

Backgrounder on the Rapu Rapu Mining Operation

Executive Summary:

The Rapu Rapu Mining Project, majority owned and operated by Australian mining company, Lafayette has been mired in controversy since its conception, and opposed by a variety of local and national actors in the Philippines.

This paper seeks to outline the major points of concern in relation to this project.

The following issues relating to the projects have been investigated and evaluated by various Philippines government initiatives and are discussed in this paper with reference to the relevant supporting government reports:

- 1. Inadequacy of Environmental and Social Impact Assessment Process:**
- 2. Serious toxic spills and related findings of negligence and breaches of basic industry practices**
- 3. Unresolved Community Impacts and Questionable Social Acceptability:**
 - Exclusion of impacted groups from consultation process:
 - Widespread opposition to the mine across the island:
 - Failure to respect rights of Indigenous People:
 - Serious impacts on and risks to sustainable livelihoods:
- 4. Ongoing Inadequacies in Rapu Rapu's operations:**
 - Acid Rock Drainage:
 - Toxic Discharges:
 - Tailings Dam Design:
 - Inadequate monitoring by the state:
- 5. Illegitimate Corporate Structures:**
- 6. Undue Pressure by the company on government structures:**
- 7. Taxes: Underreporting of Production and Possible Tax Cheating**

The gross and serious violations of laws, regulations and basic industry practice across the full spectrum of social, environmental and economic issues evidenced from investigations by various government bodies paints a damning picture of the Lafayette Group of companies as an inappropriate and irresponsible developer of a mining project. It leads to the conclusion that Lafayette group of companies are not capable of adequately managing the serious risks and issues that arise in such a mining development, and as such are not appropriate developers of a mine that poses serious short and long term risks to environmental and human health and livelihoods in a fragile small island environment.



Introduction:

The Rapu Rapu Gold Copper and Zinc Mining Project, on Rapu Rapu Island in the Albay Province of in the Philippines has been plagued with controversy since its conception. Mining leases covering 80% of the fragile island ecosystem which is home to agricultural and fishing communities reliant upon the natural resources for livelihood. The marine waters surrounding the island in the Albay Gulf to the South, Lagonoy Gulf to the North and the Pacific Ocean to the east, are exceptionally biodiverse with rich fishing grounds for fishermen from the Bicol Region. Dolphins, other sea mammals, sea turtles, egrets, and purple herons are frequently sighted in these waters. Two cyanide spills occurred within // of the mine's operation and acid rock drainage is already in occurrence and polluting water sources on the island.

A range of serious environmental and social breaches and problems have been identified by a variety of groups including government commissioned fact findings missions and government departments, academics, scientific experts and NGOs in relation to the Rapu Rapu mining operation owned by the Lafayette group of companies.

Two major government initiated studies were initiated in response to growing community concern over the mining activities. President Gloria Macapagal-Arroyo of the Philippines created by Administrative Order a Commission to "investigate the effects of the mining operations of Lafayette Philippines, Inc. (LPI) on people's health and environmental safety in the Municipalities of Rapu-Rapu in the Province of Albay and Prieto Diaz, Gubat, Barcelona, Bulusan, and Bacon in the Province of Sorsogon. (herein referred to as "*the Commission Report*"). An additional assessment report was undertaken by the Philippines Department of Environment and Natural Resources following the two cyanide spills to further investigate matters. (herein referred to as *DENR Report*)

However the concerns over the project extend further to allegations of fraud and falsity in the corporate structures of the Lafayette group of companies, and in tax related issues including arrangements by which tax exemptions were gained from relevant National Authorities and the payment of taxes relating to mineral production at the site.

1. Inadequacy of Environmental and Social Impact Assessment Process:

The Environmental Impact Statement (EIS) had a number of inadequacies, key elements of which are outlined below.

The EIS fails to adequately explore alternatives to management of the most serious environmental issues such as acid drainage or tailings management to ensure that the most sound management options were selected.

The EIS also fails to take into account the cumulative impacts, either in relation to existing legacy mines or the potential 80% of the island which is under mining application leases. "*At this point, it is worth reiterating the definition of environmental impacts as "the probable effects or consequences of*





proposed projects or undertakings on the physical, biological and socioeconomic environment that can be direct or indirect, cumulative, and positive or negative.” (Commission Report, p15)

The EIS was also inaccessible to local people due to a failure to translate it into local languages, or to ensure that it was available in a format where environmental issues involving technical language were comprehensible to local people.

2. Major Toxic Spills: Findings of Negligence and Breaches of Basic Industry Practices

Two cyanide spills occurred at the Rapu Rapu mine soon after its operation. The Pollution Adjudication Board (PAB) of the Philippines ruled that Rapu-Rapu Processing Inc. (RRPI), owned by Australian Lafayette Mining Inc., violated the Clean Water Act when it discharged waste water with a high cyanide content into creeks on Oct. 11 and 31. The toxic waste was reported to have found its way to the open sea, resulting in fish kills. Maximum fines were charged and

“The rationale of imposing the maximum amount of fines for this type of violation is solely for the purpose of deterring similar occurrences, which was well within the capability of respondent to prevent if only it had exercised prudence in the conduct of its business affairs.” Defensor explained.

The Department of Environment and Natural Resources (DENR) found that the company was negligent and that the two spills were not minor as stated by the company but serious in their environment, social and economic implications.

“The main cause of the two incidents can largely be attributed to the negligence and un-preparedness of the company to address such emergencies.”

The spills were not minor as stated by the company but, according to DENR, caused “several serious environmental, economic and social impacts that affected not only the Rapu- Rapu- Polymetallic Project but the whole minerals industry.” The DENR report went on to state that “the two incidents were very much preventable.”

The DENR report also found that the failures were breaches of “*basic industry practices*” and that measures that were outlined in the project documents submitted to government were not implemented on the ground.

“Proper maintenance and constant check up of pumps, and the installation of automatic safety knife valves in such critical areas as the processing plant are basic industry practices. “. “In the submitted Environmental Risk Assessment (ERA) and the Environmental Protection and Enhancement Plan (EPEP) submitted by the company to the DENR, concrete drains, cement bunds and silt fences are clearly provided. However, either these were not in place or were not properly maintained.”

“while the company has prepared and submitted to the government well laid-out plans and schedules, these were not strictly followed on the ground”, “ As planned, effluent materials coming out of the mill were supposed to be detoxified such that the discharged effluents would be brought to within DENR standards. If the detoxification plant was properly working, even if there were accidental discharges of effluents, their toxicity levels could have been at quite low and acceptable levels.”

DENR Report found that not “only were the spills preventable” but that Rapu-Rapu can be faulted for its numerous lapses”. DENR outlined the key faults and lapses:

1. Lafayette already started to operate even without completing all the environmental infrastructures. The Project violated the schedule of the upper tailings dam build-up at the time of the incident. The



- upper tailings storage facility was only 175 meters or 20 meters short of the dam construction schedule as indicated in their 2005 annual environmental protection and enhancement program.
2. Failure of the detoxification system. During the incident, the dosage of sodium metabisulfite was decreased from 4.24kg/ton ore to just 2.8kg/ton. Sodium metabisulfite is used to neutralize cyanide.
 3. Violation of 7 of the 29 ECC conditions.
 4. Non-implementation of Environmental Action Plan including a Tailings Management Plan
 5. Non-implementation of an Environmental Management System (EMS), a major indicator that shows that due diligence has been conducted. With an EMS, a site-based and integrated responses to environmental challenges, especially response and procedures, would be establish.
 6. Non-Compliance with limits for liquid effluents within and outside the project site.
 7. Non-Conformity with mine tailings dam safety standards and procedures, including a review by independent experts and periodic inspection.
 8. Absence of a Cyanide Management Plan to ascertain the use of a minimum amount or as required; and the continuous monitoring of all operations and discharges to detect and deal with an escape of cyanide and any resultant impact.

Community Impacts/Social Acceptability:

The Presidential Commission highlighted flaws in both the original public consultation processes and confirmed the validity of the concerns that were raised by local people in opposition of the project prior to its development, Its found that “social responsibility and acceptability issues still persist and remain unresolved to this day.” (Commission Report p16)

“Prior to its approval and during the public consultations and hearings, Lafayette’s ECC was vehemently opposed, raising, among others, the issues of the fragile nature of Rapu-Rapu’s island ecosystem, the potential for acid mine drainage (AMD) and the torrential rain weather pattern in the area. On hindsight, the merit of these contentions have been validated and should be a serious cause for concern for the country on the ability of the EMB and DENR to exercise wise judgment in protecting our environment given how spectacularly they were proven to be wrong at so short a time...”

“ The Commission particularly notes the haste in the grant of the ECC notwithstanding the seriousness of the objections raised and the fact that prior to its issuance, the environmental agencies were well aware of an ongoing Senate committee investigation on the matter. Worse, notwithstanding the committee recommendation for the DENR not to issue an ECC, it still proceeded to do so....”

other irregularities such as the conduct of the only public hearing right inside the premises of the ECC applicant. The Commission took note of the sheer inaccessibility of the site, the absolute reliance on Lafayette to reach the premises where the hearing was held within the site and the extremely limited options to travel in and out of the site. ...

“anyone who must have attended this public hearing had to depend entirely on Lafayette for transportation and accommodations. These circumstances do not augur well for a real and meaningful participation and constitutes a failure of the public hearing process.” (Commission Report, p14-15)

Exclusion of impacted groups from consultation process:

“Another major flaw in the social acceptability process is the non-inclusion of Sorsogon. Sorsogon stakeholders, particularly the marginalized fisher folk of the coastal communities, had every right to be consulted and be heard because they are likely (and has in fact been the case) to face the environmental risks associated with the Rapu-Rapu Project...”

“...Non-governmental organizations (NGOs) and people’s organizations (POs) opposed to mining in the island were not included in consultations and were in fact barred from joining hearings and proceedings, like Sagip-Isla and Umalpas-Ka.” (Commission report, p14))



Widespread opposition to the mine across the island:

While support for the mine exists within the three barangays on which the minesite is operating (who are receiving some benefits from the mining operations), the 13 other barangays in the municipality of Rapu Rapu are experiencing the negative impacts of the operation and indications are that they are largely against the mine.

Indigenous People:

There are indigenous groups in the island, the "Taboys" - sub-tribe of the Agtas. According to the National Commission on Indigenous Peoples (NCIP), the Taboys' application for Certificate of Ancestral Domain Claim in Rapu Rapu are still being processed, yet they have already been driven off their lands. According to local NGO's, there was no specific engagement or reference to the Taboys in consultations around the mine's development, taking into account their connections and rights over the land that stems from the existing claims they have for ancestral title. Nor have they been given due consideration at any phase in the project development cycle. The senate has highlighted the significance of this issue through the issuing of a resolution (Senate Resolution Number 436) that inquires into "The possible displacement of the 'Taboy's, a vanishing indigenous cultural community from the island of Rapu Rapu, as well as the long term deleterious effects of rampant mining on them, and particularly on their most vulnerable members of the population, consisting of women and children."

Impacts on Sustainable Livelihoods:

Community consultation over the development of the mine has not occurred within key stakeholders whose livelihoods are impacted by the mining operation. The coastal communities of Sorsogon were also not consulted, despite admissions before the Presidential Commission by oceanographer, Dr. Cesar Villanoy, that depending on the currents, tides, and wind patterns, it is possible that discharges from the mine could reach Sorsogon province.

Fishermen have opposed the mine due to risks and threats to their sea and their livelihood. These concerns have already been realised following the initial operations and spills. Fisherman claim they now have to travel twice as far, spend longer hours fishing, spend twice as much for fuel since the mine is driving away their fish. Both the DENR and Commission reports confirmed that livelihood dislocations of small fishermen, fish vendors & sellers ensued when consumers refrained from buying fish in Sorsogon due to the fish scare.

Other evidence suggests impacts on fishery resources are not being properly monitored or acknowledged. *"Some Rapu-Rapu residents gave testimonies to the Commission that they were able to recover more dead fishes immediately after the tailings incidents, particularly the second. Two sacks of dead fishes were allegedly buried in Brgy. Binosawan on 1 November 2005. Also, fish kills were monitored in September or about a month before the first tailings incident by the Multi-partite Monitoring Team." (Commission Report,p7)*

Fish kills also occurred on several occasions in November 2005 and affected the coastal waters of Sorsogon and practically the whole of the Albay gulf. *(Commission Report,p7)*

After the fish-kill incidents was the fish-scare. Fish buyers stopped buying fishes caught at the Albay gulf near the rich fishing grounds between the island of Rapu-Rapu and the coastal areas of Sorsogon. As much as 80% of the fish trade in Legazpi City was affected. *(Commission Report,p7)*





In Sorsogon, the fish scare caused “unwarranted and untold sufferings” to fisher folk families, fish traders and the fish consuming public, in the words of Sorsogon Governor Raul Lee. (*Commission Report,p7*)

“the Commission makes the finding that there is a high probability of connection and that the incidents subsequently led to certain negative consequences to health, environmental and economic problems to the people of Rapu-Rapu and nearby coastal municipalities of Albay and Sorsogon.” (*Commission Report,p8*)

Ongoing inadequacies in Rapu Rapu’s operations:

While the DENR has already given the company the green light to conduct a 30-day test following, doubt remains regarding the alleged compliance with two remaining pre-conditions related to acid mine drainage and dam integrity, The communities and the NGOs continue to question adequacy of measures taken to protect community interests.

Both the Commission’s Report and DENR Report highlight serious problems that remain in the company’s assessment and management of acid rock drainage and tailings.

The DENR Report stated “*two major issues hamper the implementation of the Project: the acid mine drainage and the integrity of the tailings dam. More exhaustive studies would need to be undertaken on the matter.* Government sources confirm the ongoing inadequacy of current arrangements regarding these two problems, and that these failures continue to represent serious breaches of the regulatory conditions for the operation of the mine.

The current approach indicates a failure to apply the precautionary principle to these issues involving serious environmental, public health and livelihood impacts in a manner that breaches acceptable international and national standards and policies.

Acid Rock Drainage:

Acid Rock Drainage represents one of the most serious, ongoing and long term environmental problems that remain inadequately considered or addressed by the current information available on the Rapu Rapu mine. The problems created by acid rock drainage over the long term could easily outweigh the benefits that the mine provide to local communities or society at large in the short term, however this information has neither been provided to directly affected local people or been adequately integrated into the decisions about whether the mine should proceed.

According to the Rapu-Rapu Fact Finding Commission Report, AMD already existed in Respondent companies’ mine site even prior to its commercial operation. The mineralized zones on the island have been identified as highly acid forming, and based existing studies show that an old and abandoned mine site located three (3) kilometers from the mine lease area still manifest AMD. **The Commission’s Report states that the AMD observed in the area destroyed three rivers, killed aquatic life and left a barren land still incapable of having a sustainable top soil and vegetation after 30 years.**

“There is extensive acid mine drainage being observed in the underground workings and other exposed mine areas of Hixbar. In the present open pit, the high sulfide ore body is already exposed. The lower tailings dam embankment uses PAF as construction material. In time acid mine drainage will propagate in



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these two areas. And without the proper decommissioning and acid prevention measures (... , encapsulation, etc), AMD will certainly become an environmental problem.”

“On the issue of acid mine drainage (AMD), on the other hand, lies most of the worries of groups opposing mining in the island. For the Commission, the questions that must be answered are: Is Lafayette able to control AMD? Or is the mining company in fact aggravating AMD and all its harsh effects?”

Of particular concern are findings by the Presidential Commission that the system chosen for managing ARD is not acceptable for the geography present at Rapu Rapu.

“The system of controlling the acid mine drainage (AMD) being employed is not applicable to areas with hilly terrain like the Rapu-Rapu Island. The subaqueous deposition, which LPI has adopted among other supplemental actions to prevent AMD is not used in hilly terrains, although it has been proven successful in large mines in flat terrain according to a number of scientific studies. In a hilly terrain, gradients and flow velocities are too great to achieve stagnant, anoxic conditions. In this situation, subaqueous deposition may be counterproductive and actually enhance the production and leaching of acid products.

Rapu-Rapu is a hilly terrain with steep slope. In other words, Lafayette, in its EPEP, designed strategies without yet thoroughly understanding the nature and potentials of AMD in its mine site, in particular, and in the Rapu-Rapu environment, in general.

Far more important, AMD mitigation can be ascertained based not solely on best practices in other countries but based on the particular geo-physical and overall ecological characteristics of the Philippines as an archipelago, with half of its lands sloping at 18 degrees or more, and with vast biological resources and endemism to nurture and protect. Even as no mining technology has, as yet, sufficiently addressed or come up with solutions to AMD that should not be an excuse to be less than stringent in preventing AMD.”

These methods, as well as additional mitigation measures put in place by the Project (i.e., Anoxic Line Drain, Wetland, etc) have not been fully accepted by some experts and the public as safe. In addition, there is yet no concrete plan on the disposal of acidic rock upon closure of the mine. Practically all the members of the Panel of Rectors during the Forum were critical and not convinced of the Project’s strategy to prevent and control the AMD.

Toxic Discharges:

The lack of clear ongoing and effective monitoring programs in relation to toxic discharges and the build up of toxins in the freshwater bodies on the island and the receiving coastal waters remains an unresolved issue. The Presidential Commission Report highlighted a number of inadequacies in the analysis of toxic materials from the mining activities, in the public disclosure of toxic discharge into the receiving environment and the studies and reports necessary for a precautionary approach to such issues as they affect public health and livelihood of local people.

“Though taken at different periods within five months following the tailings incidents and the samples analyzed were variedly sourced, these different studies yield telling common result, which is: presence of toxic heavy metals are present in the soil, water, and sediments samples and in the urine and blood of some of the patients coming from the communities near the mine site.” (Commission Report, p8-9)

As to the high levels of mercury found in the dead pygmy whale and dolphin separately found in Rapu-Rapu, newly-elected Corporate President Carlos Dominguez of Lafayette, categorically denied that Lafayette is using mercury in its operations and thus Lafayette could not be the source of the toxic mercury in the two mammals. However there was no information provided on whether there is mercury present in the ore itself, and thus as a byproduct present in the mine waste.



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"Lafayette did not analyze mercury and other toxic heavy metals in the ore that it mines because, as justified by Mr. Dominguez, the law does not require it. This omission by Lafayette, though not legally required in a certain sense, is nonetheless against Lafayette's moral obligation to the people and environment of Rapu-Rapu. It is a mining practice and a geo-ethical duty that ore classification be conducted by responsible miners to determine the target minerals content and at the same time determine the accompanying toxic heavy metal in the ore that shall be addressed by appropriate environmental protection and management plan. "

After its study, the UP-NSRI reported that Sorsogon's, as well as Albay's waters, fish and underwater sediments are safe, although toxic heavy metals were noted in rivers/creeks coming from the mine site. The NSRI findings have been repeatedly referred to by LPI in declaring that the slurry materials that overflowed in the first tailing incident and the effluents it deliberately discharged in "controlled manner" during the second tailings incident were treated or detoxified waters free from toxic heavy metals and chemicals. The NSRI team that conducted the tests, however, had admitted in several occasions that its findings were not conclusive and need further studies.

The Commission believes NSRI's own skepticism on its findings and disregards Lafayette's reliance on it and in its self-serving declaration of having performed adequate detoxification of the tailings that overflowed in the first tailings incident and discharged in the second tailings incident. (Commission Report, p8-9)

Dam Design:

The dam design has been questioned by relevant experts, as recorded by the Presidential Commission:

Dr. Arthur Saldivar-Sali, an expert on dam design noted that the dam is under-designed to cope with Philippine rainfall conditions. In high-risk areas such as Bicol, which is in the typhoon belt, a design based on 100 years probable maximum flood (PMF) is too low. The ideal is to use at least 100-1000 years probable maximum flood. If Lafayette does not change its design criteria for a higher PMF, the probability of spillages and over-topping of the dam will occur again.

It is also unclear as to whether the dam design operates on a modeling system that is based on a limited basis of a 24 hour high rainfall event, when high rainfall events in the region last for a number of days. Such a failure would make the modeling grossly inadequate for the conditions in Rapu Rapu, and indicate that the model is not effective against flooding or high rainfall events that are expected within a 100 year range.

Inadequate monitoring by the state:

The Presidential Commission and DENR reports also highlighted the inadequacies and lack of capacity within Philippine government bodies in monitoring and regulating mining companies such as Lafayette. The acknowledgment of such deficiencies by government agencies themselves indicates the need for additional independent oversight in monitoring the activities of Lafayette, however there is insufficient evidence to suggest adequate mechanisms for ensuring the environmental issues with the project are properly managed have been put in place.

The Commission finds the DENR, its bureaus (i.e., MGB and EMB), its regional offices, including its monitoring team, to be so dysfunctional as to be unable to prevent the occurrence of the October incidents. They simply did not have the sufficient capability of monitoring mining





operations in Rapu-Rapu. Worse, though, is that if they had the capability then they utterly lacked will.

State monitoring of Lafayette environmental performance was not to best practice standards. It lacked the rigorousness and strictness to properly police an environmentally critical operation such as mining as well as the flexibility to adapt to changing environmental conditions. (Commission Report, p10)

Illegitimate Corporate Structures:

Both the Presidential Commission Report and the DENR Report found there to be irregularities in the corporate structure of the Lafayette Group of Companies, in a manner that indicated possible breaches of Philippine corporate law.

The Presidential Commission highlighted irregularities and breaches of company law in the corporate arrangements of Lafayette and the operations of Rapu Rapu.

The DENR finds that there is a confusing corporate structure at the two separate entities involved in the mining and processing, and explores in detail evidence of what it calls *“farcity and fraud”* in the arrangements of the companies. It concludes *“There is a violation of The Corporation Code by the incorporators of the companies.”*

Undue Pressure by the company on government structures:

The Presidential Commission Report highlights what they term to be ‘undue pressure’ by the Lafayette group of companies on government structures in gaining major tax exemptions through the granting of “Economic Zone status.” Of greatest concern to the Commission was the reliance on a resolution of the local government unit (Rapu-Rapu Sangguniang Bayan) that members of the said Sangguniang Bayan said were fictitious, and allegations made in a complaint to the body granting the Economic Zone (PEZA) status by SB Secretary Allan Asuncion that his signature had been forged in a supposed official minutes of the SB November 19, 2003 regular session which he also described as fictitious. The Rapu-Rapu Sangguniang Bayan has since called for the PEZA status to be revoked.

“It maybe said that LPI’s Country Manager Mr. Roderick Watt at that time haggled much to clinch the proclamation and its subsequent certification from the Philippine Economic Zone Authority (PEZA). In a letter to President Arroyo, Watt threatened that the \$45 million in capital investments from Lafayette Ltd. of Australia, as well as \$10 million in investments from LG Group of Korea may be put on indefinite hold if the Rapu-Rapu ecozone status did not materialize. Watt said that the investments he quoted were predicated on the grant of Lafayette’s PEZA application. Watt complained to the President that the only requirement hindering Lafayette’s PEZA application was the signature of Rapu-Rapu Mayor Dick Galicia on a certificate of concurrence required by PEZA rules. Watt inadvertently stated in his letter that the President could act on the Lafayette PEZA application even without the Mayor’s concurrence.

Two months after Watt’s letter, Lafayette’s much sought after ecozone status was granted by the Office of the President. But that is not the major blot on Lafayette’s corporate character. Far more damaging is Lafayette’s use of a questioned resolution by the Rapu-Rapu Sangguniang Bayan endorsing the Rapu-Rapu ecozone that has since been described as fictitious by members of the Sangguniang Bayan (SB), purportedly the source of the controversial resolution.

What is worse: in an official complaint to the PEZA, SB Secretary Allan Asuncion charged that his signature was forged in a supposed official minutes of the SB November 19, 2003 regular session which he also



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described as fictitious. During that SB session, the controversial SB resolution favoring the grant of ecozone to Rapu-Rapu was supposedly read and passed by the municipal council of Rapu-Rapu.

Following the controversy, the SB passed resolutions urging various government personalities, including the President, to revoke the ecozone status given to the Rapu-Rapu project of Lafayette.

While the Commission is not in a position to rule on the controversy covering the grant of an ecozone status to the Rapu-Rapu Polymetallic Project (RRPP), the Commission nevertheless makes the following findings:

1. There are apparent irregularities in Lafayette's application to the PEZA and the grant of the Ecozone status to a portion of the Rapu-Rapu Polymetallic Project;
2. The Rapu-Rapu Sangguniang Bayan has made strong charges directed to the reputation and corporate integrity of Lafayette that should be taken seriously, investigated and be the subject of judicial actions, if need be. (Commission Report, p11-12)

The DENR report confirms that if the results of the investigation show that, in fact, forgery is committed, then PEZA would have sufficient legal basis to take action on the companies, and goes on to discuss existing calls for the canceling of the status based on gross breaches of the conditions on which the status was granted:

In its letter to DENR dated 19 May 2006, PEZA expressed its concern for the environment citing Section 5 of Article V and Section 3 of Article III of RRPI's registration agreement that:

- The registrant shall see to it that its operations during the course of manufacture or production will not endanger public safety or public health or violate the anti-pollution requirements of the government...
- The registrant shall, by itself or through another, construct, install, provide, operate and maintain...pollution control devices...necessary and convenient...to effectively operate and pursue a viable business within the designated Ecozone.

To comply with due process, PEZA will require both companies (RRMI and RRPI) to explain why their registration agreement should not be cancelled for gross violation of the above-cited provisions. Once both companies fail to submit satisfactory explanation, PEZA shall cancel their respective registration agreement.

The reported environmental violation which led to the issuance of the Cease and Desist Order (CDO) by the Pollution Adjudication Board/DENR can likewise be a ground that PEZA can use as basis for its action.

Moreover, on 19 May 2006, Secretary Romulo Neri of the National Economic Development Authority (NEDA) wrote DENR and recommended that the company's PEZA registration and its tax-free status should be cancelled. He stated that the government should maximize the benefits from these investments. (DENR Report, p28)

The DENR report also highlights the inequity which the ecozone status permitted in terms of benefits sharing between the various government bodies and the company from the mining operation.

On tax incentives, the DENR finds that the potential taxes due the government have indeed greatly reduced the share of government, particularly the amount due to the concerned local government units because of





the PEZA incentives. Removing PEZA tax incentives which entirely rests on PEZA itself will be beneficial to communities and to the local and national governments. (p37, DENR Report)

Taxes: Underreporting of Production and Possible Tax Cheating

Both the DENR and Presidential Commission reports highlight concerning evidence that indicates possible underreporting of ore processes and produces and possible tax cheating.

LPI-RRMI/RRPI or the Lafayette Group underreported the amount of ore and processed gold/silver produced. RRMI officially reported to MGB V that a total of 67,693 metric tons of gold ore had been mined in 2005. Based on "extracted" evidence from Mr. Villanueva, Geology Manager of RRMI during a Commission hearing at Lafayette, the amount of mined gold ore is 136,180 metric tons, with grade of gold given as 2.33 g. per ton. The Annual Environmental Protection and Enhancement Program (AEPEP) for 2006, submitted by RRPI to the MGB V also gives a slightly higher amount of mined gold ore at 137,349 metric tons. Thus, the official report of production of gold ore is only one-half of the actual produced.

The excise tax paid by RRMI for the year 2005 was PhP 2,065,511.54 (BIR tax records). The amount is equivalent to 2% of the value of the ore exported by RRPI (\$ 2,444,145 converted into PhP).

This amount is equivalent to estimated value of the 157 gold/silver dore with a weight of 1,258,592.5 g. exported by RRPI. RRPI estimated that the average gold content of the dore shipment at 12% or 151,031 g. of gold, while the silver content of the dore was estimated at an average of 59% or 742,569.6 g. of silver.

However, a total of 132,307 metric tons of this ore had already been milled, according to the sworn statement of Mr. Villanueva. This same amount of processed gold ore is confirmed/given in the document AEPEP for 2006. The estimated total of gold and silver that can be extracted from this actual amount of processed gold ore is 308,275 g. of gold and 1,869,498 g. of silver. This indicates that the excise tax paid by RRMI is probably only half of what it ought to pay the national government. (Commission Report, p12-13)

While the DENR report did not conclude a basis for fraudulent reporting of production it stated:

However, it is appropriate for the Bureau of Internal Revenue to conduct an investigation into the matter as it has direct implications on the tax payment of the RRMI and RRPI. If the Commission's contention is found valid, then BIR should collect all the tax liabilities of these companies. (DENR Report, p38)

Primary References:

1. **Presidential Rapu Rapu Fact Finding Commission Report** created by Administrative Order No. 145, by President Gloria Macapagal-Arroyo, to "Investigate the Effects of the Mining Operations of Lafayette Philippines, Inc. (LPI) on People's Health and Environmental Safety in the Municipalities of Rapu-Rapu in the Province of Albay and Prieto Diaz, Gubat, Barcelona, Bulusan, and Bacon in the Province of Sorsogon."): Referred to in the document as Commission Report) ,(2006)
2. **DENR Assessment of the Rapu Rapu Polymetallic Project, (2006)**

