Rio Tinto cuts Bougainville ties as it exits Panguna mine

The Panguna mine was abandoned after conflict on Bougainville.

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Rio Tinto has walked away from its former jewel in the crown, the Panguna copper/gold mine on Bougainville in Papua New Guinea.

More than 27 years after its 53.8 per cent listed subsidiary Bougainville Copper was forced to abandon the mine in the face of attacks by militant secessionist rebels, Rio has called time on its involvement by transferring its BOC stake to the provincial and national governments at no cost.

The exit comes in the week that Rio chief executive Sam Walsh is to retire. But it is understood the exit has the fingerprints of his replacement, Jean-Sebastien Jacques, indicating the new CEO intends to hit the ground running when it comes to dealing with any legacy issues. The BOC stake was valued by the market yesterday at $124 million but only after BOC shares soared 11c to 31c on news of Rio's departure, the notion being that the prospect of the abandoned mine being brought back into production had improved with its exit.

But the estimated $8 billion cost to return Panguna to its former glory as one of the world's great mines means that with or without Rio on board, the redevelopment prospects remain distant for a provincial and national government that could do with the revenue boost.

The Rio stake in BOC will be distributed between the Autonomous Bougainville Government for the benefit of all the Panguna landowners and the people of Bougainville, and the national government.

Friction between the locals and the national government on the distribution of wealth from Panguna's riches was one of the causes of the nine-year civil war that ravaged the island following the attacks on the Panguna mine.

Under Rio's exit plan, the ABG can receive 68 per cent of Rio's shareholding (36.4 per cent of BOC), leaving the national government to pick up the remaining 32 per cent (17.4 per cent of BOC), taking the government stake to a matching 36.4 per cent, and leaving the public holding at 27.2 per cent.

"This ensures both parties are equally involved in any consideration and decision-making around the future of the Panguna mine,'' Rio said.

Its copper and coal chief executive, Chris Salisbury, said Rio had studied a range of options for its exit and that by "distributing our shares in this way we aim to provide landowners, those closest to the mine, and all the people of Bougainville a greater say in the future of Panguna".

Rio's exit has been on the cards since August 2014 after BOC was stripped of its mining rights (its rights changed to the lower security of an exploration licence) to the abandoned Panguna under ABG's new mining laws.

Rio responded by announcing it would "review all options'' for its BOC stake.

That prompted speculation at the time that Rio could look to gift its BOC stake to charitable foundations, as it did in 2014 with a project in Alaska, or hand the interest to a trust for the long-lasting benefit of the local people, as it has now done.

BHP Billiton did the latter with its stake in the Ok Tedi mine in PNG.

Rio demonstrated in the Alaskan situation that where it no longer feels welcome — and where the price of exiting is not too high — it is prepared to walk away.

The Alaskan deal involved Rio giving its 19.1 per cent stake in Northern Dynasty to two local charitable foundations. Northern Dynasty owns the Pebble copper/gold deposit in Alaska.

That project has emerged as a cause celebre for environmentalists worried about the impact of a development on the region's famous salmon runs.

The Panguna operation was once considered the jewel in the crown for CRA, the Australian offshoot of London-based RTZ before their 1995 merger to form Rio Tinto.

Fabulously profitable when copper prices were high, the mine became the subject of a super-tax profit that was a forerunner to Labor's failed mining tax in Australia. More than five million tonnes of copper and 19 million ounces of gold were left behind in the Panguna open-cut.