Mining strategy for New Caledonia: Natural resource curse?

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The mining industry is usually characterized as a curse, also known as the "paradox of plenty". Today, New Caledonia bears the brunt of the falling price of nickel, the end of the construction of two new nickel plants and the economic downturn. However, New Caledonia, which is supposed to have 25% of the world’s deposits of nickel, attempted to overcome this curse. The mining industry was supposed to secure economic self-sufficiency and pay for a viable independence. This is a common belief in nationalism for natural resources. The country and its provinces tried to build a mining strategy based on added value and, for some, government majority equity in local companies.

New Caledonia has been changing a lot since the Noumea Agreement in 1998. Three new nickel plants were launched, which join the sole one New Caledonia already had, the Doniambo plant owned by Société Le Nickel. As political power is shared in New Caledonia, therefore plant equity should now be shared.

- The country through the three provinces owns 34% of Société Le Nickel equity. It’s a legacy of history.
- However, the country through the three provinces holds only 5% equity of the southern plant owned and operated by Vale. It was a choice, thanks to liberal political concepts.
- A local mining company controlled by the Northern province of New Caledonia (SMSP) owns, on paper, 51% of the northern plant equity (Koniamo Nickel - KNS). This choice is in accordance with a socialist mixed economy, claimed by independence movements.
- Posco processing plant, built offshore in Korea, enhance lower content nickel ore deposits. SMSP, the local mining company controlled by the Northern province, owns, on paper, 51% of SNNC equity (Société du Nickel de Nouvelle-Calédonie et Corée Pty Ltd), which is the owner of the Gwangyang plant.

The mining stock market crash had shaken people's beliefs. When nickel made money, New Caledonia built castles in the air. When the prices are low, people only see losses. Financial arrangement for the plants turned out to be less attractive as people thought before. The truth is somewhere in the middle. Were Caledonians robbed from their mining wealth?

For these new plants, New Caledonia granted the multinational companies huge financial backing: the national and local government gave massive tax exemptions for people investing in French overseas territories; there is no local tax for 15 years after the commercial production begins. Moreover, access to the nickel ore deposits was free, without paying any duty. So far, there is no tax on the extracted metric ton of soil. From North to South of New Caledonia, multinational companies fund the construction of all the plants and therefore fully operate the nickel industry. They secure the ore supplies and raw material purchase contracts, hold the exclusive rights in the industrial process and patent. They control the distribution network, impose their decisions by blackmailing jobs and will take huge interests on the debt of local affiliate companies. An increasing debt allowed the new plants. Moreover, it’s the resource, which has been used as security for a very long term. Every new investment will extend the repayment period as well as the length of availability of the nickel deposit by multinational companies.
These three financial packages demonstrate that capital structure differs from financing of industrial projects. These are two different things: 51% doesn’t give necessarily access to decision-making power. Even though Glencore and Posco in the North are minority equity shareholders, like Vale or Eramet in the South, they are the real leaders of the partnerships. What really matters is the effective decision-making power, which comes out of the own self-financing ability. The world of commodities is primarily governed by finance. Anyway, the country and its provinces jointly bear today some of the financial or industrial risk of a downturn, while their financial partners that are the multinational companies will cash in most of the financial profits. This means that future generations will have to pay the full price for environmental damage and debt.

Could it go differently? Politicians in the country are deeply divided on the issue of resource nationalism. Pending the ultimate takeover of SLN’s mining resource by the rise in equity to up to 50.1% or banning export of raw nickel ore to supply Korea, supporters of “the Orthodoxy of 51% equity share” imagine to achieve a hypothetical “economic sovereignty” from the crust of resource nationalism. They try instead to provide SMSP with new mining titles in order to revive a third project with Jinchuan in China. As with the Korean partnership, this would provide the joint venture new mining resources for cash under the guise of a mythical participation majority.

Policy thinking: New Caledonia hasn’t emerged today from the natural resource curse. The country focuses all of its energies on a single industry, such as mining, and neglects other major sectors. As a result, the nation is overly dependent on the price of commodities and its economy is becoming extremely volatile. Prosperous years allowed avoiding to choose. As in the other French territories, economic issues such as: competitiveness, productivity, investment’s viability were put on the backbench. Theoretical questions are predominant: the sharing of power between the country and the provinces, the balance of power between Congress and government, the so-called “Orthodoxy of 51% equity share”. Theoretical questions lead quickly to mental block. Nothing is solved and many people would take to the streets. Maybe it’s time of proclaiming a moratorium, so the New Caledonian population could finally digest and appropriate as much as possible a relative control of existing industrial projects and begin to improve competitiveness. This is far less noble, but certainly more effective.

Summary: Introduction
1. Nickel plants became real
   a. Political power is shared in New Caledonia:
   b. (Therefore) Plant equity is shared
2. Nickel plants haven’t provided the required economic power to New Caledonia
   a. The dispossession of the mining resource by multinational companies
   b. A strategy of resource nationalism for the country?

Main references
