

Ok Tedi mine closure—BHP and PNG government in conflict

Tim Joy**14 September 1999**

BHP, Australia's largest mining and resources company, has released a discussion paper outlining plans for the closure of the Ok Tedi mine in Papua New Guinea. Since the mine opened, BHP and the PNG government have consistently denied or downplayed scientific studies critical of its environmental impact. BHP's paper now admits the devastating effect of the mine.

However, the PNG government, dependent on revenue from the mine, has reacted cautiously to the paper calling on the World Bank to conduct an "independent" inquiry.

The BHP paper states that "early closure of the mine appears to be the only option that will significantly limit the projected environmental impacts of the mine." BHP fears the cost of any rehabilitation would make the mine uneconomic. In the past year the company has "rationalised" its assets internationally and is looking to extricate itself from a project producing poor returns, bad publicity and unknown future liabilities. With 10 years of ore deposits remaining, early closure is estimated by the company to cost US\$20-40 million, compared to either dredging the Ok Tedi River for US\$30 million a year, or building a tailings pipeline costing US\$170 million and a further US\$10 million annually.

The PNG government aims to keep the mine open at the expense of the local population. Prime Minister Mekere Morauta stated that "a comprehensive, independent and balanced approach—one that focuses on all aspects of the mine's impact, not only the environment—is necessary." Income from royalties, duties and other taxes from the project have totalled US\$176 million (approximately US\$11 million annually). This does not include royalties to the provincial government or local landholders. The mine

accounts for 20 percent of PNG's exports and over 10 percent of its GDP.

Ok Tedi Mining Limited (OTML), the operator of the mine, is 52 percent owned by BHP and 30 percent by the PNG government. The mine, which produces gold, silver and copper, is located at the headwaters of the Ok Tedi River in the heart of PNG near the border with Irian Jaya.

The project's original design required a dam to capture all the tailings (waste). However, landslides stopped attempts to build a dam. The steep terrain and high rainfall (over 10,000 mm per year) meant that construction of a new dam would have delayed the mine's opening and might have led to its cancellation since it was already facing cost over-runs. The PNG government, under pressure from the company, decided to allow tailings to be dumped directly into the Ok Tedi River.

The mine pumps 80,000 tonnes of sediment from the tailings into the river every day. As a result the Ok Tedi and Fly rivers are biologically dead and the riverbeds have been raised by between 4 and 6 metres. Continuous flooding has killed native forests and disrupted local farming. The BHP paper notes that if the mine continues to operate to the planned completion date of 2010 conditions will deteriorate further.

In 1994, 73 landowners, representing 30,000 local people, sued BHP for A\$4 billion in compensation and punitive damages in the Victorian Supreme Court in Australia where BHP has its headquarters. They also demanded that a tailings dam be constructed. The lawsuit was seen as a test case internationally. If the landowners were successful, mining companies around the world could be sued in their home countries. The PNG government and BHP unsuccessfully offered the

landowners A\$110 million in compensation to withdraw the case.

As the case was about to come to trial at the end of 1995 the PNG parliament began discussing legislation (drawn up by BHP's lawyers in Melbourne) to protect BHP. The law imposed fines of K100,000 (US\$25,000) and K10,000 per day for pursing a claim in foreign courts or challenging the constitutionality of the law itself.

The court ruled that BHP was in contempt of court after it admitted its involvement in drafting the PNG legislation. The decision was reversed on a technicality that only the Attorney-General could bring a charge of contempt of court. As expected, Victorian Attorney-General Jan Wade decided that BHP had committed no contempt.

The PNG government then restated its offer of compensation and gave the landholders six months to accept. Faced with the threat of prosecution in PNG the landholders agreed to an out-of-court settlement. BHP agreed to pay all legal fees, an extra K40 million in compensation over 10 years, and K400 million on a waste management scheme. It is this scheme that BHP is now seeking to avoid.

Local landholders have reacted strongly to the BHP paper. They have called for the mine to remain open and presented the mining minister with a petition demanding compensation, rehabilitation of the rivers and the construction of sealed roads and airports in the major towns.

The mine has completely disrupted local people's lives. It has stopped all fishing in the main rivers and killed vegetation and agriculture. Due to migration, the number of people in the villages around the mine has increased from 500 to 5,000 with a projected population of 10,000 by 2010.

This has transformed social relations near the mine. Behaviour previously unknown, such as alcoholism, prostitution, kidnapping, rape and associated violence have become commonplace. The position of women has deteriorated especially and the term "GBH", taken from police reports meaning "grievous bodily harm", has entered the local vernacular.

Much of the population has made the transition from subsistence production to relying, in one way or another, on the mine's operation. Given the increase in population and that nothing will replace the mine, the

expected transition back to subsistence will be impossible. With or without the mine, a major social catastrophe looms.



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