

Address by Peter Taylor executive chairman of BCL to Australia PNG Business Council in Madang 17.5.11

Thank you. It is a pleasure to be able to speak to this meeting today, coming as it does close on the heels of the thirtieth anniversary dinner of the Australia Papua New Guinea Business Council, an organisation founded by the late Don Vernon, a predecessor of mine as Chairman of Bougainville Copper.

I can also report that the Don Vernon scholarship, substantially supported by BCL for post graduate study in minerals processing at Queensland University, has been awarded to Mr Chris Akop, and we wish him a successful term of higher studies and research.

Among other things, I want to briefly talk to you today about elephants, gorillas, sharks... and a dragon.

Among people who seek to discover and develop mineral resources, Papua New Guinea continues to enjoy its reputation as elephant country.

It is good hunting sense to go looking for minerals where minerals have already been found: you look for elephants in elephant country.

The experience has been if you go hunting here, and you find something, it's likely to be pretty big.

Ok Tedi plying the Fly River for thirty years, Porgera consuming Mt Waruwari for twenty years, and Lihir grinding day and night for a little bit shorter time, but with plenty remaining, have all proven to be world class mines. All producing in the order of seven hundred thousand ounces of gold or gold equivalent per year, and I might say, year after year.

The joint venturers at Wafi Golpu and at Freida River believe that these too might produce a million ounces of gold equivalent per year, for twenty years or more.

The geology underlying all of these mega-projects is by and large the same, having the characteristic footprint of Papua New Guinea's position on the Pacific Rim of Fire.

The new LNG projects, both of them, in relation to the size of the PNG economy, are also quite large, although the more advanced of the two is unflatteringly described by some not as an elephant, but more a gorilla, such is its power to draw resources, both material and human, into its grasp.

Bougainville Copper is also an elephant-sized resource, somewhat depleted, but with more gold and copper still in the ground than has already been produced.

In the seventeen years that the Bougainville copper mine has operated so far, from 1972 to 1989, it has produced and sold concentrate containing 9 million ounces of gold and 3 million tonnes of copper.

And we all know that the mine was the mainstay of the PNG economy for a decade, before the other projects began to kick in through the eighties and nineties...quite an achievement given that gold and copper prices were nowhere near the levels they are today.

Bougainville Copper has undertaken an Order of Magnitude Study, which indicates that the resource in the mining lease at Panguna still contains a billion tonnes of payable ore, subject of course to assumptions regarding the prices for copper and gold.

This study supports a planned rate of mining and processing of 50 million tonnes of ore per annum, producing perhaps 450,000 ounces of gold and 170,000 tonnes of copper per year over a mine life up to twenty years.

So it has been an elephant, and it remains a pretty robust member of that species still.

And it has other attributes that make it a continually attractive target.

It's not green field. We've been there for those seventeen years of operation and waited another twenty years since, and there is not much we don't know about our ore body, and our host community.

And there are seven adjacent exploration licence areas which offer the very tangible prospect of further significant discoveries. Once the long standing moratorium on exploration is lifted, I believe the circumstances in the Autonomous Bougainville Region will eventually see that constraint relaxed.

Here in Papua New Guinea where we work, it's not only the resources that may be elephant sized. Also very large are the issues of expectation, aspiration and participation that need to be managed.

Enough has already been said and written about the recent history of Bougainville, about what might have gone wrong and what we can learn from the whole experience.

At Bougainville Copper, we are very mindful of those lessons, but together with the Government and people of the Autonomous Region, we are looking forward.

There is a very wide consensus on Bougainville today that peace and continuing good order will be best achieved by economic means. That the normal aspirations of the people for a good life and a fulfilling future for their children will be delivered by employment, training, regular income, infrastructure and business activity.

After a few false starts the consensus is now firmly in favour of BCL being the preferred operator of the mine at Panguna if it restarts, and that the mine and its associated activities will be the engine driving all those benefits.

We are now opening a new chapter for Bougainville Copper.

There are many questions, and at BCL we are thinking hard to provide the necessary answers.

I'll go through a few of the challenges with you now, some of which, like raising three plus billion US dollars, around 10 billion Kina, are common enough in addressing the feasibility of any major resource development, and others which are unique to Bougainville and its recent history.

The first thing that has to be said, particularly in regard to Bougainville but also with relevance to the whole PNG resource development sector: that was then and this is now. It has to be done differently these days.

History tells us that the mine wasn't opened in the best of circumstances. It was opened on the eve of Papua New Guinea becoming independent. There wasn't a province of Bougainville at the time, constitutionally at least, so neither the province nor the landowners were consulted to any great degree. And there was some resistance to the mine being opened.

All of that will be very different. BCL's approach is to allow the landowners, in fact encourage the landowners and the Bougainville government to take the lead in setting the agenda. We need to do a better job of sharing the benefits of the project with the landowners and the government. I believe they need to have participation in the project so the fortunes of the mine are also their fortunes.

There will obviously be something of the same employment opportunities which were created before, and the business which spins off the mine. There'll be infrastructure that used to be there, and which is no longer there, like schools and hospitals and safe, reticulated water, all the things which people expect when big projects are developed in their area.

I am asked about the residual resentment, even militancy, which exists in pockets on the island, and what threat this poses to a re-established presence by the company.

My answer is that I don't think any major infrastructure project whether it be mining or otherwise, or even a road in Sydney, for example, opens without some people objecting to it, perhaps not quite so actively.

It's always a balance between the economic gain and the benefits people get from major projects and the social disruption that is inevitable. Things will change; there is no doubt when you have a large project like this. And some people are resistant to change. They may want the status quo to go on forever.

My view is that everybody should be at the table. Together we've got quite a way to go in terms of deciding whether mining should resume, and working out the regime under which the mine would re-

open. With all interested parties round the table, hopefully we'll be able to reach a workable compromise.

Economic self-sufficiency is an important goal for Bougainville, particularly when its people are endeavouring to become highly autonomous within PNG, and also to address the question of independence, which requires revenue developed by major projects such as a re-opened Panguna.

In addition to that, I think that many people, particularly the older generation, look back on what they had when the mine was operating and would like to see a return of many of the services and opportunities that were lost when mining stopped.

Another crucial issue is the re-negotiation of the Bougainville Copper Agreement, which was a document agreed in a different era with little recognition of benefit sharing.

It was also supposed to have been reviewed every seven years, and that never happened after 1974. Without wishing to pre-empt the discussion process or its outcomes, I know that everyone in Papua New Guinea today with an inkling of modern benefit sharing principles, would expect a range of things to be on the table, but they also need to be realistic about what is achievable.

There's another suggestion that is doing the rounds, invoking not elephants but dragons, and that is the suggestion that the Chinese would like to invest in, or be a customer, of the Panguna mine.

There has been no direct approach to BCL by the Chinese, but if any party was interested in investing, then the company would have to look at their proposal.

However, it is the owners of the company who will have the final say.

One other observation which is germane to most large investments... in recent times there have been a number of smaller operators circling around (we are moving on from elephants to sharks now), promising much and delivering little. I think it is fair to say that this has been disappointing to many Bougainvilleans, who might have had their expectations raised. BCL did deliver on its promises and will continue to do so.

So we are in the position of looking forward with a 21st Century view of equity and benefits sharing, but also with the advantage of hindsight about Bougainvillean resentment of some elements of the agreement imposed on them in the late 1960's.

Something of the same could be said about the environmental regime which will need to apply at a re-started Panguna mine.

Let me say that there has been a lot of misinformation about the Jaba river and the so-called environmental damage.

Siltation, yes, and river bed aggradation. But there was not the toxic material that some opponents of reopening claim. It needs to be remembered that gold and copper were not produced at the mine; only a concentrate, so chemicals including cyanide were not needed or used.

Today we will look at all the best available tailings disposal mechanisms. Technology has moved on so we now have options we didn't have before.

Landowners and the government are going to have to have a significant input on all major questions, and they'll have to decide which method they want.

In terms of compensation, there are questions that require resolution. During the years of operation, the largest component of compensation was paid by way of royalty directly to the PNG government. This was a bone of contention locally and royalties were later paid back to the provincial government, which in turn, paid the landowners part of it. There were variations of the royalty split on Bougainville, and other rents and compensation, but of course nothing has been paid since the year mining stopped.

So there's a question of what is equitable for compensating for the period between mining being suspended and when it starts again. As part of the re-negotiation, we'll have to look at all that and look at what sort of regime is appropriate for the future, not what happened in the past.

One or two other considerations, just in case anyone believes a re-start after twenty years is any easier than a green field project.

Economic impacts have yet to be modelled, but there are some baseline indicators.

Firstly, the context has changed. The LNG projects are very large, and for PNG the importance Panguna had when it first opened, remembering that it was the only major project in the whole country, not just Bougainville, doesn't assume the same significance.

For Bougainville, of course it is crucial.

Panguna is large enough to provide significant support for the Bougainville economy, and also to generate the large number of jobs and businesses that are expected to develop around a major project. There are statistics that indicate how many direct employees might lead to how many indirect employees and the ratio is about 5 to 1, so if we are employing 1000 people, you might expect another 5,000 people to be employed locally. That's the sort of thing that will help, not only in terms of revenue, but also in employment, which is very important for the young generation.

So, there's a big load of things to be dealt with.

How long is it going to take us?

Despite what we have said about what we know about our project, so much water has flowed down the rivers since 1989 that it is almost like starting all over.

Permitting will be the most defining influence on feasibility. There will be a new regulatory regime. Bougainville itself will be administering the mining regime, rather than the national government.

It has established its own mining department, whose CEO is present at this meeting.

But none of the legislation is in place yet, so that's going to take time. It is an opportunity to put in place an international best practice mining regime, based on PNG experience, and with input from parties such as the World Bank.

The company itself will have to do a feasibility study that is acceptable to lenders. That typically takes about a year and it's a very expensive process so we don't want to commit to that until we know

what the new mining regime will look like; what the tax regime will be, what the royalty regime will be, compensation and so on. We need to have all those in place before we can do a feasibility study. BCL will also want to adopt “international best practice” and ensure that it meets not just the locally mandated requirements but standards that would be acceptable anywhere in the world and that expert independent agencies agree have been achieved.

So whilst the time frame might be around the 3 to 5 year mark, when we get started on it is a question I can't answer yet because I am not the only one involved in the decision making process. There are all the other stakeholders... the landowners, the Bougainville government and the national government to be considered.

It would be helpful if we can formally start the negotiation process this year, and I do think that is feasible, and indeed perhaps even likely, because the reconciliation process on Bougainville generally is going very well. Panguna landowners have agreed on a process to elect their representatives. I know President Momis is hopeful that this can progress quickly.

Time has slipped a little bit but we are moving in the right direction and we are certainly moving a lot faster than has occurred in the past.

I don't think anyone of us thinks it was meant to be easy, this business of catching elephants, in Papua New Guinea. But we are certainly up for the challenge.

And in conclusion, I guess the question that could be asked of any developer of a major resource project here in PNG; why, when the challenges seem so many and so difficult?

Well...in general, the properties and projects are world class, the fiscal regime is more attractive than in many other places, we have a stable democracy, without the turmoil of places like Africa and the Middle East. This is a better place to invest your time and your money than many others. The problems can seem insurmountable at times, but no major project can be realised without effort. Progress is achieved in Papua New Guinea, and the rewards are tangible.

The LNG projects are a significant gesture of confidence in all of these factors, which is matched by the boom in investment by the non-resource sector....the joint is jumping.

It is hoped that Government will use the windfall of massive investment to improve the lives and the prospects of all Papua New Guineans, because successful business depends on a successful nation.

It's about schools and hospitals and roads and bridges and jobs, but it's also about the modernisation of the Papua New Guinean economy, getting ahead of issues like excessive and constant demands for compensation, clan jealousies, and insecurity of land title and tenure.

Finally, please let me remind you that we live and work in a country full of enterprising people. The rewards for effort are here, the prospects for the future are excellent, but there is still a lot of work ahead, for all of us.

Thank you.