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Balancing profit and accountability in mining

THE current weakness in China's demand for commodity imports is bad news for many. When China's giant steelmakers Hegang, Baosteel and Wugang cut production, the "Big-3" iron ore producers, Vale, BHP Billiton and Rio Tinto had to shelve investment projects and cull jobs.

Australia's economy, cushioned from the 2009 global recession by China's appetite for its rich iron ore, is now hurt by the Red Dragon's slowdown. Australia's sales of iron ore to China was worth US$46 billion (RM140.3 billion) in 2011 or 16.6% of its entire exports. Unexpectedly, the global iron ore prices have crashed 55% to US$86.70 a tonne since July. This dip was unseen since 2009.

The global steel industry was for years stuck in doldrums prior to China's emergence as a growth driver. It was crippled by oversupply and stagnant demand with iron ore prices once hitting the rock bottom of less than US$20 a tonne. China's domestic steel consumption grew exponentially during the intensive phase of its three decades of industrial development facilitated by its construction and machinery sectors.

Huge government subsidy has fuelled the creation of the world's largest steel industry. This tilted the supply and demand equilibrium to the effect of reviving the worldwide market for steel. In 2011 China controlled almost 45% of the world steel output. Producing 3.8 billion tonnes, its output was six times that of Japan and eight times that of US, formerly the 20th century's dominant steel producers.

Is the current plummeting price flash or fixture? Analysts expect Chinese growth to rebound by early 2013. The recent decision by the Hu Jintao government to splash US$150 billion on subways and public works brings a brighter outlook to rekindle China's steel industry. With the spending boost, the development of mega cities such as Suzhou, Qingdao, Shenzhen, Ningbo and Dalian will continue apace.

Since 2005, Chinese steelmakers have actively sought resource security through ventures with iron ore producers in Australia, Sierra Leone, Guinea and Chile. Even Malaysia's hitherto "sunset" mining industry was resurrected when China decided to diversify its iron ore sources.

Malaysia is attractive because the mining cost for an open pit mine is only about US$50 per tonne, whereas the production cost in China is between US$110 and US$140 per tonne. Hence, the output of Malaysia's iron ore rose from only 667,082 tonnes in 2006 to 7.6 million tonnes in 2011.

The ore is sourced from mines with small reserves located in Pahang, Johor, Perak and Terengganu. The motivation is clear.

Iron ore prospecting is bringing big returns to state governments. The Pahang government received royalties amounting to RM5.5 million in just four months of 2011. The Kedah government expects revenue of RM10 million a year once mining operation at the foot of Gunung Jerai and elsewhere are fully operational.

The mining industry is essentially built on exploitation of resources. Yet different groups see "resources" differently. They attach diverse "values" on these resources, not only economic, but also ecological and cultural. A resurgence of mining harkens the questions about where and how resources will be accessed, and the ensuing environmental and social impact.

After the heydays of tin mining here, the ugly effects of moving earth materials on a grand scale have been long forgotten.

There is a brewing resentment against mining activities right from mines to market. In Kuantan, over 1,000 residents of Kampung Selamat Pelabuhan have lodged complaints about dust and noise pollution from a mine operating very close to their village.

The siting of the region's largest iron ore processing plant and distribution hub in Teluk Rubiah, Perak led to local dissent over the fear of endangering the local biodiversity. In Sri Jaya, Pahang, a collapsed wall at the pool of an iron ore processing plant had damaged two houses, a shop and eight trucks while also affecting oil palm, banana and sugarcane plantations.

Transporting iron ore on Pahang's major roads has compromised road safety whereby five were recently killed from two freak accidents involving ore trucks. The thirst for iron ore has now reached Tasik Chini, a national treasure and the country's only Unesco Biosphere.

Local media recently published visuals of freshly cleared forest for mining reaching to the edge of the lake, with evidence of siltation. The local Jakun community has organised the "Save Tasik Chini" campaign in defence of their livelihood and culture as the custodian of the lake.

The "government-knows-best" approach to mineral development no longer suffices for the rakyat, who demand increased involvement in decision making. Therefore, mineral developers need to gain a "social licence to operate" from local communities in order to avoid potentially costly conflict.

Any mining projects must have the approval and broad acceptance of society to conduct their activities. While we supply China with the iron ore resources needed to further develop its mega cities and the growing middle class, utmost care must be taken so that the quality of life of Malaysians is not sacrificed as a trade-off.

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