And Then There Were Three: A New Chinese Miner in Papua New Guinea

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Barrick Gold Corporation announced on 26 May 2015 that it had sold a 50 per cent stake in Barrick Niugini Limited to Zijin Mining Group, one of China's 'big four' state-owned gold mining companies, for US$298 million in cash (BGC 26/5/2015). Barrick owns 95 per cent of the Porgera gold mine, Papua New Guinea (PNG), with the remaining five per cent in the hands of the Enga provincial government and landowners. The deal was part of a broader 'strategic partnership' between Barrick and Zijin, and is in line with Barrick's new approach of deleveraging and reducing exposure to legacy assets outside North America (Hill and Campbell 2/12/2013). It came as a surprise, as another large Chinese mining company, China Gold, had been in talks about a similar partnership (Zhang 27/12/2012). Its manager memorably described negotiating with Barrick as 'like asking a tiger for its own skin' (Hill and Campbell 2/12/2013). While too early to say what difference this change in ownership will mean for local stakeholders, little is known about this latest entrant to PNG's extractive sector. Against the backdrop of growing Chinese investment in PNG and the wider region, we provide some background on Zijin, and highlight some of the legacy issues it will face at Porgera.

Barrick lists the partnership's advantages as 'low-cost capital from Chinese institutions, leading Chinese engineering and construction skills, and Chinese machinery, equipment and other critical suppliers that meet world-class standards of quality at competitive costs' (BGC 26/5/2015). Given that Porgera is being depleted of accessible ore, Zijin's expertise in profitably extracting gold from large volumes of ore will be one of the 'skills' that commended it to Barrick. These techniques have not been without controversy. Media coverage of Zijin in China usually involves environmental disasters. The company held the dubious distinction of topping the Ministry of Environmental Protection's 2010 list of companies with 'serious environmental problems' (Zhao and Xu 20/7/2010).

Zijin's Corporate Culture

Although China has been the world's largest market for gold since 2013, China's gold mining companies long struggled to obtain permission to invest abroad. Zijin was the first to break through, and its investments since 2005 include mines in Tajikistan, Kyrgyzstan, Russia, Mongolia and Australia. In the same week the Porgera deal was announced, Zijin inked a larger partnership with another Canadian mining company, Ivanhoe. Zijin will pay US$412 million for a minority share of Congo's Kamoa copper project (McKinnon and MacDonald 26/5/2015).

Li Zhilin, president of Zijin, sees these investments as 'help[ing] a company upgrade to reach the status of international mining firm' (Zhang 27/12/2012). With the takeover of PanAust (which owns the Frieda River copper project) by Guangdong Rising Asset Management (GRAM), there are now three major Chinese players on PNG's mining scene. The earliest arrival was China Metallurgical Corporation (MCC), the main shareholder in Madang's Ramu Nickel project. The differences in approach between MCC and Zijin are stark, and reflect a growing sophistication among Chinese investments abroad.

MCC has been reluctant to engage with other mining companies (Smith 2013). Zijin's decision to work side by side with a Canadian miner to gain expertise reflects a different corporate culture. Unlike MCC or GRAM, Zijin is a mining company, having grown out of the Zijinshan mine in Fujian province. MCC, by contrast, grew out of the Ministry of Metallurgy and retains a bureaucratic flavour. Under former chairman Shen Heting, MCC developed an international portfolio of mines scattered in terms of their location and the minerals exploited. Shen was stood down in September 2013, after the company posted 7 billion yuan in losses. By contrast, Zijin has concentrated on gold. However, Porgera is not without legacy issues, and in time Zijin may come to envy MCC's low-cost operation in a sparsely populated corner of Madang.

Legacy Issues

Located in one of PNG's most remote and under-developed provinces, the Porgera mine has had both positive and negative impacts. Since production began in 1990, the mine has delivered substantial financial and other benefits to local, provincial and national stakeholders (Johnson 2012). However, translating these into durable and equitable development results has proved challenging in Porgera, as it has elsewhere in PNG. There are many international examples of the 'resource curse' that can arise when economies dominated by extractive industries are badly managed, including environmental destruction, corruption, conflict, human rights abuses and poor development outcomes. However, these outcomes are by no means inevitable and can be mitigated when appropriate measures are adopted. That said, Porgera remains a complex operating environment with a troubled past and ongoing legacy issues.

One is the current fly-in/fly-out arrangement for the non-local workforce. Having all mine workers and their families reside in a purpose-built township has been a longstanding demand among local landowners and is a continuing source of grievance. Opponents highlight the costs of this option given the finite mine life, as well as concerns over security and lack of amenities. Another concerns the relocation of landowners living in the special mining lease (SML). The expansion of mining activities in the SML has degraded land formerly used for settlement and agriculture. Significant in-migration from other areas has been another complicating factor. From around 10,000 people in the late 1980s, the Porgera local-level government population has grown to approximately 60,000 today. The presence of migrants in the SML, usually on the basis of kinship or other ties with resident landowners, has made it difficult to distinguish between SML landowners who are eligible for resettlement and other entitlements, and recent arrivals who are not. In-migration has also placed growing pressure on local infrastructure and accentuated processes of social dislocation within local communities.

These manifest in multiple conflicts around access to and distribution of mining-related benefits and in a range of social problems including high levels of alcohol abuse, crime, and interpersonal violence, particularly against women. Local disputes can escalate and migrate to other parts of the province. In-migration is also linked to the most intractable problem from the mine operator's perspective: 'illegal' or 'unauthorised' mining. At times there have been literally hundreds of 'illegal' miners operating in the open pit and many are believed to be migrants living with SML landowners. The main concern for the operator has been potential interruptions to production, theft of gold and other assets, and threats to the safety of company personnel.

Violent encounters between 'illegal' miners, the police and Barrick's security staff have resulted in serious injuries and occasional fatalities. Allegations of serious human rights abuses by police have been made since mining began. There have also been major problems with company security, including organised sexual abuse against local women and girls working on the tailings (HRW 2010). Barrick has taken significant measures to reform its practices and is productively engaged with a range of local stakeholders to improve safety, stability and the provision of policing and law and justice services. Security nevertheless remains a major and ongoing issue at the mine site and in the larger community. While Zijin's managers offer technical expertise and low-cost finance, it is unclear whether their arrival will alleviate or exacerbate these complex legacy issues. It is to be hoped that Zijin will build on the considerable experience of its partner in seeking to develop constructive relations with local stakeholders.

Author Notes

Graeme Smith is a fellow and Sinclair Dinnen a senior fellow with SSGM.

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