Australian mining giant ramps up pressure on PNG

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Having walked away scot-free from Papua New Guinea a decade ago, after creating a health and environmental disaster, the world's largest mining company, Australian-based BHP Billiton, is seeking to bully the PNG government into permitting it to recommence operations in the resource-rich country.

PNG Prime Minister Peter O'Neill last week accused the company of having a "colonial era mentality" after BHP Billiton reopened an acrimonious dispute over the proceeds from the Ok Tedi copper and gold mine, from which BHP formally exited in 2002.

Since 2011, BHP has unsuccessfully sought exploration licences in PNG for the first time since 2002. Last year, after negotiations broke down, BHP threatened to sue the PNG government, but ultimately withdrew its applications covering about 40,000 square kilometres of mountainous countryside.

In a bid to ramp up its pressure on the PNG government, a leaked BHP document was published on the front page of last Monday's *Australian Financial Review*. Written to the Australian government, it alleged that O'Neill had "blocked" BHP's lease applications, as a lever to demand that the company hand over control of a $US1.5 billion development fund derived from Ok Tedi profits.

BHP called on Canberra to intervene against a PNG visa ban imposed last November on prominent Australian academic Ross Garnaut, who subsequently quit as chairman of the development fund—the PNG Sustainable Development Program (PNGSDP)—and Ok Tedi Mining, the company that has operated the mine since 2002. "The Australian government should be concerned that an Australian businessman is being blocked from participating in legitimate business interests," BHP stated.

In response, O'Neill described BHP's allegations as "totally and utterly false," saying he had personally invited the company to "consider investing in PNG." While criticising BHP's colonial-style disregard for PNG's independence, O'Neill also emphasised that his government was committed to giving investors "confidence and certainty". He delivered the same message last month while addressing 1,400 mining, oil and gas leaders, and financiers and analysts, in Sydney, at the annual PNG Mining and Petroleum Conference.

O'Neill alluded to the popular hostility that remains in PNG over BHP's notorious departure from Ok Tedi in 2002. He said the company had been done "an enormous favour by the then PNG government and allowed to exit ownership of the Ok Tedi mine without accepting any financial or moral responsibility for the enormous environmental and social damage … in the 20 years it operated the mine."

Over two decades, BHP dumped more than half a billion tonnes of tailings (rock waste) containing copper, zinc, cadmium and lead into the Fly and Ok Tedi Rivers. It ruined the lands of thousands of subsistence farmers, poisoned some 2,000 square kilometres of forest, polluted the Ok Tedi River and contaminated a section of the Fly River, PNG's second biggest river system, severely depleting fishing stocks.

To avoid legal liabilities amounting to billions of dollars, BHP secured a deal from the PNG government, which enacted laws indemnifying the company against all compensation claims. BHP's 52 percent shareholding in the mine was transferred to the PNGSDP, supposedly to provide the funds to repair the damage that BHP had caused. Prime Minister Mekere Morauta agreed to extend the mine's life, in order to preserve the government's 30 percent share of the mine's profits, plus millions of dollars in royalties and taxes.

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BHP retained a veto over the rules governing the PNGSDP, which include a stipulation that 60 percent of its income must be reserved in a long-term investment fund, based in Singapore, until the mine closes. Over the past decade, record copper prices have turned the mine into a cash cow, extending its expected life by ten years to 2022. By then, the fund is expected to be sitting on $3.7 billion. Knowing that the PNG ruling elite is anxious to get its hands on this bonanza before 2022, BHP is using its veto over the fund as a bargaining chip.

While Ok Tedi Mining has continued to generate a lucrative income for corporate executives, consultants, mining-related businesses and local landowners, the people of the region have seen little benefit from the PNGSDP. A survey conducted last year found that women were dying of blood losses from abnormal bleeding and babies, children and young people had abnormal lumps or growths. Health facilities in the area were in an appalling state and many people were dying from curable diseases. An earlier assessment, in 2006, concluded that there had been no marked improvement in the living conditions of the 50,000 people in the Fly River catchment, and that the environmental effects would be felt for "several hundred years".

Thus far, the Australian Labor government has publicly declined to be drawn into BHP's dispute with PNG. Foreign Minister Bob Carr said the Australian High Commissioner in Port Moresby had made representations on Garnaut's behalf and the issue was "best handled at that level." Canberra is intent on maintaining close relations with O'Neill, whom it backed strongly last year during PNG's constitutional crisis.

O'Neill initially came to power in August 2011 after Prime Minister Michael Somare was unconstitutionally removed from office. Australia and the US stood four-square behind O'Neill in the subsequent standoff, which saw O'Neill and Somare head rival governments, each vying for control of the army, police and state apparatus. Somare had promoted a "look north" foreign policy, based around closer relations with China and reducing the influence wielded by Australia over its former colony.

Over the past decade, Chinese companies have become active in PNG. The Ramu nickel mine is one of China's largest direct overseas investments, while US companies are also expanding their stake, most notably an ExxonMobil-led $19 billion liquid natural gas (LNG) project. In 2011, US Secretary of State Hillary Clinton told a Senate committee that China was trying to undercut US interests in PNG.

During his visit to Sydney last month, O'Neill showed why the Gillard government regards him as an asset. He not only assured mining investors that their interests would be upheld, but rejected any suggestion that PNG would develop close strategic and military ties with China. O'Neill has also facilitated the re-opening of an Australian refugee detention camp on PNG's Manus Island.

Other major Western mining companies have reiterated their appreciation of O'Neill's role. An ExxonMobil spokeswoman told the *Australian Financial Review*: "As a partner in the PNG LNG project, the [O'Neill] government continues to provide a strong business environment that is conducive to investment."

BHP's determination to pressure O'Neill, despite his obvious pro-mining and pro-Western stance, is indicative of the increasingly fierce corporate competition for access to lucrative mineral deposits as profits are impacted by slowing global growth.

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