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Could mineral wealth transform Afghan economy?

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Workers at Ghori are disappointed by what they say are very low wages

Three international energy firms have been shortlisted to develop lucrative oil deposits in northern Afghanistan. It is hoped such deals could reduce dependency on foreign aid. BBC reporters visited three key industrial projects to see whether the hopes are justified.

It is estimated that Afghanistan's deposits of metals, hydrocarbons and rare earth minerals could be worth at least \$1tn (£630bn).

But experts are warning that mishandling of the deals and security factors could undermine these projects, as international troops prepare to pull out in 2014.

Ghori cement works



The Ghori cement factory is operating at nothing like full capacity

In the 1970s the Ghori cement works in northern Baghlan province was one of Afghanistan's most successful companies, employing hundreds of people and churning out thousands of tonnes of high-grade cement for export to the USSR.

“Start Quote

Could the country actually fund economic development? The answer is almost certainly, yes”

End Quote Anthony Cordesman Center for Strategic and International Studies

Although 30 years of civil war took a huge toll on the plant, its new owners are hoping to take advantage of the country's construction boom to turn the factory's fortunes round.

Walking around the plant, the scale of the challenge is obvious.

Manager Eslamuddin Ahmadi points out that the 50-year old Soviet-made equipment is still in operation on the factory floor. It is still possible to see signs in Russian on the ageing and rusting machinery.

But a lack of basic infrastructure is holding things back.

"There's a big demand for our cement," says Mr Ahmadi, "but we can't increase output until our power supply problems are sorted out."

Although the raw materials the plant needs - limestone, and coal for power generation - are both available nearby, the electricity shortages will not be dealt with until plans to build a new generating plant become a reality.

The Ghori factory currently meets about 60% of northern Afghanistan's cement needs. Local traders say it is cheaper and better than the Pakistan-produced alternative which has to be laboriously trucked in.

“Start Quote

They're paying us a bit more now. But it's still not enough to live on”

End Quote Abdurahman Ghori plant worker

But the plant is still not operating anywhere near full capacity, only paying its work force a minimal wage - something that has caused big disappointment locally.

Many of the 600 workers at the plant insist their wages are not enough to live on.

Fuelling the sense of resentment is the perception that while the workforce might be living in poverty, someone else is making money from the plant.

Ghori Cement was privatised in 2006 in a controversial deal which Mining and Industry Minister Wahidullah Sharani has heavily criticised.

Mr Sharani said the 30-year contract - which saw the plant taken over by a consortium including President Karzai's brother, Mahmoud - was only four pages long and full of "financial, legal and technical flaws".

Mahmoud Karzai sold his shares in the company managing Ghori in 2011 and is no longer connected with the enterprise, but in an interview with the BBC he hit back at the criticisms.

"It's not the length of a contract that's important, it's what in it," he said.

Mr Karzai said the contract had obliged his company to maintain two obsolete blocs at Ghori rather than focussing on building a new modern plant.

He also accused the government of failing to support his attempts to negotiate multi-million dollar loans from foreign banks to rebuild Ghori and to build a power plant at the site.

"There is zero interest in public-private partnership in Afghanistan," he said.

Aynak copper mine



Officials hope the country could earn up to \$400m (£248m) every year from Aynak

Questions have also been raised about the terms of another high profile deal billed as a potential game-changer for the Afghan economy - the concession to mine the massive Aynak copper deposit mine in Logar province near Kabul.

In 2007 a Chinese company called the China Metallurgical Group Corporation was awarded the contract to mine the deposit, but details of the deal have still not been made public, fuelling rumours of bribery and kick-backs.

A report by the campaign group Global Witness says that the lack of openness surrounding the project could threaten its longer term prospects.

"It's a massive shortcoming," says Juman Kubba of Global Witness.

"Already from the local community we are hearing that they see it as a secret deal. It builds a situation of mistrust, and that in turn can lead to violence and is a very negative thing for the project and for the mining sector in general."

Afghan officials, however, are optimistic that the country could earn up to \$400m (£248m) every year from Aynak, and the deposits could generate thousands of new jobs.

Optimism over Aynak

Mining Minister Wahidullah Sharani is confident mining work will get underway at Aynak in 2014. His optimism is shared by at least some local people employed at the site.

"We're happy that our country is being developed," labourer Shahesta Gul told the BBC. "That means jobs for all of us."

Global Witness says that it is of paramount importance to manage the expectations of local people like Mr Gul.

"We repeatedly hear that locals were told that they would be getting great benefits when the mining project started," spokesman Juman Kubba said.

"Four years down the line if they haven't got jobs and they haven't got the things they expected to get... they feel that promises have been broken.

"What we are saying is the contract needs to come out, and then there needs to be a process of explaining it to local people so they actually understand basically what they are going to get and when they will get it."

But looking at the site today, it is clear that there is a very long way to go.

The Chinese are currently carrying out a survey, and once that is complete they will need to build proper roads and a railway line to the site.

There is also the problem of landmines. The mining ministry has signed a contract for mine-clearing work at Aynak - it will take nearly two years and more than eight million square metres of land will need to be made safe.

And then there is the added complication of history. Copper mining at Aynak goes back to the Buddhist era, 2,000 years ago, and before any new work can be carried out archaeologists need to complete a full excavation of the site.

Archaeologists there told the BBC that more time is needed to complete the painstaking task of moving everything they have found to a new place. But according to the contract, if the work is not completed by the end of the year penalties will have to be paid.

But a more fundamental problem is security and how to prevent such an important site from becoming a target for Taliban attacks.

US-based Afghan expert Anthony Cordesman says that this is an issue which is often overlooked by economic assessments of the country's potential mineral wealth.

"Nobody can provide security," he told the BBC. "And you not only need security for the facility, you have to be able to move the output. You have to create the processing facilities and you need power and security for those facilities."

Amu River basin



The Amu basin is one of the biggest oil reserves in Afghanistan

Chinese companies are also involved in developing potentially lucrative oil reserves in the Amu River basin in the north of the country. It has come a long way since a bespectacled King Zahir Shah opened the site in the 1950s.

During the first three years of the project, crude will be exported for refining abroad. But under the terms of the deal an oil refinery will be built locally. China has also promised to build a proper road to facilitate transport to and from the site.

Regional governor Abdul Jabbar Haqbin says oil has the power to change lives for the better in his area - and his optimism is shared by local people.

"We're going to get electricity," local shopkeeper Mohammad Hassan told the BBC. "And we hope this project will provide jobs for our young people."

But like Aynak, and the Ghori plant, questions have been raised about the terms of the deal to privatise the Amu basin depots.

Amu Basin facts

- Oil was discovered in the area more than 70 years ago
- Swedish engineers helped develop the site in the 1950s

- The basin is one of the biggest Afghan oil reserves
- The three blocks contain an estimated 80 million barrels of oil
- The work is a venture between China's National Petroleum Company and Afghanistan's Watan Group
- The Watan Group is a consortium linked to President Karzai's family

There have also been questions about the tender process and how China National Petroleum and Watan came to win the bid.

In response the Afghan government ordered an independent review in 2011 which concluded that the process had been fair and transparent.

Bids are now in for the rights to develop the neighbouring and much larger Tajik basin, which is estimated to hold up to one billion barrels of oil. Minister Shahrani is expected to announce the winner early next year.

Both the Amu and Tajik basins also have gas reserves - in the 1970s and 80s Afghanistan used to export gas to Soviet Central Asia in return for supplies of food and military equipment.

It is hoped that a small gas plant near the town of Sheberghan - which supplies electricity to around 200 homes in Jowzjan province - can now be replicated on a far bigger scale.

Khwaja Tajuddin is one of the lucky ones who has a gas supply at home. He pays \$4 (£2.50) for a monthly gas supply and says it has made a big difference to him and his family.

"We don't suffer from smoke any more," he told the BBC. "We have gas for 18 to 19 hours. In winter, we have it 24 hours. It is good for cooking. We use it when we don't have electricity and we use it for heating our house."

Mr Cordesman says that if Afghanistan wants to realise its economic potential in the next decade it will need a strong leader who can negotiate a workable peace settlement and push forward more badly-needed reforms.

"Talking of a trillion dollars would still remain in practical terms a hollow farce," he said.

"But could the country actually fund economic development? Would there be enough resources and enough exports to make a difference? The answer to that is almost certainly, yes."