# Exploitation of the Eppawela rock phosphate deposit

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*(continued from yesterday)*

Details on how and when the ecological restoration has to be carried out should be specified. The Agreement should specifically state that the ecological restoration of the areas affected by the mining must be carried out by the prospector at his own cost progressively during the period of mining operations and as directed by the Government of Sri Lanka. The penalty for non-compliance should be severe. Mere termination of the agreement is inadequate. In the event of non-compliance, the mechanisms and costs of international litigation (which can be prohibitive) should be given due consideration.

The US $ 500,000 bond for securing environmental protection appears grossly inadequate, and should be substantially increased, based on a proper assessment.

**(d) Economic and social considerations**

The bare facts as regards costs and benefits are as follows:

1. The gross value of the 26.1 million metric tons rock phosphate rock that will be mined over the 30 year period (which is Sri Lanka's contribution) is estimated to be US$ 1,122 million at the current Moroccan international market price of US$ 43 per metric ton. Allowing for costs incurred in mining operations, which according to the Director General of the BOI would be in the order of US$ 43 million, the nett value of Sri Lanka's contribution would be US$ 1079 million. It will however be considerably higher if the ore is of the high quality deducible from the work of the scientists of the Peradeniya University.

2. The company will invest US$ 425 million, being the cost of the plant, infrastructures, etc. Its income would be US$ 154.8 million from the 3.6 million metric tons mined and exported in the first 12 year period of the project and US$ 5,000.4 million which would be the gross market value of di-ammonium phosphate manufactured at the rate of 600,000 metric tons per annum in the remaining 18-year period at US$ 463 per metric ton. This adds up to a gross income of US$ 5,155 million for the company.

3. The total direct and indirect monetary benefits to Sri Lanka are estimated at US$ 479 million which includes royalty at 5.5% on Moroccan international price on all rock phosphate mined over the 30 year period (US$ 37 million), dividend on 10% free equity over 30 years (US$ 70 million), and taxes, port earnings etc. (US$ 372 million). The discounted value of the benefit over 30 years would be considerably less.

4. The nett value of the resource of mined rock phosphate foregone by Sri Lanka would be US$ 1,079.3 (after allowing US$ 43 million for costs of mining as estimated for by the Director General of BOI), which is very much lower than total monetary benefit.

5. The nett income to the company would be US$ 4,251.9 million after allowing for its investment of US$ 425 million and payment of the monetary benefits of US$ 479 to Sri Lanka.

6. The benefit/cost ratio for the foreign company would be 4251.9/425=10 while the benefit/cost ratio for Sri Lanka would be only 479/1079 =0.44. Clearly Sri Lanka is getting a very raw monetary deal, leaving aside the cost of damage to the environment the proposed project would cause. If Sri Lanka takes full responsibility for mining and marketing the rock phosphate investing US$ 43 million required for mining the benefit /cost ratio would be 1079.3/43=25.

The social benefits of the proposed project would include employment for about 1000 people, subsidised (5% below market value) employment for-ammonium phosphate to local farmers, and improved transport and communication facilities. However these may be offset by the negative impact of the displacement of up to 12000 people. It is stated that the project company will as far as possible avoid displacing households, and that those displaced would be compensated. The government should secure a sufficient bond from the project company to meet costs of resettlement and compensation.

Recommendations

1. Give highest priority to the comprehensive exploratory survey of size and quality of rock phosphate reserves which should ideally be done independently by the Geological Surveys and Mines Bureau in collaboration with other local scientists, if necessary, with aid from the ADB and/or the UN Revolving Fund for geological exploration.

2. Final decisions on rate of exploitation, on value- added fertilizers to be locally manufactured and on monetary and other economic benefits to Sri Lanka should be based on the results of the comprehensive geological survey.

3. Call for reports from other relevant countries on past performance before a decision is made to select a particular company.

4. The security bond on environmental protection and cost of resettlement, and compensation for displaced persons should be substantially increased and be based on a proper assessment of the possible costs that would be involved.

5. If the Project Company does not agree to these terms, call for fresh global tenders with clear definition of our terms and requirements after the survey referred to in recommendation (1) is completed.

6. Consider mining the rock ourselves and selling it direct to the export market and to the local fertilizer factories as is done in the granite industry. Seek foreign participation for capital, marketing and technical expertise as suggested in the New Zealand Group's proposal. According to the Director General of BOI, the capital costs of mining and crushing equipment and infrastructure development for transporting the rock ourselves at a level of 350000 to 1.2 million metric tons per annum would be about US$ 43 million. This is a modest investment considering that the market value of the mined 26.1 million metric tons of rock phosphate is US$ 1122.3 million.

***(Concluded)***