

HD Rio Tinto Looks at Exit in Papua New Guinea

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SYDNEY -- Rio Tinto has maintained control of its closed Bougainville **copper** mine through independence clashes in Papua New Guinea.

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

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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.

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," said Prof. Chand.

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