

Rio Tinto Considers Exiting Papua New Guinea Copper Mine

New Law Threatens Project, Closed for 25 Years, as It Moves Toward Reopening

[Rhiannon Hoyle](#) Aug. 18, 2014 at 5:01 am

Under Review

Rio Tinto could walk away from its Bougainville Copper stake after a quarter of a century and despite robust copper prices as new mining laws are passed.

London Metal Exchange three-month copper contract, closing price



Panguna Mine

From 1972-1989, the mine produced:

| | |
|------------|--|
| 3 | million tons of copper |
| 9.3 | million ounces of gold |
| 44% | of Papua New Guinea's exports |
| 17% | of internally generated government revenue |

Expected new mine could have:

| | |
|--------------|-----------------------------|
| 5 | million ton copper resource |
| 19 | million ounce gold resource |
| 24 | year mine life |
| \$5.2 | billion capital cost |

Sources: FutureSource (closing price); the company (mine)

The Wall Street Journal

But as the mine today edges toward restarting after a quarter-century and copper prices are strong, Rio might head for the exit.

The Anglo-Australian company on Monday said it was reviewing its options for its controlling stake in Bougainville Copper Ltd., after the government passed new laws that could strip the company of its lease on its Panguna mine.

When Panguna—one of the world's biggest copper deposits—started operations in 1972, Papua New Guinea saw the project in Bougainville as a path to riches. The impoverished

country then was still under Australian control and had little industry beyond fishing the schools of tuna that swam near its shores.

But islanders soon became envious that revenue that was flowing to government coffers in Port Moresby rather than to Bougainville schools, health clinics and local incomes. Those frustrations, combined with worries over the mine's poor environmental record, burst into violence in 1989 when militants forced the mine to shut down.

Just before it closed, the mine was producing around 166,000 metric tons of copper and 450,000 troy ounces of gold a year. That is enough copper for 7.3 million typical American-made cars.

A secessionist rebellion that led to thousands of deaths ended with a cease-fire in 1998 but the mine remained closed.

This year, however, there were signs that the mine was on the path to being rebuilt as rising demand from China for copper in apartment buildings and electric grids pushed prices higher.



The Panguna Copper mine, seen in a 2012 photo, closed in 1989 as a result of sabotage by the Bougainville Revolutionary Army. ILLUSTRATION: Alamy

Mining executives, landowners and the Bougainville and national governments have been working toward a reconciliation ceremony known as a *bel kol*—"best translated as a cooling of the heart, or a lowering of the emotional temperature," said Peter Taylor, the chairman of Bougainville Copper for more than a decade.

But mining laws were passed this month that will transfer mining regulation to Bougainville's autonomous government from Papua New Guinea's national government.

Under the legislation, Bougainville Copper—in which Papua New Guinea's government holds a 19% interest—would lose its mining lease for Panguna. It would be exchanged for an exploration license. Rio Tinto would have to reapply for the lease.

"Rio Tinto has decided now is an appropriate time to review all options for its 54% stake in Bougainville Copper," said the company, which is reviewing the implications of the mining bill. Private shareholders own 27% of Bougainville Copper.

Some economists questioned the mine's viability if Rio walked away.

"Rio Tinto is large enough to have done their sums, looking at the costs of benefits, so I don't know if we will see a new player on the scene," said Satish Chand, a finance professor at the University of New South Wales.

Chinese buyers, however, have expressed interest in copper deposits, looking to feed a voracious appetite for the industrial metal in the world's No. 2 economy. Guangdong Rising Assets Management Co. has been considering a takeover of PanAust Ltd., an Australian company that is about to acquire Glencore PLC's majority stake in Papua New Guinea's Frieda River copper deposit.

Bougainville Copper has estimated it would take between five and seven years to reopen the Panguna mine, should the company win approvals and secure financing.

A 2012 study forecast that US\$5.2 billion was needed to get the site back into production. The study estimated there was at least another five million tons of copper and 19 million ounces of gold to be mined at the site, which would sustain operations for more than two decades.

Many landowners oppose reopening the mine, however, and have been demanding more compensation for past environmental damage along the nearby Jaba River.

"At the moment, a lot of income is earned through exports of cocoa, and the government will need to look at the impact the mine and so-called Dutch Disease may have on agriculture," said Prof. Chand, referring to an economic theory regarding the negative consequences from the development of natural resources.

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