 percent of the shares of the British company Metals Exploration, the Allianz AG is its biggest shareholder. Metals Exploration, which also appears in the Philippines under the names FCF Mining Company or MTL Exploration Company, collaborates with the Philippine mining company Philsaga Mining Corp.

Their mining and exploration sites are located mainly in Nueva Viscaya (in Puray, Runruno, Dupax, Sulong, Capaz).

Due to recurring protests from indigenous people, putting up a fight against the mining companies' presence on their ancestral grounds, Langley Segundo, the commissioner of the National Commission for Indigenous Peoples (NCIP) for Cagayan Valley, now finally advocates a revision and reevaluation of mining licenses in the region (cf. gascon.wordpress.com/2008/01/11/second-look). There are protests in Runro, one of Metal Exploration's exploration sites, by the local Kalanguya, Ibaloi and Ifugao. Various attempts by governor Luisa Cuaresma and the Sangguniang Panlalawigan (provincial council) to stop the renewal of expired exploration permissions and to renaturate the area have not been successful.

Instead the exploration permission was extended by former Environment Secretary Angelo Reyes (cf. Move to oust mining firms gains ground in Vizcaya, PDI, 25.10.07).

Protests in the affected areas keep on taking their toll: the executive director of the Runruno Landowner Association (RULANAS), Josie Guillao, who questioned the legitimacy of the exploration permission because of a surreptitious agreement by the local population, was arrested on October 17 2007. Activists now have to contest an action for slander sued by Metals Exploration. The anti-mining-activist and coordinator of the national environment network KALIKASAN, Clemente Bautista,

The Equator Principles

Elaborated in 2003, following the so called safeguard policies of the World Bank, the Equator Principles are supposed to apply to bank investments of more than 50 million Euro in the project financing business. They are composed of 15 criteria and basically comply with the World Banks' ecological and social standards. These include sensitive issues like the translocation of people when „for instance, dams are built and the usage of dangerous substances like potassium cyanide in order to extract gold. Moreover these criteria include "the protection of health, the cultural property and endangered species" as well as the "effects on the local people". At the end of 2005, 41 banks signed the Equator Principles on the basis of voluntary self-commitment. Among them were the WestLB as well as the Dresdner Bank. NGOs interpreted the Equator Principles with reservations as a step in the right direction, but they emphasised the problem of accountability and implementation, i.e. the problem of reliability. NGO- investigations found out, that not all Equator-banks observed their own principles. The Baku-Tbilisi-Ceyhan-Pipeline, which transports oil from the Caspian Sea to the Mediterranean Sea, serves as an example. In 2004 this pipeline was financed by several Equator-banks and the International Finance Cooperation, although there has been an independent survey assessing 30 breaches of contract with regard to the Equator Principles.

Source: Bergwerk Peru – Reichtum geht, Armut bleibt, 2007, p. 4.

called the arrest of Guillao a classic example of the SLAPP- (Strategic Legal Action Against Public Participation) process (cf. kalikasan.org). This means that there are civil disputes, which are mostly filed by powerful juristic people against financially disadvantaged critics, in order to intimidate them through long and expensive legal fights and to silence them. The Allianz AG, which has its own environment foundation warning of the risk of carelessness in regards to natural resources its website, has not yet made a public statement about this situation (allianz-umweltstiftung.de/stiftung/allgemein/index.html).

Ecological and social consequences of large-scale mining

Since it is cheaper, mining in the Philippines increasingly means open pit mining, even though it consumes 50 times more land and is more damaging to the environment than underground mining. Whole mountains are blown up and levelled to the ground – with disastrous ecological and social consequences: deforestation causes erosion, land slides and desertification. Rivers silt up and the silt makes fields and land infertile. Rivers and the groundwater are poisoned by cyanide and quicksilver (which is needed to extract the gold from the rocks). The waste water ditches, which are actually supposed to detain the toxic water, are leaky at times (or they even crack and consequently poison whole rivers and the abutting land, like what happened on Marinduque Island in 1996 and in Sipalay, Negros in 1997). The ground water level sinks, meaning springs and wells dry up and the water supply for the house and field becomes imperilled. The ground plummets and houses are destroyed.

Quake-like concussions caused by dynamite explosions disturb inhabitants and cracks form in their houses. Village communities are expelled from their land. This occurs either immediately because the land will then be used for the exploitation of minerals and the construction of necessary production buildings, or step by step, because the surrounding land can't feed them anymore, their water supply is destroyed or because their homes collapse.

Village communities disintegrate; because they either argue about the projects, or because they break apart due to emigration. This poses a problem especially for indigenous people, who are directly linked to their land and their traditional communities. Countless people, who are exposed to metallic toxins released due to mining activities, get sick. Nonetheless there are Environmental Compliance Certificates (EEC). Because the vague promise exists (and the legal regulation), that mining companies renaturate everything when they are done with their operations.

Source: Niklas Reese & Rainer Werning (ed.): Handbuch Philippinen. Horlemann Verlag.

Credits of German banks recapitalize mining companies

The Deutsche Bank is also involved in the Philippine mining sector.

In January 2008, the Deutsche Bank granted a 40 billion US-Dollar credit to Platinum Group Metals to help support the acquisition, rehabilitation and development works at the company's two ferro-nickel smelter plants (cf. Deutsche signs trade deal with Philippine mining company, Finance Asia, 22.1.08).

In May 2007 a credit of 100 million US-Dollars was granted to the mining company Carmen Copper Corporation, an affiliated firm of the Philippine Atlas Consolidated Mining & Development Corp., in order to reopen the mining site of the Toledo Copper Project in Cebu (cf. Manila Standard, 29.5.07). According to unconfirmed information, the Deutsche Bank also functions as a broker for the international Swiss raw material company Xstrata. Xstrata conducts – despite the expiration of its exploration license on August 17 2007- test drillings in a gold-, silver-, and copper-mine in Tampakan/Mindanao (cf. Xstrata/Indophil – >Expose SMI-Xstrata's lies of responsible mining, Davao Today, 6.10.07). Almost the whole water supply of Central and Southern Mindanao is dependent on five rivers located in this region, which face the imminent danger of becoming polluted by mining activities. Mountains would be ablated by open-pit mining. Here too, protests mount.

Dresdner Bank – "Not like any other bank"

So the slogan at the end of each TV-commercial from the Allianz-offshoot Dresdner Bank. And yes, it is not like any other bank indeed, that the Dresdner Bank signed the Equators Principles. Yet they still appear as financier of Lepanto Consolidated Mining Company. The company is infamous in the Cordilleras for its neglect of indigenous rights, as well as environmental and health related problems. Moreover, Lepanto is well known for its massive labor legislation violations. Activists of the Save the Abra River Movement (abrenian.com/starm)

consider Lepanto to be the main suspect in an incident that killed large numbers of fish in the municipalities association Luba in the Abra province in the year 2006.

The Teresa Gold Project of Lepanto is located in Benguet, but the Abra River passes through three provinces as far as Abra. Inhabitants along the river report a strong smell and a dark tinge to the water. Water tests, conducted on a regular basis, point to conspicuously high amounts of cyanide, plumb, quicksilver and chrome. The waste water substances, a further study found, give rise to slugging

river beds and the salination of neighboring rice fields (cf. abrenian.com/starm/resources). Besides water pollution, one can also observe geological and sanitary effects. Furthermore the mining process causes ground subsidence and land slides. Moreover a medical examination, conducted in 2003, of the inhabitants of Paalaban and Batbato in Makayan, a mining site of Lepanto, shows that they are exposed regularly to mining waste waters. Coughing (48.5 percent), irritation of the nasal membrane (31.6 percent), skin irritations like rashes, itchinness or cauterization (31.6 percent), irritation of the eyes (16.5 percent) and vomiting (10.5 percent) are the symptoms most often diagnosed resulting from contact with the waste waters. Randomly obtained blood samples have shown that these people have higher concentrations of cyanide, plumb, and copper in comparison to people without contact to mining waste waters.

State project- and export funding

On June 28 2007, a memorable meeting took place in the bank building of the KfW IPEX-Bank in Frankfurt: together with the Philippine Ambassdor Delia Domingo Albert – who at the same time is the Philippine special envoy for mining – the KfW IPEX-Bank invited more than 30 representatives from the finance, economy and science sector to promote credit grants and investments for the Philippine mining industry. Heinrich Heims, executive director of the KfW IPEX-Bank, optimistically expressed in his opening speech that the KfW IPEX-Bank, which today is already one of the biggest mining project financiers in Latin America, will also expand its activities to the Philippines (cf. philippineembassy.de). Should this be the case, the danger is looming that the investments and credit grants from Germany, which will after all be co-financed by a state-owned development bank, will not contribute to the benefit of the environment and the people.

Capital needs control

The international finance market is non-transparent and it is hard to backtrack global financial streams. Project financiers are often consortiums minimizing political risks or the risk of prize losses. They found affiliated companies with new names and shuffle enormous amounts of money from one place to another. In this way it is often difficult for German investors to reconstruct what is happening with their money. Organisations like the

The KfW-Bank's two faces

“Many people don't even know it – the *Kreditanstalt für Wiederaufbau*, in short: KfW.

It is common knowledge to people interested in development policy, since it processes on behalf of the German state part of Germany's development assistance and supports the social and economic infrastructure build-up in developing and transition countries. In many cases the KfW is seen as a patron for sustainable economic management in public life. However, that's just the sunny side of KfW – in their daily routine, they also provide the German industry with commercial financing for their foreign business transactions.

Largely unobserved by the public, the KfW has consequently built up and expanded its business branch during the last five decades. In doing so, it didn't shy away from financing projects in developing and transition countries with disastrous ecological and social consequences. There is a wide range of activities ranging from large-scale projects in China like the Three Gorges Dam, to gold- and copper mines in Indonesia to atomic power plants in East Europe or South America.”

Quoted from the study “Kein gutes Geschäft – Die Schattenseiten der KfW-Export- und Projektfinanzierungen” published by urgwald. Available for download: urgwald.de/_media/_docs/kfw_kein-gutes-geschaefft.pdf

Dachverband der kritischen Aktionärinnen und Aktionäre (umbrella organisation of critical investors) demand a general mandatory disclosure of all relevant ecological and social data regarding each financed business project. “The banks”, they state, “must reveal each credit deal, how they examined the projects' effects on people and the environment and on the basis of which facts they consider the credit grant responsible!” Considering the involvement of German banks in the Philippine mining sector, this requirement can only be emphasized. To put it in the words of *attac*, an organisation critical of globalisation: Capital must be controlled! Cases like that of the WestLB, which withdrew from a controversial mining project in Indonesia, raise hopes. It seems that the banks' withdrawal can be ascribed to massive pressure from civil society in Germany and to the resistance by local groups in North Sulawesi (cf. <http://home.snafu.de/watchin/>). This pressure on the banks mentioned above, that are active in the Philippines, needs also to be put on them here in Germany.

This Article appeared in the magazine südostasien Volume 24, Issue 1, March 2008. Translated by Anica Hackmann.