

United States Position

Mongolia – Oyu Tolgoi Mining Project

European Bank for Reconstruction and Development Proposed Investment– February 26, 2013
International Finance Corporation/Multilateral Investment Guarantee Agency Proposed
Investments– February 28, 2013

The United States requests to be recorded as **abstaining** on this project based on environmental policy concerns and legislative mandates.

Nevertheless, the United States wishes to make the following points and recommendations to support the successful implementation and goals of this project.

This project has the potential to transform Mongolia's economy and advance its economic transition. It is being closely watched as a barometer for the foreign investment climate in Mongolia, with strong potential to attract further investments in the country by high quality companies and to catalyze further private sector participation in the mining sector. It also has the potential to generate substantial government revenues that can be harnessed for poverty reduction country-wide, and to improve the lives of Mongolians by creating broad opportunities for skills transfer and linkages to local small- and medium-sized enterprises. In addition, with leadership from both IFC and EBRD, Oyu Tolgoi under its new ownership is expected to raise the bar substantially for environmental and social standards in Mongolia's mining sector.

The Government of Mongolia has made significant progress in many areas, including in revenue management and transparency, enabling Mongolia to gain full membership in the Extractive Industries Transparency Initiative in 2010. In addition, the MDBs and donors have helped Mongolia develop greater expertise in mining regulation and stronger standards for environmental and social impact assessment. It is important to note, however, that despite substantial progress Mongolia still lacks capacity in these areas.

The United States appreciates the value of IFC's and EBRD's participation in this project and their hard work to make a positive impact by mobilizing long-term finance and raising the bar for environmental and social risk management. The timeline and complexity of the project, and the relatively late entry of IFC/EBRD when construction was already well underway, have created challenges for IFC/ EBRD engagement, particularly on environmental and social issues.

For example, the United States' review of the Environmental and Social Impact Assessment (ESIA) for the project has raised concerns in a number of areas. First, the United States believes the ESIA has gaps in critically important information, particularly related to the operations phase of the project and mine closure. Specifically, the Boards of the IFC and EBRD are being asked to make a decision on this project without seeing the agreed commitments contained in the forthcoming Operations Phase Environmental Management Plans.

Second, the ESIA does not provide a sufficiently detailed analysis of associated facilities and cumulative impacts, notably concerning a coal-fired power plant that will likely be needed to

provide reliable power for the project. Also, the planned expansion in the project's mining capacity is covered only lightly in the cumulative impact assessment.

Third, the United States believes achieving the positive development impact potential of this project will require a coordinated effort of the entire World Bank Group and the EBRD to ensure that there are:

- Strong and clear commitments in the Operational Phase Environmental Management Plans on timely mitigation measures for meeting IFC/EBRD standards for air quality, water adequacy and safety, waste management, biodiversity management and mine reclamation/finance, including remedial actions should the standards not be met.
- Timely implementation of the Biodiversity Action Plan.
- Implementation of a strategy for developing further Mongolian government capacity in mining regulation and oversight, environmental protection and revenue management, building on the current efforts underway.
- Strong MDB leadership in assisting the government in developing and implementing a sustainable regional development strategy that is linked to Mongolia's green development policies, a regional biodiversity strategy and a regional water strategy, drawing on work undertaken to date;
- With respect to the domestic power plant, follow through on the commitment for an expanded alternatives analysis of power supply options and consideration of renewable energy in the energy supply mix, and an additional commitment to consider broader measures to reduce emissions, either globally by the company, or by Mongolia through energy reforms.
- A robust and well-funded supervision and monitoring program. The United States urges circulation to both IFC's and EBRD's Boards of monitoring/audit reports conducted by the independent environmental consultant.

The United States is keenly interested in the outcome of the IFC's Compliance Advisor Ombudsman (CAO) review of herder complaints. The United States is pleased that the parties have agreed to dispute resolution and urges the IFC and the project sponsor to cooperate fully with the CAO-led process.

Finally, the United States urges the IFC to clearly highlight in Board documents gaps with respect to the IFC performance standards and the timeline for addressing them.