

Rio Tinto-QMM
Report of the Independent International Advisory Panel
(Visit of June 12-16, 2017)

Introduction

1. The Independent International Advisory Panel, consisting of Claude Andreas, former Minister of Agriculture and now Director General of the Société Soavoanio (the largest coconut producer in the country), and Robert Calderisi, former World Bank director, spent three and half days in Fort Dauphin (June 12-15) and a day and a half in Antananarivo (June 15-16) discussing developments at the RTQMM site with national, regional, and local government representatives, with the local and national private sector, with civil society actors, with financial partners, and with RTQMM personnel. The third member of the panel (Daniela Raik, Senior Vice President of Conservation International) was unable to join the team as planned. We are most grateful to Lisa Gaylord, QMM's Manager for Corporate Relations, Communities, and Sustainable Development, and her entire team for organizing a rich and efficient program.

2. The report that follows is generally positive – some may find it excessively so – reflecting our genuine appreciation of QMM's overall achievements and of the progress that has been made since the last Panel visit. A substantial portion of this report is devoted to public messages that, to fresh eyes like ours, seem worth re-emphasizing. But we would caution readers that, on two aspects of the project that are highly sensitive and are central to our terms of reference (the project's impact on the environment and QMM's relations with local communities), for reasons of staffing and timing, we were able to come to only preliminary conclusions. We will consider those matters more deeply during our next visit.

3. At the risk of appearing both obsequious and self-serving at the start of our very first report, we would like to commend Rio Tinto for resuscitating the Panel, which last met in September 2012. Political disruption in 2009-2014 (now referred to politely as "The Transition")

and the freezing of aid by the international community compromised the Panel's activities and looked briefly like affecting the RTQMM operation itself. The Malagasy member was appointed to a senior government position and personal considerations led to the resignation of the last two international members of the Panel in 2016.

4. Other companies might have welcomed a four-and-a-half year respite from independent observers looking into their internal affairs, but it is to Rio Tinto's credit that QMM has chosen to appoint a new panel so as to maintain its openness to outside views, apply the lessons of international experience to its own situation, and provide to all concerned within Madagascar a unique opportunity to convey their opinions to QMM in a confidential manner.

5. We wish to salute the service of our predecessors, Keith Bezanson, Jacques Gérin, Allison Jolly, and Léon Rajaobelina, in responding to Rio Tinto's 1999 decision to establish the Panel and in demonstrating that a mechanism of this kind could function fruitfully for the company and its partners. To our knowledge, no other project in the country benefits from such an arm's-length evaluation and communications channel and we hope that our predecessors' example will inspire the establishment of other such bodies. Our aim will be to conduct ourselves with the same clarity, common sense, and independence that they modelled. (Please see paragraph 25 for details of the Panel's future operations.)

6. As this was our first visit and it was relatively brief, our main objective was to become familiar with the objectives and history of the project: its special features, its achievements, and the inevitable hurdles it had to overcome. In addition to fact-finding, we focussed on two issues, the first of which (stakeholder engagement and public communications) suggested itself to us almost immediately. The second (QMM's role in promoting higher traffic for the port) was commended to our attention by QMM itself.

Findings and Recommendations

7. Our most important finding is that QMM is perceived by all whom we consulted to have managed the key issues of biodiversity protection,

land compensation, and reductions in the labour force (following the drop in international commodity prices) with skill and discretion. The only major criticism is that it has failed to deliver on its commitment to promote other local industries and hence add significantly to the traffic at Ehoala Port. This is a responsibility that QMM assumed at its own suggestion at the start of the project and that most international observers would now regard as well beyond the normal mandate of a mining company (please see paragraphs 14-22 below).

8. The political calm that has descended on the project and the country more generally is all the more welcome as the company faced local opposition in the form of roadblocks as recently as January 2013. Community complaints, mainly about land compensation, are down from 113 in 2012 to 7 in 2017, and processing time has been reduced from two years to two months (if arbitration is not required). QMM has concluded 18 participatory community agreements, including a fund to help local fishermen who were affected by the construction of the port. Technical training on sustainable fishing practices and motor use and maintenance have reportedly resulted in higher fishing yields. Fort Dauphin itself continues to benefit significantly from the mine's activities. For example, thanks to QMM support for the local energy facility, it is one of the few towns in the country not to experience regular power cuts.

9. Although the mine is producing at less than full capacity, it has managed to reduce its operating costs to a remarkable degree and, compared with its competitors, appears well-positioned to increase its output from this year forward. Internally, worker morale appears to be good, despite reductions in numbers, no doubt in part because QMM subsequently outsourced non-core functions like transport and rehabilitation and restoration activities to local enterprises created by former employees. The company has also achieved an admirable safety record. Preferring "chronic unease" to simple prudence in that respect, it has reduced workplace accidents to a minimum. As of May 2017, QMM had not had an injury requiring medical attention in over 8 million person-hours.

10. Communications. Understandably, given their proximity to the mine, their access to QMM staff, and the company's approach to public

outreach, it is the local communities that are best informed about QMM's activities. But, at the national level, apparently heeding the Malagasy dictum not to be "the tallest tree in the forest", the company has been discreet to a fault. Some even regard it as still being on the defensive, despite having a good "story" to tell. For example, according to one official, the other large mine in the country (Ambatovy) was required under its concession agreement to establish a US\$25 million social investment fund (for local schools, clinics, and markets); QMM undertook such expenditures at its own initiative. As a result of patchy information, the Panel noted lingering misunderstandings about subjects like the mine's contribution to the national economy, the level of port charges, and the next steps in studying options for the management of the industrial estate. These could have been cleared up quite easily if QMM had been more proactive in sharing information.

11. The Panel welcomes the company's decision to fill the current External Affairs Principal Adviser position in July 2017 with someone who already has extensive first-hand knowledge of the mine and Fort Dauphin area. We recommend that he be charged with exploiting every opportunity, including trade exhibitions and tourist fairs, for informing as large a public as possible about QMM's activities, including the use of a maquette and films or videos (some of which already exist). QMM's president should also consider briefing officials in the capital every six months about the history and progress of the project, in response to the regular turnover in government personnel. (In the last three years, there have been four prime ministers and four Ministers of Industry and Mines.) The QMM president's personal involvement in such briefings would emphasize the importance that QMM attaches to such communications and would ensure reliable, up-to-date responses to questions and challenges.

12. QMM should also hold regular "town hall"-style meetings in and around Fort Dauphin so as not to take local commitment to the project for granted. Quite naturally, the size of the company's presence will inspire a mixture of pride and resentment. That, in turn, can lead to unnecessary suspicions and rumours about seemingly minor matters. For example, local people were puzzled by the purchase of new vehicles by the mine shortly after QMM reduced car-rental services as a cost-cutting measure, disappointing local providers. Questions were also

raised about QMM laying off staff, only to employ them again at a lower cost as outside service providers. Regular public briefings will prove useful both as a sounding board and to head off potential new grievances ahead of time. QMM should also consider opening the port to interested visitors by scheduling at least one “Portes Ouvertes” [Open Doors] event every year. These would encourage the local population to feel that the port belongs to them and to appreciate the care that QMM is taking to ensure its security and upkeep.

13. At the national level, QMM should stress the following messages:

- Environmental Impact. The mine is one of the cleanest in the world, using gravity and electromagnetism to extract the ilmenite ore from sand deposits.* As no chemical agents are used, there are no toxic effluents or fumes. The only significant residue is the sifted sand deposited over the previously mined area and planted with fast-growing trees like acacia and eucalyptus that local people will harvest once they are mature. A total of 2,100 hectares of protected areas are included in the project.
- A Pace-Setting Project. This was the first major mining investment in Madagascar’s history and was designed explicitly to reflect international experience with biodiversity protection and partnership with local populations. Rio Tinto and the Government of Madagascar set out to establish it as a model for future investments in the sector. Following Rio Tinto’s investment decision, the Government received requests for about 200 new exploration permits from internationally renowned companies. According to government officials, QMM was the first company to enter into an environmental impact agreement monitored by the National Office of the Environment (ONE); now, there are 48 companies doing so, thanks in part to QMM’s example.
- Employment Benefits. Rio Tinto invested US\$1 billion in the project, 90 percent of it in Madagascar. It employs 1,800 people (500 directly and 1,300 indirectly through contracts and

* Ilmenite is rich in titanium dioxide, used as a bleaching agent in paint, paper, and cloth.

services). Induced employment is estimated at 5,000, bringing total job creation to 6,800. More than 97 percent of QMM staff are Malagasy and 80 percent are recruited locally in Fort Dauphin. Almost 17,000 people were employed during construction (2005-2009).

- Royalties, Taxes and Dividends. The Government of Madagascar holds a 20 percent share in QMM's operations without having made any capital contribution to the mining project itself until now. (The Government made a US\$35 million contribution to the construction of the port.) In the period 2012-2016, QMM paid more than US\$30 million in taxes and, each year, spends more than US\$3.5 million on goods and services in Fort Dauphin. The Government of Madagascar has allocated 60 percent of the mineral royalties to the regional and local authorities, which have experimented successfully with "participatory budgets" involving bottom-up consultations with the community.
- Ehoala Port. To promote regional development, Rio Tinto invested in a port that cost three times more than it would have done (US\$256 million) if it had been designed for the company's exclusive use. Port charges are set in conjunction with the Agence Portuaire Maritime et Fluviale (APMF) and reflect the port's adherence to international technical, safety, and security standards. Charges have remained unchanged since 2010 but as they are expressed in euros (which have appreciated), they have increased in local currency terms.
- Commitment to Transparency. QMM is the only private sector operation in the country that engages not one, but two, independent outside panels to assess its activities. Like our generalist panel, the Biodiversity Committee is in the process of being re-launched. (Please see paragraph 23 below.)

14. Ehoala Industrial and Commercial Zone. As part of its Concession Agreement, Rio Tinto offered to build a much larger port than it needed and to manage it as a multi-usage facility, while promoting the development of local industries. Many of these were to be located on a

400-hectare industrial and commercial zone adjacent to the port, that QMM was to supervise. Progress in this respect has been disappointing.

15. This is hardly surprising. Even when delegated to a private-sector operator, industrial promotion has been one of the most challenging and least successful aspects of international development. Already, in highly sophisticated economies, it is difficult to know with confidence what levers a government can use to attract meaningful private-sector investments to a particular location. In an isolated region of a very poor country, the challenge is all the more daunting. Given, too, that Rio Tinto has no relevant experience in regional development and that it comes on top of an already-demanding agenda for a mining company, any serious progress to date would have been remarkable.

16. QMM points out that results so far are still roughly in line with the conservative assumptions made in the original feasibility study. However, other actors believe that the small degree of diversification of port traffic to date (mica, sisal, 4-5 cruise ships per year) does not inspire hope that there will be any kind of take-off in the foreseeable future. More seriously, while acknowledging that QMM has a direct financial stake in greater success, some doubt QMM's commitment and competence in achieving it. The picture has also been complicated by the signature of a memorandum of understanding between the Government and a group of foreign investors to use a portion of the industrial and commercial area as a Special Economic Zone.

17. Opinions vary on whether better results are possible. When the original agreements were signed, plans were well underway to construct a new road between Ihoxy and Fort Dauphin that would have opened up the region to the rest of the country. The political crisis of 2009-2014 disrupted those plans and there is now only enough new external funding to cover a small southern segment of that road and to upgrade a smaller artery along the eastern coast (which may facilitate the development of a bauxite mine). Until such infrastructure is in place, few people believe that a significant increase in local industries will be possible. Others suggest that there is already enough mineral and agricultural potential within reach of Fort Dauphin to benefit from the unique combination of a modern port and airport that are very close to

each other. Improvements in governance would also be welcome but that is true for the whole of the country rather than just Fort Dauphin.

18. The debate has also been clouded by disappointments and misunderstandings. Government officials complain that QMM has failed to install water and electricity services in the industrial zone, in line with its original commitment to do so. Some say that they are still awaiting a master plan for developing the estate. QMM asserts that such a plan was approved by the Government in June 2011, but that it has been overtaken by events and needs to be revised. In particular, it must reflect more up-to-date assumptions about the agro-business potential of the area, administrative delays affecting the licensing of some new activities (like graphite and granite production), new legislation on the tax treatment of the estate, and a broader range of possible external uses of the port (such as the repair of oil tankers and the servicing of changes of crew from passing traffic). Emotions and expectations are running high in some quarters, but the Panel sees little reason to doubt QMM's commitment to moving forward. The CEO in particular feels a deep sense of duty to develop the industrial estate properly, having been part of the regional development committee that persuaded the local population to allocate this zone to serve the national interest. QMM also points out that the management of the zone was always conceived of as a partnership with the State, with important elements (such as political stability and tax policy) lying outside its own control.

19. On the positive side, QMM has successfully secured the area against illegal settlement or land use and the zone is ready for development once the opportunities are ripe. The company is also funding training and feasibility studies for local entrepreneurs through the Anosy Region Business Centre (CARA). There is no evidence that the Government would have been more successful than QMM in promoting local industries. And the inherent advantages of geography remain the same. While Fort Dauphin is largely cut off from the rest of the country (except by air), the port lies within easy reach of one of the world's most heavily used sea traffic lanes. With appropriate publicity, it is possible that an increasing number of external clients will be drawn to using the port with that advantage in mind.

20. Both Rio Tinto and PIC (the World Bank-funded government “growth pole” project) are now conducting studies on what to do next. Without presupposing the results, the Panel believes that once those analyses are complete QMM should strongly consider ceding responsibility for managing the industrial estate back to the Government. Although it was admirable for the company to want to be involved directly in broadening the economic impact of the mine and port, it was highly ambitious to try to do so, even when major supporting infrastructure was planned. Indeed, we find it ironic that, having met the key challenges of its core mission to the apparent satisfaction of all concerned, the company is now being criticized for not performing well in an area beyond its appropriate terms of reference.

21. Such a transfer of responsibility would serve two ends. Any friction that has developed on the issue would presumably be dispelled very quickly and the division of labour at Ehoala Port would be more sensible and clear: Government, not QMM, would be in charge of promoting regional development. Even if that responsibility were delegated to a new private-sector operator, that actor would presumably have solid credentials for the task. The second advantage would be to remove a factor tarnishing QMM’s image unnecessarily. While the company’s reputation, on its own, would be narrow grounds for making such a decision if the prospects of success were good, in our view, the challenge of agricultural and industrial development in the area is likely to remain a demanding one for the next 5-10 years. Government and QMM energies now consumed in debating the current situation could be directed to more positive purposes. International conditions for major mining projects will remain challenging into the foreseeable future; so, QMM will have enough on its hands just focussing on its core mission.

22. The Panel recognizes that QMM has a fundamental interest in protecting the security of Ehoala Port and its own untrammelled access to those facilities, which it will continue to manage. For that reason, any cession of responsibility for the industrial zone to Government would need to be conditioned on cast-iron guarantees to QMM in those two respects. If such a transfer takes place, we recommend that the Government and QMM select a new private-sector operator jointly so as to build on past experience and benefit from Rio Tinto’s international

connections. It is also desirable that QMM serve on any advisory panel that would be set up to support the new zone operator and be granted a veto on the installation of any activities (like an abattoir) that could affect the hygiene and general attractiveness of the area.

23. Biodiversity Committee. One issue that attracted international attention in the last year did not even arise during our visit. In October 2016, the Biodiversity Committee that had monitored the QMM operation since 2003 resigned *en masse* to protest against Rio Tinto's corporate decision to abandon its global commitment to ensuring a Net Positive Impact (NPI) on all natural settings in which it operates. When we raised the matter with specialized Government staff, we were told that that decision had had no practical impact at all on QMM's operations and that the company continued not only to honour but also to exceed the commitments it had made on biodiversity and related issues. For its part, QMM confirmed that Rio Tinto's approach in Madagascar remains unchanged.

24. Local Communities. One drawback of our brief visit was that we were unable to consult directly with people living in the areas affected by QMM operations. While the situation appears placid on the surface (e.g., sharp drop in formal grievances), it is impossible for us to assert with confidence that relations between QMM and the local communities are healthy. Difficult as a true exchange of views with outsiders can be, we propose that QMM ask an appropriate non-government organization (even one that has been critical of it in the past) to set up such a consultation for our next visit.

25. Future Activities of the Panel. Like our predecessors, we expect to visit the project site once a year and to remain in touch with QMM on specific issues arising between our visits. We will submit our reports in draft to QMM to allow them to correct any facts or alert us to any information that they regard as proprietary, but not to challenge any of the judgments we express. Once the reports are finalized, they will be placed immediately on the Rio Tinto website in English and French. Comments or questions on those reports may be addressed in confidence to Robert Calderisi at calderossi@gmail.com.

List of People Met

Government of Madagascar

Antananarivo:

Harison Randriarimanana, Chairman, Economic Development Board of Madagascar, Special Adviser to the President, and Coordinator of the Economic Advisors' Council

Jean Chrysostôme Rakotoary, Director General, National Office of the Environment (ONE), Antananarivo

Dinamalala Ranaivosoa, Director, Office of National Mining and Strategic Resources (OMNIS), Antananarivo

Jocelyn Raserijaona, retired OMNIS employee in charge of QMM.

Fort Dauphin :

Tsimbazafy Abdon Marie Ravelonandro, Prefect of Taolagnaro, Fort Dauphin

Julio Razafindramano, Chief of Anosy Region

Georges Mamy Randrianaina, Mayor, Fort Dauphin

Lalao Mamialisoa Andrianasolo, Regional Representative (ONE), Fort Dauphin

Civil Society

Ndranto Razakamanarina, President, Platform of Malagasy Civil Society Organizations Working for the Environment, Antananarivo

Harijaona Andriamoraniaina, Executive Director, MSIS-Tatao, Antananarivo

Holly Rakotondralambo, Program Director, Mining and Extractive Industries Alliance, Antananarivo

Anosy Regional Business Center (CARA) – Fort Dauphin

Volatiana Tombotsiory, Executive Director, Centre d’Affaires de la Région Anosy (CARA), Fort Dauphin

Melissa Gaylord-Ratsimbazafy, CARA Consultant, Fort Dauphin

Alex Marino, CARA Consultant, Fort Dauphin

Financial Partners

Coralie Gevers, Country Manager for Madagascar and the Comoros, World Bank

Joe Rakotoninira, Deputy General Director, Institut Financière de la Région Anosy (IFRA)

World Bank Integrated Growth Pole Project (PIC)

Eric Rakoto-Andriantsilavo, National Coordinator, Pôles Intégrés de Croissance [Integrated Growth Poles] (PIC), Antananarivo

Sandrika Minah ATEIFA, PIC Private Sector Specialist

Rollis Rakotosamimanana, PIC Regional Coordinator, Fort Dauphin

Private Sector Platform and Partners

Willy Ranjatoelina, Executive Secretary, Chamber of Mines, Antananarivo

Zo Rabearivelo, President of Consultative Panel of Port Users (CCUOP: Conseil Consultatif des usagers du Port d’Ehoala) Fort Dauphin

Delphin Andreas, Président APEA (Association pour la Promotion des Entrepreneurs de l’Anosy), Fort Dauphin

Rio Tinto-QMM

Ny Fanja Rakotomalala, President, QMM

Julien Solana, Finance Director and Port Manager

Lisa Gaylord, Corporate Relations, Communities, and Sustainable Development Manager

Hugues Razafindramosa, External Affairs, Principal Adviser

Martino Noely, Impact Management and Community Relations, Team Leader

Faly Randriatafika, Biodiversity and Natural Resources Management Team Leader

Jemisa Robison, Forestry Engineer

Jimmy Andrianirina, Protected Area Management Coordinator

Hantanirina Pulcherie, Land, Natural Resources, and Communities Specialist

Solofo Rabehevitra, Community Dialogue and Engagement Specialist

Raymond Randriambololona, Community Skills Development Specialist