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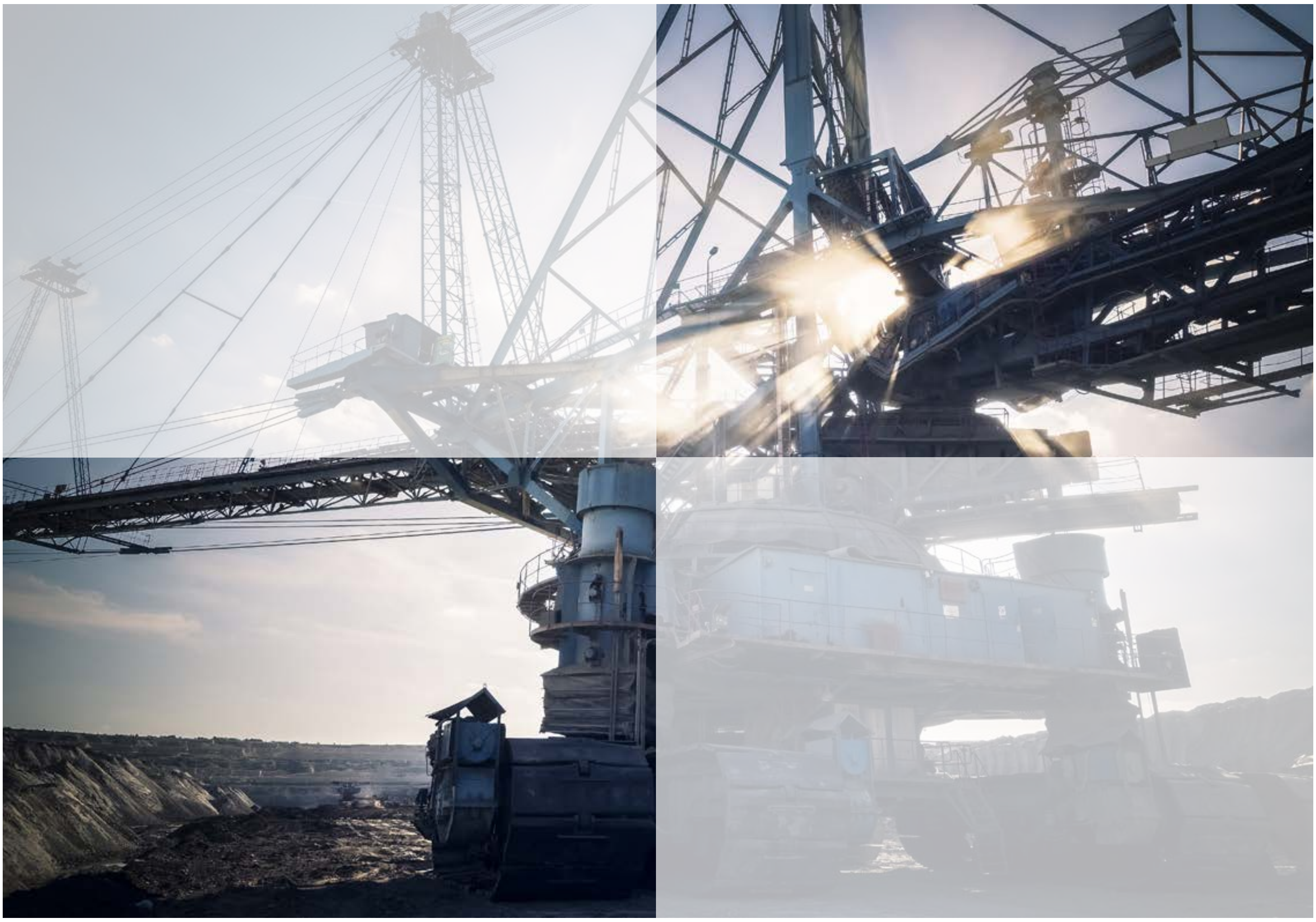

Moving towards a Sustainable Shared-Use Mining Infrastructure Model

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Rail, port, energy and other forms of infrastructure are critical to the mining industry. Industry executives continually strive to secure long-term logistics and energy solutions that support efficient and reliable operations at competitive and predictable costs. Effective infrastructure arrangements can also enable mining companies to achieve certain strategic advantages, including a stronger presence in important jurisdictions and markets. In frontier countries, mining companies have developed a preference for privately-owned infrastructure that they operate and control as part of an "integrated" operation. In developed countries, mining companies are generally willing (and often required) to utilize public infrastructure provided directly or under concession by the state, but they are often able to do so on preferential or exclusive terms.

The integrated and public infrastructure models are well understood by mining companies and their investors, and have for many years supported large-scale mining investment worldwide. Each has, however, attracted criticism from host governments, civil society, development institutions and leading academics. Moreover, in recent years, some major mining groups, together with their institutional investors, have also questioned the status quo. At the core of the (still evolving) debate over mining infrastructure are the following questions:

- Is the integrating mining model compatible with critical infrastructure facilities being used by multiple parties and for multiple purposes, thereby serving as a catalyst for efficient development of mineral resources and broad-based economic development?

- Should host governments dedicate the state's limited financial resources to the provision of costly public infrastructure that primarily or initially benefits mining companies, and that could be funded with private capital?

Commentators have suggested that these concerns could be fully addressed through a third model under which infrastructure facilities are funded privately but owned and operated independently of mining companies (and other users) on a shared-use or "open access" basis. Unlike many public infrastructure projects, which routinely suffer from serious "demand risk", mining infrastructure benefits from at least one (and potentially more) long-term, highly-dependent mining clients. If properly structured, this third approach, for which ample precedent exists in other industries, would be highly bankable and achieve significant synergies that translate into direct cost savings for mining companies. However, despite the potential for win-win solutions, workable shared-use mining infrastructure is seen only rarely.

Responsibility for the dearth of shared-use solutions must, somewhat ironically, be shared among:

- Mining companies, which have often sought to avoid giving or to side-step infrastructure access commitments to host governments and have been reluctant to agree rational shared-use arrangements with their competitors

- Host governments, which often lack the project preparation skills needed to develop and impose workable shared-use infrastructure solutions and, subsequently, to enforce and regulate them

- Project lenders, which have often declined to grant the degree of flexibility in lending terms required to enable sharing scenarios

- Development agencies, which could do more to fund or sponsor solutions to key challenges, such as the paucity of expert and credible regulatory bodies

Despite past failures, the prospects for achieving mining infrastructure solutions that fairly and sustainably balance the legitimate interests of key stakeholders have improved significantly in recent years. This is due to various external factors that are catalysing change, including:

- The emergence of "resource-for-infrastructure" (R4I) schemes promoted by China and other resource-hungry countries, which represent a competitive threat to global mining groups and a new and often compelling alternative for host governments

- A growing realization that the next generation of world-class mining projects will require unprecedented levels of capital investment in infrastructure that exceed the financial capacity of mining sponsors and host governments, which means that new funding models and sources are required

- The demands of yield-hungry institutional investors, who are calling on mining groups to demonstrate greater creativity and responsibility in the deployment of scarce financial resources

Any move by mining companies to embrace a new model for their critical infrastructure needs can occur only gradually, and will not be possible unless their legitimate concerns are addressed. These include:

- How will the rules for shared-use infrastructure be established and enforced, and can appropriate regulatory institutions be identified or created in frontier countries?

- How will the capacity of host governments to negotiate or broker multi-user infrastructure solutions be improved?

- Can shared-use infrastructure solutions be structured, commercially and contractually, in a way that attracts the required capital without putting mining "clients" under undue financial pressure?

- How will a first-mover mining client be fairly rewarded for its risk-taking, and can unfair free-riding by its competitors be prevented?

- Can shared-use solutions play a role in the mitigation of political, financial and other risks and, if so, how is this best achieved?

With improved host government leadership, growing support from key development institutions and the goodwill of leading mining groups, there is every reason to believe that answers to these questions will soon be found.

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