

Conflicts again? Resource exploitation and political instability in Melanesia

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Photo: madlemurs, 2011.

Figure 1: Sign at closed Panguna copper mine in Bougainville

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Abstract: Most of the Melanesian countries are characterized by political instability. At the same time, they possess enormous deposits of natural resources. The paper analyses the correlation between conflict and resource wealth. The authors explain that social relationships, identities and land are the things that matter in Melanesia. 'Resource wealth' is an amplifying factor, but not the main cause of violent disputes.

Keywords: Resource curse, conflicts, Melanesia, natural resources, mining industry, state weakness

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The resource-rich countries of Melanesia are mainly characterized by political instability and partly by violent conflict (Holtz 2011). In West Papua, indigenous Papua peoples are still fighting for independence from Indonesia. Papua New Guinea was confronted with violent struggles around the Panguna mine in Bougainville at the end of the 1990s. Fiji experienced several military coups in the last few decades. An international military intervention took place in the Solomon Islands. New Caledonia has a political transition status of 'shared sovereignty', and the majority of the indigenous Kanak peoples still hope to achieve political independence from France. Several Melanesian islands have abundant natural resources. Papua New Guinea has enormous gold, silver and copper deposits as well as nickel, oil and gas reserves. A similar picture is emerging in neighboring West Papua. Analogous to the independent part of New Guinea island, West Papua is rich in mineral deposits, especially gold. In New Caledonia, the mining sector has a 150 year history; the French overseas territory possesses more than 25% of the world's nickel resources (Kowasch and Lindenmann 2013). The Solomon Islands have gold and bauxite. Fiji exploits gold, and deposits of manganese and copper have been discovered. Vanuatu possesses some gold, copper and manganese deposits, but the reserves are too small to be exploited. All Melanesian territories have large deposits of tropical timber. The importance of the mining sector depends on the demand for minerals on the world market. Copper and gold prices rose by 81% and 51% respectively between 2001 and 2004 (Behrend et al. 2007). Between 2007 and 2014, copper prices have dropped by 16% (see <http://www.lme.com/metals/non-ferrous/copper/#tab2>), while gold prices continued to rise by 60% (see <http://www.lbma.org.uk>). Nickel prices at the LME (London Metal Exchange) reached new records in 2007, at over US\$50,000 per tonne, although they have now dropped to around 18,000 in April 2014 (see <http://www.ime.com/en-gb/metals/non-ferrous/nickel/>).

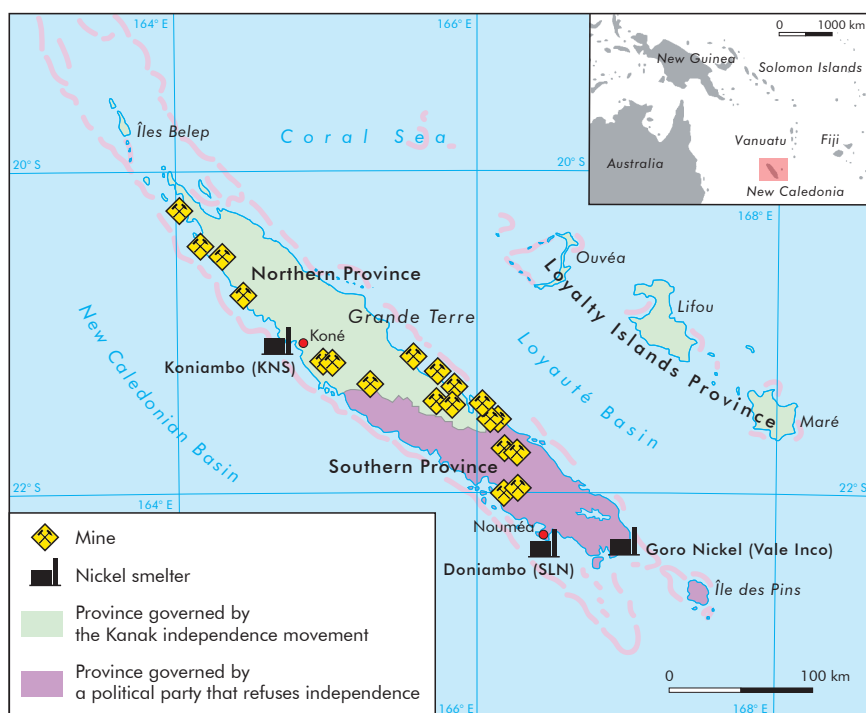


Figure 2: Political division, nickel mines and smelters in New Caledonia

In this paper we will discuss the correlation between resource exploitation and political instability in Melanesian countries and territories. In most cases, resource exploitation offers little immediate benefit for local populations (Auty, 1993; Langton and Longbottom, 2012). We ask if resource wealth compulsorily provides conflicts and political instability? Case studies come from Papua New Guinea and New Caledonia.

Method

The present paper is based on an extensive review of recent articles published in both the international press and social science journals. Discussions and interviews with local actors from the civil society, public authorities and mining companies complete the analysis. Information from scientific collaboration with researchers in Australia and New Zealand represents a substantial contribution to this article.

In the first part of the paper, we will analyse the correlation between resource wealth and political instability. The second chapter describes the economic importance of natural resource exploitation for Melanesian states and territories. Finally, we ask if resource wealth leads to economic development or to a resource curse scenario? We take examples from Papua New Guinea and New Caledonia in order to show how different political situations

influence the socio-economic development and how they affect the perceptions and reactions of local people on the mining projects. PNG and NC are obviously good examples as both are the countries with the biggest raw material reserves of the studied area.

Correlation between resource wealth & political instability

The presence of mineral resources and strong external demand, and an above-average dependence on revenues from the extractive sector, are elements of the 'Resource Curse Thesis' (Auty, 1993). The resource curse suggests that states with rich natural resources have lower economic growth than states without. They also tend to political instability, especially against a background of ineffective state institutions, which can lead to violent conflict (Robinson et al. 2006). Langton and Longbottom highlight (2012: 6): "Despite modernity's promise of progress and wealth for all, and the enormous revenue flowing from resource extraction projects to governments, many indigenous and local peoples living in the shadow of those projects are still disadvantaged, marginalized and poor." The wealth of natural resources is sometimes linked to state weaknesses. One reason is uncontrolled rent-seeking. Revenues from the minerals sector flow with a high expectation of profit. This makes the mining sector attractive, without investment in other

economic sectors. The focus on the mining sector leads to a large dependency on world market prices for the mineral. Secondly, the distribution of royalties and benefits is often unequal and not transparent. State institutions do not effectively fight against corruption. The uneven distribution of royalties and the lack of participation may give rise to violent conflicts. These conflicts undermine the credibility and the authority of state institutions.

A second concept, the 'Dutch Disease', concerns the revenues from the mining industry that result in an increasing exchange rate of the local currency, and higher wages. With new revenues, cheaper imported products replace local ones. The economic structure alters and traditional sectors decrease or perish. Thus, many locals become marginalized and impoverished. When the mining benefits only benefitting a ruling elite, there are negative consequences for political processes. In such cases, informal interest groups and stakeholders establish themselves. There is a statistical correlation between mineral abundance and corruption, and also weak economies (Clemens and Fuhrmann 2008). Nevertheless, we have to ask if mining resources cause corruption or a major contributing factor? According to Mehlum et al. (2005), a correlation between the weakness of state institutions and resource conflicts exists, especially when the economic development depends largely on the mining sector. Another aspect that demonstrates the weakness of state institutions is the notion of the 'mining company as a shadow state'. The local population considers mining companies as a kind of state compensation, because the company not only acts as an employer, but also provides medical services and maintains order. State administrative institutions can be so weak that they largely withdrawn from their own citizens.

Ecological degradation can be observed in mining areas, and indigenous peoples are often the most affected. Destruction of land, water pollution and deforestation are factors that can cause and amplify conflicts. In Melanesian cultures, clan identity is connected to land. J.-M. Tjibaou, a Kanak independence leader in New Caledonia, said that a clan who loses his land, loses his personality (Tjibaou and Missotte 1976). The social iden-

tity of clans is tied to an itinerary, a series of places that the clan passed through. Land legitimacy comes from the clan itinerary. That's why land degradation directly affects the social identity of individuals, and is highly conflictual. All mining projects have environmental impacts. Taking the example of gold and copper extraction at Ertsberg/Grasberg in West Papua, where up to 238,000 metric tons of toxic tailings were transported each day over the rivers of Aghawagon and Otomona into the Ajkwa River and discharged into the Arafura Sea. Since 1999 the Lorentz National Park, a UNESCO World Heritage Site, has been established in the vicinity of the mine (Mückler 2013).

Natural resources and their economic importance

Mineral exploitation has great importance for state budgets and economic development in Melanesian countries. Thus, the export of natural resources in PNG represents, according to the United States Geological Survey National Center (<http://www.usgs.gov>), around a quarter of GDP and four-fifths of exports. Alongside the public sector, the mineral industry is one of the biggest employers in PNG. It must be noted that the mining projects also provide, outside mining activities, employment in construction of related infrastructure and food and services for the mine workers. In the 1970s and 1980s, the Panguna mine on Bougainville island was the most important source of revenue for the PNG government. The project generated 44% of export value and 17% of government earnings (Regan 1999). The Panguna mine closed in 1989 after violent conflicts between the Bougainville Revolutionary Army (BRA) fighting for political independence and the Papua New Guinea Defence Force

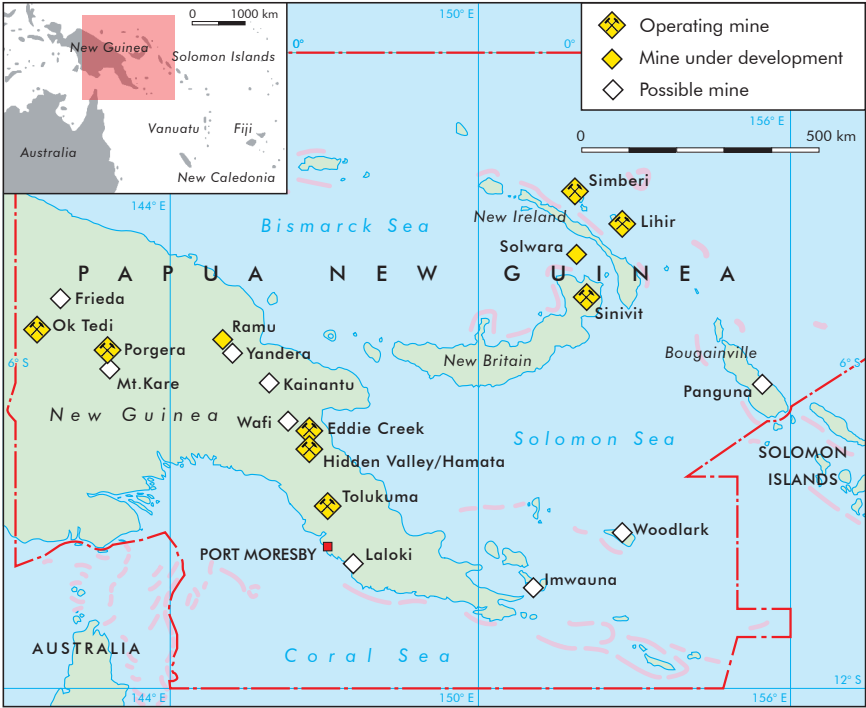


Figure 3: Existing and potential mines in Papua New Guinea

(PNGDF). Large scale mining projects in PNG now include Ok Tedi (copper and gold), Porgera (gold), Hidden Valley/Hamata (silver and gold), Simberi (silver and gold) and Lihir (gold). Smaller projects are Tolukuma, Sinivit and Edie Creek (Figure 3). Other projects are in the planning stage: Ramu Nickel and the deep sea project Solwara, where copper and gold can be exploited on the seabed in 1,600 m of water (Imbun, 2013). The operating companies, the US-American Exxon Mobil (33% shareholder) and Australian Oil Search (29% shareholder), are planning to exploit 6.06 million m3 of natural gas per year starting in 2014. The total investment is US\$14.2 billion, equivalent to PNG's current GDP (15.6 billion US-\$ in 2012, see <http://www.worldbank.org/en/country/png>). The PNG government has a 17% interest and the project is due to complete in early 2014 (see [\[news.smh.com.au\]\(http://news.smh.com.au\)\). Around 1,200 people are expected to be employed in the operating phase after employment peaked at 23,000 during construction.](http://</p>
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Similar to PNG, the Western part of New Guinea island possesses enormous natural resources. In 1936 the Dutch geologist Jean Jacques Dozy discovered rich copper and gold deposits. In 1967, the U.S. company Freeport Sulphur based in New Orleans (today in Phoenix) got a contract copper mining in West Papua with few restrictions. Freeport McMoRan Copper & Gold Inc's subsidiary PT Freeport Indonesia operates the largest gold mine and the most cost-effective producing copper mine in the world, with Ertsberg and later Grasberg (Mückler, 2013). The Indonesian government holds 9.36% of the shares in PT Freeport Indonesia (Nakagawa, 2008). The company became one of the biggest employers, and the most important foreign investor and taxpayer in Indonesia. According to Couasnon et al. (2013: 9), the mine contributes to 1-2% of the Indonesian GDP and generated US\$1 billion of benefit in 2009. In addition to gold and copper, West Papua has oil and natural gas deposits as well as shrinking timber reserves.

In New Caledonia, nickel deposits were discovered by the French engineer Jules Garnier in 1864, and the French colonial administration rapidly began exploitation. Today, nickel is

Agriculture, hunting, fishing, forestry industry	1,5
Nickel industry	7,0
Other industries	5,8
Construction industry	11,7
Trade	13,0
Energy sector	1,5
Services	41,0
Administration	18,5
Total in %	100,0

Figure 4: Division by sector of surplus value 2008 (in %) in New Caledonia 2012

Data source: ISEE, 2013.

Data: PNG Chamber of Mines and Petroleum, 2011; Imbun, 2013; PG Cartography: © Claus Carstens, 2014.

used *inter alia* in the manufacture of stainless steel and in the aerospace industry. The nickel sector is the economic engine of New Caledonia, because nickel products represent 93% of the total export value. Several other economic sectors depend on the mining industry (eg. engineering, transport and energy production). The nickel industry dominates the economic development, and represents in 2008 7% of the surplus value (Figure 3). Until 2010, a single nickel smelter could process the nickel ores in New Caledonia. Due to persistently high nickel prices on the world market, two new smelters were built in the last decade: Goro Nickel in the Southern Province and Koniambo in the Northern Province. While the Goro Nickel project operated by the Brazilian group Vale was completed in 2010, the first nickel smelting in the “factory of the North”, operated by KNS (Koniambo Nickel SAS), was realized in April 2013.

Compared to other Melanesian countries, the tertiary sector plays a more important role in New Caledonia. Only 13% of the active population work in the mining industry, compared to 47% in services and 28% in the public sector (ISEE 2013). In comparison, 85% of the active population in Papua New Guinea engage in farming of different types (<https://www.cia.gov>).

Besides nickel, cobalt has been extracted on main island, “Grande Terre”. For example the Goro Nickel project provides almost 60,000 t of nickel and 4,500 t of cobalt per year. In addition, hydrates of natural gas have been loca-

ted offshore inside the exclusive economic zone (EEZ) controlled by the New Caledonian government since the transfer of political competences from France to New Caledonia started in 1998. But the quantities remain unknown, and industrial extraction is still uncertain. Until the offshore exploitation of natural gas, the nickel sector continues to dominate the Caledonian economy. A diversification of the economy – deemed necessary by economists and politicians to reduce reliance on a single commodity vulnerable to price shocks – has not been taken place. Tourism, for example, has stagnated for decades, compared to neighbours Fiji and Vanuatu and only reaches around 100,000 visitors per year. The fishing industry lacks cold storage rooms.

In the other Melanesian states, the extraction of mineral resources is minor. Vanuatu’s economy is based on tourism and financial services, while Fiji is more diversified. Endowed with forest, mineral and fishing resources, Fiji is one of the most developed countries in the Pacific Islands region, although it remains a developing state. It has a dynamic tourism sector, with over 400,000 visitors per year. But Fiji’s economic development has suffered from four coups over the last two decades. Due to the violent conflict in the Solomon Islands (Holtz, 2008), the extraction of mineral resources there has remained at a low level. Significant for the Solomon’s economic development is the forestry sector. Forestry products are Solomon Islands’ main export, with the logging industry

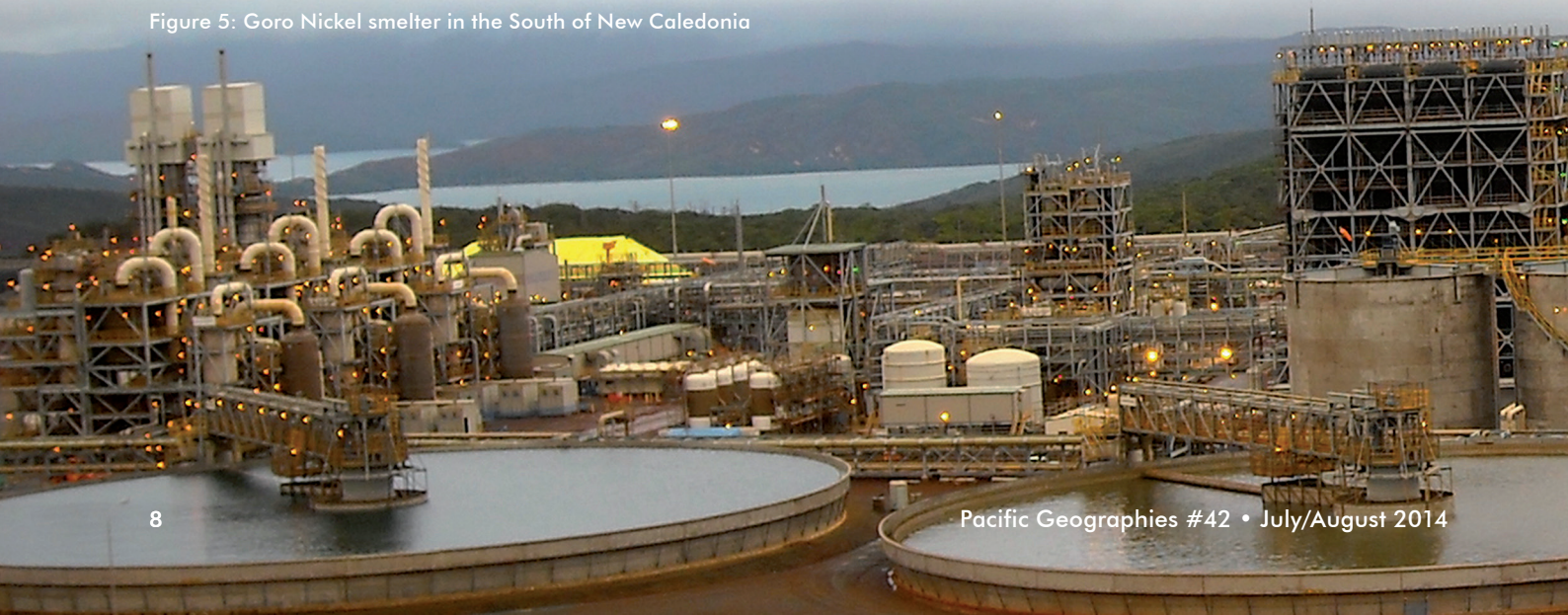
accounting for around 46% of export earnings and 14% of government revenue (<http://www.mfat.govt.nz>). Nevertheless, the government of the Solomon Islands is unable to prevent the illegal felling of forests, and they are dangerously overexploited.

Resource curse or sustainable development?

Access and exploitation of natural resources are important issues for Pacific islanders, because social identity is linked to land, and on the islands there are significant spatial constraints.

Papua New Guinea is a good place to examine the resource curse thesis. The traditional leader in PNG’s clan structure is the so-called ‘Big Man’ who acts for the prosperity of his group, to whom they owe their loyalty. We have to analyse the apparent opposition between state institutions and ‘big men’-structures, which prevail in the majority of situations in the country. ‘Big men’ maintain dependencies and loyalties with other clans. The function of ‘big men’ is not inherited but obtained by personal performance and skills (Godelier and Strathern, 1991). They are under constant pressure to prove their performance and standing. ‘Big men’ use their position to act as interlocutors in administration and the economy. The permanent rivalry between ‘big men’ aspirants leads to a social climate “riddled by fear, jealousy and suspicion” (Filer and Sekhran, 1998: 122). The relationship between the ‘big man’, his group and other groups is based on give and take. The emotional connection to

Figure 5: Goro Nickel smelter in the South of New Caledonia



the group is stronger than to the state, which is perceived as something 'abstract'. State representatives (in district or provincial government) are seen as potential rivals or challengers. That's why they often experience rejection, and the institutions they represent become weaker. In several cases, 'big men' became parliamentarians themselves, and the position of parliamentarian allows to freely dispose of a certain amount of funds (May 1997). So, 'big men'-structures often lead to an uneven distribution of mining benefits and to social conflicts.

New revenues and royalties from mining projects can awake and exacerbate these conflicts. In the case of the Porgera gold mine, Banks explains that 65-75% of the compensation payments to the local Pogeran community between 1987 and 1994 had been consumed directly, redistributed and consumed, or redistributed outside Porgera, in a "highly visible way" (1996: 224, 231). Nevertheless, it is not the mining industry that causes the conflicts; financial benefits are 'only' an amplifying factor. In the case of the Bougainville conflict, Regan (1999) suggests that "...the mine was a catalyst for the conflict rather than the direct cause". Bougainvilleans feel culturally closer to the northern Solomon Islands Isabel and Choiseul than to the state of PNG. In 1899, the German colonial empire ceded Isabel and Choiseul to the British Empire in order to resolve another territorial conflict, in Samoa. In the meantime, Bougainville remained with German New Guinea. In 1975, Bougainville declared its political

independence, but the "Republic of the North Solomons" existed only for one year. Since, the relation between Bougainvilleans and mainland Papuans is distant. The Bougainville history shows that mining resources are a conflict accelerator in PNG, but the political structure itself creates significant instability as different cultural structures clash.

In New Caledonia, state institutions are much stronger, and they are, in part, appropriated by indigenous leaders. The Kanak independence movement also uses the nickel sector as an instrument for economic and political emancipation from France (Kowasch 2009). The shareholders of the Koniambo project are the local SMSP ("Société Minière du Sud Pacifique", 51%) and the Swiss company Xstrata (49%), working in a joint venture ("KNS") which operates the project. The SMSP is owned by SOFINOR ("Société de financement et d'investissement de la province Nord"), a public provincial company of the Kanak dominated Northern Province that invests in tourism, aquaculture and mining. It uses benefits from mining to support other economic sectors. The Northern Province refuses royalties to traditional landowners, because they want to be 'masters of the exploitation of natural resources'. They encourage local peoples to participate in the project, through direct employment or subcontracting. Lots of small companies were founded with the support of KNS. Most of these firms work in earth works or material or personal transport, and have only one or two employees. But

even if the mining operator makes efforts to privilege local workforce and subcontractors, the distribution of benefits from mining is unequal. These distributional conflicts are interwoven with land conflicts resulting from the colonial period. Common and customary land is interspersed, and economic projects (such as new commercial premises) on customary land can provoke disputes between the different actors. Land reform started in 1978 in New Caledonia, with the goal of rebalancing the land repartition between indigenous and allochthonous peoples. The main goal was the acquisition of private land and its redistribution to Kanak clans.

In New Caledonia, big men-structures do not exist, the traditional chief has more an organizing role than a hierarchical higher position within the clan community. But with the implication in the mining sector, customary representatives – particularly village chiefs – become entrepreneurs. They accumulate power and prestige by taking several positions (entrepreneur, deputy in the local parliament and customary chief for example). We assist to a phenomenon that the New Caledonian people call "avoir plusieurs cascades" (having several caps). If benefits are not equally shared, more power or prestige for one competitive actor decreases automatically the power of another actor (Kowasch, Batterbury and Neumann, 2014). Conflicts due to unequal distribution emerge in Kanak villages in the neighbourhood of the Koniambo project in northern New Caledonia, for example in Oundjo only



Picture source: M. Kowasch, 2009.



Figure 6: Porgera mine pit, PNG

two kilometres away from new smelter, but resistance and environmental impacts are countered by the argument that the project serves as an instrument for independence struggle and political emancipation from France, in short “for the good cause”.

Conclusion

In summary, the resource curse and human conflict are broadly linked, but resource conflicts are generally more complex and there is no direct correlation in New Caledonia or PNG. All conflicts have their own history, and resource exploitation and uneven distribution of benefits are only ‘amplifying’ factors. Banks suggests that “Social relationship, identities and land are the things that matter in Melanesia, and to believe that conflicts of any kind, even ‘resource’ conflicts, can be primarily about anything else is an illusion” (2008: 31). Nevertheless, natural resource exploitation can awake longstanding customary conflicts. In this case, the resource curse causes aggravates conflict. Solidarity within clan structures, and nepotism, do not strengthen state institutions or encourage broader economic development.

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