

Benguet Corporation's

ACUPAN CONTRACT MINING PROJECT

(Mining In Partnership with the Community)

I. BACKGROUND

Benguet Corporation, established in 1903, pioneered modern mining in the Philippines. The histories of Baguio City and the town of Itogon in Benguet Province are intertwined with that of the Company. At its peak, BenguetCorp employed 8,000 miners in its three mines, namely Acupan, Kelly and Antamok, and was the province's biggest employer. The cascade of economic activity from the mining operations to the neighboring areas saw the growth of now Barangays Virac, Balatoc, Kias, Dalicno, Antamok, Ucab, Tram, and Kelly.

The strong Baguio earthquake in 1990 followed by the rapid spiraling down of the gold price precipitated the suspension of the operations of BenguetCorp. Due to limited employment opportunities, the miners reverted to small-scale mining within the Company's mining claims. The expansion of these illegal activities resulted in pollution from mine wastes, tailings and chemicals, the destruction of public infrastructure and worse, the deterioration of peace and order in the small-scale mining areas similar to the anarchic situation in Diwalwal.

Benguet Corporation, recognizing these problems, saw a solution by re-opening the Acupan mine in partnership with the small-scale miners. The Company strengthened the small-scale miners' associations to effect the structural changes needed to make this novel solution successful.

Launched in January 2002, this innovative Acupan Contract Mining Project (ACMP), where a large-scale operator and the small-scale miners grouped as mining cooperatives are legitimately working together, is the first of its kind in the country

II. TRIPARTITE MINING APPROACH

In consultation with MGB-CAR, the Company formulated in Acupan, a mining concept involving the government, the community and the company as stakeholders in the venture. BenguetCorp believes that the success of the project depends on the cooperation of the parties. The Acupan Mining concept aims to accomplish the following:

1. Provide a legal means of livelihood to the community;
2. Apply an indigenous mining method which is simple but now made safer, more efficient and environment-friendly;
3. Generate tax revenue for the LGU and the national government as the underground economy of small-scale mining is brought to the surface;
4. Generate income for the stakeholders; and hopefully be,
5. Replicated in the Company's other mines, and possibly in other mining sites, across the country.

III. ROLES OF STAKEHOLDERS

This pioneering venture in Acupan is successful because each stakeholder performs its role accordingly.

A. BENGUET CORPORATION

- Identifies areas in the Acupan Mines which are appropriate for small-scale mining;
- Conducts exploration and delineates ore reserves;
- Undertakes mine production planning and monitors implementation;
- Provides centralized crushing, grinding and CIP treatment plant and anti-pollution devices; and,
- Sells the gold output to the Bangko Sentral ng Pilipinas;
- Buying and selling of gold, limiting the role of the middleman/ financier.

B. COMMUNITY

- Organizes themselves into mining cooperatives or associations which serve as the contractors;
- Abandons the use of mercury and other old small-scale mill plants and use the more efficient, environmentally safe and centralized ore treatment facility of the Company;
- Finances the mining operations;
- Conducts mining according to the plans and safety regulations of the Company and the government.

C. GOVERNMENT

1. DENR-MGB/ EMB

- Creates the mechanics, rules and regulations to accommodate within the law this new cooperative arrangement between the large and small mining operators;
- Enforces safety standards in the mining and milling operations;
- Ensures that environment protection measures are implemented; and,
- Provides technical assistance in the mining operation;

- Assists in the proper information, education and communication of this scheme.

2. LGU

- Provides basic social, health and other services to the community;
- Assists in maintaining peace and order;
- Facilitates local government-required permits;
- Formulates and monitors a simplified tax collection scheme; and
- Assists in information dissemination and proper education of the community.

IV. SCHEME OF IMPLEMENTATION

A. MINING CONTRACTS

The Company delineates the ore to be mined and subdivides the underground into mining contract levels and areas. For the Acupan mines, the four main levels were divided into 15 contract areas. Each contract area is bid out to pre-qualified mining associations of the community, whose members are mostly former employees duly recognized by the barangays. The contract provisions include production quotas and grade, mode of sharing, duration of the contract, performance bonds and obligations of each party. To-date, contractors have been able to meet all the conditions set forth in the mining contracts with very few exceptions.

B. MINING SCHEME

Following the Company's mining plans, the mining contractors bring out the ore to the crusher area, where after crushing to ½-in. diameter size, the ore is shared between the miner groups and the Company. The contractor's share goes to the Company rod mills for grinding. Free gold is recovered using the gravity method of sluicing. The resulting tailings will then be processed in the Company's CIP plant. The gold produced is sold to the Bangko Sentral while the final tailings are disposed of in a tailings pond. Out of the revenue, the contractor pays the company the milling and processing fees. Similarly, the company processes its ore in the same facilities.

V. STATUS OF THE PROJECT

The project was launched in January 2002 with an initial production of 20 metric tons per day, which was gradually built up to 50 metric tons per day. At present, 13 contract areas

had been awarded. This project provides employment to about 1,000 local residents, 800 of which are small-scale miners from Acupan and the surrounding barangays.

The company's engineers designed and constructed the 50mtpd CIP plant. The plant capacity will be expanded by stages to 100mtpd in the near future.

VI. IMPACT AND BENEFIT TO STAKEHOLDERS

A. COMPANY

- The project requires low capital and operating costs;
- The income generated supports camp maintenance;
- There are less security costs for the protection of the mining claims;
- Relations with the community improves;
- Maximization of the Company's resources.

B. COMMUNITY

- Small scale mining as a livelihood is legitimized;
- Promotes harmonious co-existence with the Company;
- The environment is protected, healthy and safe;
- Downstream economic activities are generated such as businesses in transportation, housing, eateries, recreation, and the like;
- Promotes peace and order, lowering the rate of criminality;
- Improved community services due to increase in share in IRA;
- Increased household income;
- Improved quality of life.

C. GOVERNMENT

- Illegal and destructive gold extraction and processing are minimized;
- Tax revenues increase as collection mechanisms are simplified for the small-scale miners and the new businesses;

- Peace and order reigns and a healthy environment is sustained.
- Employment rates improve;
- Downstream economic activities.
- Increase in government gold reserve.

VII. CONCLUSION

For many years, large operators and small-scale miners have been at odds with each other. The government is caught between these two opposing forces from the point of view of law and order, environment protection, health issues, promotion of employment, and business and taxes.

The Company saw that there is common ground to promote cooperation among all parties. BenguetCorp formulated the concept using existing laws and regulations, employing Company resources and soliciting assistance from community leaders. What used to be irreconcilable differences now are common goals. This novel and modest approach can still be improved, and once fine-tuned, can be replicated in other mining areas within the country. We see government, the community and private business working together in a sustainable enterprise, with due regard to the environment. The new Acupan Contract Mining Project has brought the Company and the small-scale miners together, allowing the project to create jobs, income and taxes for the government. Now there is a chance for real development to take place and the sowers of discord with less room to work on. With one simple approach, the inertia against community and nation building is eradicated.