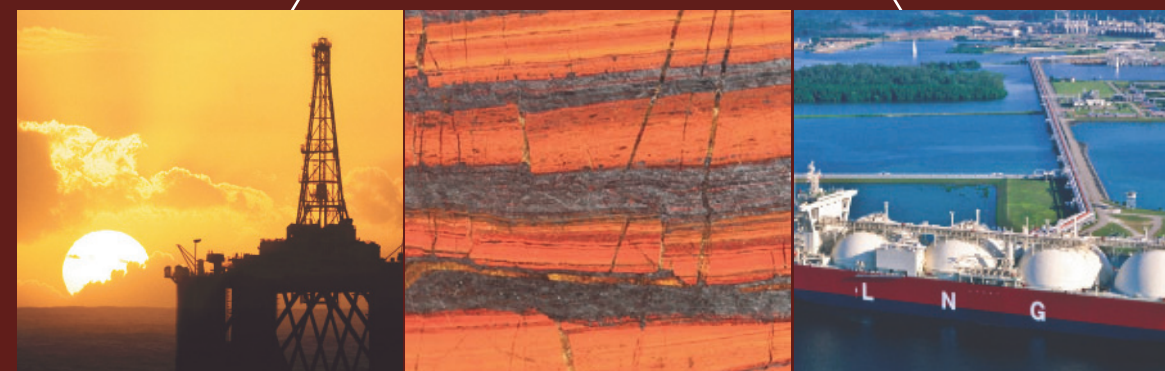


Financial Surety



Guidelines for the
Implementation of
Financial Surety for
for Mine Closure
Meredith Sassoon



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THE WORLD BANK

A working paper by the Oil, Gas, and Mining Policy Division

World Bank Group's Oil, Gas, and Mining Policy Division
Oil, Gas, Mining, and Chemicals Department
A joint service of the World Bank and the
International Finance Corporation

The Oil, Gas, and Mining Policy Division series publishes reviews and analyses of sector experience from around the world as well as new findings from analytical work. It places particular emphasis on how the experience and knowledge gained relates to developing country policy makers, communities affected by extractive industries, extractive industry enterprises, and civil society organizations. We hope to see this series inform a wide range of interested parties on the opportunities as well as the risks presented by the sector.

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- The Communities and Small-Scale Mining (CASM) Partnership, which promotes an integrated approach to addressing issues faced by artisanal and small-scale miners.
- The Gender and Extractive Industries Program, which addresses gender issues in extractive industries.
- The Petroleum Governance Initiative (PGI), which promotes petroleum governance frameworks, including linkages to environmental and community issues.

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TABLE OF CONTENTS

v	Acknowledgements
vi	Acronyms
1	Introduction
6	Financial Surety Instruments
14	Case Studies
39	Further Discussion of Case Studies
47	Implementation Guidelines
57	Afterword
59	References
61	Additional Readings
63	Annex 1. Websites
67	Annex 2. Letter of Credit Templates
69	Annex 3. Surety Bond Template

BOXES

1 IFC guidelines for mine closure and after	2
2 Financial surety standards	4
3 Evaluation of commonly used financial surety instruments	7
4 Criteria for the efficient design of a trust fund	10
5 Guidelines for the review and audit of a trust fund	11
6 The most effective regulatory model	48
7 Rehabilitation cost estimate tool	53
8 Specific risks and suggested mitigation	58

TABLES

1 Financial surety for standard exploration and mineral development projects	22
2 Mining titles that require a financial surety according to legislation	40
3 Western Australia minimum bond rates, 2008	44
4 Victoria (Australia) surety review periods	45

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ACRONYMS

BLM	Bureau of Land Management
BMRA	Bureau of Mining Regulation and Reclamation
DEC	Department of Environment and Conservation
DEAT	Department of Environmental Affairs and Tourism
DG	director general
DMP	Department of Mineral Policy
DME	Department of Mines and Energy
DPI	Department of Primary Industries
DEP	Division of Environmental Protection
EMP	environmental management plan
EPA	Environmental Protection Agency
EBRD	European Bank for Reconstruction and Development
EU	European Union
ICMM	International Council on Mining and Metals
IFC	International Finance Corporation
LC	letter of credit
MPC	Mineral Policy Center
MoU	memorandum of understanding
MPRDA	Minerals and Petroleum Resources Development Act
MRA	Mineral Resources Authority
MRCP	mine reclamation and closure plan
NAC	Nevada Administrative Code
NEMA	National Environmental Management Act
NGOs	nongovernmental organizations
OTML	Ok Tedi Mining Ltd.
SDMP	Social Development and Management Program
SRCE	standardized reclamation cost estimator
USFS	U.S. Forest Service
VAT	value added tax

INTRODUCTION

It is now accepted practice that when a company relinquishes a mining title, whether for an exploration or mining site, it is responsible for carrying out the rehabilitation of that site prior to departure. To ensure this is the case, most jurisdictions now require some form of closure plan or rehabilitation program to be submitted to the regulatory authority prior to the start of any work on the site. It is an increasingly common requirement for the closure plan to contain details of the estimated cost of rehabilitation and for a financial surety to be established at the same time.

This report aims to provide governments with the information they need to make their own informed decisions. It is based on a review of existing financial surety systems in a number of countries. Questionnaires were sent out to a total of 14 regulatory authorities; of these, 9 provided sufficient detail about their existing financial surety systems to be included as full case studies. These are presented in the section *Case Studies* along with a summary of the latest European Union (EU) waste directives. Except where otherwise stated, the financial surety applies to all stages of a mining project, regardless of size.

The International Finance Corporation's (IFC's) latest World Bank Group Environmental, Health, and Safety Guidelines for Mining (2007) state that mine closure and postclosure should be included in business feasibility at the design stage, with a minimum requirement of providing funds to cover the cost of closure. These funds should be established by a cash accrual system or financial guarantee. The relevant section of the guidelines is reproduced in box 1.

The purpose of the financial surety is to ensure that there will be sufficient funds to pay for site rehabilitation and postclosure monitoring and maintenance at any stage in the life of the project, including early or temporary closure. The main aim of site rehabilitation is to reduce the risk of pollution, restore the land and landscape for an appropriate use, improve the aesthetics of the area, and prevent any subsequent degradation. The extent and cost of final site rehabilitation can be reduced if the site is rehabilitated even as it is being mined, so that the rate of restoration is similar to the rate of exploration or exploitation. This ideal is not often achieved, however; the majority of rehabilitation usually takes place once work on the lease has ceased.

The cost of mine closure can vary enormously as the following extract from a World Bank and IFC publication (2002) shows:

Closure costs for environmental issues range from less than US\$1 million each for small mines in Romania to hundreds of millions of dollars for large lignite mines and associated facilities in Germany. More typically, closure costs will range in the tens of millions of dollars. Preliminary research indicates that medium-size open pit and underground mines operating in the past 10 to 15 years cost US\$5–15 million to close, while closure of open pit mines operating for over 35 years, with large waste and tailings facilities, can cost upwards of US \$50 million.

Because of these large price differences, the required level of financial surety should be established only on a country-by-country and site-by-site basis; it is not feasible to establish a definitive guide. But the regulatory authority does need to be consistent in its approach both to determining end goals and rehabilitation standards and to assessing the financial surety requirements. Goals should include, but not be limited to, (i) removal of all plant, equipment, and, where it is no longer needed, infrastructure; (ii) removal of all hazardous materials; (iii) sealing of adits; (iv) stabilization of all surfaces; (v) revegetation of all surfaces; (vi) restoration of surface and groundwater flows; and (vii) prevention of long-term pollution.

In some instances the mining community may have become reliant on cash flows, infrastructure, and facilities provided by or connected with the mine. It is becoming accepted for these social assets and services to be taken into consideration when establishing the financial implications of mine closure and when funds are being set aside for this purpose.

BOX 1 IFC GUIDELINES FOR MINE CLOSURE AND AFTER

Closure and postclosure activities should be considered in the planning and design stages as early as possible. Mine sponsors should prepare a mine reclamation and closure plan (MRCP) in draft form prior to the start of production, clearly identifying allocated and sustainable funding sources to implement the plan. For short-life mines, a fully detailed MRCP (with guaranteed funding) as described below should be prepared prior to the start of operations. A mine closure plan that incorporates both physical rehabilitation and socioeconomic considerations should be an integral part of the project life cycle and should be designed so that:

- Future public health and safety are not compromised;
- The after use of the site is beneficial and sustainable to the affected communities in the long term; and
- Adverse socioeconomic impacts are minimized and socioeconomic benefits are maximized.

The MRCP should address beneficial future land use (this should be determined using a multistakeholder process that includes regulatory

agencies, local communities, traditional land users, adjacent leaseholders, civil societies, and other impacted parties), be previously approved by relevant national authorities, and be the result of consultation and dialogue with local communities and their government representatives.

The closure plan should be regularly updated and refined to reflect changes in mine development and operational planning, as well as the environmental and social conditions and circumstances. Records of the mine works should also be maintained as part of the postclosure plan.

Closure and postclosure plans should include appropriate aftercare and continued monitoring of the site, pollutant emissions, and related potential impacts. The duration of postclosure monitoring should be defined on a risk basis. But site conditions typically require a minimum period of five years after closure or longer.

The timing for finalization of the MRCP is site specific and depends on many factors, such as the potential mine life. All sites, however, need to engage in some form of progressive restoration during operations. While plans may be modified, as necessary, during the construction and operational phases, plans should include contingencies for temporary suspension of activities and permanent early closure and meet the following objectives for financial feasibility and physical, chemical, and ecological integrity.

Financial Feasibility

The costs associated with mine closure and postclosure activities—including postclosure care—should be included in business feasibility analyses during the planning and design stages. Minimum considerations should include the availability of all necessary funds, by appropriate financial instruments, to cover the cost of closure at any stage in the mine life, including provision for early or temporary closure. Funding should either be through a cash accrual system or a financial guarantee. The two acceptable cash accrual systems are fully funded escrow accounts (including government managed arrangements) or sinking funds. An acceptable form of financial guarantee must be provided by a reputable financial institution. Mine closure requirements should be reviewed on an annual basis and the closure funding arrangements adjusted to reflect any changes.

Source: IFC 2007.

The IFC guidelines state that a mine closure plan should incorporate both physical rehabilitation and socioeconomic considerations, which, by implication, include the social aspects in the financial surety. There is some ambiguity as to whether a single fund should be established to include both the physical and social aspects of mine closure or two funds are needed. This issue is discussed in more detail in *Implementation Guidelines*.

Some jurisdictions have developed detailed supporting documentation to help companies make accurate estimates for financial surety, at times making the documents available on the Internet. It has been noted in the text whenever this is the case, and these and other useful websites are contained in annex 1.

Financial Surety Instruments identifies the main financial surety instruments and the mechanisms for their implementation. The *Case Studies* section presents case studies from existing jurisdictions. *Further Discussion of Case Studies* discusses all aspects of the implementation and management of financial sureties based on the case studies presented in *Case Studies*. *Implementation Guidelines* summarizes the findings of the study and provides recommendations on the implementation and management of financial sureties. The *Afterword* is an amalgamation of thoughts and comments that emerged during the course of the work.

Box 2 summarizes the standards that need to be considered when establishing financial surety procedures. These were formulated by a senior research associate with the Mineral Policy Center (MPC), a U.S.-based nonprofit environmental organization dedicated to protecting communities and the environment from the impact of irresponsible mining.

BOX 2 FINANCIAL SURETY STANDARDS

Closure costs. Financial assurances must cover the operator's cost of reclamation and closure as well as redress any impacts that a mining operation causes to wildlife, soil, and water quality. The bond should also cover the cost of a postclosure monitoring period. To accurately compute the level of financial assurance, reclamation and mitigation activities should be clearly spelled out in the operation plan. In addition, the bond should cover the costs of addressing impacts that stem from the operator's failure to complete reclamation, such as the need for long-term treatment of surface and groundwater, environmental monitoring, and site maintenance. During mining, operators' assurance levels should be subject to periodic review in order to allow regulators to adjust them upward or downward as cleanup needs, environmental risks, and economic factors dictate.

Liquidity. All financial assurance should reasonably be in liquid form. Cash is the most liquid asset, but high-grade securities, surety bonds, and

irrevocable letters of credit (LCs) can serve as acceptable forms of assurance. But assets that are less liquid, particularly the personal property or equipment of the mine operator, should not be considered adequate assurance, as these items may quickly lose their value in the event of an operator default or bankruptcy.

Accessible. Financial assurances should be readily accessible, dedicated, and only released with the specific assent of the regulatory authority, so that regulators can promptly obtain funding to initiate reclamation and remediation in case of operator default. Forms of financial assurance should be payable to regulators—under their control or in a trust for their benefit—and earmarked for reclamation and closure. Further, such financial assurances must be discreet legal instruments or sums of money releasable only with the regulatory authority's specific consent.

For their part, regulators must obtain financial assurance up-front before a mine project is approved. While regulators, as determined by their periodic reviews, must have the authority to secure financial assurance during the course of mining, waiting until late in the mining process to obtain substantial assurance is unwise, since reduced cash flows at this stage may make it difficult for operators to secure bonds from a surety, bank, or other guarantor.

Healthy guarantors. To assure that guarantors have the financial capacity to assume an operator's risk of not performing its reclamation obligations, regulators must carefully screen a guarantors' financial health before accepting any form of assurance. Any risk-sharing pools should also be operated on an actuarially sound basis. Regulators should require periodic certification of these criteria by independent, third parties.

Public involvement. Since the public runs the risk of bearing the environmental costs not covered by an inadequate or prematurely released bond, they must be accorded an essential role in advising authorities on the setting and releasing of bonds. Therefore, regulators must give the public notice and an opportunity to comment both before the setting of a bond amount and before any decision on whether to release a bond.

No substitute. Any financial assurance should not be regarded as a surrogate for a company's legal liability for cleanup, or for the regulators' applying the strictest scrutiny and standards to proposed mining plans and operations. Rather, a financial assurance is only intended to provide the public with a buffer against having to shoulder costs for which the operator is liable.

Source: Da Rosa 1999.

Note: The author has used the terms financial assurance and bond to refer to a financial surety. The term bond does not refer to a surety bond as described in "Financial Surety Instruments."

FINANCIAL SURETY INSTRUMENTS

A financial surety instrument is an important tool in ensuring that funds are available to guarantee effective mine closure and rehabilitation. To be effective, the appropriate financial surety instrument must be chosen. There are a number of different financial surety instruments available, and the choice depends on the financial strength of the company, the amount of surety required, and the time frame over which the fund will need to be in place. It is also essential that the financial surety be quarantined from other company assets, so that it is still available in the event of bankruptcy and/or government abuse.

This section describes the most common forms of financial surety instruments. An evaluation of these instruments is presented in box 3, which is taken from the Guidelines on Financial Guarantees and Inspections for Mining Waste Facilities, written by MonTec (2007) for the European Commission (EC). At the time of publication, these guidelines had not yet been adopted by the EC. The section *Implementation Guidelines* provides some comments on the different types of financial surety instruments.

LETTER OF CREDIT

An irrevocable letter of credit (LC), also known as a bank guarantee, is an unconditional agreement between a bank and a proponent to provide funds to a third party on demand. In this case, the third party is the relevant government department. A LC includes the terms and conditions of the agreement between the proponent and the government, with reference to the rehabilitation program and the agreed-upon costs. Any changes to the LC requires the consent of all the parties involved.

To obtain a LC, the proponent has to demonstrate to the bank that provisions have been made for the rehabilitation of the site and that it has sufficient funds or liquidity to cover the costs. A LC is usually issued for a year and renewed annually following a review of rehabilitation requirements and costs. If the bank, for any reason, decides not to renew an LC and the proponent fails to provide an acceptable alternative form of surety, then the government can request payment for the full outstanding amount of the LC.

The government usually specifies from which banks it will accept a LC. The annual cost of a LC ranges from 0.5 percent to 9 percent of the guaranteed amount, depending on the proponent's credit rating. The funds held in an LC do not generate any interest.

SURETY (INSURANCE) BOND

A surety bond—also known as an insurance bond or a performance bond—is an agreement between an insurance company and a proponent to provide funds to a third party under certain circumstances. In this instance, the third party is the relevant government department. A surety bond includes the terms and conditions of the agreement between the proponent and the government with reference to rehabilitation programs, agreed-upon costs, and conditions for the release of the bond. Any changes to a surety bond require the consent of all the parties involved.

A surety bond is issued by an insurance company, ideally one that is licensed under the relevant legislation. It is issued for a specific time period and can be renewed for further time periods based on a credit review of the proponent. During this process the amount of a surety bond can be increased or decreased depending on the amendments to the rehabilitation program. If a surety bond is not renewed and the proponent fails to provide an acceptable alternative form of surety, then the government has the option of drawing the full amount. The proponent should be responsible for all fees and charges associated with a surety bond.

BOX 3 EVALUATION OF COMMONLY USED FINANCIAL SURETY INSTRUMENTS		
Instrument	Advantages	Disadvantages
Self-bonding (company guarantee)	<ul style="list-style-type: none"> • Most advantageous for mining company • Does not tie up capital • Simple to administrate • Public availability of annual reports 	<ul style="list-style-type: none"> • Even very large companies can fail, no matter what their financial health was when the mining project started • Annual reports and financial statements are not immune to manipulation (accounting scandals) • Problematic public acceptance
Insurance policy (scheme)	<ul style="list-style-type: none"> • Low costs also to smaller mining companies • No tied-up capital • Modest cash outflow from mine operator 	<ul style="list-style-type: none"> • Only very few insurance products are currently in the market • Reluctance of larger insurers to cover environmental liability risks

BOX 3 EVALUATION OF COMMONLY USED FINANCIAL SURETY INSTRUMENTS <i>(cont.)</i>		
Instrument	Advantages	Disadvantages
Letter of credit, bank guarantee	<ul style="list-style-type: none"> • Cheap to set up (provided that company meets the bank's requirements) • No tied-up capital • Modest cash outflow from mine operator • Less administrative requirements • The government can reserve the right to approve banks from which they accept an LC, thereby minimizing the risk of failure of weak banks 	<ul style="list-style-type: none"> • Surety provider (bank, surety company) itself may fail • Obtaining an LC may reduce the borrowing power of the mining company • Availability of bonds depend on the state of the surety industry and may be negatively affected by market forces outside the mining industry
Surety bond	<ul style="list-style-type: none"> • Generally low costs • No tied-up capital 	<ul style="list-style-type: none"> • Bond issuer may fail over the long term • Rating of the company determines the cost, which will be substantially higher for small companies, especially those without proven track records
Cash deposit	<ul style="list-style-type: none"> • Cash is readily available for closure and rehabilitation • Investment-grade securities (treasuries) can be traded with minimal risk of liquidity • High public acceptance ("visibility" of guarantee) • Can be used by small and junior mining companies, if they fail to meet the criteria of a bank • Can be dissolved only partly in case of need • Can be transferred in a pooled fund 	<ul style="list-style-type: none"> • Significant capital is tied up for the duration of the mine life, especially for large mining projects • Some governments may be tempted to use the deposited cash for purposes other than securing the mining project • Cash is more vulnerable to being lost to fraud or theft
Trust fund	<ul style="list-style-type: none"> • High public acceptance ("visibility" of trust fund) • Trust funds may appreciate in value (but may also lose value, see "disadvantages") 	<ul style="list-style-type: none"> • Risk of bad management of the trust fund (loss of value if fund invests in risky assets) • Trust fund may not have enough value accumulated through annual payments if mining project ceases prematurely • Trust fund management and administration consumes some of the value and income earned

Source: Montec 2007.

The government must ensure that a surety bond is unconditional and not invalidated by any action or failure of the proponent to act in accordance with the terms of the bond or the legislation.

TRUST FUND

A trust fund—also known as a mining reclamation trust, a qualifying environmental trust, or a cash trust fund—is an agreement between a trust company and the proponent for the sole purpose of funding the rehabilitation of a site. In addition to a trust fund, there should be a signed agreement between the proponent and the government, administered by the trust company, that stipulates the proponent's responsibility with regard to the trust. This agreement should state that the trust fund exists to provide security for the rehabilitation costs of a particular site, specify the total amount required, and outline a schedule of payments.

A trust fund should be maintained by a company that is licensed under the relevant legislation. The types of investment available to the fund manager should be decided by the proponent and the government and specified in the agreement. If the payments are not made to a trust fund and the proponent fails to provide an acceptable alternative form of surety, then the government has the option of claiming the full amount of the fund. The proponent should be responsible for all the fees and charges associated with a trust fund.

Contributions to a trust fund are usually structured as a series of payments over a specific time period. The management and performance of a trust fund should be subject to periodic review.

The appendix of the International Council on Mining and Metals (ICMM 2005) report *Financial Assurance for Mine Closure and Reclamation* contains a list of principles established by the mining industry for the design, operation, and review of a trust fund. These are reproduced in full in boxes 4 and 5. The complete report is available on the ICMM website (see annex 1).

CASH, BANK DRAFT, OR CERTIFIED CHECK

A deposit can be made for a financial surety as cash, a bank draft, or a certified check. The funds should be placed in a dedicated account under the management of the financial institution with the government and company holding joint signatory powers. Alternatively, the cash can be used to purchase a certificate of deposit, which can be pledged to the relevant government agency. Most commercial banks charge nominal fees for setting up such accounts, and the money earns interest that accrues to the fund.

COMPANY GUARANTEE

A company guarantee—also called a corporate financial test, a balance sheet test, or a self-guarantee—is based on an evaluation of the assets and liabilities of the company and its ability to pay the total rehabilitation costs. A company guarantee requires a long history of financial stability, a favorable credit rating from a specialized credit

rating service, and an annual financial statement prepared by an accredited accounting firm.

Many jurisdictions will no longer accept a company guarantee as a form of financial surety because of the public perception that a self-guarantee for a mining company is a contradiction in terms. Of those that do allow a company guarantee, some will accept this form of financial surety only for the first half of the life of the project or for part of the surety.

BOX 4 CRITERIA FOR THE EFFICIENT DESIGN OF A TRUST FUND	
Site-specific basis for fund	Each mine should be assessed individually and the security required should reflect the costs and risks associated with reclaiming that site.
Basis for cost estimates	Estimated costs should be based on careful engineering and technical studies accompanied by formal risk assessments to take into account the probabilities and consequences of alternative scenarios.
Responsible management of reclamation	The design of the fund should encourage mining companies to manage their reclamation programs in an active and responsible manner, in order to control costs and to develop innovative technical solutions to reclamation challenges.
Similarity to pension fund	The principles for setting up a fund should be similar to those used to establish a pension fund.
Investment policy	Investment policy should permit investments that optimize the risk-return ratio, bearing in mind that the fund is a long-term investment.
Investment manager	The fund should be managed by an investment manager selected by the company. The company should at the same time have the option of managing the fund internally with reasonable guidelines, as with a pension fund.
Monitoring legislation	Legislation modeled on pension statutes or other similar legislation can be used to monitor performance of the fund and to ensure compliance with the investment policy.
Choice of financing mechanism	As justified by the circumstances, a company should have the option to determine which government-authorized financing mechanism (or combination of mechanisms) represents efficient use of the company's capital.
Expenses deductible for tax	Where a government-mandated mine reclamation fund is required, payments into the fund should be allowed as a deductible expense at the time they are made for purposes of income tax and mining taxes.

BOX 4 CRITERIA FOR THE EFFICIENT DESIGN OF A TRUST FUND <i>(cont.)</i>	
Fund income sheltered tax	Income generated by a fund should be tax- from sheltered until withdrawn.
Investment management fees	All investment management costs should be financed from the proceeds of the fund.
Fund trustee	An independent third party, such as a trust company, is an acceptable trustee of a fund.
Sole government control	The mining industry is opposed to the government having sole control over the management of investments in a fund.

Source: ICMM 2005.

BOX 5 GUIDELINES FOR THE REVIEW AND AUDIT OF A TRUST FUND	
Site-specific basis for fund	Each mine should be assessed individually and the security required should reflect the costs and risks associated with reclaiming that site.
Basis for cost estimates	Estimated costs should be based on careful engineering and technical studies accompanied by formal risk assessments to take into account the probabilities and consequences of alternative scenarios.
Periodic review or audit	A periodic review or audit of activities of a fund is necessary to ensure appropriate disbursement and use of funds pursuant to the approved decommissioning plan.
Scope of audit	An audit should include the preparation of financial statements and a technical review of work performed. It should also include, where applicable, a reassessment of reclamation requirements and funding contributions.
Conduct of audit	An appropriate panel should be engaged to undertake the review and audit using technical, engineering, legal, and actuarial expertise.
Frequency	A review should be held with a stated frequency, which could be from three to five years or more frequently if deemed desirable by the government or the company.
Disposition of surplus funds	Any surplus funds determined by a review should be returned, net of appropriate tax adjustments, to the company.

Source: ICMM 2005.

INSURANCE SCHEME

There is a wide range of insurance options, but until recently none has been specifically designed to cover long-term rehabilitation costs. General forms of insurance such as premium financing, commercial general liability, and professional indemnity do not normally cover environmental liabilities. One major advantage of an insurance scheme is that premiums paid into a policy are usually tax deductible. In the United States, one insurance company created a custom-designed product that combines three elements: a conventional surety bond, accumulation of cash within the policy, and insurance protection for overruns and changing requirements. The policy is based on the rehabilitation plans and projected costs, the creditworthiness of the proponent, and the market value of the mine assets. From the funds deposited, the insurance company issues the required security bonds to the government and pays the actual rehabilitation costs. At the end of project life, if there is a surplus in the account, it goes back to the proponent. If there is a deficit, the insurance company pays.

UNIT LEVY

The unit levy option requires the financial surety to be paid in regular installments; the payments are based on the amount of ore or waste mined or milled. The level of payment per ton is determined by the proposed life of the mine, the estimated closure costs, and the mining rate. The financial surety payments can be in cash, an LC, or a surety bond. The proponent makes payments to the fund until the full amount of the financial surety has been paid. In some jurisdictions, the financial surety must be paid in full before the half-life of the mine is reached. Signed financial assurance agreements should be included with a closure plan incorporating the terms and conditions for the amount per ton and the form and timing of the payments.

SINKING FUND

A sinking fund is a method of making incremental payments to an LC, surety bond, or cash financial surety. A schedule of payments is established when the financial surety is set up. The proponent then makes payments to the fund until the full amount of the financial surety has been reached. In some jurisdictions the financial surety must be paid in full before the half-life of the project is reached. Signed financial assurance agreements should be included with a closure plan when the proponent provides financial assurance in the form of a sinking fund. The agreements include terms and conditions about the amount, form, and timing of the payments.

PLEDGE OF ASSETS

In some jurisdictions a pledge of assets is an acceptable form of financial surety. This pledge takes the form of all surplus equipment and scrap metal that remains at the mining site after operations have ceased. The surplus equipment includes buildings and stationary equipment. The scrap metal includes all metal debris produced during site demolition and cleanup.

If a pledge of assets is being used as a financial surety, the government should make sure that several conditions are in place: (i) the assets should be free and clear of encumbrances, (ii) the assets should be fixed or not easily moved, (iii) the assets should not be contaminated, and (iv) there should be market demand for the assets. The value estimation should be carried out by a third party and should include the cost of retrieving and transporting the assets from the site to the marketplace. The estimate should also be recalculated periodically. This is generally viewed as a high-risk form of financial surety and is not accepted in many countries.

FUND POOL

In some jurisdictions, the industry is permitted to set up a fund pool that receives contributions from all mining operators in the region and is managed by the industry. But this is not a particularly popular form of financial surety as it is largely out of the control of the government and can result in responsible companies subsidizing irresponsible ones.

TRANSFER OF LIABILITY

Some researchers have explored the possibility of establishing a company specifically designed to carry out mine site rehabilitation. This company would have a contractual arrangement with the mining company involved and would be responsible for providing insurance cover. As far as the author could establish, this form of financial surety is not currently available in any jurisdiction.

CASE STUDIES

ONTARIO

Legislation and Governance

In Ontario (Canada) the *Mining Act R.S.O. 1990* (Bill 26, proclaimed 1991), Chapter M. 14, Part VII, covers the rehabilitation of mine land. It requires the proponent to submit a closure plan that includes a financial assurance of site rehabilitation. The *Ontario Regulation 240/00*, adopted under Part VII of the Mining Act, specifies the standards, procedures, and requirements for site rehabilitation and the closure plan, including financial assurance. Schedules 1 and 2 of these regulations provide details of the rehabilitation requirements and the information to be included in a closure plan. The latter includes detailed costs for the implementation of the rehabilitation measures and monitoring programs and the form and amount of financial assurance. Financial surety is required for any advanced exploration¹ or mining project.

The government has also produced a Financial Assurance Policy Index that is available on the Ministry of Northern Development and Mines website (see annex 1). This index is designed to help proponents carry out the financial assurance provisions of the Mining Act. Templates for an LC and surety bonds are also available (annex 2 and 3).

The Ministry of Northern Development and Mines is responsible for the administration of the Mining Act. All aspects of mining, including mine closure and financial surety, are handled by the Mines and Minerals Division, Mineral Development and Lands Branch.

Timing

In sections 139–44 the Mining Act specifies that a closure plan must be submitted, filed, and approved before the start of advanced exploration or mine production. Section 145 then goes on to stipulate that financial assurance is required as part of the closure plan. This means that a mining lease can be issued prior to the filing of the closure plan, but that work cannot start on-site until the closure plan, including the financial surety, is filed and approved.

Financial Surety Instruments

Section 145 of the Mining Act identifies the following mechanisms acceptable as financial surety:

- Cash
- Letter of credit
- Surety bond

¹ “Advanced exploration” means the excavation of an exploratory shaft, adit, or decline; the extraction of prescribed material in excess of the prescribed quantity, whether the extraction involves the disturbance or movement of prescribed material located above or below the surface of the ground; the installation of a mill for test purposes; or any other prescribed work (“exploration avancée”).

- Trust fund
- Corporate financial test (company guarantee)
- Any other acceptable form of security or guarantee including pledge of assets, sinking fund, or royalties per ton at the discretion of the director of mine rehabilitation

In Ontario there are currently 154 financial surety forms for 144 approved reclamation (closure) plans. The breakdown of these sureties is as follows:

- Letter of credit (57 percent)
- Corporate financial test (12 percent)
- Cash/cash levy (26 percent)
- Pledge of assets (3 percent)
- Surety bond (2 percent)

It is interesting to note that, even though the corporate financial test accounts for only 12 of the total number of forms, it accounts for 67 percent of the funds being held for financial surety.

Scope of Financial Surety

The *Ontario Regulation 240/00*, section 4, states that all those engaged in rehabilitation shall comply with the standards, procedures, and requirements of the *Mine Rehabilitation Code* set out in schedule 1. Section 11 goes on to say that a closure plan shall include at least the items and information set out in schedule 2. A summary of the minimum rehabilitative measures referred to in the code is given in section 24. The financial surety must be sufficient to cover the following elements of closure:

- Mining infrastructure
- Underground mines
- Adits
- Open pits
- Tailings storage facilities
- Surface and ground water monitoring
- Acid drainage
- Physical stability
- Revegetation

The financial surety must also cover any long-term care requirements. The legislation does not specify the inclusion of costs for administration and management of the financial surety, but if the calculations are based on third-party costs, these should automatically be included.

Level of Financial Surety

The level of financial surety is based on the cost of using external contractors. The figures are established by the proponent and its consultants according to schedules 1 and 2 in the *Ontario Regulation 240/00*. The calculations must be based on the

market value of the goods and services required by the work. The level of the financial surety must account for the end-of-project costs, though payments may be phased in.

Incremental contributions may be made via a sinking fund. In this instance, a schedule of financial surety payments would be established so that the full amount is lodged before the half-life of the mine is reached. Incremental payments are not an option for advanced exploration projects or higher-risk projects.

Tax

There are no tax breaks offered in Ontario for financial sureties. The government does not consider them to be an expense, because the funds will be returned to the company upon completion of the closure plan.

Review

The proponent's senior executives must certify that the financial surety is sufficient to cover the closure of the site as per the legislative requirements. The government carries out a quick overview and compares the costs with those of other projects but does not go into detail. There is no third-party involvement or verification.

Section 143 of the Mining Act requires that any amendments made to the closure plan must include amendments to the financial surety, if the amount needs increasing. Amendments to the closure plan may be made voluntarily by the proponent or at the request of the authorities. The government is currently considering whether to introduce a regular review of closure costs every three or five years and, if necessary, to adjust the level of the financial surety accordingly. This review would be carried out by the proponent and its consultants.

Release

Funds are not available to the proponent for ongoing rehabilitation. If a company carries out progressive rehabilitation, the government may agree to return some of the financial surety. This is based on a certified technical report stating that the work was carried out in accordance with the legislative requirements and the current value of the remaining rehabilitation work. Following successful closure, the funds are returned to the proponent. Some funds may be retained for short-term monitoring costs or long-term care.

Experience

The province of Ontario has had the requirement for a financial surety in place since 1991. Since then, five exploration sites and mines that had a fund in place have closed. In the majority of these cases, the companies closed the site using their own funds, and in several cases (where there were no long-term care requirements) the financial surety was returned to the company. In a couple of instances, companies that shut down operations due to economic difficulties had financial sureties based on a royalty per ton (unit levy). The government was then left with insufficient funds to complete closure of the site.

NEVADA

Legislation and Governance

Mining on federal land in the United States of America is governed by the 1872 federal law titled “An Act to Promote the Development of Mineral Resources of the United States.” Most details regarding the procedures for a project on federal land are left to the individual state, providing that state laws do not conflict with federal laws. As 85 percent of land in Nevada is federal land, the majority of mining projects are governed by the 1872 law and related to the United States Code (USC) as well as Nevada state law. Most of the federal land is managed by the Bureau of Land Management (BLM) and the U.S. Forest Service (USFS).

The relevant federal codes for the BLM are *USC Title 30: Mineral Lands and Mining, 1970*; *USC Title 43, Chapter 35: Federal Land Policy and Management, 1976*; and the *Code of Federal Regulations (CFR) Title 43: Public Lands*. Sections 3809.500 to 3809.560 of CFR 43 outline the financial guarantee requirements for all mining projects on BLM-managed land that cause surface disturbance by more than casual use. The relevant federal codes for the USFS are the Organic Act of 1897; *USC Title 16: National Forest Management Act, 1976*; and *CFR Title 36: Parks, Forests, and Public Property*. *CFR Title 36, Part 228*, requires an operator to file a plan of operations and, when required, lodge a financial surety. The USFS has produced reclamation bond estimation and administration guidelines (2004) for mining operations authorized and administered under *CFR Title 36, Part 228A*, available on its website (see annex 1).

The state legislation relating to mine closure is contained in the *Nevada Revised Statutes (NRS) 445A: Water Pollution Control, and NRS 519A: Land Reclamation*. Regulations adopted under these statutes are incorporated in *Nevada Administrative Code (NAC) chapters 445A and 519A*. NRS 519A requires that any application for an exploration or mining project should include a bond or other surety. The details of this obligation are contained in *NAC 519A*. Projects of fewer than five acres or mine production of less than 36,500 tons (including all ore, waste, and so on) are not required to lodge a financial surety.

The Nevada state government has signed a memorandum of understanding (MoU) with the federal land managers (BLM and the USFS) to coordinate the administrative and enforcement obligations pertaining to the reclamation of land disturbed by exploration or mining activity. The Nevada Bureau of Mining Regulation and Reclamation (BMRA), Division of Environmental Protection, Department of Conservation and Natural Resources, is responsible for site reclamation and the financial surety, and *NRS/NAC 519A* is the primary legislation. This arrangement avoids duplication.

Timing

NRS/NAC 519A requires an application for an exploration or mining permit to include the assumption of responsibility for the reclamation of the site, a

reclamation plan, and evidence of a financial surety. The exploration or mining permit and the reclamation permit may be issued, but they are not effective until the financial surety has been accepted.

Financial Surety Instruments

The types of financial surety accepted by Nevada state law are specified in *NAC 519A* and include the following:

- Trust fund
- Surety bond
- Letter of credit
- Insurance
- Corporate guarantee
- Any combination of the above mechanisms

Large companies may obtain a state corporate guarantee for up to 75 percent of the value of the surety if they can meet the regulatory criteria for demonstrating adequate financial health. In addition, the Nevada BMRA administers a bond pool that guarantees up to US\$3 million in reclamation costs for small companies that have been refused commercial support. Smaller operations may also be allowed to fund the surety with a cash deposit. The recently revised Section 3809 regulations (*CFR Title 43*) do not allow any new or expanded corporate guarantees on BLM-managed land, though existing guarantees are recognized.

In Nevada, 214 mining and exploration projects currently have a financial surety in place. These sureties take the following forms:

- Surety bond (23 percent)
- Letter of credit (56 percent)
- Corporate guarantee (17 percent)
- Cash deposit (2 percent)
- Certificate of deposit (1 percent)
- Bond pool (1 percent)
- The Nevada BMRA currently holds US\$785 million in mining reclamation bonds.

Scope of Financial Surety

Nevada legislation states that the financial surety must be sufficient to cover the cost of all aspects of physical closure and include administrative and contingency costs.

The physical closure includes:

- Removal of all plant and equipment
- Demolition and disposal of infrastructure
- Stabilization and regrading of surfaces
- Erosion control
- Revegetation
- Process fluid stabilization
- Interim fluid management

The funds must also cover ongoing or long-term care required to maintain the effectiveness of reclamation. The stabilization of fluids from nonprocess components (for example, seepage from waste rock dumps) and unspecified contingencies are not included.

Level of Financial Surety

The financial surety must be based on third-party costs using government rates. The level of surety is established by the proponent in accordance with the regulatory requirements, and all sources of estimates and calculations must be submitted to the Nevada Division of Environmental Protection (NDEP).

The BMRA has produced a reclamation bond checklist to assist proponents in calculating the engineering and environmental costs of rehabilitation. This document specifies that the administrative costs should be established at 10 to 15 percent of the contract cost. The department recommends that all operators use the Nevada standardized reclamation cost estimator (SRCE) model to demonstrate how costs were established. The model is available on its own website (see annex 1).

Incremental payments for the financial surety are accepted as long as the amount of the fund always covers the outstanding reclamation obligation. These payments are usually applicable only to larger projects, with payments made at each phase of operation.

Tax

The state of Nevada, in line with federal policy, allows a deduction of the financial surety for tax purposes. The expense of maintaining a financial surety (premiums and so on) are counted as expenses and are tax deductible, as is the actual expenditure on rehabilitation. The company is allowed to distribute the financial surety payments over a number of years for tax reduction purposes.

Review

The proponent submits the reclamation cost estimates to the NDEP. These costs are reviewed internally or, if public land is involved, jointly with the federal BLM or USFS. They are also subject to public review and comment but are not verified by a third party.

The level of financial surety may be reviewed and revised at any time. A full review is carried out at least once every three years and whenever the reclamation plan is modified. If the proponent is paying the financial surety in increments, then more frequent reviews are carried out.

Release

Funds are not available to the proponent for ongoing rehabilitation, but as discrete steps in the reclamation plan are completed, partial release of the surety may be allowed. Following successful closure, the funds are returned to the proponent unless there is a long-term outstanding obligation, such as perpetual water

treatment. In this case, a special arrangement such as the establishment of a self-perpetuating fund may be made.

Experience

The state of Nevada initiated the requirement for a financial surety in 1990. Since then, about 75 exploration sites and mines that had a fund in place have closed. In addition, about 25 sites have been abandoned because of the failure of the operator. In the majority of these latter cases, the funds were not sufficient to pay for all the required reclamation and the state had to prioritize work and find alternative funds to complete the closure requirements. For the most part, the rehabilitation funds were insufficient because the sites were older ones run by financially marginal operators with inadequate surety to begin with. At most of these sites, the regulatory agencies were working to increase the surety but the operators were unable or unwilling to do so prior to bankruptcy and abandonment.

QUEENSLAND

Legislation and Governance

The *Mineral Resources Act 1989* provides the framework for the application and granting of mining titles. The *Environmental Protection Act 1994* requires all mining-related activities to be issued with an environmental authority and for mining projects to produce an environmental management plan (EMP), which must include a rehabilitation program. In addition, both laws have provisions for a financial security to be lodged, though neither specifically mention closure plans.

In 2001 the Queensland government transferred the responsibility for the environmental regulation and management of mining from the Department of Mines and Energy (DME) to the Environmental Protection Agency (EPA). This required the repeal of the environmental provisions contained in the Mineral Resources Act and the insertion of a new chapter in the Environmental Protection Act. These changes were implemented by the *Environmental Protection and Other Legislation Amendments Act 2000*. Under this new legislation, the minister of mines lost much influence in the environmental decision-making process but retained the right to make representations if an objection is lodged against a new mining project or a refusal is likely.

The Minerals Resources Act requires that a security be deposited prior to the issuance of a mining title. This is in the case of noncompliance with title conditions and improvement restoration but no longer covers rehabilitation. The Environmental Protection Act requires the rehabilitation program to include the proposed amount of the financial surety for larger projects, while the Codes of Environmental Compliance require a financial surety for small projects. A financial surety is required for all mining titles but the proponent may lodge a single surety to cover the requirement of both the Mineral Resources Act and the Environmental Protection Act.

The DME is responsible for the granting and surrender of all mining titles. The EPA is responsible for the granting and surrender of an environmental authority. The DME is responsible for the receipt and management of both the security under the Mineral Resources Act and the financial surety under the Environmental Protection Act. Under the Environmental Protection Act, the EPA has produced a number of guidelines and codes that detail the environmental management of all mining projects. Of particular relevance is *Guideline 17: Financial Assurance for Mining Activities* (2003). All legislation is available on the EPA website (see annex 1).

Timing

An application for a mining title must be accompanied by a completed application for an environmental authority (mining activity). For all mining licenses, except a mining lease, the financial surety must be lodged before the title is granted. In the case of a mining lease, the financial surety does not need to be lodged until after the mining title and the environmental authority have been granted. But it must be in place before any activity proposed in the plan of operations is carried out on-site.

Financial Surety Instruments

The Environmental Protection Act gives the EPA the discretion to determine the form of the financial surety. Guideline 17 specifies that the acceptable forms of financial surety include:

- Cash
- Bank guarantee (letter for credit)
- Insurance bond

Queensland currently has about 1,000 financial sureties for mining claims; 1,000 for exploration permits; 200 for mineral development licenses; and 1,200 for mining leases. Approximately 70 percent of the mining lease sureties are cash and 30 percent bank guarantees, though the latter represent 98.5 percent of the total amount of financial surety held by the department.

Scope of Financial Surety

The Queensland legislation does not specify what aspects of mine closure are encompassed by the term *rehabilitation* or what should be covered by the financial surety. The elements identified by the EPA that could be included under rehabilitation are:

- Removal of plant and equipment
- Recontouring waste dumps and pits
- Capping the storage of tailings and other hazardous materials
- Breaching dams and restoring water courses
- Making slopes and openings safe
- Replacing topsoil
- Revegetation
- Monitoring water and air quality, erosion rates, and vegetation

- Conducting contaminated land surveys
- Implementing site management plans

The Amendment Act 2000 and Guideline 17 specify that maintenance and monitoring costs should be included in the financial surety.

In January 2006 new provisions relating to residual risk payments were introduced, allowing for a separate cash payment to be made when the environmental authority is surrendered or when progressive rehabilitation is certified. This residual risk payment covers future maintenance and remedial work.

Level of Financial Surety

The financial surety for exploration and small (standard) mining projects is based on the total area of disturbance and the risk associated with the rehabilitation. A simplified version of the table from Guideline 17 is shown in table 1.

TABLE 1 FINANCIAL SURETY FOR STANDARD EXPLORATION AND MINERAL DEVELOPMENT PROJECTS		
Total area of disturbance	Low risk: Simple, straightforward rehabilitation	High risk: Difficult rehabilitation
Less than 1 hectare	A\$2,500	A\$5,000
1 to 4 hectares	A\$10,000	A\$20,000
4 to 10 hectares	A\$20,000	A\$40,000

The level of financial surety for a nonstandard project is calculated on a project-specific basis, even though one project may include a number of leases. It is calculated by multiplying a unit rehabilitation cost by the estimated disturbed area, based on the cost of using third-party contractors. The amount is established by the proponent. The Code of Environmental Compliance for Mining Lease Projects contains an example to assist the proponent in establishing the costs. The maintenance and monitoring costs are calculated at 10 percent of the total rehabilitation costs.

The financial surety system allows a discount of 10 to 75 percent based on previous environmental performance. The maximum discount will be reduced to 30 percent in January 2009. The performance criteria and discount rates are included in appendix B, table 2 of Guideline 17.

The financial surety can be paid incrementally, established by estimating the maximum level of disturbance for each planning period covered by the plan of operations. This period can be between one and five years.

Tax

A 10 percent goods and services tax is payable on all taxable supplies that can be reclaimed if the administering authority makes a claim on the financial surety.

Review

When submitting a financial surety, the holder of the environmental authority must also certify that correct procedures have been used. The holder may decide to go to an outside auditor, but third-party verification is not required. The penalties for providing false or misleading information, however, can be quite severe (up to two years in prison).

The financial surety is reviewed whenever a mining title is renewed or, in the case of a mining lease, when a new plan of operations or environmental authority is amended or replaced. The time between reviews is governed by the type of mining title. The EPA has the power to reassess the financial surety at any time provided it has good reason to do so. At any of these reviews the level of financial surety can be changed.

Release

The financial surety is not available to the holder of the environmental authority for ongoing rehabilitation. But when a new operations plan is submitted and the rehabilitation liability recalculated, work that has been completed will no longer be included in the total.

The environmental authority must be surrendered or cancelled before a mining title can be relinquished. An application for the surrender of the environmental authority requires the holder to also submit a final rehabilitation report. The financial surety remains in place until the EPA is satisfied that no further claim is likely to be made against it. At this stage a residual risk payment will be established and the surety surrendered.

Experience

A number of small- and medium-sized mines have closed since the financial surety system was introduced to Queensland. In some cases, the mining title was revoked because of financial failure or noncompliance with the legislation. Several of these mines have required the government to carry out the rehabilitation work, and in two instances the costs were more than A\$1 million. Most mines that closed through a planned closure process have not required any additional work.

VICTORIA

Legislation and Governance

In Victoria all mining activity is regulated by the *Mineral Resources (Sustainable Development) Act 1990*, the *Extractive Industries Development Act 1995*, and associated regulations. Both acts contain the requirement for a rehabilitation plan and a financial surety known as a rehabilitation bond, the details for which are

contained in the draft guidelines, Establishment and Management of Rehabilitation Bonds 2007. These guidelines will replace the 1997 guidelines. The Extractive Industries Development Act regulates quarrying activity while the Mineral Resources (Sustainable Development) Act regulates the remainder of the mining industry.

The Mineral Resources (Sustainable Development) Act establishes a three-stage approval process for mining projects: (i) mining license, (ii) work plan, and (iii) work authority. The rehabilitation plan must be submitted as part of the work plan. Work on-site cannot start until a work authority has been granted, by which time a rehabilitation bond should be lodged.

A recipient of a mining license must also follow the planning permit process regulated under the *Planning and Environment Act 1987*. The application for the planning permit must include details of proposed rehabilitation. Under the *Environment Effects Act 1978*, the minister for planning may determine that an environment effects statement is required. This statement should also contain the rehabilitation plan.

The Department of Primary Industries (DPI), Minerals and Petroleum Division, is responsible for the administration of the Mineral Resources (Sustainable Development) Act and the Extractive Industries Development Act. The rehabilitation plan must be approved by the DPI and the rehabilitation bond lodged with the minister for resources.

Timing

Once a mining title has been issued, in the case of a mining license, the proponent has six months to submit a work plan (which also includes the rehabilitation plan). This is reduced to three months for an exploration license. The rehabilitation bond must then be lodged before the work authority is granted and before any on-site work is begun.

Financial Surety Instruments

The only form of financial surety accepted by the DPI is a bank guarantee (LC).

Scope of Financial Surety

The Victoria legislation does not specify what aspects of mine closure are encompassed by the term *rehabilitation* or what should be covered by the financial surety. The Mineral Resources Development Regulations 2002, Schedule 13, state that a rehabilitation plan should include the following:

- Concepts for the end utilization of the site;
- A proposal for the progressive rehabilitation and stabilization of extraction areas, road cuttings, and waste dumps—including revegetation species; and
- Proposals for the end rehabilitation of the site, including the final security of the site and the removal of plant and equipment.

The 2007 guidelines provide a manual for common rehabilitation principles and include possible acceptable methods of treatment. Appendix C.3 (“Generally accepted closure methods”) also provides guidance, though rehabilitation plans are made on a site-by-site basis.

Level of Financial Surety

The minister for resources must determine the level of financial surety required. This is done in consultation with the Department of Sustainability and Environment if Crown land is involved. For private land, the local council and the landowner are consulted. The surety is calculated by the DPI environmental officers, following receipt of the rehabilitation plan, and is based on the cost of using third-party contractors. The financial surety also includes 10 percent for project management, 10 percent for contingency costs, and 5 percent for monitoring. The level of financial surety is established using standard rates for simple operations and the rehabilitation bond calculator (available on the DPI website; see annex 1) for larger, more complex sites. This calculator is based on the URS/GSS environmental rehabilitation cost estimate tool (see the section *Implementation Guidelines*). The final amount of the financial surety is subject to consultation with the proponent but must reflect the actual cost of the proposed rehabilitation.

There is no facility for the initial financial surety to be paid in increments. But where a substantial surety increase is required, and the proponent has demonstrated that the increase might have a serious impact on the viability of the project, incremental payments of the additional surety may be approved.

Tax

The legislation does not specify the tax position for funds paid into a financial surety.

Review

There is no third-party involvement in establishing the financial surety and no process of verification. The DPI has written procedures for establishing bonds, which are subject to an internal audit. Individual assessments are checked in all cases by a second officer and further checks apply to the larger sureties. The DPI also makes sure that surety systems receive an external audit by third-party auditors and the state auditor-general.

How often a financial surety is reviewed ranges from every two years for high-risk sites to every ten years for low-risk sites, based on the table contained in the guidelines. In addition, a financial surety would be reviewed if a proponent changed the work plan or transferred assets. The minister may, at any time, require the proponent to increase the level of the financial surety if the existing amount is found to be insufficient. In all cases, the review is carried out by the DPI.

According to the 2007 guidelines, a proponent is now required to submit an annual assessment of the current rehabilitation liability at the end of each reporting period.

The assessment will not be used to as an automatic trigger for a financial surety adjustment but may lead to the rescheduling of the next departmental review.

Release

The financial surety funds are not available to the proponent for ongoing rehabilitation. The funds may be partially released where progressive rehabilitation has been successful. Following the successful rehabilitation of the site, all of the financial surety is returned to the proponent, following consultation with the relevant groups.

Experience

In the state of Victoria, there are approximately 300 financial sureties in place for operating mines and 180 for exploration licenses (not including the 900 quarries). All of these financial assurances are in the form of bank guarantees (LCs). Over the last 10 years, mines that have closed with a financial surety in place have generally had sufficient funds to cover closure costs.

The Minerals Council of Australia has commented on the 2007 draft guidelines and made the following recommendations:

- The form of financial surety should be addressed.
- The initial financial surety should match the liability of the formal review period and not the maximum liability for the life of the project.
- Clarity is required regarding self-assessment using the calculator and formal bond reviews.

BOTSWANA

The government of Botswana is in the process of initiating financial surety requirements for mining projects. The Ministry of Minerals, Energy and Water Resources is actively encouraging mining companies to establish financial sureties for closure, separate from the company's other accounts. Whether the government might agree to tax concessions for funds is currently being discussed. To date, although some of the companies have agreed in principle, no financial sureties have been established.

Legislation and Governance

The *Mines and Minerals Act 1999* provides the framework for the application and granting of a mining license. Part IX of this act covers the environmental obligations, which include that the holder of a mining license carry out ongoing rehabilitation of the site and restore the land to its original condition—as far as is practicable and in a manner acceptable to the director of mines—at the end of the operations. The same section also provides for the proponent to make adequate financial provisions for compliance with the obligations contained in this section.

The *Mines, Quarries, Works and Machinery Act 1978*, the *Waste Management Act 1998*, and the *Environmental Impact Assessment Act 2005* all contain additional mine

closure and rehabilitation requirements. None of these, however, specifically mention financial surety. The *Guidelines for Preparing Environmental Impact Assessment Reports 2003* include a financial provision that requires a proponent to provide details regarding the ability to fund the environmental management program, including decommissioning and closure.

The Ministry of Minerals, Energy and Water Resources, Department of Mines, is responsible for the implementation of mine closure. It is proposed that the Department of Mines and the Ministry of Finance and Development are jointly responsible for the implementation and management of the financial surety for mining projects. The Ministry of Finance is involved because it will be housing the institution that will host the fund.

Timing

The financial surety must be in place before the mining title is granted.

Financial Surety Instruments

The form of financial surety is not identified in the legislation and the government is still deciding which types will be acceptable.

Scope of Financial Surety

The legislation does not specify what aspects of mine closure are included in the term *rehabilitation* or what should be covered by the financial surety. The Department of Mines states that, as part of the approved closure program by default, the financial surety should encompass the closure objectives and planning, the rehabilitation costs, and the postclosure monitoring costs.

Level of Financial Surety

The level of financial surety is currently based on existing estimates for all elements included in the closure activities. The Department of Mines intends to develop guidelines to provide a basis for the calculations.

Review

The financial surety is calculated and submitted by the proponent and then reviewed and approved by the Department of Mines. The level of financial surety may be reviewed and revised whenever there is a change in the operating plan. A full review will be carried out every five years and then a year prior to closure by the department and the proponent.

Release

The method for the release of the financial surety has not yet been established.

Experience

There are currently no financial sureties in place.

GHANA

Legislation and Governance

The *Mining and Minerals Law 2006* provides the framework for the application and granting of exploration and mining titles. Section 67 of this law states that a certificate of surrender (of the license) will not be granted if the minister “is not satisfied that the applicant will surrender the land in a condition which is safe and accords with good mining practice.” The *Environmental Protection Agency Act 1994* makes no specific reference to mining but does allow for regulations to be drawn up to provide for “standards and codes of practice relating to the protection, development, and rehabilitation of the environment.”

The *Environmental Assessment Regulations 1999*, developed under the *Environmental Protection Agency Act*, require that an environmental impact statement for mining include reclamation plans and that the proponent post a reclamation bond. The Mining and Environmental Guidelines 1994 state that an exploration site should be rehabilitated to a condition consistent with the preexisting character and utility of the area within three months of abandonment. The guidelines also require that an initial reclamation plan should be submitted as part of the environmental impact assessment and environmental action plan and gives the government the right to request a reclamation bond. The final reclamation plan must be submitted within the first two years of operation. These guidelines have been updated (2007) but are not yet available for general release.

The minerals commission and the EPA are jointly responsible for mine closure, and the EPA is responsible for the implementation and management of the financial surety.

Timing

The legislation does not specify when the reclamation bond should be put in place. The EPA currently requires that the bond be lodged after the mining license has been granted.

Financial Surety Instruments

The legislation does not specify which financial surety instruments are acceptable. The EPA lists the following mechanisms as being available to the proponent:

- Bank guarantee
- Letter of credit
- Performance bond
- Insurance
- Cash deposit

There are currently 10 projects that have financial sureties in place. For the majority of these projects, approximately 80 percent to 90 percent of the surety is in the form of a bank guarantee; the remainder is cash. One company has an insurance scheme.

Scope of Financial Surety

The mining and environmental guidelines specify the minimum standards required for the reclamation plan, though the legislation does not specify what aspects of mine closure should be covered by the financial surety. These are defined by the EPA as all elements of closure, including the transfer of immovable assets to the local authority, the return of the site to premining land-use status, and the physical and chemical stability of the reclaimed site.

Level of Financial Surety

The level of financial surety is based on the full reclamation costs. It is not specified whether these costs are for work being carried out by the proponent or by a third party.

Review

The financial surety is calculated on the basis of the reclamation plan by the proponent and is then submitted to the EPA for approval. Once in place, a financial surety is reviewed by the EPA every two years. At the time of the review, the level of surety may be adjusted depending on the value of the rehabilitation work done by the company during the review period.

Release

The funds contained in the financial surety are not available to the proponent for ongoing rehabilitation. The surety is retained for three years following the completion of the reclamation plan and is then returned to the proponent in full. This period is extended to seven years if there is the potential for acid mine drainage.

Experience

So far, one mining project has been closed that had a financial surety in place. The level of financial surety was sufficient to fund all closure costs.

PAPUA NEW GUINEA

The government of Papua New Guinea is in the process of initiating financial surety requirements for mining projects. The previous Department of Mining, now the Department of Mineral Policy and Geohazard Management, drafted a Green Paper on Mine Closure Regulation and Guidelines that is still under review. The only project that currently has a financial surety in place is the Ok Tedi Mine, which has its own legislation.

Legislation and Governance

The *Mining Act (1992)* and associated regulations provide the framework for the application and granting of mining titles. Amendments to the Mining Act are currently being prepared to insert provisions that require all holders of exploration and mining titles to carry out rehabilitation prior to relinquishing the title. At present, there is no requirement in the Mining Act for the proponent to produce any form of financial surety.

The government is currently drawing up mine closure regulations and guidelines, developed under the Mining Act. The 2005 draft requires that mine closure planning should be an integral part of all mining operations and that the proponent must establish a mine closure security and a mine closure trust fund. This requirement is only for mining licenses. Exploration licenses and alluvial mining leases are addressed in the *Environmental Code for Mining* developed under the *Environment Act 2000* and the Mining Act. The Environment Act allows for an environmental bond to be lodged for any activity that requires an environmental permit.

The exact interaction between the mine closure regulations and guidelines and the Environment Act is still being discussed. Current thinking is that if a financial surety is required under the jurisdiction of the Mining Act, then no further cover will be required under the Environment Act. But small alluvial mining leases will still be covered by the Environment Act.

The draft mine closure regulations and guidelines allow for a proponent to be exempt from the requirement of providing a financial surety if:

- It is impracticable for the developer to provide security or such security cannot be provided at an economic cost (having regard to the scale of mining and the financial resources available to the developer); and
- Benefits to the public welfare from the development of the mineral resources outweighs the risk from permitting the project to proceed without sufficient security being provided to support mine closure obligations.

The Mineral Resources Authority (MRA) is responsible for the administration of the Mining Act, and the Department of Mineral Policy (DMP) is responsible for formulating policies relating to mining activities. The financial aspects of the legislation are carried out in coordination with the Department of Treasury, Finance, and Planning. The Department of Environment and Conservation (DEC) is responsible for the administration of the Environment Act and the environmental bond. Both the MRA and DEC will review and approve the mine closure plan; the DMP will approve policies related to mining activities, including mine closure.

The Ok Tedi mine is governed by the *Mining (Ok Tedi Agreement) Act 1976* and is amended by supplemental agreement acts. The *Mining (Ok Tedi Ninth Supplemental Agreement) Act 2001*, also known as the *Mine Closure and Decommissioning Code 2001*, establishes the requirement for both closure plans and financial surety. This case is discussed in more detail under the heading “Experience.”

Timing

The mine closure plan should be submitted with the feasibility study and include estimated costs for closure and the financial provisions. Both the security for mine closure costs and the mine closure trust fund must be established before the commencement of the construction of the mine but after the mining license has been granted. The legislation does not specify when the environmental bond should be lodged.

Financial Surety Instruments

The draft mine closure regulation and guidelines identify the following forms of financial surety as acceptable:

- Bank guarantee
- Parent company guarantee
- Insurance policy
- Cash deposit

A mine closure trust fund may be held offshore at the mining advisory board's discretion.

The Environment Act states that the environmental bond may be submitted as a bank guarantee, insurance policy, or any other form of security approved by the director of environment.

Scope of Financial Surety

The mine closure security will be established at the start of operations and is designed to cover the costs of the technical and physical rehabilitation aspects of premature mine closure. The mine closure trust fund will accrue during the life of the project and will cover the actual costs of mine closure including decommissioning, rehabilitation, and postclosure monitoring. The mine closure security will be reduced as the mine closure trust fund increases. It has not been specified what will be included in the environmental bond.

Any holder of an alluvial mining lease will be required to pay a levy on the sales revenue derived from the activity. This levy will accumulate in a special fund and will be used to remedy a failure by the alluvial miner to comply with the closure guidelines, which include the preservation of the environment and removal of mining equipment.

It is interesting to note that the draft mine closure regulation and guidelines state that a different mechanism will be established to cover the social implications of closure. This is discussed in the *Implementation Guidelines* section..

Level of Financial Surety

The level of financial surety is based on the estimated cost of closing the mine and should incorporate premature closure.

Tax

The proponent may write down the contributions to the financial surety as an expenditure related to mine closure, which is tax deductible. Any funds removed from the financial surety other than for the purpose of implementing closure obligations would be recognized as assessable income and subject to tax. Any interest that accumulates in the fund will be used for mine closure. In addition, rehabilitation costs during commercial production may be written down as direct operating costs for tax purposes.

Review

The initial mine closure plan and financial surety are reviewed by the mining and environment departments. It will then be subject to a periodic audit during the life of the mine by the project liaison committee; every two years, if the remaining mine life is less than ten years, and every five years when the remaining mine life is more than ten years. It will also be reviewed if any material changes are made to the operating plan. These reviews will include the financial surety and take into consideration any changes that are required. The director of environment or the mining advisory council may also request a review at any time.

Release

The financial surety funds are not available to the proponent for ongoing rehabilitation. Once the agreed completion criteria for closure have been achieved to the satisfaction of the government, the MRA will issue a closure certificate, which is the mechanism for the formal relinquishment of the mining lease. Depending on the postclosure monitoring requirements, as specified in the mine closure plan, the mining lease may not be relinquished for up to 10 years, however. During this period, the proponent is responsible for any additional rehabilitation work. Financial surety is required to support these obligations, either through the original security or by provision of a specific fund.

Experience

There are currently no financial sureties in place under the above process. But the *Ok Tedi Mine Closure and Decommissioning Code (2001)* provides the legal framework for the preparation of a mine closure plan for the Ok Tedi Mine. This plan must be updated every two years. The *Code* also states that the company must establish a financial assurance to cover the costs of closure included in the plan.

The 2006 Draft Mine Closure Plan² produced by Ok Tedi Mining Ltd (OTML) consists of a detailed description of the physical closure process and the costs involved. It includes the demolition and removal of infrastructure, site rehabilitation, monitoring and care for up to six years, and redundancy payments. It also includes a 20 percent contingency and an annual escalator of 3 percent for up to 2013, the forecast mine closure date. The total financial assurance currently stands at US\$126 million, of which US\$75.6 million has been contributed by OTML (August 2008). The funds contributed by OTML are tax deductible, the interest earned is tax exempt, and the funds are held in an offshore trust account administered by a U.K. bank. The costs were subject to an external audited review in 2003 and an internal unaudited review in 2006.

The mine closure plan includes a social and economic report that focuses on the communities that will be most impacted by mine closure. OTML has established a number of trust funds designed to reduce the immediate impact of premature or planned closure. These funds receive the dividend entitlements, compensation, and development money.

² *The mine closure plan is available on the OTML website (see annex 1).*

The company is currently administering 13 trusts and 7 village funds. There are slightly different arrangements for each fund but in general:

- Some have a cash component.
- Most have a development component—used for infrastructure, education, social activities, and so on.
- All have an investment component (future generations fund).
- Most are exempt from a goods and services tax.

All funds are banked in trust accounts in Papua New Guinea, and a board of trustees has been established for each fund. The boards comprise representatives from the national and provincial governments, the Council of Churches, the OTML, and the communities. Resolutions passed by a board of trustees must be unanimous. Until 2007 OTML had contributed a total of K800 million to the various trusts. The contributions are made each year in accordance with the agreements. A trust administration department is in place to manage the use of these funds, and OTML is looking at how these trusts will be administered postclosure to ensure remaining funds will continue to benefit their recipients in the future.

SOUTH AFRICA

Legislation and Governance

In South Africa, the *Minerals and Petroleum Resources Development Act 2002* (MPRDA), which came into effect in 2004, provides the regulatory environment for the minerals industry. It is supported by the *Minerals and Petroleum Resources Development Regulations 2004*. Environmental management principles are established in the *National Environmental Management Act 1998* (NEMA) and are applicable to all prospecting and mining operations. These serve as guidelines for the interpretation, administration, and implementation of the environmental requirements of the MPRDA.

The MPRDA includes the obligation for all prospecting and mining operations to submit an environmental management plan or program and to rehabilitate the affected environment and to make a financial provision for this rehabilitation or management of negative environmental impacts. The 2004 regulations specify that an environmental management plan or program must include closure and environmental objectives and a financial provision. This is commonly referred to as the preliminary mine closure plan, which is finalized nearer to the decommissioning date.

The environmental aspects of the MPRDA are the responsibility of the minister of minerals and energy and are administrated by the DME at both the national and regional level. Recent amendments to the MPRDA and NEMA, currently awaiting parliamentary approval, will transfer the environmental responsibilities, including some closure and financial provisions, to the Department of Environmental Affairs and Tourism (DEAT).

Timing

According to the MPRDA, applicants for a reconnaissance permission, prospecting right, mining right, or mining permit must submit—and obtain approval for—an environmental management plan or program prior to the title coming into effect. This plan or program must include details of the financial surety, which has to be established prior to approval being granted.

Financial Surety Instruments

The 2004 regulations specify that the financial surety instruments available to the proponent are:

- Trust fund
- Bank guarantee (letter of credit)
- Cash deposit
- Any other method determined by the director general (DG) of the DME

The major mining companies in South Africa generally use trust funds centralized at a corporate level.

Scope of Financial Surety

The financial surety is assessed by the DME, using the guideline document for the evaluation of the quantum of closure-related financial provisions provided by a mine (2005). This guideline provides a generic approach to the determination of the financial surety for all essential closure components, which include removal of infrastructure, sealing of voids, rehabilitation, water management and postclosure maintenance, and aftercare. The calculations are based on third-party costs and include 12.5 percent for preliminary and general management and administration and 10 percent for contingency. A master unit rate is determined depending on the risk class and area of sensitivity.

Level of Financial Surety

The level of financial surety is based on the assumption that the rehabilitation work will be carried out by a third party employed by the DME. It is not stated, but implied, that the financial surety may not be paid incrementally. The evaluation guidelines include a detailed breakdown of the closure costs, with a master rate for each component and a multiplication factor depending on the risk class and area sensitivity. The master rates are updated annually.

It has been proposed that prospecting operations attract a flat-rate financial surety as follows:

- R 20,000 per hectare in low-sensitivity environments
- R 50,000 per hectare in medium-sensitivity environments
- R 80,000 per hectare in high-sensitivity environments

Where every hectare does not just refer to the disturbed areas but to the whole prospecting area as identified on the title.

Tax

The financial surety includes 14 percent value added tax (VAT). Contributions to a trust fund are tax deductible as running costs. The trust funds are exempt provided they are used for the purpose of rehabilitation after decommissioning.

Review

According to the MPRDA, the minister is responsible for assessing both the environmental liability and the financial surety and may appoint an independent assessor, if deemed necessary. This function has been devolved to the regional offices.

The act states that the proponent must assess its environmental liability annually and increase the financial surety to the satisfaction of the minister.

Release

The financial surety is not available for ongoing rehabilitation. It is released when the minister has issued a closure certificate, but a portion may be retained to cover latent or residual environmental impacts.

Experience

There are some examples of mines closing down prematurely, but they were operating under the old regulations. Currently, there is general reluctance on the part of the MPRDA to issue closure certificates.

SWEDEN

Legislation and Governance

At present, the *Minerals Act 1992* and the *Environmental Code 1998* both contain clauses related to mine decommissioning and rehabilitation and the provision for a financial surety, but in very general terms. The Environmental Code provisions are only applied in practice to quarrying operations. The mining industry has been dominated by three major mining companies that have taken responsibility for their closed mines, making financial sureties unnecessary.

The legislation provides very little guidance on what elements should be included in the financial surety, how to calculate the amount, or any other details. Over the past five years, a number of financial sureties have been required following judicial proceedings but the way in which the provisions have been applied has been quite inconsistent.

The government recently adopted the *European Union (EU) Directive 2006/21/EC on the Management of Waste from Extractive Industries*, which will be implemented in the national law in 2008 by amendments to the Environmental Code. The directive specifically states the requirement for a mine closure plan, rehabilitation and monitoring, and the provision of a financial surety. Technical guidelines (MonTec 2007) for establishing a financial surety have been developed for the code in accordance with Article 22 of the directive. The directive is discussed in more

detail in the *Case Studies* section..

Sweden's environmental court is governing body responsible for mine closure and the financial surety.

Timing

The establishing of a financial surety is part of the licensing procedure and operations may not start until the fund is in place.

Financial Surety Instruments

The Environmental Code specifies the acceptable financial surety instrument as a bank guarantee or a pledge of assets. Cash funds are also admissible.

There are currently four or five mines that have a financial surety in place, with an equal division of bank guarantees and cash funds.

Scope of Financial Surety

The existing legislation does not specify which elements of closure should be included in the financial surety. In principle, all measures included in the closure plan are taken into consideration.

Level of Financial Surety

The existing legislation does not specify the required level of financial surety, how the figures should be established, or what aspects should be included.

Review

The level of financial surety is calculated and proposed by the proponent and is reviewed by the environmental court, other relevant authorities, and stakeholders as part of the licensing procedure.

There are currently no legal requirements for the financial surety to be reviewed on a regular basis apart from when a permit comes up for renewal. But the permitting authority may request additional funding, if required.

A European Union (EU) directive requires a waste management plan to be reviewed every five years, with the size of the financial surety adjusted accordingly. This review will most likely be carried out by the county administration and then approved by the environmental court.

Release

The funds are not available to the proponent for ongoing rehabilitation. The funds are released when reclamation has been completed.

Experience

To date, no operations have closed with a financial surety in place.

EUROPEAN UNION (EU)

Legislation and Governance

The EU produces legislative acts, known as directives, which require member states to achieve a particular result without dictating the means of achieving that result. There are a number of EU directives that are applicable to mining operations. The most specific is the *EU Directive 2006/21/EC on the Management of Waste from Extractive Industries*, which had to be implemented by May 1, 2008. Article 5 of this directive requires that an operator draw up a waste management plan, which should contain the proposed plan for closure, including rehabilitation, after-closure procedures, and monitoring. Article 14 establishes the need for a financial surety, known as a financial guarantee, to cover the accumulation or deposit of waste. The term waste is defined in Article 1(a) of the *European Community Council Directive on Waste 75/442/EEC* and encompasses “any substance or object which the holder disposes of or is required to dispose of.”

The *EU Directive 2006/21/EC* amends the *EU Directive 2004/35/EC* on environmental liability with regard to the prevention and remedying of environmental damage. The latter refers to the “polluter pays” principal and requires that a financial surety be used to cover the responsibilities under this directive. Both directives are supported by a reference document produced by the European Commission (EC) in July 2004—*Best Available Techniques for Management of Tailings and Waste Rock in Mining Activities*—which includes closure methods but only refers to a financial guarantee in the glossary. The EC has recently commissioned the production of guidelines for financial guarantees and inspections for mining waste facilities, which will be published on the environmental website of the director general (MonTec 2007). The content of these guidelines does not necessarily represent the formal opinion of the EC.

All directives can be accessed on the EU database website (see annex 1).

Timing

Article 14 of the *EU Directive 2006/21/EC* specifies that a financial surety should be in place prior to the start of any operation that involves the production of waste.

Financial Surety Instruments

Article 14 also establishes that the financial surety should be in the form of a financial deposit, or equivalent, which may include industry-sponsored mutual guarantee funds.

Scope of Financial Surety

The *EU Directive 2006/21/EC* covers the management of waste from land-based extractive industries and includes all waste arising from prospecting, extraction (including the preproduction development stage), treatment and storage of mineral resources, and from the working of quarries. All these aspects of waste must be covered by the financial surety, including postclosure procedures and monitoring. The financial surety in this directive does not include the infrastructure and other

facilities related to a mining operation or inert waste or unpolluted soil, unless deposited in a Category A waste facility (hazardous or dangerous waste or incorrect operation). Some aspects of these exclusions could be covered by the financial surety requirements of the *EU Directive 2004/35/EC*, though this is debatable.

Level of Financial Surety

The *EU Directive 2006/21/EC* establishes that the level of financial surety should be based on third-party costs.

Tax

The *EU Directive 2006/21/EC* makes no reference to the tax implications of the financial surety.

Review

It is assumed in the *EU Directive 2006/21/EC* that the financial surety calculations are assessed by a third party. It requires that waste management plans be reviewed every five years and provisions be made to periodically adjust the surety in line with these reviews.

Release

Article 12 of the *EU Directive 2006/21/EC* places the accountability for the waste facility, even after closure, on the operator, who has the duty to keep the regulatory authority informed of any events or developments likely to affect the stability of the site. The financial surety may be released when the competent authority approves closure or takes over the tasks of the operator.

Experience

After May 2008, no waste facility was allowed to operate without a permit and all licensed waste facilities were obliged to comply with the *EU Directive 2006/21/EC*. Any waste facility that had been granted a permit prior to the 2008 date was given until May 1, 2012, to comply with the provisions set out in this directive. This did not apply to waste facilities that had closed by May 2008.

FURTHER DISCUSSION OF CASE STUDIES

LEGISLATION AND GOVERNANCE

The legal requirement for a mine closure plan or rehabilitation program may be found in either the mining law (as is the case in Ontario, Canada) or in both the mining and environmental laws (which is more common). It is rarely found only in the environmental law. Some jurisdictions, such as Nevada, have developed a law solely to cover reclamation. Similarly, the requirement for a financial surety is usually found in the mining and environmental laws or sometimes just in the mining law, though these usually do not identify the acceptable mechanisms.

As well as the relevant mining and environmental laws, most governments have produced regulations, guidelines, or codes of practice that specify, in more detail, the requirements for rehabilitation and, in some cases, the financial surety mechanisms. For example, in Canada, the *Ontario Regulation 240/00* contains schedules that detail the rehabilitation requirements and information to be provided in the closure plan. The government of Ontario also produced a policy document that contains information on each type of financial assurance accepted by the legislation, along with related requirements. These are available on the Ministry of Northern Development and Mines website.

A number of countries included in the survey, such as Victoria, Botswana, Ghana, and Sweden, do not specify the size of a project that requires a financial surety. The legislation refers to the generic term *mining* with the presumption that this encompasses small, medium, and large mines as well as exploration. In some jurisdictions, smaller projects, alluvial mining, and quarrying are treated separately (see table 2).

TABLE 2 MINING TITLES THAT REQUIRE A FINANCIAL SURETY ACCORDING TO LEGISLATION					
Jurisdiction	Prospecting	Exploration	Advanced exploration	Mining (generic)	Other
Ontario			yes	yes	
Nevada		yes		yes	No financial surety for projects <5 acres or producing < 36,500 tons.
Queensland				yes	Exploration and smaller projects are charged at a flat rate (see table 1).
Victoria		yes		yes	Quarrying specified in separate legislation.
Botswana				yes	
Ghana		yes		yes	
Papua New Guinea		yes		yes	Alluvial mining lease required to pay levy on sales.
South Africa	Charged at flat rate			yes	
Sweden				yes	Quarrying specified in legislation.
European Union					Waste management.

In the majority of countries included in the survey, the closure plan, rehabilitation, and financial surety come under the jurisdiction of the government department responsible for mining—or, jointly, with the department responsible for the environment. One notable exception to this is Queensland, Australia. In 1999 the government decided to transfer the responsibility for the environmental regulation and management of mining from the Department of Mines and Energy (DME) to the Environmental Protection Agency (EPA). This included transferring responsibility for the rehabilitation program, though the receipt and management of the financial surety remained with the department responsible for mining.

In most jurisdictions, the department responsible for government finances is involved, to some extent, in the financial aspects of the implementation of mining legislation. This may involve full coordination in the receipt and administration of the financial surety, as is the case in Papua New Guinea, or in taxation.

FINANCIAL SURETY INSTRUMENTS

Most of the regulatory authorities that responded to the survey allow a number of financial surety instruments to be used, with the notable exception of Victoria, Australia, which will only accept a bank guarantee. The most common form of financial surety instrument currently in use is the letter of credit (LC), which is accepted by all the developed countries included in the survey. Surety bonds, trusts funds, and cash are used fairly regularly; Ontario and Nevada both allow corporate guarantees.

In some jurisdictions (for example, Nevada), a combination of mechanisms is allowed for a single surety. This is most commonly used for larger companies that may obtain up to 75 percent of the financial surety as a corporate guarantee. Experience in some jurisdictions has shown that corporate guarantees do not provide sufficient protection, while, in others, surety bonds have failed to meet their expectations and unit levies have left governments with a shortfall when projects have closed prematurely. Cash financial sureties are more common for smaller mining companies, which do not have sufficient assets to satisfy the requirements for an LC. It is interesting to note that, in Queensland, the government will no longer accept corporate guarantees because public opinion has no faith in them.

The trend in developing countries is to use trust funds as the financial surety instrument of choice. These are also acceptable in Ontario and Nevada but are rarely used. In South Africa, the major mining companies use trust funds centralized at a corporate level.

TIMING

In most of the jurisdictions included in the survey, the financial surety does not have to be lodged until after the mining title is granted. But the legislation in all these cases does stipulate that no work is allowed to start on-site until the financial surety is in place. In some instances, such as Victoria, Australia, the government issues a separate work authority after the surety has been arranged. In Queensland, the financial surety for all mining titles, with the exception of a mining lease, has to be in place before the title is granted. In the case of a mining lease, the surety is required before activity starts on-site. In Botswana, the financial surety must be in place before any mining title is granted.

All of the developed jurisdictions included in the survey (except Sweden, which does not specify) allow for financial surety to be funded in incremental payments. This was not, however, stipulated in the legislation for developing countries. The implication for South Africa is that the full amount of the financial surety must be in place before a project can start.

SCOPE OF FINANCIAL SURETY

In all the case studies included in this review, the primary legislation (act) does not specify what should or should not be included in the financial surety. The scope is referred to as “closure” or “reclamation plan,” “rehabilitation” or “revegetation,” in general terms, with details being given in the secondary legislation (regulations, guidelines, codes, and so on). For example, in Ontario, the mining act obliges the proponent to submit a closure plan, which includes the financial surety. What is required in the closure plan, and thereby included in the financial surety, is specified in the mine rehabilitation code. This provides the proponent with comprehensive guidelines and allows the regulatory authority to vary the requirements without having to change primary legislation.

The financial surety is expected to cover the cost of all aspects of the physical closure of the site. In some jurisdictions, this includes the administrative and management costs, though these may be automatically included if the costs are based on the work being carried out by a third party. There is, however, considerable ambiguity surrounding the issue of the funding of long-term care of the site, or what time period the financial surety should cover after the rehabilitation work has been completed. In Queensland, this discrepancy was recently addressed by the introduction of residual risk payments. This allows for separate cash payments to be made to cover future maintenance and reconstruction, when the environmental authority is surrendered or when progressive rehabilitation is certified.

If one project includes a number of different licenses or titles, then most regulatory authorities only require one financial surety.

The IFC *Environmental, Health, and Safety Guidelines for Mining (2007)* specify that the mine closure plan should include socioeconomic considerations and, by association, the financial surety. The only legislation that specifically includes the social and economic impacts in the mine closure plan is the Ok Tedi Closure and Decommissioning Code (see section *Case Studies*, “Papua New Guinea”). The details of this requirement are established by the Ok Tedi Mining Ltd. (OTML) in consultation with the relevant stakeholders, and reviewed every two years.

In Papua New Guinea, there is also a “future generations fund” that protects some mine benefits for use by subsequent generations. In addition, there is an infrastructure incentive scheme whereby companies can use part of their income-tax payments to construct infrastructure projects in agreement with the local community.

In the Philippines, a mine is required to contribute a percentage (0.9 percent) of the direct mining and milling costs to a centralized Social Development and Management Program (SDMP) as part of a five-year plan. This program is designed to be used for the sustainable improvements in the living standards of the host and neighboring communities by creating responsible, self-reliant, and resource-based

communities. Details of the SDMP can be found on the Mines and Geosciences Bureau website (see annex 1).

LEVEL OF FINANCIAL SURETY

The level of financial surety can range from a few thousand dollars to hundreds of millions depending on the size, nature, and complexity of the project. In most cases, the amount that is required for the financial surety is based on the specific itemized costs of all components included in the closure or rehabilitation plan. In some jurisdictions, the detail is left to the proponent; in others, the regulatory authority has established a list of the components and methods of calculation. For example, in Queensland, the Code of Environmental Compliance for Mining Lease Projects (available on the EPA website) contains a schedule of rehabilitation costs and specifies that maintenance and monitoring costs should be calculated at 10 percent of the total rehabilitation cost. Both Victoria and New South Wales use the URS/GSSE rehabilitation cost estimate tool (see section *Implementation Guidelines*). Since the introduction of the tool in New South Wales, surety funds have increased by over 50 percent.

South Africa has a similar method for establishing the financial surety contained in section B of the guideline document for the evaluation of the quantum of closure-related financial provision provided by a mine (available on the DME website). The process, which is designed to be used by DME regional office personnel, involves ranking mines according to the risk and sensitivity of the area before applying unit rates for the various closure components. Up to 13 percent of this total may then be added for administrative and management costs with a 10 percent contingency.

It is common practice for the financial surety to include administrative and management costs, usually established on a percentage basis. The level of financial surety is commonly based on the work being carried out by a third party, such as an outside contractor.

The only authority included in the survey that accepted the financial surety in the form of a unit levy is Ontario. This is established by looking at the proposed life of the mine and the estimated closure costs and mining rate, then negotiating a dollar rate per ton mined and the timing of the payments. The negotiations also establish that the financial surety is covered by the half-life of the mine. But a number of jurisdictions do accept incremental payments, sometimes known as sinking funds, for a number of financial surety instruments.

In Queensland, the financial surety for exploration and small (standard) mining projects is based on the total area of disturbance and the risk associated with the rehabilitation (see section *Case Studies*, “Queensland”). In 2008 the Western Australian Department of Industry and Resources published new rates for calculating environmental performance bonds (surety bonds). These represent minimum rates that will be varied according to the risk at a particular site. The minimum bond will generally be A\$10,000.

Rate	Description	A\$
1*	Tailings storage facilities, including in pit disposal, heap/vat leach, evaporation dams, turkey nest dams, waste dumps, ROM pads, low-grade oxide stockpiles, plant sites, workshops, and process water dams	20,000
2	Camp sites, strip mining (backfilled mining voids), hyper saline pipelines (>15,000 TDS), causeways, haul roads, sewage ponds, and landfill.	5,000
3	Roads and access tracks, “fresh” water pipelines, lay-down areas, borrow pits, and airstrips	3,000
4	Exploration—where clearing takes place, metal detecting, dry blowing, and prospecting	2,000

*Note: * High- risk facilities and landforms (sulphides present, highly erodible or >25m high) may attract a higher rate and will be determined on a case-by-case basis).*

Large companies in Nevada may obtain a company guarantee, known as a state corporate guarantee, for up to 75 percent of the total financial surety if they can meet regulatory criteria to demonstrate adequate financial health. Similarly, in Queensland, companies can earn a 75 percent discount based on previous environmental performance.

TAX IMPLICATIONS

The treatment of financial surety for tax purposes varies from country to country. In Nevada, under both state and federal legislation, payments into a financial surety are treated as operating costs and are therefore tax deductible (as is the actual expenditure on rehabilitation). In addition, operators can distribute the rehabilitation obligation over a number of years, thereby further reducing taxes. In contrast, in Ontario there is no tax allowance for a financial surety as the government does not consider it to be an expense since it will be returned to the company once rehabilitation has been completed. In Botswana, the industry is putting pressure on the government to make payments into a trust fund for a tax-exempt financial surety.

REVIEW

In all cases included in the survey, the level of financial surety is established by the proponent and, in all but one, is reviewed by the relevant government department. The exception is Queensland, where the proponent has to certify that the correct procedures have been used and the government has the power to impose severe penalties for providing false or misleading information. No authorities employ third-party verification in the process of accepting the financial surety, though, in Nevada, the public is allowed to review and comment.

The legislation in all jurisdictions but Ontario allows for the financial surety to be reviewed and adjusted on a regular basis. The timing of this review varies from every year (South Africa) to every ten years (Queensland), depending on the size of the project, the life span, and the liability risk. In Victoria, the draft guidelines contain an assessment matrix for the review period (see table 4).

Consequences	Likelihood			
	High	Medium	Low	Negligible
High	2 years Large mine— gold	3 years Large mine— other metals HM sand	6 years Large mine— nonmetallic (other than coal for major power generation)	10 years Coal (major power generation)
Medium	3 years Small mine—	6 years WA—regional significance	10 years WA—state significance	10 years
Low	6 years Small mine— nonmetallic	10 years WA—local significance	10 years	10 years

Note: *HM=heavy mineral; WA=Western Australia

The majority of jurisdictions also require a financial surety to be reviewed and adjusted when (i) the mining title is renewed, (ii) there is a change in the operating plan, (iii) there is a transfer of assets, or (iv) the regulatory authority has due reason to request a review. At the time of the review, the level of financial surety can be increased or decreased. If the proponent is paying the financial surety in increments, then the timing of reviews is usually more frequent.

RELEASE

In none of the completed surveys were funds available to the proponent for ongoing rehabilitation during the life of the project. But work that had been completed at the time of a review could be taken into consideration during the reassessment of the level of the financial surety. For example, in Nevada, as discrete steps in the reclamation plan are completed, partial release of the surety may be allowed.

Following the successful completion of rehabilitation, most authorities—if they are satisfied that no further claim might be made—return the majority of the funds held in the financial surety to the proponent. But where necessary, a number of jurisdictions withhold some of the funds for long-term care costs. In Queensland, however, authorities can require a cash residual risk payment to be made when they release the original financial surety.

ADDITIONAL EXPERIENCE

Three of the case studies from developed countries reported that when mines had closed due to economic difficulties, the financial surety had not been sufficient to cover the closure costs. In developing countries, financial surety requirements have not been in place long enough to provide examples (or authorities were reluctant to provide information). The following examples give an idea of how expensive closure legacies can be:

- In the United Kingdom, following the coal-mine-closure program of the 1980s and 1990s, the coal authority was left with substantial environmental and safety liabilities with no money to fund the required work. In the 2007–8 fiscal year, the coal authority spent £18.9 million managing legacy liabilities (£16.6 million in 2006–7), and currently has 46 operational water treatment schemes covering 300 kilometers of watercourses. There are a further 84 water treatment schemes that have been identified that need to be constructed by 2027, and it is estimated that the responsibility for mine water treatment will extend for another 100 years.
- At the end of June 2007, the Western Australian Department of Industry and Resources held 3,365 unconditional performance bonds (surety bonds) with a total value of A\$608.3 million. This value represents approximately 25 percent of the expected total rehabilitation costs. In 2005 the amount held in bonds was A\$430 million with an average of A\$2,395/ha.
- BHP Billiton's Island Copper Mine in British Columbia, Canada, closed in 1995. The closure plan submitted to the government in 1994 estimated the costs for environment mitigation and monitoring at C\$15 million, with additional money set aside for severance packages and decommissioning. It was presumed that monitoring would be required for a 10-year period, with the level decreasing significantly during the second half of the period. Well in excess of these costs have now been spent. In 2007 it was reported that revegetation of the 700 hectares had been hugely successful and, over time, it is expected that the mine's closure objectives of creating a productive forest and wildlife habitat will be achieved. But since initial closure, BHP Billiton has come to realize that the closed mine site will require care, maintenance, and monitoring in perpetuity, principally due to the evolving nature of the mine drainage and its treatment requirements. For further details, see the 2007 Annual British Columbia Jake McDonald Mine Reclamation Award (<http://www.trcr.bc.ca>).

IMPLEMENTATION

GUIDELINES

A financial surety is essential to ensure that an exploration or mining project does not burden a government with a detrimental environmental or social legacy. But it should do more than protect the regulatory authority from risk of default; it should also work as an incentive for the proponent to keep the physical impacts to a minimum and to carry out progressive rehabilitation. This incentive can be augmented by regular review and the release of the surety for work that has been completed. Site rehabilitation should be progressive so that, wherever possible, the rate of restoration is similar to the rate of exploration or exploitation.

Closure may not always occur as planned. The life span of an exploration project is dependent on the discoveries made (or not), and it is quite common for the life of a mine to be extended by the reevaluation of existing reserves, changes in the commodity markets, new ore discoveries, and so on. This type of change can be accommodated by revising the closure plan and reviewing and revising the financial surety. Alternatively, the life of an exploration or mining project may be curtailed unexpectedly because of falling metal prices, technical difficulties, or a company's financial problems. If a company is not in the financial position to carry out any of the planned rehabilitation, it is essential that the regulatory authority has the funds available to commission the work itself.

Before setting up a financial surety it is essential to establish the rehabilitation goals. These should involve restoring all affected areas, as far as is possible, to their most appropriate economic and social value. This does not always involve returning a site to its original state or use. The main aims of site rehabilitation are to (i) reduce the risk of pollution, (ii) restore land and landscape, (iii) improve the aesthetics of the area, and (iv) prevent further degradation. These goals should be discussed as part of the consultation process, and the views and opinions of the landowners and local community, as well as the national and provincial government, should be taken into consideration.

Site closure, especially in the case of a mining operation, can be difficult to define as a discrete period since post closure monitoring and long-term care may be required after the rehabilitation work has been completed. The regulatory authority must take the necessary steps to ensure there will be sufficient funds available to pay

for post closure monitoring and maintenance—and remedial action when required. These funds can form part of the financial surety, or a separate, self-perpetuating fund can be established when the original financial surety is released.

It is critical that the financial surety be used only for the purpose for which it was designed, not viewed as a general source of funds by any of the parties involved. For this reason, it is advisable for the management and control of funds be shared by the regulatory authority and the company, with a clause allowing for the release of the fund if the company defaults. It is also essential that the financial surety is quarantined from other company assets so that it cannot be seized in the event of bankruptcy or government abuse. The financial surety must be returned to the company following the satisfactory completion of the mine closure and the rehabilitation program.

LEGISLATION AND GOVERNANCE

No prescriptive legislation allows for regulatory flexibility and avoids the stifling of development. But in the case of financial surety, too much flexibility can result in confusion and inconsistencies, which may deter investment. As can be seen from the survey carried out for this report, there are as many ways that financial surety requirements are legislated and regulated as there are case studies. The simple deduction is that there is no “correct” way of legislating, or managing, financial surety requirements. That said, if a system is too complex, neither the industry nor the government will implement it successfully. Legislation should also be designed to take government structure and capacity into consideration.

At present, most countries require that a mining (or exploration) license and an environmental permit be granted before the commencement of any mining project (whether exploration or exploitation). These requirements are contained in the

BOX 6 THE MOST EFFECTIVE REGULATORY MODEL

When an independent mine closure law establishes a single agency to implement the law, this assures the business community that one agency will take the lead on its problems and that it will not have to answer to many differing opinions on how the success of operation, reclamation, and closure will be measured. This model also gives the public and nongovernmental organizations (NGOs) a single place to go for information on mining regulation.

Source: Cochilco 2002.

mining act and the environmental act, which are usually administered separately by the relevant department. Prior to obtaining an environmental permit, most jurisdictions require the proponent to produce an environmental impact assessment

that would also contain a closure or rehabilitation plan. It is therefore logical to assume that the financial surety requirement for rehabilitation would be included in the environmental legislation and administered by the relevant department.

In practice, however, this is not always the case. Many—in fact, most—of the environmental liabilities associated with mining (now accepted as integral to overall operation and closure plans) are as much a part of the operating plan as they are of the environmental assessment. In addition, it is common practice for the mining legislation to include most, if not all, of the financial aspects of the license. For these reasons, it makes more sense for the financial surety requirement to be a part of the mining legislation and to come under the authority of the department responsible for mining. That said, it is essential that the administration and management of the financial surety should involve consultation with all relevant departments including environment, water, and finance.

Recommendations

- A financial surety should be a requirement for all projects but tailored to fit the size and complexity of each.
- The financial surety requirement should be clearly stated in the legislation and should be linked to the permitting process.
- The legislative, regulatory, and fiscal framework for financial surety should be clear and its application consistent.
- The financial surety requirement should be primarily included in the mining legislation, preferably directly associated with mine closure.
- The law or act should be supported by regulations and/or guidelines that specify the rehabilitation requirements and financial surety mechanisms.
- The department responsible for mining should administer the financial surety in consultation with other relevant departments.

FINANCIAL SURETY INSTRUMENTS

Success of any financial surety instrument depends on the care and effort put into setting it up and managing it. Most will work if they are done properly. The most commonly used forms of financial surety are letters of credit, surety bonds, trust funds, and cash.

A *letter of credit* or bank guarantee is the most frequently used financial surety instrument. It is acceptable to the industry because it is relatively cheap to set up and is attractive to governments because it involves fewer administrative requirements. But obtaining letter of credit may reduce the borrowing power of the company.

Surety bonds have many attributes similar to letters of credit and are attractive to smaller companies as they do not involve tying up capital. But the long-term viability of the insurance company providing the bond should be taken into consideration.

Trust funds are more visible and often better understood than other forms of financial surety. Any surpluses created in the fund can be returned to the proponent with more ease but, if invested, there is the possibility that the value of the fund will fall. It can be difficult to ensure that their value stays in line with the rehabilitation obligations. Trust funds are more available to smaller mining companies that do not have sufficient assets to satisfy the requirements for a letter of credit or surety bond.

Cash also provides a more attractive option for smaller companies (see trust funds) and the money can earn interest and thereby keep ahead of inflation. There are no delays in getting access to the money and no need to retrieve all funds if only a part is required. Cash is also easier to place in a pooled fund. But a cash fund may be more accessible to misappropriation. There is also the risk that, should the mining company become bankrupt, any cash deposits will be recovered by the receiver.

A *company guarantee* is the financial instrument of choice due to the lack of cost and paperwork involved. But it does tend to fail because the time when the money is most needed is often when the company is not able to deliver. It is also unpopular with the public, which does not hold the mining industry in very high regard and, therefore, does not trust this form of financial surety. Company guarantees work best for large, well-established companies and thus put smaller operations at a disadvantage.

Insurance schemes are currently not available to the mining industry outside of the United States.

The *unit levy* and *pledge of assets* are increasingly unlikely to be accepted as financial surety instruments because of the uncertainty that they can meet rehabilitation requirements.

The *fund pool* and *transfer of liability* are not widely available and generally not recommended.

The choice of financial surety instrument will depend on the track record and financial strength of the proponent, the level of surety required, and the period of time it is necessary. It is essential that the financial surety can be converted into cash quickly and reliably and can only be used for the purpose for which it was designed. It is also essential that the financial surety is quarantined from other company assets, so that it cannot be seized in the event of bankruptcy or government abuse. In some instances, a combination of financial surety instruments may provide the best cover.

Recommendations

- Produce guidelines identifying which forms of financial surety are acceptable and how they should be implemented.
- Allow the proponents a choice of fund, preferably from the first four in the above list.

- Ensure that unbiased financial advice is available in the choice of the financial surety and its management.
- Ensure that the financial surety is quarantined from other company assets, so that it cannot be seized in the event of bankruptcy or government abuse.
- Ensure the financial surety can only be used for the purpose for which it was designed and in a timely fashion.

TIMING

The financial surety can be put in place either before or after the mining title is granted, but always before the proponent is allowed to start work on the site. There are no advantages or disadvantages for either option as long as the security is lodged before any work starts on a site that will require rehabilitation. The incremental payment of a financial surety may be an acceptable option, especially in the case of a large project with a long life span. But it should not be the preferred option for exploration sites or smaller projects.

Recommendations

- The financial surety must be in place before work starts on the site.
- If the financial surety is to be paid incrementally, ensure that funds are always sufficient to cover closure costs.

SCOPE OF FINANCIAL SURETY

The scope of the financial surety usually encompasses all the physical aspects of mine closure. This should include activities associated with decommissioning, removal of plant and infrastructure, and rehabilitation. The main question is: How prescriptive does the administrative authority need to be when defining all the elements? While some jurisdictions provide proponents with detailed lists of the specific elements to be included in the financial surety, others hardly provide any guidance at all. A balance between these two might be the best option.

It is essential that mine closure and site rehabilitation goals be an integral part of the scope of the financial surety. These can be established as closure criteria or standards and should take into consideration the site's potential end use.

Almost all sites will require some form of postclosure monitoring and, in some cases, long-term care and/or remedial action. These requirements should be included in the financial surety scope.

The social and economic aspects of mine closure and financial implications are discussed separately (see section *Implementation Guidelines*) and are not included in the following recommendations.

Recommendations

- Establish the physical mine closure and rehabilitation criteria or standards.
- Outline the guidelines for mine closure and rehabilitation to be included in the financial surety.

- Consult with the relevant environmental authorities to ensure that all aspects of the environmental assessment are addressed.
- Consult with the community regarding rehabilitation goals and end use.
- Set up procedures for establishing the requirements for long-term maintenance, monitoring, and the method of funding.

LEVEL OF FINANCIAL SURETY

For exploration sites and small, low-risk mining projects, it is feasible to use a basic formula to calculate the required level of financial surety. For larger, high-risk mines, it is advisable to establish a detailed cost breakdown of all the components. The level of financial surety is usually worked out by the proponent and then submitted to the regulating authority for review. Often in the case of international companies, the person calculating the figures is not in the home country and therefore not in a position to know what the various costs will be. Because of the specialized nature of the work, the costs can be difficult to estimate. Establishing accurate rehabilitation costs is not an exact science and adds yet another layer of uncertainty.

The level of financial surety can be calculated in a number of different ways:

- Using a formula based on the type of project, rehabilitation plan, and/or track record of the company
- Specified in legislation on standard rates and unit costs
- As a percentage of capital costs
- Negotiated based on the feasibility study
- Negotiated on a per ton basis

Whichever method of establishing a financial surety is chosen, the details should be worked out on a site-by-site basis and any guidelines or models should be used only as a starting point. A more complex rehabilitation cost estimate tool (see box 7) has been developed in Australia that may help to remove some discrepancies across the industry and the need for detailed review by the government. This tool should also ensure that the level of financial surety is not dependent on the business success of the company or the overall economic conditions of the mining industry. In Australia, all mines in New South Wales and more complex mines in Victoria are required to use the tool to assist in surety calculations.

Another cost estimation model for mine closure has also been developed in a Ph.D. dissertation completed at Colorado University (Peralta-Romero and Dagdelen 2007). This model uses the graphical interface of Microsoft (MS) Excel with three main functional modules: (i) input and utilities; (ii) closure activity costs; and (iii) output, with color differentiation. Information contained in a database can be incorporated into calculation worksheets including disturbance rates, equipment type and model, production rates, and unit costs. The model will then generate an executive cost summary.

The financial surety should be designed to cover all mine closure costs at the time of closure, whether planned or not, in the absence of the proponent. This means

that, at a minimum, the amount should be based on third-party costs and should include all administrative, maintenance, and monitoring costs. There are also good arguments for the inclusion of a contingency, allowance for engineering redesign, and inflation. The required standard of rehabilitation is site specific, and this should be reflected in the financial surety calculations.

Junior and local mining companies may not have the financial resources necessary to establish the entire surety before the start of a project. Paying financial surety in increments may be the only alternative. But there is always a risk with incremental contributions that, at any given time, the surety may not be sufficient to cover the costs of rehabilitation should the proponent default. Most junior companies use outside financing, so it may be possible for the financial institution involved to also provide a bank guarantee. Alternatively, the company could reduce the initial operating plan size so that both capital costs and the financial surety are less.

BOX 7 REHABILITATION COST ESTIMATE TOOL

Two consulting companies in Australia, URS and GSSE, have developed a rehabilitation cost estimate tool. This is a cost calculation workbook, using Microsoft Excel, that aims to provide mine operators or governments with a general guide in calculating an appropriate rehabilitation estimate.

The design of the workbook is tiered and establishes the level of details required, based on the scale and type of operation. The mine site is divided into a series of domains, each representing a unique area and comprising a number of precincts. By selecting the type of mining operation, the relevant domain worksheets will be activated.

The tool includes all aspects of mine closure—from the demolition and removal of infrastructure to the maintenance and monitoring of the rehabilitation. Third-party costs, as well as administration and management, are also built into the workbook. The unit costs used in the tool are based on generic rates, though there is the facility for users to insert their own rates, with justification. The costs do not incorporate an automatic calculation to determine future value.

Comments from the industry say that the tool is easy to use, provides a useful framework for developing the closure plan, and has a clear systemic approach. But the integrated costs in the tool do not account for regional variations. In addition, it has been reported that there has been a substantial increase in rehabilitation cost estimates since the introduction of the tool.

For further information, contact michael_woolley@urscorp.com.

Recommendations

- Establish guidelines that outline rehabilitation costs.
- Ensure these costs are based on using a third-party contractor and include all administrative costs, a contingency, and an inflation factor.
- Use site-specific costs based on site-specific closure plans.
- Include a separate cost item in the financial surety for remedial action, maintenance, and monitoring.
- Accept incremental payments of the financial surety as the last option.

TAX IMPLICATIONS

There are five separate issues related to tax and a financial surety fund. These are:

- Whether money paid into the financial surety is counted as an operating cost or an expense, and is therefore tax deductible
- Whether decommissioning and rehabilitation costs count as operating costs, and are therefore tax deductible
- If any interest earned on the financial surety fund is taxable
- If any capital gain made on the financial surety fund is taxable
- If the financial surety fund will be taxable when it is released back to the company

If the funds paid into a financial surety are tax deductible, then the decommissioning and rehabilitation costs should not be—or vice versa. But there is a problem making decommissioning and rehabilitation costs tax deductible because the majority of the expenditure comes once a mine has ceased operating, and so there is no income to offset the tax. One way of getting around this problem is to allow a company to claim tax deductions for closure provisions based on a unit of production during the operating life of the project.

The countries that took part in this survey generally accepted that the administration costs associated with setting up and managing a financial surety are tax deductible as a business expense. It is also acknowledged that any interest earned by the financial surety, or capital gains made by the fund, are taxable, but that the release of the original fund is not.

For obvious reasons, the mining industry will wish to secure as many tax breaks as feasible and the onus is on the government to establish a fair system that takes into consideration the financial implications for the industry. As can be seen from the case studies, approaches to this sensitive subject vary around the world. There is no wrong or right way of making these decisions, only the best way for the country involved.

Recommendations

- Liaise with the department responsible for government finances before making any decisions.
- Liaise with the mining industry regarding to the implications for different tax regimes before establishing the requirements.
- Establish the tax regime and stick to it; avoid negotiating on a site-by-site basis.

REVIEW

When the financial surety is submitted to the regulatory authority, it is usually reviewed internally. This process is complex, uses considerable resources, and can be very time consuming as it involves negotiations and consultations. If the relevant department does not have the capacity to carry out the review internally, then third-party verification may be considered. This could either be done by the proponent with a system of certification, or by the regulatory authority. The financial surety arrangements should also be part of the community consultation process so that the end use for the site can be established. Ideally, this should take place at the same time as the environmental and social impact assessment consultations and should include the mine closure and rehabilitation plan.

During the life of the project, the closure and rehabilitation requirements may change due to planned or unforeseen modifications to the exploration or operating plan. Thus, there needs to be a mechanism for reviewing and adjusting the financial surety. There should also be a statutory requirement for periodic reviews of financial surety to enable the regulators to ensure that the surety level is adequate and that funds are properly secured. The period between reviews depends on the length of the project. The World Bank Report (2002) recommends a project life of 30 years for every 5 years and 10 years for every 2 years. The IFC guidelines (2007) state that the mine closure requirements should be reviewed on an annual basis and the closure funding arrangements adjusted to reflect any changes.

The review would be carried out by the proponent and submitted to the regulatory authority. The same verification and consultation process as used for the initial submission should then be repeated. At the time of this review, any rehabilitation carried out by the proponent could be taken into consideration when reestablishing the level of financial surety. But the adequacy of the rehabilitation work must be assessed before any reduction in the financial surety is accepted.

Recommendations

- Establish whether the initial assessment of the financial surety will be carried out by the regulatory authority, the proponent, or a third-party verifier.
- Establish the consultation process.
- Establish requirements and processes for periodic reviews.

RELEASE

The financial surety fund should not be available to the proponent to pay for ongoing rehabilitation. But if rehabilitation has been carried out, it may be taken into consideration at the time of periodic review. Staged reductions in the level of financial surety can help to promote progressive rehabilitation and good practices.

Following the satisfactory completion of mine closure and the rehabilitation program, the financial surety fund can be returned to the proponent. Before any money is returned, the regulatory authority should establish that the program has been successful and no further work is required on the site. A commonly used

method of evaluating the release of the financial surety is the success of the revegetation program. It is also possible to use either the surface stability, water quality, or a combination of all three.

If the site requires long-term monitoring, maintenance and/or remedial action, a separate fund should be set up to finance this for whatever period is required. This fund should be self-perpetuating so that the regulatory authority is never left with a deficit.

Recommendations

- Establish practical criteria for assessing the adequacy of rehabilitation efforts (completion criteria).
- Establish criteria for the release of a financial surety, including staged reductions during the operating life of the project.
- Establish a method of funding long-term monitoring, maintenance, and remedial action.

SOCIAL AND ECONOMIC

It is starting to be accepted that it is essential to set funds aside early on in project development to finance the social and economic aspects of mine closure. Severe economic distress may follow closure if the project is the sole source of direct and indirect employment in the region, and unsustainable social infrastructure that was previously supported by the mine is liable to collapse. The elements that should be taken into consideration are:

- Redundancy payments
- Retraining schemes
- Support for dependent (spin-off) businesses
- Utilities (electricity, water, communications, and so on)
- Social facilities (health, education, justice, and so on)
- Infrastructure (roads, airstrips, wharves, and so on)
- Food security
- Financial system

At present, it is not common for financial provisions to be made for these aspects of mine closure, though there are some notable examples such as Papua New Guinea and the Philippines (see section *Further Discussions of Case Studies*).

Integrated closure planning should, as the name suggests, include all aspects of mine closure and, by association, the financial implications of the social and economic impacts should also be taken into consideration. But the requirements differ greatly across physical financial sureties and there may be advantages to keeping the funds separate. This can be achieved by establishing a specialized trust fund or foundation that is designed to exist for a period of time after mine closure.

AFTERWORD

The most memorable statement made during the research and consultation behind this report was:

“I have never seen a closure program cost less than the estimate.”

Even with the best will in the world, accurately forecasting closure costs is extremely difficult; the best that might be expected is an approximation. The temptation could be to overestimate in order to ensure that there is no shortfall in funds, but this should not be done to the detriment of the financial viability of the industry.

In 1999 a principal environmental specialist with the European Bank for Reconstruction and Development (EBRD) identified a number of risks related to financial sureties, and suggested ways to mitigate them. These are presented in box 8. All these risks are still relevant today and need to be taken into consideration when establishing the policy and regulatory framework for the implementation of financial sureties.

Both regulatory authorities and mining companies have a vested interest in agreeing to a realistic level of financial surety. The government needs to ensure that there are sufficient funds to complete a satisfactory rehabilitation program but at the same time maintain an attractive investment climate. The mining company has to have adequate capital to continue with its investment.

The required level of financial surety can be a substantial portion of a project's capital costs, and junior and local mining companies may not have the financial resources to provide the funds up-front. In this instance, the government has to decide whether or not it wants to run the risk that these companies will default on their obligations. Requiring an up-front commitment to the full amount of the financial surety is one way of testing the commitment and resolve of the company. It should also work as an incentive for the proponent to keep the physical impacts to a minimum and to carry out progressive rehabilitation.

There is also a risk associated with the financial surety instruments. The long-term viability of the bank or company providing a letter of credit or surety bond cannot be guaranteed. In Australia, a company that provided surety bonds to the mining industry collapsed and the bonds were rendered worthless. If a mining company goes bankrupt, a financial surety that is not isolated may be frozen or claimed to pay creditors. There is also a risk that any form of cash investment might be seen as a temptation to anyone with corrupt tendencies.

In spite of the pitfalls, financial sureties are essential in ensuring that the physical impacts of mining are minimized in the short term and nonexistent in the long term.

BOX 8 SPECIFIC RISKS AND SUGGESTED MITIGATION

- *Premature termination during construction.* Project termination for technical or financial reasons can be mitigated by adequate completion guarantees that premature termination and abandonment will trigger an obligation by the guarantor to implement, or fund a third party to implement, a satisfactory closure program.
- *Material changes made to closure requirements and objectives.* During mine life, material changes can largely be avoided by agreeing to a clear, transparent, up-front, realistic, and approved definition of postoperational land use, the environmental performance standards to be met within a specified period of time, and sign-off procedures to be followed.
- *Material changes to the project and processes.* These changes may have implications with regard to mine closure requirements and related costs. Mine closure plans, the related cost implications, and financial guarantees should be subject to a periodic review process, so that the implication of any material change can be assessed and addressed. This would also mitigate the risk of significant over- or undercapitalization of the closure funds and bolster guarantees that should reflect the life of the mining project based on proven reserve estimates.
- *The risk of financial failure.* The financial failure of the mining company and organizations involved (such as the holders of the cash reserve, trust fund, and so on) can be mitigated by establishing nonaccounting provisions to monitor financial performance, separate the financial structure for the closure fund from that of the company, allow only investments of closure funds in financial instruments, provide “assured” future payment, and spread the risk across financial vehicles to secure closure funds.
- *The danger of closure funds being redirected.* This can be mitigated by using a nonfungible financial structure and a certification process; for example, involving a trustee, keeping closure funds from being used for unrelated work (such as additional drilling), or repaying loans in a default situation.
- *The government might continue operating an “inherited” project.* This could occur without due consideration given to profitability and environmental implications, which would have otherwise required the implementation of mine closure activities. Experience seems to suggest that funding limitations may discourage the government from implementing mine closure in the absence of available funds earmarked for this purpose.

Source: Nazari 1999.

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ANNEX 1. WEBSITES

AUSTRALIA

NSW—Department of Primary Industries
www.dpi.nsw.gov.au

Queensland—Environmental Protection Agency
www.epa.qld.gov.au

Queensland—Department of Mines and Energy
www.dme.qld.gov.au

Victoria—Department of Primary Industries
www.dpi.vic.gov.au

Victoria—Department of Sustainability and Environment
www.dse.vic.gov.au

Victoria—Legislation
www.dms.dpc.vic.gov.au

State—Department of Industry, Tourism and Resources
www.industry.gov.au

Best Practice Environmental Management in Mining Booklets
www.natural-resources.org/minerals

Minerals Council of Australia
www.minerals.org.au

Western Australia—Department of Industry and Resources
www.doir.wa.gov.au

BOTSWANA

Department of Mines
www.mines.gov.bw

Department of Environmental Affairs
www.envirobotswana.gov.bw

CANADA

Legislation—Mining Law and Regulations
www.e-laws.gov.on.ca

Ontario Ministry of Northern Development and Mines
www.mndm.gov.on.ca

Ontario Mineral Exploration and Mining
www.serviceontario.ca/mining

European Union (EU)

European Commission—DG Environment
www.ec.europa.ec/environment

EU Database
www.europa.eu.int/eur-lex

GHANA

Ghana Minerals Commission
www.ghanamining.org

Ghana Environmental Protection Agency
www.epa.gov.gh

PAPUA NEW GUINEA

Department of Mining
www.mineral.gov.pg

Mineral Resources Authority
www.mra.gov.pg

Government Departments
www.pngonline.gov.pg/government

Ok Tedi Mining Ltd.
www.oktedi.com

PHILIPPINES

Department of Environment and Natural Resources

Mines and Geoscience Bureau

www.mgb.gov.ph

SOUTH AFRICA

Department of Minerals and Energy

www.dme.gov.za

Department of Environmental Affairs and Tourism

www.environment.gov.za

SWEDEN

Swedish Government

www.sweden.gov.se

Mining Inspectorate

www.bergsstaten.se

Environmental Protection Agency

www.naturvardsverket.se

UNITED STATES

Nevada Bureau of Land Management

www.nv.blm.gov

Nevada Division of Environmental Protection

www.ndep.nv.gov

Nevada Commission of Mineral Resources

www.minerals.state.nv.us

Nevada Legislation

www.leg.state.nv.us

Nevada Standardised Reclamation Estimator Model

www.nvbond.org

US Forest Service

www.fs.fed.us/geology

OTHER WEBSITES

International Council on Mining and Metals
www.icmm.com

International Institute for Environment and Development/MMSD
www.iied.org/mmsd

Centre for Science in Public Participation
www.csp2.org

The World Bank
www.worldbank.org/mining

Department for Communities and Local Government
www.communities.gov.uk
(Proceedings of Seminar on Financial Guarantees)

ANNEX 2. LETTER OF CREDIT TEMPLATE

DRAFT FORM OF IRREVOCABLE LETTER OF CREDIT

(To be typed on bank letterhead)

Her Majesty the Queen in Right of Ontario as represented by
The Minister of Northern Development and Mines
Ministry of Northern Development and Mines
933 Ramsey Lake Road
6th Floor
Sudbury, Ontario
P3E 6B5

We hereby issue in your favour this Irrevocable Standby Letter of Credit in the amount of <X SUM OF DOLLARS (CAD \$X)>, which is available by payment against your written demand, addressed to <BANK X, ADDRESS>, bearing the clause “drawn under standby letter of credit Number... issued by <BANK X, ADDRESS>.”

Any written demand for payment must be accompanied by your signed certificate stating that the Ministry of Northern Development and Mines has the right to make demand for payment in accordance with a closure plan between <PROPONENT Z> and the Ministry of Northern Development and Mines regarding closure costs for the <ABC MINE/SITE/LOCATION>. We shall then honour your demand without enquiring whether you have the right as between you and our Customer, <PROPONENT Z> to make such demand and without acknowledging any claim of our Customer.

This Letter of Credit will continue to <DATE, 200x> and will expire on that date and you may call for payment of the full outstanding amount under this Letter of Credit at any time up to the close of business on that date. It is a condition of this Letter of Credit that it shall be deemed to be automatically extended for one year from the present or any future expiration date hereof, unless at least ninety (90) days prior to any such date, we shall notify you in writing by Registered Mail that we elect not to consider this Letter of Credit

renewed for any such additional period. In the event of a notification of non-renewal, the Ministry may demand the full or any portion of this credit provided the customer has not provided the Ministry with full alternate financial assurance satisfactory to the Ministry at least 10 days prior to the expiration of this Letter of Credit.

It is understood that the amount of this credit may be reduced from time to time as <PROPONENT Z's> obligations pursuant to the aforementioned Agreement are discharged, such reduction will be effected upon receipt of your written notice delivered to this office.

Written demands for the full amount or any portion or portions thereof must be presented to us along with this original Credit Instrument.

This Letter of Credit is subject to the "Uniform Customs and Practice of Documentary Credits (1993 Revision) International Chamber of Commerce, Publication Number 500."

ANNEX 3. SURETY BOND TEMPLATE

LAND REHABILITATION PERFORMANCE BOND

Bond #

Amount:

KNOW ALL PERSONS by these presents that *[name of company]* (hereinafter called the Principal) whose place of business is at *[company address]* and The *[name of insurance company]* (hereinafter called the Surety) whose place of business is at *[insurance company address]* are held and firmly bound unto Her Majesty the Queen in Right of Ontario as represented by the Minister of Northern Development and Mines, its heirs, and successors (hereinafter called the Obligee) whose place of business is at B6 - 933 Ramsey Lake Road, Sudbury, Ontario P3E 6B5 in the penal sum of *[amount of bond]* lawful money of Canada for the payment of which we bind ourselves, our heirs, administrators and successors, and assigns firmly by these presents.

WHEREAS, the Principal will operate/operates a *[mining activity]* located at *[legal property description]* (locally known as _____) in accordance with a certified Closure Plan filed with the Director of Mine Rehabilitation on _____.

NOW, THEREFORE, the condition of this obligation is such that, if the Principal shall comply with the terms of the certified Closure Plan then this obligation shall be void; otherwise it shall remain in full force and effect, subject to the following conditions:

1. Whenever the Principal shall be in default and declared by the Obligee to be in default of the terms of the certified Closure Plan, the Obligee shall send a registered letter to both the Principal and Surety, stating in substantial detail the facts leading to the default.
2. That the Surety's obligation to the Obligee shall only be to pay such amounts demanded by the Obligee and this bond will be totally exonerated by remitting to the Obligee such amounts in default, provided however, the total liability of the Surety shall in no event exceed the penal sum of the Surety.

3. The term of this bond shall remain in full force and effect to the time of release of the bond by the Ministry of Northern Development and Mines, or replaced by a form of financial assurance acceptable to the Director of Mine Rehabilitation.
4. Provided that, if the Surety at any time gives at least three calendar months notice in writing to the Obligee and to the Principal of its intention to terminate this obligation, then this obligation shall be deemed to be terminated on the date stated in the notice, which date shall not be less than three calendar months after the date of the receipt of the notice by the said Obligee or by the said Principal, whichever is the later date of receipt, provided that, should the Principal fail, within two calendar months of the above referred to later date of receipt, to provide a financial assurance in at least the same amount as this bond in a form acceptable to the Obligee, the Surety shall automatically and immediately pay the full amount of the bond to the Obligee.
5. Any suit or action on this bond against the Surety must be commenced by the Obligee within 120 days from the date of notice of default mentioned in clause #1 above.
6. In the event the Surety becomes unable to fulfill its obligations under the bond for any reason, notice shall be given immediately, by registered mail, to the Principal and the Obligee. Upon Obligee's receipt of Surety's notification or upon the incapacity of the Surety by reason of bankruptcy, insolvency, or suspension or revocation of its license, the Principal shall be deemed to be without bond coverage and will be required to submit alternate financial assurance, subject to the approval of the Obligee and as required by Section 145 of the Mining Act, within 30 days.
7. The Surety is approved under the Insurance Act or its successor.
8. Upon partial completion of the rehabilitation and reclamation of the site, and the submission by the Principal of a written application under Section 145 of the Mining Act including technical supports and relevant information, the Director of Mine Rehabilitation at his discretion may reduce the amount of the bond to an amount consistent with the financial requirements of the rehabilitation work left to be completed.
9. This bond will be valid for the term of *[date bond sealed]* to *[date 1 year hence]* and shall be automatically renewed, without further documentation from year to year thereafter unless terminated as aforesaid, provided that the Surety may, if it wishes, issue certificates evidencing such renewal.

Sealed with the respective seals of the Principal and of the Surety the ____ day
of _____, 200 .

SEALED, SIGNED AND DELIVERED

[NAME OF COMPANY]

In the presence of

Signature

Name of Signatory (Please Print)

[NAME OF SURETY]

Signature

Name of Signatory (Please Print)

**OTHER PUBLICATIONS IN THE EXTRACTIVE INDUSTRIES
FOR DEVELOPMENT SERIES ARE:**

- #1 *Vulnerability to Oil Price Increases: A Decomposition Analysis of 161 Countries* by Robert Bacon and Masami Kojima
- #2 *Changes in End-User Petroleum Product Prices: A Comparison of 48 Countries* by Masami Kojima
- #3 *Extractive Industries Value Chain: A Comprehensive Integrated Approach to Developing Extractive Industries* by Eleodoro Mayorga Alba
- #4 *Mining Cadastres: Promoting Transparent Access to Mineral Resources* by Enrique Ortega, Alexandra Pugachevsky, and Gotthard Walser,
- #5 *Emerging Players in Global Mining* by Dr. David Humphreys
- #6 *Changing Patterns of Household Expenditures on Energy: A Case Study of Indonesia and Pakistan* by Robert Bacon, Soma Bhattacharya, and Masami Kojima

NOTES

NOTES

THE WORLD BANK OIL, GAS, AND MINING POLICY DIVISION

The World Bank Group's role in the oil, gas, and mining sectors focuses on ensuring that its current interventions facilitate the extractive industries' contribution to poverty alleviation and economic growth through the promotion of good governance and sustainable development.

The Oil, Gas, and Mining Policy Division serves as the Bank's global sector management unit on extractive industries and related issues for all the regions of the world. It is part of the Oil, Gas, Mining, and Chemicals Department, a joint World Bank/International Finance Corporation department.

Through loans/credits/grants, technical assistance, policy dialogue, and analytical work, the Division leads a work program with multiple activities in more than 70 countries, of which almost half are in Sub-Saharan Africa. More specifically, the Division:

- Advises governments on legal, fiscal, and regulatory issues and on institutional arrangements as they relate to natural resources, as well as on good governance practices.
- Assists governments in setting up environmental and social safeguards in projects in order to promote the sustainable development of extractive industries.
- Helps governments formulate policies that promote private sector growth and foreign direct and domestic private sector investments.
- Advises governments on how to increase the access of the poor to clean commercial energy and to assess options for protecting the poor from high fuel prices.

The Oil, Gas, and Mining Policy Division serves as a global technical advisor that supports sustainable development by building capacity and providing extractive industry sector-related advisory services to resource-rich developing country governments. The Division also carries out an advocacy role through its management of the following global programs:

- The Extractive Industries Transparency Initiative (EITI) Multi-Donor Trust Fund, which supports countries in implementing EITI programs.
- The Global Gas Flaring Reduction (GGFR) Public-Private Partnership, which brings governments and oil companies together to reduce gas flaring.
- The Communities and Small-Scale Mining (CASM) Partnership, which promotes an integrated approach to addressing issues faced by artisanal and small-scale miners.
- The Gender and Extractive Industries Program, which addresses gender issues in extractive industries.
- The Petroleum Governance Initiative (PGI), which promotes petroleum governance frameworks, including linkages to environmental and community issues.



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Cover Photos: Oil rig, hematite-banded ironstone, LNG tanker