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Employment and Retrenchment Issues in the Porgera Gold Mine, Papua New Guinea: A Strategic Approach to Leave Behind a Better Porgera

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ABSTRACT

The issue of retrenchment is a topic of considerable relevance for the Papua New Guinea (PNG) mining, petroleum and gas industries. The unique environments in which Porgera

Joint Venture (PJV) and other similar operations operate are likely to confront these industries with particular dilemmas that will require a range of investments to mitigate the problems associated with retrenchment and employment. This paper discusses retrenchment and employment in the PNG mining industry using the specific case study of PJV. The paper deals with the issue of employment and retrenchment of local workforces in the PNG context, which presents a serious challenge for the resources industry and the achievement of sustainable development objectives. The issue of future retrenchment of the workforce as a result

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of mine closure is an obvious challenge for both PJV and the Porgeran community at large, who have now come to rely upon both the employment opportunities presented through the mining. The paper also discusses downsizing, strategic practices and holistic approaches of retrenchment and employment, and in doing so the paper highlights issues that have been overlooked in both academic and applied studies from global and local perspectives in the PNG mining sector. The latter sections articulate the relevance of the information provided by the case study in the wider context of retrenchment, and the conclusion promotes a

perspective that a great deal more investment will be required by all stakeholders to respond to the challenges of managing retrenchments and mine closure.

INTRODUCTION

A major challenge for PNG mining companies is how to effectively formulate, implement, plan and administer a workable retrenchment programme that is consistent with sustainable development objectives. Developing strategies to address the formidable problem for mining companies in PNG, and in particular for PJV, which is a contributor to the PNG mining, petroleum, oil and gas industries has become a priority. For far too long, retrenchment issues in the PNG mines have been neglected, even as landowner associations, parliamentarians, leaders and practitioners in many forums have attempted discussions on this topic. The question of implementing a strategic retrenchment programme in the PNG mines is now very important and a valid focus of PNG leaders, practitioners, academics and other researchers to formulate a workable strategy in accordance with the 2050 Millennium Goals developed by the government. The dimensions of retrenchment are manifold, and some are canvassed from a PNG perspective, especially

PJV's strategic retrenchment programme contributing towards 'leaving a better future'.

PJV is one of the largest gold mines in the Pacific Islands. It is an integral member of the Porgera community and is committed to playing an active and constructive role as a member of the mining site to leave Porgera a better place before operations cease. The mine, therefore, shares the economic, social and political aspirations of its employees, landowners and other neighbours. Retrenchment and other related problems raised are not just specific to PJV, but are likely to be experienced by other large PNG gold mines in the foreseeable future. This paper critically examines the role that PJV is playing in these retrenchment and employment programmes. The key question addressed is: what are the prospects for PJV to play a leading role and contribute to the retrenchment issues to best serve the people of Porgera, Enga and PNG as a whole.

This paper explores a range of contemporary retrenchment and employment issues essential for developing strategic plans. In doing so, it provides a valuable insight into the complex retrenchment challenges that confront PJV and other mining companies. The available evidence on the nature and extent of retrenchment and employment is considered. In addition, the origins of changing public perceptions about retrenchment and employment issues in PJV are revealed, drawing on observation, administrative records, company reports and interviews with interested parties. Finally, the paper draws attention to the investments that have been

undertaken by PJV, and indicates how an integrative and participative approach to retrenchment can provide the basis for more effective management practices.

Brief History of the Porgera Gold Mine

PNG attained self rule from Australia on 16 September 1975. The country is endowed with rich natural resources, but the rugged terrain and the high cost of developing infrastructure have hampered exploitation of mineral resources. Agriculture provides a subsistence livelihood for about 85 per cent of the population. Mineral deposits, including oil, copper, and gold account for 74.98 per cent of value of export earnings in 2008 (Kanaparo 2008, PNG Mineral Resource Authority 2008). The important industries of the country include copra crushing, palm oil processing, plywood production, wood chip production, mining of gold, silver, copper, crude oil production, construction and tourism. The products that the country exports are gold, copper ore, crude oil, timber, palm oil, coffee, cocoa and marine resource. Gold alone accounted for 12.13 per cent of value of total exports of the country in 2008. Thus, mining and exporting of gold is an important economic activity of Papua New Guinea (Imbun 2002, Kanaparo 2008).

The country is endowed with gold mines. There are six mines under operation at present and two more are under construction. The current operating mines include: Porgera, Tolukuma, Lihir, Hidden Valley, Kainatu and Ok Tedi. Porgera gold mine is the biggest gold mine at

present, in terms of production among these six mines. Porgera gold mine is in the Enga province, one of the 20 provinces of Papua New Guinea.

The Porgera gold mine is situated in rugged, mountainous terrain at 2500 metres elevation from sea level on the floor of the Porgera valley, which rises to 3850 metres at the rim. The annual rainfall is approximately 3.7 metres and daily temperatures range from 10°C to 25° C. The mine is approximately 200 km west of Mount Hagen the capital of Western Highlands Province by road, and 680 km from Lae, the capital of Morobe Province, which is the sea port of entry for most of the mine's supplies. The mine's electricity is supplied via a transmission line from a gas fired power station at Hides in the Southern Highlands Province. Neutralised mine tailings are discharged into the Porgera River, which flows into the Lagaip River, and then the Strickland River before becoming the Fly River and entering the Gulf of Papua. Therefore, the mine's influence extends across numerous provinces of PNG (Ipara 1994, Kanaparo 2008).

The Porgeran society and culture known as the Ipili language speaking group, as in many other highland societies, are both an adaptation to the environment within which they evolved over many generations and an evolving set of activities governed by the Ipili world view of life (Talyaga 1984, Burton 1991). Before the mining operations began in 1989, Porgera station was only a small out station with an administrative office and several trade stores. The people were involved mainly in subsistence farming and small scale alluvial mining (Gibbs

1975).

The discovery of gold at the Porgera valley marked the culmination of more than 60 years of exploration in PNG by Australian prospectors. Looking for fresh fields as the Australian gold rush ended, miners first prospected in Northern Queensland and later in southeast Papua. They found payable gold on Sudest Island in Milne Bay in 1888. The existence of gold in the Porgera valley was first documented in March 1938 during the John Black and Jim Taylor exploratory expedition. No action was taken until 1948 when Taylor returned and small scale alluvial mining began. Serious exploration and drilling began in the mid 1970s (Biersack 1990).

The Mining Development Contract between the PNG government and the then Placer Dome Incorporation (PDI) was signed on 12 May 1989, and a Special Mining Lease was granted. Construction of Stage One of the project commenced immediately after this signing (Biersack 1995). PDI formed a joint venture with other companies and formed PJV. There have been changes in the composition of partners of the joint venture over the life of the mine, and the major partners of the joint venture as at 31 December 2002 include PDI with 75 per cent, followed by Oil Search Limited with 20 per cent, and Mineral Resources Enga Limited with five per cent.

There have also been changes in the composition of partners of the joint venture and management. In early 2006, Barrick Gold Corporation acquired PDI in a US\$10.4 billion takeover thereby, acquiring its interest in

Porgera, in which Placer had increased its own holding from 50 per cent during 2002 following its take over of Aurion Gold Ltd. Barrick Gold Corporation, the world's largest gold mining company, is the majority shareholder in the PJV and serves as the operator. Emperor Gold Mines holds a minority stake of 20 per cent, which it announced in April 2007 that it sold to Barrick. This has given Barrick almost complete ownership (95 per cent) of the operation. The remaining five per cent is owned by Mineral Resource Enga Limited. The major partners of the new joint venture as at February 2008 include Barrick Gold Corporation with 95 per cent followed by five per cent with Mineral Resources Enga with a small per cent as reported (Mining-technology.com 2009). The PJV started its production immediately after signing of the Mining Development Contract. The production of gold by PJV during the period 1990 to 2008 is reported in Table 1. It is observed from the data in Table 1 that the decline in gold production started just after a few years of its operation, and it is more significant from the year 1995 though the decline started from 1992. The quantity of production in 2008 is less than half of that produced in 1992.

According to the PJV Project Information (2002) and PNG Mineral Resource (2008), the shipment value increased by 63.72 per cent between 1992 and 2002. This is due to the increase in the gold price.

However, the share value of gold exports in the total exports of PNG declined from 26.43 per cent in 1992 to 12.13 per cent in 2002. This result is attributed to the growth rate of total

exports of PNG (567 per cent), which is higher than that of gold exports (157 per cent) during the period.

Table 1 shows the production and exporting of gold by PJV between 1990 and 2008. It is also revealed in Table 1 that in the early stages of the production of gold has increased dramatically and in the early 2000s it dropped, but for the 2008 quantity of gold production there was substantial growth, but by the mid 1990s production levels were considerably less while monetary values firmed. In summary, the gold exports in value increased over the period due to increase in the gold price, the production of gold declined substantially during the period 1992 to 2002. This decline is mostly due to the exhaustion of ore in the Porgera gold mine. This trend is likely to influence the size of employment in the mine.

Table 1
Production and export of gold by PJV between 1990 and 2008

Year	Quantity of gold production (in ounces)	Gold exports (shipment value – kina)	PNG total exports (kina millions)	Percentage of PJV gold exports to total exports of PNG
1990	265,890	91,011,247	1,122	8.11
1991	1,216,101	424,564,536	1,391	30.52
1992	1,485,077	492,361,251	1,863	26.43
1993	1,156,670	410,526,969	2,527	16.23
1994	1,032,768	405,042,681	2,662	15.21
1995	848,870	417,366,379	3,400	12.26
1996	854,822	441,548,735	3,314	13.32

1997	712,693	335,956,895	3,052	11.01
1998	726,806	448,268,441	3,688	12.14
1999	754,754	515,615,076	4,985	10.34
2000	910,434	701,247,142	5,586	12.55
2001	760,622	699,368,416	6,085	11.49
2002	641,811	772,645,118	6,367	12.13
2005	845,000	416,356,377	3,379	12.25
2007	600,000	—	—	—
2008	632,542	—	—	—

Note: Sources: PJV Project Information, 31 December 2002 and PNG Mineral Resource Authority, 2008.

Table 2 presents the category wise and total number of employees in PJV from 1990 to 2009. The content of Table 2 shows the total number of employees from Porgera, Enga PNG national, expatriates, years increase and total percentages. This continuous increase occurred in a work setting where the quantity of gold production decreases and retrenchment peaked. In spite of the lower levels of gold production after 1994 the Porgeran workforce increased. Engineers, researchers, academics, locals and PJV employees have advanced that the quantity of gold not extracted is the pull factor of this increase in employment levels, which is information for PJV human resource managers and other parties to formulate and implement good policies to minimise retrenchment problems, and foster better practices in the workplace.

Table 2

Category-wise and total number of employees
1990–2002, 2004 and 2009

Year	Porgerans	Engans (less Porgerans)	PNG nationals (less Engans)	Expatriate
1990	384	228	275	261
1991	637	245	343	403
1992	481	294	402	410
1993	583	332	463	392
1994	653	314	589	322
1995	756	278	683	335
1996	805	254	707	302
1997	703	202	645	257
1998	875	187	487	264
1999	991	188	488	259
2000	1, 046	182	496	248
2001	1, 171	86	499	211
2002	1, 263	79	515	224
2003	—	—	—	—
2004	1, 424	—	625	188
2009	1, 288	—	1, 013	161

Note: PJV Project Information as on 31 December 2002, June 2004 and May 2009.

The number of employees from Porgera has continued to increase since 1990, except in 1997. This is despite the decline in the production in the mine, as well as a decline in the total number of employees in the mine between 1997 and 2001. The number of employees of Engan origins had receded over the period as Porgerans took the vacant positions, reflecting the PJV policy that Porgerans should be given priority over other Engans.

The two presented Tables reveal the levels of production and employment for PJV. This relationship might have been purposely designed to satisfy the Porgerans. Thus, the increase in employment of Porgerans at the time of decline in the production is a set back to the financial position of PJV. In addition, PJV contributes money during the periods 1990 to 2002 to the landowners in the form of a royalty. These royalties are substantial: The contributors were Porgera Development Authority (K5.45 million), Enga Provincial Government (K61 million), Children Trust (K10.9 million), Porgera Landowners Association (K10 million), and Young Adults (K6.72 million) (PJV Project Information 2002).

PLANS FOR MINE CLOSURE AND DOWNSIZING OF EMPLOYMENT

The life of the mine is estimated to be between 20 and 30 years (Richard & Banks 2002). However, Barrick recently indicated that the

mine's life span might be extended to another 15 to 20 years depending on the new explorations taking place (Post Courier 21 2008). Currently, there are a number of geological exploration sites, where the geologists are discovering more gold and the plans for mine closure is not steady. Therefore, PJV's operational lifespan is cloudier, but the need for properly designed retrenchment programmes remains.

A closure consultation document was completed at the end of 2002 involving all departments of PJV and its joint venture partners. The vision articulated in this policy is 'leaving behind a better future'. The document does not specifically propose a closure plan, but provides information and a range of possibilities for closing the mine, in response to various complaints from landowner groups. It was proposed to develop a detailed plan incorporating the varying needs of different stakeholders based on wider consultations.

No single plan accommodates everybody's wishes and a process to arrive at mutually acceptable solutions is required. PJV is aware of its own limitations in the field of social and economic development, and is also aware that achieving sustainable outcomes and leaving behind a better future is likely to depend on the participation and contribution of relevant stakeholders.

The consultation document integrates sustainability into closure planning and aims, through communication and a consultative process, to build a plan that is likely to:

- develop a cost effective approach to closure, which considers the unique setting of the needs of the stakeholders and Porgera mine,
- optimise the benefits to the community during and beyond the life of the mine by finding the balance between the social, environmental and economic issues (triple bottom line),
- investigate the use of new benefit streams for the provision and maintenance of community services after mine closure,
- build capacity and good governance in private and public institutions to enhance their sustainability,
- rehabilitate the mine site consistent with agreed end land uses and with due consideration for public health, safety and environmental stewardship, and
- externally verify the closure processes, plans and agreed completion criteria (PJV Project Information 2002).

The closure plan of the mine mainly affects the local employees. The reduction in the production and other consequent operations will reduce the number of jobs, and thereby, result in retrenchment of employees (PJV Sustainable Report 2000). It is indicated in the PJV Project Information (2002) document that the process of reduction in the size of the workforce, starting in 2004, and will continue retrenching the local employees until the mine is completely closed. However, the interests of

the expatriate and national staff are considered by PJV because they have the qualification and experience and are likely to go back to their own places and countries and get a job, or otherwise "... would be posted to other Barrick mines in PNG and other countries because of their job demand." (p. 7).

Retrenchment

Retrenchment of employees refers to the planned reduction of a workforce by involuntary means. According to the legal perspective (PNG's New Organic Law standpoint), retrenchment is interpreted as the termination of the services of a workperson by the employer for any reason whatsoever, otherwise than as a punishment inflicted by way of disciplinary action. What is not considered as retrenchment is voluntary retirement of the workman on reaching the age of superannuation. Employees are often considered simply as commodities that are either profiting or costing the company, and are, therefore, either a necessary expense or a financial liability. Not surprisingly, retrenchment can have a negative impact on those affected. This ranges from those affected feeling lost, uncertain about their futures and as well as experiencing low self esteem. This is not only true for employees facing retrenchment, but also affects those involved in retrenching. For those who have already reached or are approaching retirement age this might have a different impact on them as they might already be considering the idea of ceasing employment.

The factors influencing retrenchment may vary depending on the internal and external

environment settings. Milton (1981) stressed that when an applicant is successful and is recruited and selected for the job the applicant is very happy to take up the new job. However, when the person is retrenched, he or she can be demotivated, culminating quite often in psychological and physical problems. This will probably also be experienced by many in the Porgeran labour force when the mine closes. The retrenchment exercises for the Porgera mine closure started in earnest during 2004, even if this was largely achieved by natural attrition, the number of employees will still be reduced in the few years. This is the very first concrete aspect of closure to have an impact on the local Porgeran community, far earlier than most other closure matters that are likely to become evident as the mining life comes to an end.

No formal retrenchment packages have been developed as yet for Porgerans and other employees. Existing award rules on retrenchment entitlements and applicable legislations on the New Organic Law (NOL) seem likely to be applied for proper closure and retrenchment plans for an effective mine closure. The National Parliament passed the NOL on Provincial levels in July 1995. The NOL decentralises significant powers down to Local Level Governments (LLG), and thus, provides the potential for a system of planning for the mine closure, which gives greater emphasis to local level decision making and human resource management, especially the local labour force which are likely to be reduced during the mine closure. Retrenchment packages, measures to assist

retrenchees and other benefits should be planned before exercising the retrenchment programme.

One of the measures that will be needed to assist PJV and the employees with retrenchment is the 'social plan', which aims to avoid job losses and the impacts of employment decline. Where retrenchment is unavoidable, the social plan seeks to actively manage retrenchment to improve outcomes for individuals and the economy. This would include the assistance of the Department of Labour and Employment, Mining Department, Department of Industrial Relations and Environment and Forestry Department in providing services to assist in easing the process of retrenchment. For example, where a company is facing retrenching 1,000 workers or 30 per cent of the labour force within a period of one year, the employer would be required to notify the Department of Labour and Employment.

The Department of Labour and Employment would then assist by setting up a retrenchment response team competent in employment services, human resources development and unemployment insurance fund (UIF). Porgera Joint Venture has set up a committee which includes workers, other stakeholder and employer representatives, where they further discuss the type of services to be provided to the retrenchees. This includes providing the retrenchees with information on how to start their own businesses; how much additional services would cost and who would pay for them; the time, people and technical resources needed to deliver the services and how to

inform retrenches about the potential to access a job advice centre.

This paper argues that the 'job advice centre' is one of the needed areas and suggests PJV consider opening one or two of these facilities in the mine site or Porgera station. The aim of this would be to provide the retrenchees with information packs consisting of comprehensive information and support measures available to retrenchees such as UIF benefits, financial management, training and elsewhere job seeking skills.

Appraisal of the Employment Practices

The data presented in Table 2 reveals that management is increasing the number of Porgeran employees, knowing the quantity of ore and production levels have been on a declining trend since 1994. Updates from the human resource department in March 2002 and the Post Courier (2005) reveal that PJV has recruited and selected 1424 Porgerans as 'award workers' (only Porgerans and others who are married to and have traditional links with the Porgerans) and 625 as 'national staff' (other Papua New Guineans who secured employment through applying). This gives a grand total of both award and national workers of 2237. A key question arising from the research done with Professor Albert Mellam in 2003 and Dr Benedict Imbun in 2004.

What would be the skilled labour needs of the Porgera area as closure approaches and after it is

occurred? (Mellam 2003: 7–9).
Following this, can those PJV
employees; especially the
Porgeran workforces made