Job cuts threatened at New Caledonia nickel plant

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Job cuts are looming in New Caledonia's mining and processing sector following a severe drop in the global price of nickel. The small Pacific island, a French colony with a population of about 280,000, is the world's fifth largest nickel producer.

The Koniambo plant, owned by the transnational conglomerate Glencore-Xstrata and the Northern Province's Société mininère du Sud Pacifique, announced last month it is "reviewing" 140 positions from its workforce of 950.

Koniambo CEO Marc Boissonneault said the current low level of production was not economically viable, making it a "challenge" to cut costs. The plant had also suffered setbacks after problems with its furnaces.

The job threat came despite pledges of financial support for Koniambo by the French government. Spending on Koniambo—one of the world's biggest new projects—exceeded $US7.2 billion at the start of its productive life in 2013.

French Prime Minister Manuel Valls said in February that Paris would also underwrite the Société Le Nickel (SLN) processing plant in the capital Noumea. SLN is a subsidiary of Eramet, a French multinational mining and metallurgy company.

Valls' undertakings were given at a meeting held to discuss a possible referendum on independence for the territory by 2018. The SLN plant's viability had hinged on it getting a new power plant, but that plan was placed on hold because of the company's financial losses.

The cuts foreshadow a major assault on workers throughout the nickel industry in New Caledonia and globally. The industry is the territory's biggest private sector employer, accounting for a quarter of all jobs and 7–10 percent of its output. With the exclusion of tourism, nickel ore and derived metallurgical products represent about 97 percent of the total value of exports and 80 percent of foreign exchange earnings.

During 2015, the price of nickel on the world market fell by more than 40 percent, ending the year at $US8,100 a tonne, compared with a high of $51,800 in 2007. The current price is below the cost of production for more than two-thirds of the world's mines. The New Caledonia industry recorded losses of $US1 billion for 2015. According to Bloomberg, the Brazilian-owned Vale mine at Goro produced at a cost of $20,000 a tonne last year, while Koniambo spent $33,000 a tonne.

Last December, Glencore CEO Ivan Glasenberg warned: "We have no intention to continue running the asset and burning cash like some other parties in that area." The same month, Jennifer Maki, Vale's head of base metals, told investors in London: "We know everybody in this room's patience is wearing, and our patience is wearing. We're analysing our options in New Caledonia."

Nickel is used primarily for steel production, of which there is now a massive glut in China. With China responsible for nearly half of global metals demand, the slowdown within the world's second largest economy is expected to see metal prices decline by 14 percent in 2016. The International Monetary Fund recently warned of "continued low prices, but with rising uncertainty."

Bloomberg cited an analyst at Standard Chartered Plc saying that "the red ink is bigger in nickel than for any other base metal." Demands are being raised for global production cuts of up to 30 percent.

Anger among workers in New Caledonia has been building for the past year. President Philippe Germain warned last November that the closure of Australian business magnate Clive Palmer's nickel refinery in the state of Queensland could lead to civil unrest in the Pacific territory. New Caledonia's mines were the main suppliers of Palmer's smelter in Townsville before it was shut down in March with debts totalling $A300 million, resulting in the loss of 800 jobs.

The refusal of Germain's administration to grant export licences last year to local miners to sell ore to customers other than Palmer's Queensland Nickel triggered protests and industrial blockades.

In August 2015, truck drivers, fearing for their jobs, mounted a three-week blockade of parts of Noumea, the capital, after the government rejected a bid by SLN to export one million tonnes of low-grade ore to Japan. Attempting to shore up prices, the government also restricted sales of ore to China, allowing only one company to sell 300,000 tonnes over an 18-month period.

Last November, hundreds of SLN workers went on strike and set up pickets, blocking access to the plant using burning tyres. The workers were protesting the loss of 60 jobs and a decision to delay building the new power plant for the smelter. The unions quickly shut down the strike while steering workers behind the demands of the conservative opposition Republican Party to lift export restrictions.

The Republicans accused the government of committing "economic sabotage" by blocking exports, directly or indirectly putting up to 10,000 jobs at risk. The government relented in April, following the closure of the Queensland plant, authorising the export of some low-grade nickel ore to China. The decision came after truckers again threatened to blockade Noumea.

With the sector in a deep crisis, the government has disbursed $US5.5 million of a $23 million Nickel Fund to prop up export companies and contractors. The disbursement applied only to companies with fewer than 500 employees, which excludes Koniambo, Vale and SLN. The government claimed the payment saved about 400 jobs.

The collapse in commodity prices is causing economic and political turmoil throughout the Pacific, whose fragile economies largely depend on the export of extractive raw materials. Economic growth will drop from 7.0 percent, recorded last year, to an average of 3.9 percent in 2016, according to the Asian Development Bank.

Papua New Guinea (PNG), with the largest economy of the Pacific islands, has experienced a drop of 20 percent in government revenues, forcing austerity measures similar in scope to those in Greece. These, in turn, are fuelling protests and strikes by growing sections of PNG workers and students.