



MINING: RAMU NICKEL ‘CHALLENGING, EXCITING BUT MANAGEABLE’

Chinese developers say they’re responsible developer

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One of China’s biggest corporations admits it has been on a steep learning curve since it began to build a A\$1 billion nickel mine in Papua New Guinea.

It has had to start addressing the same suite of issues that other PNG resource projects have faced: unhappy landowners comprised of different groups disagreeing among themselves, highly critical local politicians, influential church leaders alongside non government organisations raising environmental and social issues, as well as the more usual array of unexpected technical concerns.

The company that controls the project, MCC Ramu NiCo Ltd, is effectively a subsidiary of Metallurgical Group Corp (MCC), which recently bought for A\$400 million the Cape Lambert iron ore venture in Western Australia.

The company’s chairperson and president, Luo Shu, views the project as “challenging, exciting, but manageable.” She says: “We are a responsible developer.”

She and her Chinese colleagues at the mine site are stepping in the extraordinary footsteps of Nikolai Miklouho Maclay, a Russian explorer who was the first recorded foreigner to have lived on Madang’s Rai Coast, from 1871- 83, having been dropped ashore by ships of Russia’s doomed Pacific fleet, during which he kept a remarkable diary.

Since then, there has been relatively little formal job-generating economic development in the area. “They have been waiting 40 years,” says Luo. “Now is their time.”

But the resulting high expectations have added to the pressure being felt by MCC.

Rural Madang has in the past seen the flourishing of cargo cults, and Luo says it is important to answer such false expectations by providing material benefits through hard work.

“The mine has to become sustainable for it to work for everyone’s benefit. That’s why we also have to manage people’s expectations.”

The company—which reports to China’s state-owned Assets Supervision and Administration Commission (SASAC)—was one of the first selected 20 years ago by China’s National Development and Reform Commission, the top planning agency, to “go global.”

MCC Ramu NiCo is 85 percent owned by the MCC-JJJ Mining Development Company, of which 13 percent is owned by each of the three steel companies, the chief market for nickel—Jinchuan Group, Jinlin Nickel Industry Corp and Jinquan Iron and Steel Group. The rest is owned by MCC.

Brisbane-based, Australian stock exchange listed Highlands Pacific Ltd owns 8.56 percent of the Ramu Nickel joint venture, Mineral Resources Ramu Ltd, a subsidiary of PNG’s state-owned

Mineral Resources Development Corp, owns 3.94 percent, and landowner company Mineral Resources Madang Ltd owns 2.5 percent.

Biggest business: The project was brought to MCC by **Highlands Pacific**, which needed a larger partner. It had appeal to MCC because of the intense demand in China for nickel. But MCC, the 30th biggest business in China with A\$15.3 billion turnover in 2007, was aware that Highlands had contacted many companies in its quest. And it then initiated its own due diligence on the project.

As Luo points out, there were—and remain—many other ventures competing for MCC's capital and commitment, and the market was at the time only just recovering from a very low price period.

In 2003, MCC did commit itself to Ramu in the face of some critics at home who urged waiting for the nickel price to firm up more first, and ahead of rivals who were waiting for that price rise.

“After investigating, we felt it was a world-class deposit, so we went ahead,” Luo says, “although the grade was not so great.” After metallurgical tests, MCC—originally a corporate offshoot of the Metallurgical Ministry, which no longer exists—felt it could compensate for that.

By 2003, MCC had been working in Pakistan for half a dozen years and had other projects in hand in Burma and the Philippines. But this was a first for the Pacific and will remain the biggest Chinese involvement in all of Oceania until Chalco starts work on the Aurukun project on Cape York in north Queensland, Australia.

Importantly, MCC has built not only mines, but also many of China's steel plants, so has a strong technical understanding of both upstream and downstream technical needs. It runs 13 research institutes.

Luo—originally a process engineer, who also has a Master's in Business Administration from the Robert H Smith School of Business at Maryland University in the USA—says that converting drawings into a plant is a challenge in itself. Western Australia has three nickel laterite projects under way, all of which have at times stumbled, she says.

The mine will scrape topsoil off a mountainous area and then mix the nickel-bearing soil with water and slurry it 135 km down a pipeline to an ore refinery and treatment plant at Basamuk Bay, from which the ore will be shipped to China and the waste will be deposited—some by barge, some by pipe—in a deep sea trench. The topsoil at the mine will be replaced and revegetation will begin while other areas are being mined.

One of the questions about the project is whether the operator's top priority will be to maximise the return, or reduce the price for the buyer—three of whom are among the owners, also ultimately state-owned like MCC.

This is where Highlands Pacific plays a crucial role as a joint venturer, with its stake due to increase to 11.3 percent, and potentially as high as 20.55 percent.

Its own interest is to maximise the returns to the project itself, and thus also to PNG and has no rival concern about getting the price down for the buyers.

Although the share markets in Shanghai and Shenzhen are still sliding, MCC has not abandoned a longstanding consideration of listing in the former before the end of 2008, with some shares also available in Hong Kong. This would require the company to make a bigger range of information available to the public on a regular basis.

Perhaps the crucial question for operators of a mine in PNG as elsewhere, is how to get along

with the communities in the area. “We are focusing on this issue,” says Luo, “so that we can handle it with confidence.”

She says: “We aim always to be transparent, to act in good faith, and to take initiatives, while also maintaining a reasonable boundary. We have to be rational. We are a responsible developer, not only oriented to profit.”

Luo says: “We understand that land is the blood of the people, and if we are to be a sustainable developer, we first have to bring benefits to them. But we need to find the right way to do this.”

There are a lot of spin-off business opportunities around the project, she says. But these need to provide a return while also ensuring they meet deadlines and quality requirements.

Spreading opportunities: “We try to give the people in the area as much as possible, while helping them grow sustainable businesses”—rather than merely owning companies that outsource all the work to people from outside the area. And she wants to spread the opportunities beyond the immediate landowners.

She says: “We hope everyone will gain an opportunity to participate, directly through jobs with us or through such spin-offs. We’d like to help them become rich, but not just by waiting for dividends, that’s very dangerous.”

She says that MCC is helping the landowner firms to grow, providing interest free loans, and aiding them with management and training.

There are three models for doing this: joint ventures with other PNG companies, stand-alone landowner firms, and joint ventures with the project itself—though without MCC having any intention of profiting, says Ms Luo, only of being “a stabilising force.”

A landowner company is in a joint venture with National Catering Services, a PNG company that provides meals for workers at other resource projects, to cook for both Chinese and PNG employees.

A landowner engineering company is building access roads and camp facilities. And security is one of the early priorities, with 100 people providing security services for the whole project. MCC also provides micro loans to individual families, for instance women building and operating a coconut oil press, and growing vegetables and rice for sale to the project’s caterers. “We are helping them plant rice successfully,” she says.

The project also has four “umbrella companies” that cover a range of landowner groups and other community interests, each based in a different area. Economic opportunities have been constrained in the past because of the difficulty in reaching markets in Madang—some groups taking three-and-a-half days to walk there. Luo says that MCC will help people develop roads beyond the project itself, as a priority they have clearly outlined.

“We say in China, that if a community wants to get richer it must first build a road.”

At present, there are 400 Chinese people at the site, all technicians, says Luo.

At the peak construction period, she estimates that 5000 workers will be needed altogether, of whom about 1500 are likely to be Chinese, mostly on six-month contracts. Construction is due to be completed at the end of 2009.

The number of Chinese workers directly and permanently employed by MCC will remain at about 400, the rest will be hired on contract for the project. Once the mine is fully operational, it will

need about 2000 staff, of whom no more than a third will be Chinese, she says. It has a likely lifetime of 20 years or more.

Ramu will not run on the fly-in-fly-out basis of most remote mines elsewhere in PNG and Australia, she says. The company is building a headquarters in Madang town, opposite the provincial government offices, and 300 people will live there semi-permanently, taking two vacations a year. Only managers are likely to have their families with them.

Ramu has hired seven graduates from the University of Technology, Lae, and sent them to Beijing Language University to learn Chinese and thereafter to on-the-job training with MCC operations inside China.

“This is just the start,” says Luo, with 50 Papua New Guineans to be given such training. “We hope they can act as a bridge between Chinese and PNG cultures. Communication is so important.”

The company already has about 100 permanent PNG employees, including some at the department management level. There are a lot of rumours about the environmental impact, she says. “But at the mine site there is no chemical action, it’s a simple physical process.

“And we ensure through neutralisation that there are no toxic elements following the processing at the bay as a safety measure for the deep sea tailings.”

She says because the coastal region is very earthquake prone, with high rainfall, large amounts of land fall naturally in to the bay every year—vastly more than the mining process will create. And this also makes sea deposits, in a constantly monitored trench 1,000 metres deep, much safer than land storage, she says.

The Lihir mine is depositing tailings at sea, and the Misima mine used to, before it closed. Luo acknowledges that communications has not been a strong point of the operation to date: “We need to organise more channels to give people information.”

She stresses that Ramu has completed all the studies, reports and inquiries required by the PNG government, including extensive peer review.

“We have to deal with different political levels,” she says, “that’s why we have to improve our PR work.”

Ramu has hired a PNG national as its manager of community affairs.

“We tend to do things first in China and then talk about what we have done.”

But in PNG, she says, it will be necessary to do more talking and explaining first.

“Typically, she says, the cross-cultural relationship has started happily with a handshake, but then starts to encounter difficulties, best resolved by both sides adjusting.”

To aid this process, Chinese staff are undertaking courses in English and Tok Pisin at the Divine Word University in Madang.

“This is not only a Chinese company,” she says, “it is not only a PNG company, it is a combination of both”.

Recently when a Chinese manager returned to Beijing, he was farewelled by a large group of landowners at Madang airport.

This is the spirit, Luo says she would like to see grow.