

23 November 2001, 12.49pm EST

Companies and Events in 1996, Bulyanhulu Area, Tanzania



Tanzania Barrick Gold

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Ownership - Sutton Resources Ltd.[1](#)

Sutton Resources was incorporated under the laws of British Columbia on December 4, 1979. In 1996, the company had a number of subsidiaries. One of these was Kahama Mining Corporation which was incorporated in Tanzania, but was owned 100% by Romanex International Limited, which was - in turn - owned 100% by Sutton Resources. Sutton also owned 100% of Tanzania-incorporated Kabanga Nickel and Kagera Mining Company.

In March 1999, all the assets of Sutton Resources, including Kahama Mining Corporation, were acquired by Barrick Gold.

Sutton was a mineral exploration company engaged in the acquisition and exploration of mineral properties. In 1996, it held interests in Tanzania, Guyana, the USA and Canada. None of its properties were in commercial production.

The directors and officers of Sutton at that time included:

- **President and CEO:** J. Michael Kenyon of Richmond, BC. Director since 1979, geologist
- **Chairman:** Roman Shklanka of Vancouver BC, Director since 1991, Principal of Romanex Management Ltd, which held the contract for mining and exploration supervisory services in Bulyanhulu
- **Vice-President Project Development and Operations:** Anthonie Luteijn of Tsawwassen BC, company employee, formerly Manager of Evaluations of Placer Dome International
- **Vice-President Corporate Affairs and Chief Financial Officer:** Jonathan Rubenstein of Vancouver, company employee, lawyer
- **Vice-President Regulatory Affairs:** Kelvin Dushnisky of Vancouver, Company employee and Redfern Resources and Vice-

president of Rescan Environmental Services Ltd. (until Sept. 1996)

- **Director:** John A. Greig of Delta BC, Director since 1979, Chairman of Redfern Resources Ltd.
- **Director:** David Fennell of Nassau Bahamas, President and CEO of Golden Star Resources Ltd, lawyer
- **Director:** Richard D. McCloskey of Weston Ontario, Director since 1988, President of McChip Resources and a Mining Engineer.

The largest single shareholder was Barbara Sinclair, also of Vancouver, with 12.45% of the shares. In 1996, the company paid management fees to Romanex Management Limited of \$296,815 US in connection with management of the Bulyanhulu project. CEO Kenyon was paid \$151,093; Luteijn, \$139,725, and \$151,632 in salary, as well as substantial stock options.

The Bulyanhulu Gold Project²

The Bulyanhulu concession covers 51.48 square kilometers, lies on a flat plain, and is located in northwest Tanzania, about 56 kilometers in a straight line south of Lake Victoria. It is accessible by ferry and road from Mwanza on Lake Victoria over a distance of 155 kilometres. There is an airstrip on the property. To the south, it is accessible by road - 75 kms by dirt road to the paved road to Dar Es Salaam or to the railroad station at Isaka. This road has been often impassable after heavy rains. At Isaka there is heavy equipment to unload fuel cars and a fuel depot for diesel and gas. The Butabela River which runs through the property often runs dry in the dry season and becomes a wide river during the rainy season.

The gold and copper ore body is extensive and deep, and lies under a substantial overburden. Grade was estimated at 13 grams per ton. In 1996, the company undertook extensive drilling, geophysical surveys including ground and airborne magnometers, and - after October 1996 - the excavation of a boxcut, involving the removal of 232,000 cubic meters of overburden and 300 meters of underground ramp and level development. A number of buildings and fuel storage facilities were also constructed that year.

Barrick Gold acquired Sutton Resources in March 1999. By 2001, the Barrick Annual Information Return states that power to the property is supplied through a 220-kilowatt line and is purchased from the Tanzanian Electrical Supply company pursuant to a long-term fixed price contract, and water comes through a 48 km pipeline from Lake Victoria.

The Bulyanhulu Mine is an underground mining operation, employing a total of 870 employees, of whom 80% are Tanzanian. Cyanide is not used in gold recovery, but the process consists of a crushing and grinding circuit, a flotation circuit, a tailings thickening and flotation circuit, and a system of storage ponds to allow conservation and recycling of water. The Company says that any waste rock with the potential to be acid-generating will be segregated and used as paste backfill in the underground workings. Only one quarter of the paste tailings will be used underground; the rest will be deposited outside and reclaimed concurrently with operations. This is a mine with the potential for significant destructive ecological impacts, if not monitored and managed with great care.³

Who benefits from the Mine?

The Mine is governed by a Special Mining Licence (Feb 7, 2000) and a Gold Mining and Development Agreement entered into by Kahama Mining Corporation and the Government of Tanzania on August 5, 1994 and amended June 22, 1999 and October 19, 1999. It has a 25 year term. The Multilateral Investment Guarantee Agency (MIGA) estimates that the Government will receive "approximately \$75 million in taxes, royalties and duties Öduring the initial 15 years and procure some \$10 million in local goods and services per year".

In a speech during a Bulyanhulu Mine tour on February 9, 2001, Barrick vice-president for Legal and Government Affairs Paul Fortin gave the details of the deal with the Government of Tanzania. The Government does not own any shares in the mine, having relinquished a 5% interest in October 1999. Benefits to Barrick include:

- a 3% royalty of the FOB value of contained metals, net of transportation, treatment and refining costs and by-product costs.
- Corporate income tax of 30%
- A depreciation allowance of 100% in year of expenditure for prospecting and development capital expenditures
- An additional depreciation allowance of 15% on the balance of unredeemed development capital expenditures
- The right to carry forward any losses indefinitely from the deduction of prospecting and development capital
- A 19% withholding tax on dividends
- 0% customs duty on the import of mining equipment and supplies until the first year of commercial production
- Relief from VAT for services for use in mining activities
- The right to export and sell all mine production
- The right to open and maintain bank accounts in foreign currency outside of Tanzania
- The right to retain abroad the proceeds of sale of minerals and loans and to dispose of such sums as the Company sees fit.

Bulyanhulu is, according to John Carrington, vice-president of Barrick, "proving to be a great acquisition, exceeding our highest expectations. These low cost, high margin ounces will contribute significantly to the bottom line."⁴ By the end of 2000, Barrick said that Bulyanhulu had 10 million gold ounces of proven and probably mineral reserves.

Construction of the \$280 million US mine began in the third quarter of 1999, and entered production this year. Its expected average annual gold production is 400,000 ounces at an expected total cash cost of US \$130 US per ounce over a 19 year mine life. In the start up year, the Mine is expected to produce 263,000 ounces of gold at a total cash cost of US \$166 per ounce.⁵ Even in its start-up year, Barrick expects to clear over \$32.6 million on the project,⁶ one-half of the total benefits that are estimated by MIGA to accrue to the Tanzanian government over the entire life of the mine. Barrick also provides jobs and training to local Tanzanians. Out of a workforce of 870, 80% are Tanzanian; this percentage is expected by Barrick to increase.

However, before the large-scale mining project, anywhere from 30,000-400,000 Tanzanians were employed as gold miners in the area, as well as small businesses and local entrepreneurs. During the period from 1990-1994, the Bulyanhulu artisanal miners produced the bulk of Tanzania's official gold exports which averaged US \$30 million per year⁷.

Kahama Mining Corporation (KMCL) itself stated that the artisanal miners in Bulyanhulu, "paid taxes and levies which were used for community development purposes, such as the construction of two classrooms for the Kakola Primary School."⁸ In general, the small scale mining activities over the 1975-1996 period "raised incomes, increased population and stimulated services, such as transportation and shops".⁹ "Before the closure of the small scale mines the average income in the study area was the highest in the Shinyanga region."¹⁰

KMCL goes on to say that "after cessation of artisanal mining in Bulyanhulu in August 1996, the income of the majority of people declined significantly, the populations of Kakola and other villages in the Ward of Bugarama decreased, and services either decreased or disappeared. The mine was a source of income to a majority of people, both genuine and 'illicit'¹¹ activities and made life different for many. (These) economic (activities) stopped after the mine closure".

Chronology of events

- 1961- Tanganyika gets independence.
- 1964- Union with Zanzibar to become Tanzania.
- 1976- Local herdsmen discover gold at Bulyanhulu¹²; artisanal miners move into area
- 1977-83- Tanzanian government through state mining company, STAMICO, carries out some surface drilling and sampling and diamond drilling. In 1983, this led to a joint venture with Finnish companies Outokumpu Oy and Kone Engineering which produced an economic valuation of the property.
- 1985- President Julius Nyerere retires.
- 1986 - IMF imposes Structural Adjustment policies with a high cost to social programs and the privatization of the mining sector. Joint venture terminated
- April 1990 - There is a dramatic escalation of the number of small scale miners, when the Government allows them to sell their gold to the Central Bank and stops harassing them. In the KMCL Social Development Plan it states: "a large population of artisanal miners and associated family members and entrepreneurial service providers became resident in the area from 1994-1996. Estimates range between 30,000 and 400,000".
- August 5, 1994 - KMCL obtains a Development Agreement and prospecting licence¹³ and immediately undertakes geochemical and geophysical surveys and begins drilling in earnest. (The Agreement requires them to expend \$5.1 million US in three years on exploration and development.)
District Commissioner for Kahama District, Edson Halinga, writes to the Minister of Water, Energy and Minerals, Jakya Kikwete, about the prospecting licence and says there are "over 300,000 people in the area that were now supposed to be evicted. These people are earning a living as well as contributing to the national economy." KMCL asks the courts to evict the small scale miners. The High Court issues an injunction order against KMCL and the government forbidding them from evicting the miners.
- 1994 - Barrick Gold shows interest in the project: "Well, prior to our acquisition, we followed the progress at Buly for five years, remaining in close contact with the senior management team. We

did our homework - and when the opportunity presented itself, we moved quickly to acquire the property. But we did it with discipline, and only after we became comfortable with Tanzania as a place to invest".¹⁴

- 1995 - The Sutton management team is involved in a struggle with their dissident largest shareholder - Barbara Sinclair - who seeks to remove the current directors - and is in court in Canada over this issue.
- October 5, 1995 - KMCL appeals Tanzanian High Court's injunction order
- 1996 - World Bank approves a new three year loan to Tanzania and enhances structural adjustment policies - including opening to foreign investment and trade, changes to the Mining Act, and more cuts to social programs.
- 1996 - KMCL undertakes intense prospecting program: 20,336 meters of core drill holes, 130.4 kms of line-cutting, and (at the end of the year) a huge boxcut removal of overburden.
- May 22, 1996 - KMCL withdraws Notice of Appeal. News reports appear that government has decided to evict the small scale miners.
- July 30, 1996 - Tanzanian Mines Minister calls a press conference in which he orders the small scale miners to leave Bulyanhulu within one month. That same afternoon, Shinyanga Regional Commissioner Kiwelu calls a public meeting at Kakola (the main settlement at Bulyanhulu) in which he cuts the order down to seven days and orders the suspension of mining within 12 hours. That evening 60 armed policemen are stationed in the area and evictions begin.
- August 2 - The High Court issues another injunction against KMCL and the Attorney General restraining the authorities from continuing with the evictions. 12 hours later, Kiwelu and the Regional Police commander ignore the order. Company bulldozers, protected by the police, move in and destroy the artisanal mines. Most of the population scatters. Newspaper reports in Tanzania appear throughout August
- August 5-16 - investigation of the incident by police, video made.
- September 1996 - investigation by United Democratic Party - confirms reports, takes statements. Report of Parliamentary Select Committee on corruption tabled.
- October 7, 1996 - With most of the artisanal miners cleared out, Skanska International Engineering AB is contracted by Kahama to begin mine development
- 1997 - Amnesty International Report confirms removals and calls for independent investigation of the incident
- 1997 - Gold prices start to drop worldwide
- 1997 (Dec 11) - court case with Barbara Sinclair settled, company President is given her shares to manage in trust, and a portion of her shares sold to enable KMCL to set up a medical facility.
- May 1998 - updated Kilborn Engineering report released, indicates that mine is the richest gold find in East Africa.
- 1998 - PDTs (Placer Dome Technical Services) contracted by Sutton to manage, procure and engineer mine development
- March 1999 - Barrick completes acquisition of Sutton Resources, and with it KMCL
- March 1999 - financing of \$130 million US 7-year credit facility for the project launched and arranged and managed by Standard Bank of South Africa Ltd.

- October 1999 - \$280 million mine construction begins
- May 2000 - Financing for Barrick's Bulyanhulu project completed with leadership of Barclay's Capital - CIBC, Citibank, Deutsche Bank, Dresdner Kleinwort Benson and SG. A number of other banks are co-arrangers. The EDC and MIGA guarantee the \$200 million US 9-year term loan , and provides 99.5% risk cover (EDC \$173 million US). [15](#)

Endnotes

- 1 This information is taken from the Sutton Resources' Annual Information Return dated January 31, 1997. [\[back to text\]](#)
- 2 Ibid. [\[back to text\]](#)
- 3 For more information on acid mine drainage and mining, see Sumi, Lisa. Environmental Mining Primer, Environmental Mining Council of British Columbia, Victoria, 2001, or visit the EMCBC website at <http://emcbc.miningwatch.org> [\[back to text\]](#)
- 4 John Carrington, speech to Goldman Sachs First Annual Investor Forum, May 21, 2001. [\[back to text\]](#)
- 5 Roy Meade, Speech during Bulyanhulu Mine tour Presentation, February 9,2001. [\[back to text\]](#)
- 6 263,000 ounces of gold at \$166 cash cost, selling at \$290. [\[back to text\]](#)
- 7 Official government statistics. [\[back to text\]](#)
- 8 KCML, op cit, p.20. [\[back to text\]](#)
- 9 Ibid, a: E-6. [\[back to text\]](#)
- 10 Ibid, a: E-6. [\[back to text\]](#)
- 11 Ibid, b:5-1. [\[back to text\]](#)
- 12 Barrick AIF April 20/01, p. 47. [\[back to text\]](#)
- 13 According to the LEAT report, the prospecting licence #216/94 granted to KMCL was in respect of Butobela area in Geita district, not Bulyanhulu Area in Kahama district. Both subsequent renewals defined the area in the same way. The list of prospecting licenses maintained by the government shows that out of 39 prospecting licenses in existence at that time, not one was for Bulyanhulu area. [\[back to text\]](#)
- 14 Randall Oliphant, President and CEO of Barrick Gold, addressing the Annual Meeting of Shareholders on May 8, 2001. [\[back to text\]](#)
- 15 IFCWatch, 3 October 2000. [\[back to text\]](#)

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