

# [Busang – a river of gold](https://assignbuster.com/busang-a-river-of-gold/)

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Challenges for Bre-X Minerals in Indonesia Bre-X Minerals Ltd. faced numerous challenges in 1996, largest among them being the potential loss of the majority stake in property that could yield upwards of 100 million ounces of gold. The Indonesian government was threatening to redistribute ownership of Busang, the mining region in which Bre-X had property rights, due to its fear that Bre-X was a short-term player not serious about extracting the gold or a long term commitment in Indonesia. These fears were justified given Bre-X’s small size (it had a net loss of $Cdn. 66, 677 in 1995 compared to a net income of $Cdn. 218 million from Barrick Gold Corp. , a potential government-corporate partner) and limited connections within the country (established only in 1993 by exploring in the East Kalimantan rainforest). Another critical challenge faced by Bre-X was the public outcry over a foreign firm taking advantage of Indonesia’s wealth of natural resources. This mineral exploitation resulted in cries for public action to seize the land and deny Bre-X any compensation. Prominent public figures Dr. Amin Rais and Mr.

Hartojo Wignjowinoto were most vocal in these demands. This is a classic example of the risk an unprepared company takes on when operating in a country that is transitioning both politically and economically. Over the first half of 1996, analysts predicted increasing success at Busang and as a result, Bre-X’s stock value rose. Indonesia, however, is a mixed economy where the government uses public action to manipulate and influence the private sector with ease. Bre-X’sfailureto collaborate with an influential local company from the beginning of its venture led it to the current crisis.

The company’s developmental and operational stagnation resulted in increased pressure from the world’s largest mining firms, Barrick included, and the Indonesian government. The Sudjana Proposal: Bre-X Minerals & Barrick Gold Due to the corruption and public action of the Indonesian government and the potential for continued bureaucratic challenges to extracting the gold, Bre-X should accept Minister Sudjana’s proposal to partner with Barrick. The Indonesian government has shown, through its interactions with Bre-X, that it is easily influenced by the demands of President Suharto’sfamilyand by pressures from respected individuals.

For example, the Barrick proposal received endorsement from the government only after Barrick hired Suharto’s daughter (Tutut) and encouragement from former U. S. President George Bush and former Canadian Prime Minister Brian Mulroney. Despite making an alliance with PT Panutan Duta in late October, Bre-X was late in recognizing the importance of relationship building in conducting business in Indonesia. With only eight days to negotiate the deal with Barrick, Bre-X does not have time to develop the necessary connections to succeed in Indonesia without a competent partner.

Strong property rights are an essential component in any successful market economy. Although Indonesia has regulations regarding mineral exploration and extraction, the government has found ways to manipulate the regulations to best serve its interests. Making it through the various stages of mining approval requires complex paperwork and numerous negotiations with various government offices. Bre-X had navigated this system and received a Contract of Work (CoW) to mine the Southeast Zone. However, after Kuntoro Mangkusubroto declined to revoke Bre-X’s CoW, Sudjana had transferred the processing of CoWs out of Mangkusubroto’s office.

This move suggested that Sudjana could manipulate the regulatory structure to revoke Bre-X’s CoW and make it much more difficult for the company to continue exploration or begin mining. Rejecting the Barrick deal proposed by Sudjana would expose Bre-X to future challenges that may prevent them from ever capitalizing on its Busang II claim. However in accepting the Barrick deal, Bre-X stands to lose a large portion of their claim to the future profits from Busang. Bre-X has made large investments to purchase and explore the properties in Borneo and needs to make sufficient earnings to recoup its costs and satisfy its investors.

Therefore, Bre-X should use the eight days that they have to reach an agreement with Barrick in which they receive a greater than 22. 5% stake in Busang. Beyond Barrick: Other Roads to Busang One alternative Bre-X could pursue is a different joint venture with either Placer Dome or Tech Corps, which would align Bre-X with a large enough company to develop and operate in Busang. At the same time, Bre-X needs to cultivate their existing relationship with Suharto’s son to give the company an inside track in navigating the corrupt regime.

This alternative is attractive for all parties involved because it increases investor confidence and Bre-X’s stake in Busang, allows Placer Dome or Tech Corps to get involved in the project, and increases the government’s claim through Suharto’s inner circle. Another alternative for Bre-X would be a total buy-out by Barrick. This option would result in a substantial capital inflow for the company to pursue its core business model; exploration and partnership. Throughout the company’s history, Walsh has constantly had to seek out investment from a number of sources to successfully operate his business due to its small size.

The operations thus far in Busang have been reminiscent of the Australian speculators in the 1980s, and the Indonesian people are again faced with a situation where estimates of total gold reserves are skyrocketing, while little infrastructure development or mining activity has taken place. The national sentiment towards Bre-X and its inability to carry out mining operations on its own, makes a buy-out proposal an attractive alternative whereby Bre-X can pursue new exploration in a friendlierenvironment.