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Copper Investing News

Afghan Copper Potential Lures Investors Worldwide

By Shihoko Goto

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US interest in Afghanistan is not simply about fighting a war against terrorism. It is also increasingly about ensuring a steady supply of metals. The battle for the country's natural resources may, however, be much less straightforward than was once anticipated.

While crude oil may have been a key factor in toppling Saddam Hussein's regime in Iraq, in 2001 few would have argued that global interest in ensuring a stable and democratic government in Kabul was to secure a steady stream of copper, gold, uranium, and other resources. Since then, however, international attention over Afghanistan's mineral wealth has intensified steadily, and there are high hopes that its resource potential will not only result in profits for the post-conflict nation, but also for private companies that have risked heavy investment in the country from the earliest stages.

The stakes are high. Last September, the US Geological Survey found significant copper and cobalt deposits near Kabul, and copper and gold deposits in Southeast Afghanistan.

"The mineral resources in Afghanistan have the potential to completely transform the nation's economy," stated Regina Dubey, Acting Director of the US Department of Defense's Task Force for Business & Stability Operations. "This important new work by the USGS will be a powerful tool for those attempting to accurately evaluate potential investments in Afghanistan." The survey estimates that Afghanistan's known natural resources are around \$1 trillion, but Afghan officials believe that the potential could be at least three times that figure.

Hopes are undoubtedly high that Afghanistan's mineral deposits will boost the nation's coffers. Marcia McNutt, the US Geological Survey's Director, stated that "there is always increased risk for commercial ventures investing in new mining facilities in frontier areas such as Afghanistan, but by making information on the locations and estimated quantities and grades of ores publicly available, we lower that risk, spurring progress."

Interest in Afghanistan's rich resources extends beyond the US, including amongst Afghans themselves. A delegation from the Afghan Ministry of Mines will be touring Australia later this month to woo mining companies and to learn from their business practices, according to the leading national daily The Australian.

Afghan Mines Minister Wahidullah Shahrani told the daily this month that the government expects mines revenues to reach "at least \$1.5 billion" by 2016. The government has created a Mines Protection Unit that will protect all mining projects at the state's expense whilst educating the local population about the importance of multinational mining groups in ensuring economic stability for the nation.

Investing in Afghan copper mines

There are undoubtedly considerable challenges to investing in Afghanistan's copper mines. One is the political unrest that is expected to intensify after 2014, when NATO forces retreat and the Afghan government becomes solely responsible for the nation's security.

Yet Chinese mining giant Jiangxi Copper Company Ltd. (HKG:0358) stated in late March that it expects its copper mining project in Afghanistan to begin production by 2016. The company had expected to start output by 2015, but progress was delayed "due to various politics and legal issues," said Jiangxi's chairman, Li Yihuang. Jiangxi owns 25 percent of Afghanistan's Aynak project, located southwest of Kabul, while the remaining 75 percent is held by Metallurgical Corporation of China Ltd. (HKG:1618). Progress on the mine slowed when Buddhist remains were found on the site in 2010.

Indian companies too are interested in investing in Afghanistan. A consortium from Hindustan Copper Ltd. (NSE:HINDCOPPER) and the Steel Authority of India Ltd. (NSE:SAIL) will be seeking sovereign funding from the Indian government if they are successful in securing their bids for four copper and gold reserves in the country.

"Since participation of Indian companies in the Afghan mineral resource sector was part of India-Afghanistan bilateral economic cooperation agreement, we will seek Indian government funding because development of reserves would also include investments in infrastructure and logistics to support mineral exploitation," an Indian government official said, according to Mining Weekly.

While there are considerable unknown factors in Afghanistan – in particular political stability in the nation once the government becomes solely responsible for national security – there is no doubt that the country is rich in mineral wealth. Its resource potential is eagerly embraced not

only by Afghan authorities, but also by overseas investors large and small, and the potential for junior miners to get ahead in the market is high.