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BOX 8-4 GETS WORSE

Colin Filer

I already had occasion to comment on the contents of this box in a previous draft of the report. This is what I said:

This box betrays a deep absence of historical knowledge. The Bougainville Copper Agreement of 1967, which was indeed negotiated by the colonial administration, was renegotiated in 1974, after PNG had achieved self-government (and after the mine had started operating). The renegotiation was led by a group of PNG politicians which included prominent Bougainvilleans. To imply that Bougainville received a relatively small share of the benefits from mining is to ignore the fact that mineral revenues made it the wealthiest (and also the best-run) province in PNG for many years after independence. It was the local landowners who got the rough end of the deal.

Now it has gotten worse, with the addition of a new sentence, which says that the money which made its way back to the province ‘served to benefit mainly only a few wealthy landowners’.

I have checked the report of the workshop from which the box is apparently derived, and I note that the only person present at the workshop who would have been in a position to pass judgement on the facts of the case was Peter Taylor of BCL. Far be it from me to suggest that Peter does not know what he is talking about. Perhaps his statements were misinterpreted or wrongly recorded. And then, by the familiar process of ‘Chinese whispers’, each subsequent rendition of his own version of history has taken it further away from the truth. Since the matters in question have been the subject of very intensive historical scrutiny in publications dating back to the 1960s -- most recently Donald Denoon’s *Getting Under the Skin* (Melbourne UP 2000) – it would surely be better to cite the published literature rather than source a falsified account of events to the anonymous proceedings of a workshop.

Where the workshop report states that the colonial administration ‘forbade direct **land** dealings between indigenous landowners and foreigners’ [my italics], the word ‘land’ has dropped out of the corresponding sentence in the Box 8-4. The independent government of PNG still forbids direct **land** dealings between its automatic (or indigenous) citizens and foreigners in order to prevent customary land from being alienated on terms which may be disadvantageous to the customary owners. Whether or not this counts as paternalistic protectionism on the part of the State, it hardly seems relevant to the argument that Bougainvillean landowners contested the right of the colonial administration to appropriate and allocate mineral rights over their land – which indeed they did.

The workshop report also states that: 'Royalties from the mine went directly to the government of PNG (which returned a small slice to the Bougainvilleans)...'. I find it hard to believe that Peter made any such statement, unless he was talking about the first two years of the mining operation, before the Somare government renegotiated the Bougainville Copper Agreement in 1974. At this time, the government adopted a policy on the distribution of mineral revenues which stated, amongst other things, that royalties 'will be paid to the central government, which will in turn make the proceeds available in some combination to the local landowners and the district in which the mine is established'. An earlier decision of the House of Assembly in 1966 (before the conclusion of the original Bougainville Copper Agreement) had already earmarked 5% of the royalties for local landowners. With the passage of the Organic Law on Provincial Government in 1976, and the consequent establishment of the North Solomons Provincial Government, the remaining 95% was earmarked as provincial government income. For a national government which still claimed a monopoly of subsurface mineral rights, this was surely quite a progressive move (albeit one which was consciously designed to head off the demands of the secessionists).

Where the workshop report says that 62% of net revenues from the mine went to the national government, while less than 5% went to 'the province', it ignores two important considerations. First, the province derived considerable economic benefit from the presence of the mine which was not reflected in the distribution of the company's net earnings. Second, a substantial proportion of central government revenues from all sources were redistributed to provincial governments (including the NSPG) under the financial provisions of the 1976 Organic Law. All provincial governments received something called a 'minimum unconditional grant' to carry out the functions delegated to them by the national government, and on top of this they received something called a 'derivation grant' which was calculated at 1.25% of the value of exports from each province. And herein lay the rub, because the value of mineral royalties (also calculated at 1.25% of the value of mineral exports) was subtracted from the amount of the derivation grant to which each provincial government was entitled. Even so, there was no other provincial government whose derivation grant matched the amount which the NSPG collected from mineral royalties. And if the NSPG had collected a derivation grant **instead of** mineral royalties, it would not have shown up in an account of the distribution of BCL's net revenues, so it would have seemed as if the proportion of those revenues which returned to the province was even smaller (less than 2%), when it would in fact have been identical.

Of course, from BCL's point of view, it would have made sense for the national government to redistribute an even greater share of its own revenues to the NSPG, because this might have purchased a higher level of provincial support for the mining operation. But the national government took the view, perhaps not unreasonably, that the NSPG was already better off than any other provincial government, the province itself was better off than any other province by all standard social and economic indicators, and the balance of revenues from mineral resources which were legally the property of the State should be dedicated to a broader process of national development.

In any case, it was not the NSPG, nor the province as a whole, which got the rough end of the deal. It was, as I said in my earlier comment, the local landowners whose social and

environmental costs were not matched by the combination of compensation and royalties which they received. Their caused attracted growing support from the NSPG and from Bougainvillean MPs in the national parliament. But there was also a lot of tension and conflict within Bougainville over the distribution of income derived from the mining operation, both at the level of the landowning 'community' and at the provincial government level. In both cases, some individuals were accused of misappropriating mineral wealth for their own personal benefit. But to suggest that a small minority of **landowners** captured the **whole** of the amount which was retained within the province is **totally ridiculous**.

Distribution of BCL net revenues in 1988 (millions of Kina).

| TYPE OF PAYMENT | Amount | Per cent |
|--|--------------|--------------|
| Dividends to foreign shareholders | 71.9 | 29.5 |
| Dividends to PNG shareholders | 31.9 | 13.1 |
| State | 23.7 | 9.7 |
| Other | 8.2 | 3.4 |
| Tax payments to national government | 132.7 | 54.4 |
| Corporate income tax | 93.2 | 38.2 |
| Group tax (P.A.Y.E.) | 10.0 | 4.1 |
| Customs duties | 14.0 | 5.7 |
| Dividend withholding tax | 14.5 | 5.9 |
| Other | 1.0 | 0.4 |
| Payments to provincial government | 7.1 | 2.9 |
| Royalties | 5.7 | 2.3 |
| Taxes | 1.4 | 0.6 |
| Payments to local landowners | 1.8 | 0.7 |
| Compensation | 1.5 | 0.6 |
| Royalties | 0.3 | 0.1 |
| TOTAL | 243.8 | 100.0 |

Source: BCL company records.