

JAMES D. WOLFENSOHN
President

March 2, 2004

To: Distribution below

Ladies and Gentlemen:

Thank you for your letter of January 28, 2004, co-signed with 10 other organizations, expressing support for the recommendations contained in Volume I of the Extractive Industries Review (EIR) report.

The role of the extractive industries is essential to the developing nations of the world. As a development institution, the World Bank Group has aimed to ensure, in partnership with governments, industry, and civil society, that our activities in this sector make the strongest possible contribution to sound economic growth and poverty reduction. In this respect, we share both the aspirations outlined in the EIR report as well as the concerns. That is why we have steadily pursued wide-ranging reforms in recent years, on issues ranging from transparency to stakeholder consultation to gas-flaring reduction. That is also why we have sought broader input through the EIR process. In seeking to reduce poverty, we have an obligation to listen, learn, and improve in the light of experience.

I am pleased that this very extensive and thorough review has now been completed. The EIR stakeholder consultation, led by Dr. Emil Salim, represented a key part of this process. Dr. Salim has done an excellent job in convening stakeholders on all continents, and in conducting a constructive consultation. The conclusions and recommendations that he has presented are a thoughtful and stimulating contribution to the debate. In addition, the EIR has been complemented by several important internal evaluations of World Bank Group performance, that will also serve to guide our future approach to the extractive industries.

After receiving the EIR report and Dr. Salim's cover letter in mid-January 2004, I met with him and discussed the way forward. Dr. Salim's report indeed contains some excellent recommendations, on which a broad consensus was reached. After a full discussion with our Board and subject to their approval, we would propose to move ahead rapidly on many of these.

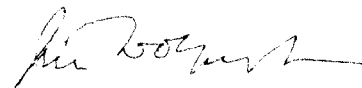
However, as Dr. Salim has noted, some of the conclusions and recommendations presented in the stakeholder report do not represent a consensus of views. Many specific recommendations remain the object of dispute, especially among local stakeholders in developing nations with substantial extractive industries. While expressing a preference that his report be accepted in full, Dr. Salim urged the World Bank Group to immediately implement those recommendations that reflect a broad consensus and to continue a dialogue with stakeholders regarding issues of disagreement. I agree with that approach.

I cannot accept, as some groups assert, that unless the report's recommendations are adopted in their entirety, the World Bank Group will have somehow failed in its response. In dealing with issues upon which there is no consensus, we will naturally need to take into account the full range of views that have been expressed, in line with our responsibility to serve all of the participants in the development process.

I have had the opportunity over the last few weeks to discuss the report's recommendations with a variety of stakeholder groups. I have also invited Dr. Salim to meet with me again in April, once we have finished reviewing the issues. Not surprisingly for such a broad ranging report with many strong recommendations, there are differing views about the best way forward. In the light of my meetings and my own reading of the report, I have asked my staff to review carefully all of the report's recommendations and the views of different groups of stakeholders and report back to me. On the basis of this additional research, the Management of the Bank Group will submit a proposal to the Board. The report is extremely detailed and important. Thus, while we will proceed as speedily as possible, I do not propose to rush our deliberations. I expect to participate personally in many of the discussions.

Finally, let me reiterate that our goal always is to keep the needs of the poorest in the world at the forefront of our deliberations and our decisions. In doing so, we will continue to share a common principle with Dr. Salim and those who contributed to this review process. In this spirit of cooperation and mutual respect, I thank you again for your letter, and look forward to discussing these issues with you in future.

Sincerely yours,



James D. Wolfensohn

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bcc: Messrs./Mmes. Woicke, Armstrong, Balafoutis, Estrada, Floyd, Levitsky, O'Keefe, Tayyab, Tsatsakis

EXC Ref: EXC-2004-00376

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World Bank / IFC

3:26 pm
Letter delivered to
CU on 2/24/02

revised & delivered
to CU on
2/27/04
10:00 a.m.
w/ JB 2/27/04
10:38 a.m.

ROUTING SLIP		DATE: February 20, 2004	
	NAME	Room	MAIL STOP
	1. Mr. Peter Woicke (clearance)	F11K-102	F 11K-1111
	2. Mr. James Wolfensohn (signature)	MC12-750	MC 12-1215
<input checked="" type="checkbox"/>	URGENT		PER YOUR REQUEST
<input type="checkbox"/>	FOR COMMENT		PER OUR CONVERSATION
<input type="checkbox"/>	FOR ACTION		NOTE AND FILE
<input checked="" type="checkbox"/>	FOR APPROVAL/CLEARANCE		FOR INFORMATION
<input checked="" type="checkbox"/>	FOR SIGNATURE		PREPARE REPLY
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RE: Response to NGOs letter and to Dr. Emil Salim's letter.			
REMARKS:			
Please find attached for your clearance/signature a response to Dr. Emil Salim's letter of February 4, 2004 and the letter dated January 28, 2004 by several NGOs.			
FROM Rashad Kaldany, Director, COCDR		ROOM NO. F8P-216	EXTENSION 36787

Cross-ref EXC - 2004-0032

**American Rivers • Center for International Environmental Law •
EarthWorks/Mineral Policy Center • Environmental Defense • Friends of the Earth •
Institute for Policy Studies • National Wildlife Federation • Natural Resources Defense
Council • Physicians for Social Responsibility • Sierra Club • World Wildlife Fund**

January 28, 2004

② AT

Mr. James D. Wolfensohn
President
World Bank Group
1818 H Street NW
Washington, DC 20433 (via fax: 202 522 3031)

Dear Mr. Wolfensohn:

We are writing to you to express our strong support for the recommendations of the Extractive Industries Review (EIR). At the 2000 World Bank annual meeting in Prague, you took the bold and laudable step of acknowledging the legacy of environmental and social problems that have plagued oil, gas, and mining projects. You followed through on this acknowledgement by commissioning an important review of the Bank's role in these sectors. We now urge you to adopt the recommendations contained in the final report of the EIR.

One of the major accomplishments of the EIR report is that it truly reflects the input of affected communities and their civil society representatives presented during the regional consultations. These stakeholders are the most affected by extractive industry projects, and are among the primary clients of the World Bank. Embracing the EIR recommendations is essential to demonstrating World Bank Group support for the views and concerns of indigenous and impoverished communities around the world, as well as the World Bank Group's commitment to broad-based sustainable development.

The EIR report includes a valuable assessment of the many controversial issues that surround extractive industry projects — including human rights abuses, corruption and governance issues, social upheaval, environmental pollution, and poor economic performance. The EIR addresses these interrelated issues by proposing a series of recommendations that are, in turn, structurally and substantively related. We urge you, therefore, to adopt the EIR report in its entirety. Endorsement of only some parts of the EIR report would fail to address important root causes of extractive industries' destructive effects on broad-based poverty alleviation and sustainable development. As such, it would not constitute a credible response to this significant work.

As leaders of major environmental and public health organizations, we are particularly pleased that the EIR has stipulated a number of recommendations to address the negative environmental impacts of oil, gas, and mining projects. The report calls for the World Bank

Group to take a "holistic, multidimensional approach to environmental and social impact assessments, identifying cumulative impacts of projects and socioeconomic linkages to environmental issues." It identifies gaps in the application of environmental assessments, such as the failure to conduct mandatory upstream assessments of the environmental and social impacts of policy-based lending, particularly for countries with significant extractive industry sectors. This gap should be addressed in the revisions of the Bank's structural adjustment policy. The report also correctly highlights the need for better compliance with World Bank Group safeguard policies in general.

In addition, we support the recommendation to update and implement fully the World Bank's Natural Habitats Policy as a basis for designating "no go" areas where extractive industry projects are incompatible with vulnerable ecosystems and species. Tightening and implementing the Natural Habitats Policy is crucial; to date there have been varying interpretations of "critical natural habitats", which has unfortunately allowed the Bank to finance projects in environmentally sensitive areas. The EIR has an appropriately expansive view of what should constitute "no go" areas, including "existing World Heritage properties, current official protected areas, or critical natural habitat (as described in its current Natural Habitat Policy) or areas planned in the future to be designated by national or local officials as protected."

We congratulate the EIR for recognizing climate change as a profound threat to sustainable development and poverty alleviation and we strongly endorse what is perhaps the report's boldest step: a recommendation for the World Bank Group to utilize its lending to "aggressively promot[e] the transition to renewable energy." In particular, we support the EIR recommendation to end World Bank Group support for coal mining and to phase-out financing for oil projects by 2008. By shifting financial support from fossil fuels to renewable energy, the Bank could play an important role in catalyzing renewable energy development in the South, in turn leveraging significant global benefits.

Further, the EIR report recommends that the World Bank Group adopt strong mining sector standards, which could also constitute best practice environmental standards for industry. These include a ban on the destructive mining practice of riverine tailings disposal and a moratorium on submarine tailings disposal pending further study. We also support the report's recommendation for a precautionary approach to the use of cyanide and mercury in mining operations.

Finally, we would like to highlight the EIR's endorsement of prior informed consent for affected communities and securing a "social license" to operate before projects proceed. Communities often have very little influence over project decisions despite the significant impacts that extractive industry operations have on their health and livelihoods, and on the environments on which they depend. The right of indigenous peoples and other local communities to prior informed consent is a moral imperative that is gaining greater recognition in many contexts and is central to effectuating human rights norms. In addition, recognition of this right will spare the Bank and project sponsors considerable reputational risk and added costs.

While our organizations are particularly pleased about the report's recommendations pertaining to environmental impacts and concerns, we underscore that they are part of an

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interrelated package that should be adopted and implemented as such. We believe that the adoption of the Extractive Industry Review recommendations would be the crowning achievement of your presidency at the World Bank. Implementation of these important environmental, social, human rights, and governance recommendations would truly leave a lasting legacy at the World Bank, of which we could all be proud. Representatives of a number of our groups are interested in meeting with you in the near future to discuss these concerns.

Sincerely,

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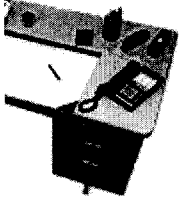
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Corinthia Tucker

03/03/2004 02:58 PM

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Subject: Extractive Industries Review

Please find attached Mr. Wolfensohn's response to your letter of January 28, 2004 regarding the Extractive Industries Review.

Thanks,
Corinthia Tucker



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