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The nickel sector in New Caledonia: economic and political challenges

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New Caledonia is renowned for holding a substantial portion of the world's known nickel reserves.¹ The country does, however, possess other natural resources. Over more than a century, many explorations were undertaken in the search for a variety of mineral deposits. Various mineral resources were mined in the late 19th century: chromium, cobalt, copper, lead, zinc, gold and iron.² But nickel ultimately became the mainstay of mining operations in New Caledonia.

Nickel was mined from 1870 onwards, with a significant nickel (*green gold*) rush³ occurring in 1875. Mining companies began by employing Kanak labourers and workers from Indochina, Java and Vanuatu, convict labourers and, later on, took on workers from France (particularly after Governor Feuillet's measures to encourage free settlers). Convict labourers were "lent" by the penitentiary authorities, while "outside" workers were employed as indentured labourers.

A nickel boom in the 1960s boosted the development of New Caledonia's mining industry. A number of major mining projects were then in the pipeline but the economic depression which followed put a halt to all projects and engendered a marked sense of gloom. The economic crisis also played a role in reducing the previously significant number of small local mining companies.

This article aims to provide a concise history of the nickel sector after World War II (I), going on to review the challenges linked to rebalancing in the wake of the political accords of 1988 and 1998 (II). Finally, we will look at the issue of a shared New Caledonian strategy regarding nickel (III).

I. NICKEL SECTOR DEVELOPMENTS AFTER WORLD WAR II: A BRIEF OVERVIEW

In the post WWII period, the key development in terms of the nickel industry was the expansion of the long-established Société Le Nickel (SLN) company, founded in 1880. Setting up villages around its mining centres, the company held the majority of mining titles. The sector accounted for up to 30% of New Caledonia's GDP at the time of the nickel boom in the late 1960s. During this period, the nickel industry was also central to trade

¹ 15% of world reserves, CEROM (2015).

² Freyss, 1995, Le Meur, 2015.

³ "Green gold" is another name for nickel.

union demands for equal treatment of the various communities making up New Caledonia's population. Against a background of marked social segregation and inequality, the goal of equal treatment for all ethnic groups was finally achieved in 1956.

In New Caledonia, a distinction is often drawn between, on the one hand, major operators such as the SLN, who are generally involved in both mining and ore processing (Doniambo plant) and, on the other hand, "small mining operators" – limited in scale and with no involvement in processing. They mine the nickel ore and sell it on, mainly to the SLN, Japan and Australia. For such companies, nickel represents only a portion of overall business activity. Historically, these are powerful European family enterprises, well established in the commercial sector and wielding significant political clout. The four main family-based groups are Pentecost (Nickel Mining Corporation, NMC), Ballande (Compagnie Générale des Minerais Calédoniens, CGMC), Lafleur (Société Minière du Sud Pacifique, SMSP) and Montagnat (Société Georges Montagnat et Cie, SGM).⁴

From 1960 to 1965, nickel ore mining increased five-fold (from 1.5 million tonnes to 7.7 million tonnes), also reflecting strong growth in global demand. Global demand doubled and the US was forced to tap into its reserves. Furthermore, strike action in Canada placed the market under additional pressure and drove up prices. In 1955, production capacity at the Doniambo plant was 8,000 tonnes of nickel. In 1963, it was 30,000 tonnes. The SLN subsequently announced a program to achieve a target of 50,000 tonnes, followed by an increase to 65,000 tonnes and finally 85,000 tonnes. In point of fact, a record output of 71,000 tonnes was achieved in 1975.⁵

The SLN workforce grew substantially and topped 5,000 employees in 1970. In 1968–1969, nickel accounted for over 30% of New Caledonia's GDP (compared to the current figure of 7% to 10 %⁶, although in employment terms, the nickel industry accounts for up to 20% of private sector jobs⁷). However, from the mid-1970s onwards, new global production capacities led to a fall in nickel prices, causing a recession in New Caledonia. This was compounded by the fact that nickel prices are not only highly responsive to fluctuations in supply and demand but also to corporate assessments of global economic conditions. Because nickel market prices are quoted in US dollars, the profits of companies such as the SLN are also dependent on the US dollar exchange rate. SLN financial results took a dive due to the 1971 dollar devaluation, with the small mining companies taking a worse hit than the SLN due to the fall in nickel prices. This latter group currently includes three companies: Société Minière Georges Montagnat, Société des Mines de la Tontouta and Mai Kouaoua Mines. The Nickel Mining Company is not included since it is now part of a holding company with a processing plant in South Korea.⁸ As regards the SLN, a diversification and deployment strategy is being implemented by shareholders under the banner of the new ERAMET-SLN holding company (1985). Outside New Caledonia, the group is engaged in global deployment, limiting risks by diversifying business activities.

4 Freyss, 1995, Bouard, 2016, Le Meur, 2017.

5 Freyss, 1995.

6 CEROM, 2019.

7 CEROM, 2015.

8 A map of mining sites is shown in Section III.

Nickel was considered a strategic metal because of its use in armaments and in some cutting-edge industries; nickel being an essential component in nuclear power plants, aeronautics, shipbuilding, thermal power generation, etc. Consequently, the French government took control of New Caledonia's mining sector in 1969 ("Billotte law"). Nickel was seen as a key component of national independence, a powerful tool in international relations. Following the "Events" of the 1980s, New Caledonia was divided into three provinces under the Matignon-Oudinot Accords. The provinces were endowed with powers over economic development, mining concessions and the environment, leaving each province free to pursue its own economic policy and strategy in terms of the nickel sector.

Right up until the 1980s, the growth of the nickel industry signally failed to eradicate glaring socio-economic inequalities. Jean Freyss (1995) pointed out that cash income per person in tribal communities was 9 times lower than that of Europeans living in Noumea. In 1980–1981, Kanak households earned, on average, an income of XPF770,000 a year, compared with XPF2.243 million for European households, almost 3 times higher. The growth of the nickel industry brought the Kanak population far fewer benefits than the European population: in 1963, the workforce participation rate for Kanak was 23% (57% for Europeans), in 1976 it was 24% (57%), remaining unchanged in 1983 (54%).

The disparities were more blatant outside the public service sector, as shown in the table below:

Table 1: Kanak workforce participation outside the public service sector – 1963 to 1983

	1963	1969	1976	1983
Kanak workforce participation outside the public service sector	20%	24%	20%	16%

Source: Freyss (1995).

During the nickel boom, there was a modest rise in Kanak workforce participation, from 20% to 24%. But since the end of the boom, the Kanak employment rate has dropped to 16% and is proportionately lower than in 1963. Such glaring inequalities provided fertile ground for the upsurge in Kanak cultural and political demands.

II. SINCE THE MATIGNON-LOUDINOT ACCORDS (1988): NICKEL AS A POLITICAL TOOL TO PROMOTE REBALANCING

The 1970s and 1980s were marked by Kanak cultural assertion and demands for independence. The nickel crisis played into this climate of unrest due to a significant number of Kanak losing their jobs and returning to their native tribes. With the increasing radicalization of political rhetoric and positions, two factions emerged: the pro-independence separatists, with Jean-Marie Tjibaou as leader, and the anti-independence loyalists headed by Jacques Lafleur. The pro-independence leaders saw economic resources as one of the means towards achieving sovereignty. Prior to the Matignon-Oudinot Accords (1988), Jean-Marie Tjibaou

had begun drawing up an inventory of mineral ore reserves. Jacques Lafleur said that he had discussed mining with Jean-Marie Tjibaou because Tjibaou considered that the Kanak population should also hold a stake in the mining sector.

In 1990, with financial aid from the French government, SOFINOR⁹ acquired Jacques Lafleur's mining company: SMSP (Société Minière du Sud Pacifique). At the time, the SMSP was operating as a "piecework company" for the SLN: it had no mining estate of its own and was an SLN subcontractor. The FLNKS asked André Dang, who had taken refuge in Australia in the wake of the 1980s "Events", to head up the newly purchased company.¹⁰ Raphaël Pidjot, a North Province Assembly Councillor, would work with him as apprentice and second-in-command. The first key target set by the SMSP's new chiefs was to reach a production capacity which would lend credibility to the company's claim to the role of partner in the construction of a processing plant. This was achieved in 1995: the SMSP became the world's leading nickel ore exporter.

The SMSP repeatedly asked the SLN to build a plant in the North of New Caledonia. The SLN's refusal to do so obliged SMSP directors to seek an international partner. Concurrently, the FLNKS set the construction of an ore processing plant in the North Province as a condition for any further discussion regarding New Caledonia's institutional future¹¹; this was known as the "mining prerequisite".

The "mining prerequisite" was activated in 1998: people were encouraged to demonstrate and set up barriers to block traffic on the main road in the North of the Main Island. The French government negotiated with the key players and the Bercy Accord was signed; as a result, the separatists, via the SMSP, took possession of the Koniambo massif¹² owned by the ERAMET-SLN group, subject to construction of a plant producing 60,000 metric tons a year in partnership with FALCONBRIDGE (Canada). The SMSP obtained a 51% majority stake in the joint venture company Koniambo Nickel SAS (KNS), with partner Falconbridge holding 49%. The deal was as follows:

- the SMSP contributed the massif (the value of which was assessed to allow its inclusion in the company's capital assets), its professional mining expertise and its local knowledge and reputation.
- Falconbridge contributed almost all project financing, its technical expertise and a new ore processing technique (Nickel Smelting Technology, NST).

The Noumea Accord was signed soon afterwards, in May 1998. Technical and financial feasibility studies were carried out in the early 2000s. Meanwhile, the Eramet group brought proceedings before the Paris courts to dispute the transfer of the Koniambo mining titles, and put itself forward as constructor of the North Plant. The French group's change in strategy ultimately got nowhere: the official transfer of mining titles took place in December 2005.

9 Société de Financement et d'Investissement de la Province Nord – SOFINOR is a semi-public company controlled by the North Province.

10 Pitoiset & Wery, 2008.

11 Bouard *and al.*, 2016, *La Nouvelle-Calédonie face à son destin*, Karthala & IAC.

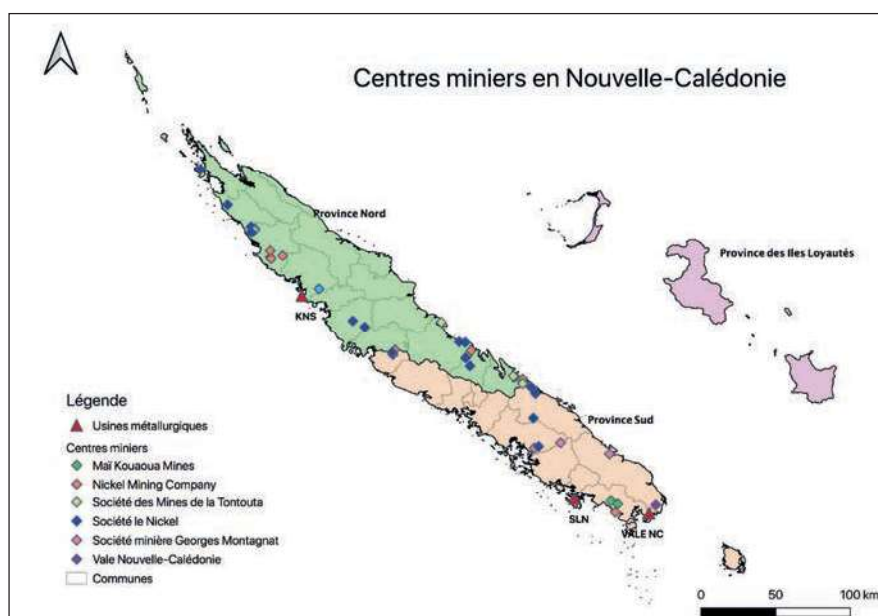
12 In exchange for another massif in Poum, in the North of New Caledonia.

Nonetheless, a financial reassessment of the KNS project was undertaken from 2006-2007 onwards, the costs proving much higher than expected. Despite the increase in costs, building work was commenced in late 2007 by Xstrata, the company which had taken over Falconbridge. The plant went into production in April 2013. Subsequently, in 2013-2014, Xstrata was taken over by Glencore.

Concurrently, a mineral ore processing project was under way in the South, initiated by INCO. The South Plant project was technically innovative, designed around a hydrometallurgical technology using a leaching process. In the late 1990s, a pilot plant proved the efficiency of Inco's innovatory technology, with full-scale implementation of the project following in the early 2000s.¹³

The background to this processing plant, based in Prony and Goro (the municipalities of Mont-Dore and Yaté respectively), was different: the South Province, headed at the time by Jacques Lafleur, supported the project but it was opposed by a significant proportion of the surrounding population. Customary and/or environmental groups organized numerous protests on the ground to try and halt the project. Inco's determination to proceed with construction and operation of the plant was ultimately unaffected by the various protests and legal proceedings.

Figure 1: Mining and ore processing centres in New Caledonia



Source: map drawn up by Elise Roussineau

¹³ Le Meur, 2015.

Construction of the Goro plant (in the South) began in the early 2000s, ahead of the Vavouto plant (in the North). The two projects are viewed somewhat differently by the New Caledonian public: there appears to be greater support for the North Plant, while the South Plant attracts greater opposition. This divergence in public attitude can be attributed to several factors:

- The necessity for rebalancing is recognized as regards the North Plant. Local people, particularly the Kanak community, were proactive, along with elected separatist representatives, in getting the plant built. Falconbridge therefore adopted the strategy of engaging with local communities right from the start of feasibility studies and construction work on the industrial complex. Conversely, the Goro plant was an industrial and corporate project from the outset, and involved no political goal deriving from the Accords and no active engagement with the local community. There was insufficient prior discussion and dialogue with the local community, as represented by the surrounding tribes, to ensure their involvement in project-related activities. As a result, a significant proportion of the local community took part in sometimes violent protests against the plant. Following a stand-off between protesters and Vale New Caledonia (Inco's successor), efforts were made to reach out to local people, particularly after a pact with the various communities living in the South was signed in 2008.¹⁴ The local communities in the South now see the pact as an example of partnership with an industrial corporation. Community representatives (the Rheebeu Nuu Committee) brought it before the United Nations, where it was recognized as a template for the sharing of economic benefits between a business corporation and the indigenous community. The Goro Plant began operations in 2009.

In concrete terms, the disparities in terms of political aims and geographical positioning led to a contrast in the development of the Voh-Koné-Pouembout area (VKP) in the North and site of the Goro Plant in the South. In the North, the area was scheduled for significant development designed to facilitate provincial rebalancing. Infrastructure and facilities were therefore provided to encourage people to settle locally: housing estates, small business areas, roads, schools, a shopping centre, leisure hubs etc. In the case of Goro, where the aim was not the same, most employees returned to Greater Noumea after work and at the weekend. Goro brings to mind an isolated dormitory town.

- Furthermore, the process technology is different: the Vavouto plant uses a pyrometallurgy process while Goro uses a hydrometallurgy process. More specifically, in the first and more traditional process, nickel is recovered by smelting the ore in furnaces; environmental impacts have mostly been understood and managed since the 2000s. Meanwhile, in the hydrometallurgy process, nickel is recovered using acid leaching technology: it is a new process whose environmental impacts have not been fully identified. When the Goro project was mooted, mastery of the hydrometallurgy process itself was viewed as insufficiently proven worldwide (particularly since trials at Australian hydrometallurgical plants had been inconclusive). Despite New Caledonia's environmental standards for the supervision of this type of industrial activity being relatively high compared to those of other nickel-producing countries in the region, such as Indonesia and the Philippines, this failed to prevent acid leakages in 2009 and

¹⁴ Signature of the "Pact for the Sustainable Development of the Great South" in September 2008 by Vale New Caledonia and customary representatives of the Southern clans.

2014 resulting in significant environmental impacts, incidents which reinforced local dissatisfaction with Vale.

- Finally, a third factor should be noted: the capital structure of the companies set up to build and operate the two ore processing plants derived in part from differences in assessing the value of the corresponding mining massifs. In the case of the South Plant, the sum paid to acquire the massif was relatively small, something challenged by sections of both the political community and the public, given that a much higher price had been paid for the purchase of a comparable massif in Canada. New Caledonia's institutions (the South Province, the North Province and the Loyalty Islands Province via the Société de Participation Minière du Sud Calédonien - SPMSC) would later acquire a stake in the project's corporate sponsor, currently 5% of capital, following a switch in majority at the South Province Assembly. In the case of the Vavouto Plant, the North Province adopted the strategy of holding a majority stake in the capital of the joint venture backing the project. The SMSP acquired a 51% capital stake by setting the value of the massif at several billion francs XPF. Their then multinational partner Falconbridge acquired a 49% stake by contributing the funding needed for pre-construction studies. Falconbridge mainly made use of debt financing to fund construction. The message for the local community was that this put the North Province in a position to implement its "nickel doctrine": retaining control of the mineral resource and production facilities in order to maximize economic benefits for the population as a whole.¹⁵ It should be noted that over and above these different approaches to the inception of the two projects, both industrial complexes have since made a significant contribution in terms of actively involving the local population in project-related activities. Firstly, there are the resulting job opportunities: the CEROM estimated the number of direct, indirect and induced jobs for the entire nickel sector at 17,000 in 2012, i.e. 20% of private sector jobs. Secondly, expenditure in New Caledonia worth several hundred billion XPF is generated by industrial subcontracting to local companies. The projects have also led to young New Caledonians being trained for plant-related jobs: training courses are held on site and also abroad, particularly training programs in Canada (Quebec). The industrial groups involved have committed to employing a very significant majority of local people at the plants (up to 95% of jobs during the operations phase).

As regards New Caledonia's long-established mining company SLN, the separatists were also proactive in negotiating with the French government for New Caledonia's institutions to hold a stake in SLN capital. The Société Territoriale Calédonienne de Participation Industrielle (STCPI) was therefore established on the following terms: 50% to Promosud (a semi-public investment company controlled by the Province Sud, and 50% to Nordil (representing the North and Loyalty Islands Provinces). However, dividends were distributed differently: 75% to Nordil and 25% to Promosud. In this way, the STCPI acquired a 34% stake in the SLN and a 4.1% stake in the Eramet group. From the separatist point of view, this equity participation was designed to increase the stake in SLN capital held by New Caledonia's communities from 34% to 50.01% by exchanging SLN mining titles with those held by the Eramet Group. However, this initiative did not meet with the approval of the loyalist camp, with the

15 Gorohouana, 2015, Demmer, 2017.

exception of Calédonie Ensemble¹⁶, thus highlighting the thorny question of establishing a New Caledonian mining strategy endorsed by all.

III. THE ISSUE OF A SHARED NICKEL STRATEGY IN NEW CALEDONIA

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Since the Matignon-Oudinot Accords (1988), there have been two major and divergent viewpoints as to nickel strategy in New Caledonia. On one side, the separatists are in favour of taking control of the mineral resource and acquiring a majority stake in key ore processing and production facilities. SOFINOR and SMSP are the main promoters of this strategy. On the other side, the loyalists are in favour of letting large corporate groups shoulder the entire risk of investment and the processing and production of mineral resources. This explains why the loyalist movements, except perhaps anti-independence political party Calédonie Ensemble, are opposed to any takeover by New Caledonia's institutions of the SLN and corporations like Vale NC as regards the South Plant.

A. The separatist nickel strategy

The separatists invested a great deal of effort in the development of the SMSP because they believed that “economic independence”¹⁷ was a necessary first step towards political independence. The elected representatives supporting this approach, particularly the members of the Union Calédonienne, have tirelessly defended this goal to their activists - the various motions proposed by the latter were published in *L'avenir calédonien* review. This is also one of the reasons why the loyalist camp poured so much scorn on the North Plant in the early years of the project. In fact, their underlying fear was that the SMSP strategy could prove successful and convince people of the “economic feasibility” of independence.

Separatist economic thinking saw community ownership of the company undertaking mining and ore processing projects as crucial. The core concern was to transform natural resources into a collective asset bringing benefits for all (Pidjot, 2000). This principle, inspired by Kanak values and socialist political theories, would set a limit on private initiative and consequently the self-enrichment of a few families. It could lead to private initiatives being restricted to other sectors whereas the entire community could share in the financial benefits reaped from this strategic sector.¹⁸ The Union Calédonienne, one of the main parties making up the FLNKS, stated clearly that one of its aims was to “ensure that mining operations benefit the whole community and not a few individuals” (Jacques Lafleur, Pentecost, Ballande *and al.*) (*L'avenir calédonien*, 1990, p. 2).

Adopting this position in line with anti-liberalist economic philosophy would also help to promote rebalancing since, over and above on-site jobs, SMSP profits and dividends could be used to develop other activities benefiting a great many local citizens. SOFINOR, parent company of the SMSP, was thus set the goal of reaping the financial benefits derived from a

16 Calédonie Ensemble is a political party opposed to independence but which has adopted a more centrist position on the political chessboard.

17 Grochain, 2013, Gorohouana, 2015.

18 Gorohouana, 2015, Demmer, 2017.

non-renewable activity, the nickel industry, to create new, renewable business opportunities. The business activities under development, such as tourism and aquaculture, were often labour-intensive and created salaried jobs. The fact that the SMSP was a local community-owned company made the policy possible.

In practice, the acquisition of a majority holding in the SMSP was also a strong signal of support for the local community. Concurrently, it meant that influence could be brought to bear on the project's industrial partner to promote local economic spin-offs. The flip side of the coin was that some people might consider reaping the benefits of economic opportunities generated by construction of the Vavouto industrial complex as their due.

This majority stake in capital assets was extended to offshore plants: a partnership between SMSP and POSCO was concluded in 2005 with a view to acquiring a processing plant in South Korea. The SMSP holds a majority stake (51%) in this joint venture. Another project is underway in China based on the same principle: a 51% stake for the New Caledonian partner. Loyalists oppose this strategy because there are also drawbacks to New Caledonian institutions holding majority stakes in mining projects; these are addressed in the following section.

B. The loyalist strategy

The public sector has a significant weight in New Caledonia and invests heavily in the development of various sectors such as the tourist industry, including investment in communities and areas under loyalist leadership like the South Province. Nevertheless, there is no lack of private enterprise in sectors such as the nickel industry, and there is a substantial private enterprise presence in both the local and international marketplaces. As a result, there is a lack of loyalist support for serious public sector intervention in the nickel industry due to their belief that investment should be left to the private sector. Their views are upheld by several expert studies commissioned by the French government¹⁹, including those undertaken by Ms. Duthilleul and Mr. Colin.²⁰

The loyalists also have concerns regarding the amount of debt generated by SMSP investment commitments, and the repercussions thereof on the finances of the North Province as community shareholder. In 2019, Koniambo Nickel (KNS) liabilities were in excess of 1,000 billion XPF, a sum equivalent to New Caledonia's Gross Domestic Product (GDP) for one year (1,028 billion XPF in 2018). In the main, this sum is owed by KNS to its partner Glencore, which has itself secured financing from international funding partners. The SMSP is not in a position to obtain loans for such a large amount from international banks. Moreover, even though the SMSP itself is not heavily indebted (liabilities of around 20 billion XPF in 2020), the KNS joint venture would have to repay the 1,000 billion XPF debt as a priority.

Consequently, elected officials espousing this political viewpoint would prefer multinational companies to take the risk of borrowing such large sums of money. If operations turn out unprofitable and the company is shut down, any repayment of debt incurred would not be

¹⁹ Bouard *and al.*, 2016.

²⁰ Reports: Duthilleul, 2012, Colin, 2016.

the concern of local businesses or public community shareholders. A scenario not to be ruled out in the case of projects involving substantial innovation in terms of industrial technology and persistent uncertainty relating to nickel market price fluctuations. If a project cannot get off the ground due to technical issues, the risks of abandoning the project may become financially unsustainable for a local mining company. The issue of debt made a reappearance in 2020 when multinational group Vale announced that they were withdrawing after a decade of production losses at the South Plant. In the North, technical problems forced Glencore and its local partner SMSP to temporarily shut down one of the two furnaces at the pyrometallurgy processing plant.

Another factor is technical in nature: the high-tech and highly-skilled human resources required for a major ore processing project like the KNS or South Korean plants are not all available locally. The expert technical engineers working for multinational groups such as Glencore, Vale and Eramet are the people who undertake project feasibility studies and make on-site technological and financial decisions for the various projects.

CONCLUSION

Insofar as the nickel sector represents New Caledonia's only major industry, it remains a sensitive issue; the economic and political stakes involved are therefore high. Following the Matignon-Oudinot and Noumea Accords, the nickel sector was central to the issue of achieving geographical and ethnic rebalancing in favour of the indigenous community.

Recent years have seen two opposing and not easily reconciled nickel strategies facing off against a background of two political trends deeply opposed as to the issue and concept of independence. However, since the early 2000s, several key players in the sector have been attempting to detach mining strategies from the political issue. Some experts argue that New Caledonia should adopt a unified position on nickel to maximize its chances of playing a role on the international stage. If New Caledonia did manage to adopt and implement a single nickel strategy, it could identify synergies between various players on the basis of the various types of mineral ores to be processed locally or outside the country. Notwithstanding, although this may appear a coherent approach, the basic political philosophies for or against independence are such that a shared nickel strategy is currently not on the cards.

Other issues, including the environment, are also critical and include direct environmental impacts on the mining massifs and the environmental costs of generating energy for the plants. A new power plant is scheduled to be built in Noumea to supply energy to the SLN plant, the intent being to avoid using coal; the Vavouto and Goro plants are currently both powered by coal-fired energy. In recent years, there have been other projects to build plants in the South (around Prony). The issue is relevant for a small country which already has three local processing plants, plus one in Korea and, soon perhaps, one in China. New Caledonia has one of the highest greenhouse gas emissions per capita footprints in the world. There is the issue of whether or not a small archipelago should stop short at three ore processing plants.

Another issue which has been regularly debated for years is that of nickel sector taxation. A levy or tax on nickel has been in the pipeline for several years. Implementing such a tax would however be problematic because New Caledonia has established a tax system

favourable²¹ to ore processing businesses, which requires that no new taxes be applied to this sector. A condition which currently impedes introduction of a new levy. Nonetheless, implementation of such a levy would enable setting up a fund for future generations, or a sovereign wealth fund, serving to promote new, more environmentally-friendly business activities.

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²¹ The fiscal stability pact.