

Extractives Roundtable

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Introduction

The chair opened the discussion with an observation of the paradox that even though the extractives industry is one of those most affected by issues at the intersection of business and migration, representatives from the sector are some of the most elusive when it comes to engaging with governments on the issue, in a forum such as the GFMD. Nonetheless, the roundtable benefited greatly from having one representative from the Swedish mining company LKAB present.

This report of the discussion is structured in the following way. First, participants were able to contextualize the challenge that the extractives represent for governments, both in terms of the immediate political challenge as well as a broader development one. Second, a whistle-stop tour of the 120-year history of LKAB provided a vision of how the mining sector can be an integral part of the transformation and development of a country or region. Third, in their deliberations, participants were able to point to two very contrasting stories of the role of extractives within society, one benign, one much less so with the realization that governance helps to explain how and whether extractives can be a force for good or the basis for commentators' observation of the phenomenon of the "resource curse", as it has blighted many underdeveloped regions. Fourth, important though it is, participants realized that it was far from necessary to take governance as a black box that was either present or absent. Rather, the roundtable explored in some depths ways to think about information about the needs, opportunities, and challenges posed by extractives as feeding into the governance process to shape and influence decisions that policymakers and other stakeholders adopt and implement to the mutual benefit of the sector and the wider society. Fifth, in the context of the extractives sector, the meeting explored two dimensions of the government-business interaction: the more technically oriented policies and instruments through which to maximize the benefits to society from extractives while being responsive to the needs of businesses and the more general dialogue process that underpins good migration and development policy more broadly. And sixth, participants briefly discussed ways of taking forward the dialogue between governments and the extractives industry in the GFMD context.

Extractive industries: The challenge

Perhaps what is particular, even unique, about the extractives industry is the sense that it represents a national treasure that should benefit the nationals of the country in question. Moreover, for many countries in Africa especially, as one participant noted, there is an abiding sense that the extractives story has not had a happy ending; that foreign companies have benefited more than the host countries from the exploitation of the mineral resources. Indeed, this participant could not think of

any positive examples of mining's transformative impact in Africa (although the example of Botswana was subsequently mentioned).

This observation usefully sets the national (sometimes even nationalistic) political backdrop for current emphasis among developing country governments especially on local content policies that can be ways of regulating migration by the backdoor. Governments often want to be seen to be protecting the national interest and ensuring that this time round, the benefits from extractives accrue to the country as a whole.

Behind and beneath this sometimes overly politicized, sometimes polarized tone lies the more fundamental development challenge that *all* countries — developed and developing — face that was encapsulated by Mexico. Energy sector reform in Mexico includes important structural reforms that aim for financial growth and employment generation: the hope is for 500,000 jobs in the next five years and 2 million jobs over the next 10 years. In order to achieve this, the government has allowed foreign direct investment in the sector. There is recognition of the need to enhance the competitiveness of the industry and the vital role that skilled labor must necessarily play in this regard. Yet, how to balance this opening up, the welcoming of skilled labor, the need to achieve greater competitiveness, the desire to achieve significant jobs growth, and investors' needs and expectations for decent returns?

Extractives: The vision

While there are inevitably no simple answers to that important question, the brief 120-year history of the Swedish mining company, *Luossavaara-Kiirunavaara Aktiebolag (LKAB)*, located in Kiruna, northern Sweden offered a vision of what can be when forces combine to generate positive spillovers and externalities to transform a region, even a country's fortunes. This is not, of course, to say that the extractives industry alone can play this transformative role, but the lesson from LKAB was clear in demonstrating that with a long-term vision, such transformation is indeed possible.

LKAB produces iron ore pellets, 250,000 3g pellets every second, over 1 trillion a year. Located, in Sweden's northern Arctic region, where reindeers outnumbered people a hundred years ago, the company's history and the region's transformation are intertwined. Inward migration — first of Swedes from other parts of the country, later Finns after WWII, then Europeans after Sweden joined the EEC in 1995, and now in the era of Sweden's global labor mobility from all over the world — is part of this story. The development of municipalities is part of this story. So too is the development of transportation links, power generation, and other vital infrastructure. Over time, this enabled the diversification of the economy, the introduction of a university, now renowned for its world-class research in mining, ICT, and material sciences. There is also a space research center.

Diversification means that the region now boasts a hotel made entirely of ice that attracts tourists from across the world. Its comparative and competitive advantage meant that Facebook chose to locate its first server farm outside the US in Kiruna.

This is the history, but also offers hints as to the future. As other regions develop and three billion people move out of poverty into middle class status (\$10/day Purchasing Power Parity) over the next 20 years, demand for steel products and other metals will continue to grow. Now with 4,400 employees, LKAB anticipates needing another 1,500 people by 2020. It already employs people in

180 different professions. To bring someone up to full competence and productivity takes time, thus the company needs to attract more young people to want to come and live in the region. It means inspiring young people to be entrepreneurs and to start companies that will provide the diversified range of services and job opportunities that go to making a vibrant, thriving location that sustains a full ecosystem of growth and development.

LKAB's story neatly encapsulated some key messages about the extractives sector that are worth highlighting. Extractives represent a window of opportunity that countries and regions can exploit for broader social and economic development. ***The key is to think more about the spillovers, the backward and forward linkages and not just to focus directly on the industry itself.*** One job in the extractives industry may multiply into many more jobs in allied and impacted sectors. Ultimately, however, the emphasis has to be on building a competitive economy rather than seeing extractives as a short-term cash cow.

Governance is key

However, rather like the *Tale of Two Cities*, as positive as Sweden's story of LKAB may be, as one participant noted, the contrast with the seemingly more common downward spiral of extractives in other locations is inevitable. Elsewhere, extractives seems to be a byword for political instability, corrupt regimes that lure in investment into their extractives sector only to begin shifting the goalposts thereafter and holding these companies as hostages to fortune. Indeed, the perverse incentives may be such that there is no real desire to get to the point of actual extraction, given the rents available in the interim. The nationalistic mantra that what comes out of the ground should benefit the people may just be a smokescreen for corrupt practices and bad governance of the worst kind.

The roundtable heard how governance is a key determinant of whether a country is able to exploit its natural resources for the greater good or whether they are tantamount to a "resource curse". But there is a chicken and egg conundrum, does good governance need to be in place to enable a country to gain from extractives or does exploitation through extractives contribute to good governance?

An insight that emerged from the discussion is that we may not need to treat governance as a sort of "black box" that is either present or absent. Rather, our understanding of the nature of extractives industries and their specific needs can feed into the governance process and lead to better informed decisions that in turn beget more positive outcomes.

Moreover, as the meeting discussed, we need to think beyond governance at the national level and consider how local/municipal level governance is also key to successfully leveraging the potential of extractives for long-term growth and development.

Some specificities of extractives

Extractives projects typically go through a lifecycle from initial exploration all the way through to full-scale operations. Often successive tranches of financing are tied to specific milestones, so companies are under pressure by their investors to perform in what is a high-risk sector. In the case study of LKAB, the meeting heard how a €2 billion investment might start with a development phase involving

a large number of people with specialized skills brought in for short stints at a time. During operational phases, there may be a requirement for fewer people, though on a more stable basis.

A clear recommendation to governments was to develop an understanding of the skills needs to make the most out of activities during specific phases. Governments were encouraged to "see the big picture" and maximize the window of opportunity that is available in the short-term. Governments were urged not to burden companies with the sorts of regulations that resulted in missed deadlines and higher costs.

Better would be to unshackle the extractives sector, allow it to succeed and perform as a lead sector that stimulates broader development. **Balance short-term demands against long-term potential** was a theme running throughout the roundtable discussion.

Furthermore, governments were urged to take a **broad view of the skills requirements associated with extractives**. For instance, **greater levels of entrepreneurship may result in more local companies able to service the extractive industry's supply chain**.

However, notwithstanding the specificities of extractives, an important insight from the LKAB experience was that the sector was subject to the same regulations as other industries. Governments rarely succeed in "picking winners" and therefore it may be wiser to create the appropriate environment and let companies grow through market forces.

Government-business interaction

But reliance on market forces is not the same as advocating total laissez-faire. Governments have important roles to play, as the Swedish example has already demonstrated but as the meeting learned also from Australia and Philippines, in different ways.

The meeting heard how Australia has a similarly positive story to tell of using the extractives sector as a major driver of its economy. The extractives sector supported Australia through the recent global financial crisis. The country manages skills demand through a combination of domestic and overseas talent. In essence, the Australian government aims to achieve a satisfactory balance by building capacity internally while working with the private sector to allow them to bring in required skills through managed migration programs.

Significantly, **Australia has in place programs to enable companies to make the transition from construction to operational phases**. During the resources boom, companies were able to build out a number of projects using enterprise migration agreements. These are designed specifically for large projects of over Aus\$2 billion in which companies can have access to skilled migrant workers. **To access this program, companies must show that the investment is beneficial to Australia and there will be a training component**. With the sector now transitioning into operational phases, there are no companies using these programs now.

Another Australian program uses resources sector labor agreements that provide pathways for companies to access skills in specific industries and sectors that the Australian labor market cannot supply.

A resources sector skills needs report generates recommendations for government and industry stakeholders to engage with the tertiary education sector to build needed technical skills.

Resource Sector Labor Agreements are part of broader labor agreements. They are formal agreements between Australian employers and the government. They respond to specific skills shortages and apply to both permanent and temporary migration. They specify the numbers of workers for given occupations; skills qualifications; and language ability. Employers need first to test the local labor market to demonstrate that they have looked for local workers over a 12-month period. Thereafter, they can request to have the agreements with government.

Another dimension of the industry-government relationship exemplified by Australia are outreach network officers. These 20 officers range across various industries, including extractives. They provide regional outreach and support. Their function is to consult with and advise business on skilled migration options available to them, combined with information on obligations, rights, etc.

As a migrant source country, the ***Philippines offers many examples of another dimension of the industry-government interface***, four in particular were highlighted. (1) Labor market information systems generate insights into job openings and skills shortages: ***Shortages are apparent in energy and extractive industries. This is a trigger for the education system, the private sector, and government to work together to attract more people into these sectors***, away from those that might be oversubscribed. Scholarships for students in mining, metallurgy, and geology are available. (2) Training is provided to migrant workers before they leave to enhance their preparedness and to maximize the prospects for success all round. (3) Skills recognition: for instance, engineering qualifications vary from one country to another. This is an area that merits increased effort. (4) Health and safety.

Apart from these specific, technical areas of government-industry interaction, the meeting heard how Sweden's well-regarded effectively functioning labor migration system did not come about overnight. Rather it emerged over several years and was underpinned by elaborate consultation between stakeholders, including government departments, employers organizations, and trade unions to produce an end result to which everyone subscribes.

Continuing the dialogue

Recognizing the importance of building upon the good efforts of the Swedish GFMD Chair and continuing the dialogue process, a recommendation emerged for the GFMD to explore whether the International Council of Mining and Metals (ICMM) — an industry body made up of many major mining companies could be a suitable interlocutor.

Concept note in preparation for the GFMD roundtable - Extractives: The broader economic impact for states and business of local content and hire policies

**12 March, 2014, Geneva
Salle III, R3 Level**

While development of the extractive industries has been contentious due to social and environmental risks, today mining and energy sectors should not be so readily dismissed or ignored. They represent not only an opportunity for economic growth, but also for development of human capital. As developing economies grow, the demand for energy and the minerals extracted by the mining and energy sectors for modern consumer items also increases. In a global context, this is important as many of the countries that contribute to growth in these sectors rank low on the UN's Human Development Index.

There is evidence that restrictive labour migration policies (local content requirements) for the extractive sector can produce a drag on other sectors of the economy in both a developing and OECD context, so there is cause to rethink how the need for skilled migration in this sector can be addressed more broadly within a national development strategy. If managed optimally by states, in consultation with the extractive industries, the need for certain sets of skills can form the basis for how knowledge transfer can be linked with in-country or regional up-skilling opportunities for youth and the unemployed. This is particularly vital to fragile states and emerging economies. Temporary import of foreign skilled labour may be a better solution for meeting pressing skills challenges and productivity targets, than to face the certainty of wage distortions and runaway inflation.

A focused analysis of skills needs in the short, mid to long term would provide a roadmap for both governments and the extractive industries to partner on a skills development strategy. For states battling with high youth unemployment figures, efforts to up-skill and educate their young workforce to meet the demand for labour in the mining and energy sectors, may be a positive step towards redressing the current imbalance, but the skill set should be transferrable and also be based on the projected long-term needs of the country as it develops. The centrepiece of that strategy could focus on how to support SMEs that use the mining sector as a platform to segue into other service areas and are able to thrive and sustain communities even beyond the lifespan of the mine itself. Here the active involvement of the mining sector will bring added value as it can project their needs over time, provide and support capacity building initiatives within the education sector, plus offer employment opportunities for graduates. If properly managed, the broader impact of mining and extractive industries can be the added value they bring to i) vocational training and tertiary institutions in developing and emerging markets, as well as the subsectors created by the mining sector ii) a greater

consciousness around social and environmental sustainability and iii) safety, and better production values.

Given this background there is an imperative for states and businesses to meet to contextualize the need for collaboration around access to skilled and unskilled labour in these sectors.

We ask:

In what way is your sector constrained or supported by various countries' migration policies? Do limitations to hiring of skilled migrant workers in one sector negatively impact another sector?

What practical recommendations would you like to make to governments on how migration policies can improve the investment climate and competitiveness of the country thereby enhancing development?

What consultation process would you like to see states establish with businesses and what format would you prefer to use?

This roundtable is intended to stimulate discussion between states and the private sector on what works, why some things don't work, and how it could be done better. Mobility is a defining framework for the 21st century, closely linked to employment opportunities. States and businesses that can establish partnerships based on a mutual interest in sustainable growth will have a competitive advantage.