Dialogue

Perspectives on the Crisis

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Bougainville: Some Financial and Ownership Issues

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A total of nineteen languages (both Austronesian and non-Austronesian in derivation) over a land area of nine thousand square kilometers indicates the fragmented social structure of Bougainville and the neighboring Buka islands. More specifically, Douglas Oliver has described how "the households were grouped into hamlets or villages which comprised up to about 300 residents, which was about the upper limit to durable territorial groupings" (1973, 68).

European influence—missionary, administrative, and entrepreneurial—brought an end to tribal fighting and provided avenues for wider social contact. These interactions coupled with the wider use of Pidgin as a lingua franca saw the development among Bougainvilleans of a sense of common ethnic identity. This was fortified by their characteristic black skin, which distinguishes them markedly from other Papua New Guineans, and it is understandable that the casual observer will see Bougainvilleans as a homogeneous people.

However, any in-depth study of the current political impasse must recognize the continuing undercurrent of parochialism that characterized the social fragmentation of indigenous Bougainville.

Oliver brought these conflicting loyalties into balance when describing changes in the social structure post–World War II. "Many Buins, for example, continued to dislike Nasiois, Bukans, etc. and vice versa, but they are nearly all united in greater dislike of their stereotypes of Chimbus, Sepiks, Papuans and other redskins, a feeling that inspires much of the sentiment for secession" (1973, 202). In an environment of traditional subsistence farming with a modest drift toward a cash economy through agriculture, it is probable that Bougainvilleans would have accepted, perhaps reluctantly, participation in an independent Papua New Guinea. However, the mine developed by Bougainville Copper Limited (BCL) accelerated the move to a cash economy, with associated changes in the social structure, thus introducing economic parameters of an unprecedented magnitude.

Exploration in the Panguna area began in 1964. The deposits proved low-grade by world standards, but extensive. Because of the low grade and the company's high commitment to infrastructure, economic viability was dependent on mounting a large-scale mining and concentration operation. Construction began in 1969, and the mine came into production in early 1972.

Under the terms of the 1967 Bougainville Copper Agreement, the Government of Papua New Guinea was to obtain a 20 percent equity holding in BCL. This was later reduced marginally by the sale of a parcel of shares, and ownership of the company stabilized at the levels shown in Table 1. When Papua New Guinea gained self-government in December 1973, one of the early initiatives of the House of Assembly (which became the government of independent Papua New Guinea) was to call for renegotiation of the Bougainville Copper Agreement that had been legislated in 1967, when the country was still under Australian administration.

The resultant Mining (Bougainville Copper Agreement) Amendment Act 1974 was to define the rights and obligations of BCL in independent Papua New Guinea. The main variation in the 1974 agreement from the 1967 original was in taxation. However, the level of financial benefit that was to accrue to Bougainville relative to Papua New Guinea was not changed materially. The PNG government, as had the colonial administration before it, held strongly that taxation was a national responsibility,

Table 1. Ownership of Bougainville Copper Limited

Owner	Shares (Million)	Percent
CRA	214.9	53.6
Public	109.7	27.3
PNG government	76.4	19.1
TOTAL	401.0	100.0

Source: BCL financial records.

and that the distribution of funds to districts (later to become provinces) was at the discretion of the national government.

To understand the dissent that this was to generate, it is necessary to quantify the direct cash benefits emanating from BCL operations, and the recipients (Table 2). In terms of the national economy, sales of the company's product have generated 40 to 50 percent of total foreign exchange; contributions to the national budget represent some 15 to 20 percent of internally generated revenue.

Table 2. Direct Cash Benefits from BCL Operations, 1972–1989 (Million kina)

TO PNG GOVERNMENT	
Income tax	582
Dividends	166
Dividend withholding tax	96
Pay-as-you-earn tax	120
Customs duty	104
Miscellaneous	10
TOTAL	1078
TO NORTH SOLOMONS PROVINCIAL GOVERNMENT	
Royalties (95 percent)	61
Taxes	12
Nonrenewable resource fund	2
TOTAL	75
TO LANDOWNERS	
Royalties (5 percent)	3
Occupation and compensation	21
TOTAL	24
TO INVESTORS (NONGOVERNMENT)	
Dividends	577
TOTAL	577

Source: BCL financial records.

Understandably, Bougainvilleans looked with chagrin at the disproportionately high level of revenue generated by their province relative to other parts of Papua New Guinea and believed that the proportion returned to the province in the form of government grants and services was inadequate.

Equally understandable was the reaction of the national administrators who pointed out that Bougainville enjoyed a level of economic prosperity superior to that of lesser developed areas, particularly the highland provinces.

The first major thrust toward Bougainvillean self-determination—both political and economic—was launched in 1975, fifteen days before the independence of Papua New Guinea was to be formalized. A declaration of independence and a flag-raising ceremony took place on 1 September 1975, and the name North Solomons (to signify ethnic affiliations separate from Papua New Guinea) was adopted. This independence ceremony was followed by representations to the United Nations, with little apparent success. A delegation to BCL management called for the redirection of taxes payable under the Bougainville Copper Agreement to the North Solomons, but the proposal was rejected on legal grounds.

Compromise within the PNG political system was reached in 1976 with the introduction of the Organic Law of Provincial Government. The North Solomons Provincial Government was the first to formalize its provincial identity under this law.

The existence of an elected government in the provincial capital, Arawa, seemed to satisfy popular aspirations toward autonomy, and secession ceased to be an item on the political agenda. However, the trappings of provincial government were no guarantee of economic development, and after four years the electorate was ready for a change of direction toward economic pragmatism.

Recognizing that the provincial budget was insufficient to finance development objectives such as an improved road system, the premier elect sought to enhance the flow of revenue direct to the province from BCL, with particular emphasis on equity involvement and an increase in royalty rates (by this time a precedent had been established for royalties to flow back to the province).

The company proposed that the review of the Bougainville Copper Agreement due later in 1981 could provide a vehicle for addressing these issues. As it happened, the North Solomons Provincial Government was not represented in exploratory talks and the review, lacking tripartisan involvement, stagnated.

In spite of the failure to obtain a greater share of Papua New Guinea's take from BCL operations, the province was to enjoy significant economic growth during the early 1980s. This period saw provincial authorities and company management working in close liaison to develop local involvement in business opportunities that were subsidiary to mining operations.

The provincial elections of 1984 saw again a major change in membership of the House of Assembly and a drift in representation toward the younger, more vocal, generation. A rift between the North Solomons Provincial Government and its investment arm, Bougainville Development Corporation, militated against cooperation on business development activities, and revenue enhancement took the form of more application of sales and service taxation powers.

The next major thrust toward redistribution of the profits generated by BCL was to come not from the provincial government but from the member for Bougainville Region in the PNG parliament. Father John Momis, who had held the seat since 1972 and was leader of the Bougainville-dominated Melanesian Alliance Party, launched his Bougainville Initiative Fund as the base for his campaign for the 1987 national elections.

The Bougainville Initiative Fund first surfaced in the form of a five-page letter hand delivered to the managing director of BCL on 4 May 1987. This letter denounced the activities of the company and, under veiled threat of mine closure, suggested that it pay direct to the North Solomons Provincial Government an amount equal to 3 percent of gross metal values—K12.6 million in the context of 1986 trading results.

The Bougainville Initiative inaugural letter promised that "what is proposed here must come to pass. It will be the public agenda of the coming weeks of election campaigning." A professional publicity campaign ensured wide and eye-catching press coverage.

Understandably, the idea of an escalation in the level of funds flowing direct from the mining operation to the province received wide provincial acclaim, and Father Momis was reelected with resounding support. Furthermore, Bougainville Initiative sentiments featured prominently in the provincial elections that followed.

Postelection realities sharpened secession sentiments. The Bougainville Initiative was not received with enthusiasm at the national level—under the existing legislation a K12.6 million payment to the North Solomons Provincial Government would have reduced Papua New Guinea revenue from taxation and dividends by K7 million. Furthermore, a proposal by BCL to discuss national and provincial funding relativities and the next agreement review (scheduled for 1988) was not taken up.

Although the political rhetoric associated with the Bougainville Initiative specifically nominated the North Solomons Provincial Government as the recipient, it highlighted the social costs borne by landowners in the mine lease area and also, if only by inference, raised expectations within this group of additional financial reward.

This development suggests another perspective (or range of perspectives) on the social cost/economic benefit equation. As can be expected, opinions that are in accord on the issue of national or provincial revenue distribution vary markedly on what constitutes an equitable distribution within the province. On the one hand, those whose parochial interests lie outside the mine lease area argue that benefits should not create a small rich elite but should flow to the community at large with the responsibility for distribution vested in the North Solomons Provincial Government. On the other hand, villagers who have lost their land and lifestyle to the mine see as inequitable a system whereby they are expected to pay the social cost of others' economic benefit.

Oliver explains land tenure customs as follows:

> Nearly all economically valuable land was owned corporately by matrilineages and was passed on from one generation to the next through matrilineal ties. . . . Although full or residual title to matrilineage land was inherited only through women, it was held by men as well. In fact it was usually a male, the senior male member of the lineage in terms of generation and age . . . who exercised most control over his matrilineage's land holdings. (1973, 68–69)

Eugene Ogan provided an insight into the complexity of land tenure and the imprecision surrounding usage customs. "This hierarchy is sufficiently complex that, merely to talk of owning land is to obscure important aspects of the situation. One is better advised to employ such terms as 'primary,' 'subsidiary' and 'derivative' rights with the qualification that even this terminology may lead to oversimplification" (1971, 84). In conclusion Ogan observed that "no rights to Nasioi land are unconditionally guaranteed. No right possessed by an individual or group is ever absolute" (1971, 92). These complexities of land tenure with a combination of matrilineal heritage, male custodianship, and diverse usage rights cannot be expressed in financial terms with any accuracy.

It is beyond the scope of this article to cover the history of landowner compensation. However, it is pertinent to recognize the impact of disagreement over the distribution of such payments on the chain of events that led to the current crisis on Bougainville.

The evolution of the Panguna Landowners' Association (PLA) in 1979 provided a cohesive negotiating group representing landowners from mine lease areas. This was seen at the time as a significant breakthrough, because a total of 806 land-block "ownerships" had been identified after searching analysis. Evidence of landowner disharmony came as a challenge to PLA leadership in late 1987, with the challenging chairperson and secretary coming from the same kinship group. The subsequent disappearance and apparent demise of the elder of that kinship group, who was an influential member of the traditional PLA executive, would appear to support the premise that dissatisfaction with sharing of the compensation pie was a root cause of the breakaway movement and subsequent developments that were to disrupt mining operations.

Colin Filer has argued that it is likely that "deals done with one generation of landowners, or their leaders, will be repudiated by the next generation, regardless of the manner in which these deals are negotiated" (1990, 27). Furthermore, "the authority of these leaders within their communities may well be undermined by the very fact of their having been party to some previous agreement" (1990, 31).

Separate, but not necessarily dissociated, from the conflicts of kinship was a growing mistrust in the management of the Road Mine Tailings Lease Trust. The trust was introduced in 1980 as a means of investing compensation payments in a manner that would provide a continuing benefit to the community rather than short-term gain to individuals. Ironically, it was an improvement in management practices in this direction that fueled these suspicions of mismanagement.

> Where landowners had once had ready access to loans, and there had been limited if any pressure to repay them, there was now strict financial management and very few individuals saw any direct cash income (loans) from the Road Mine Tailings Lease Trust. (Connell 1991, 65)

Much will be written about the Bougainville political scene and no doubt opinions will vary as to the cause of secession sentiments and militant action. The issues are complex and interrelated and this short article cannot cover them all. However, while social and environmental issues will (and should) be addressed by analysts, fundamental economic considerations played a major role in formulating community and provincial attitudes. Even the Bougainville Initiative of 1987, with its vitriolic denunciations of the socio-environmental effects of BCL operations, saw the answer in terms of more money that "restores our dignity, confidence and self reliance" rather than curtailing of mining in the future. The proposal even suggested that "it may be possible to begin negotiations over the moratorium which prevents exploration of the rich copper neighboring the existing mine."

It is difficult to speculate on the economics of reactivating the Panguna mine without detailed knowledge of both human and natural damage to plant and equipment. Any such evaluation would depend first on resolution of the current political impasse, which is interwoven with conflicting opinions on the relative benefits accruing to Papua New Guinea, Bougainville, and the landowner community, in addition to providing an acceptable return to investors (both past and future).

I do not seek to judge the relativities of such benefits and returns. These must be addressed by the parties concerned, recognizing the prevailing circumstances at that time. However, when such issues are addressed it will become apparent that a reactivated mine will be a significantly different operation to the old BCL. Lower grades of the residual deposit, coupled with the capital cost of refurbishing, will militate against future financial viability. Inevitably, the cash generated, and therefore the total available for distribution, will suffer. Furthermore, economics will dictate a much less benevolent operation in terms of employment, employee benefits, infrastructure, and community support than was the pre-1989 BCL.

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