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World's Mining Companies Covet Afghan Riches

By James Risen

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Mining companies around the world are eager to exploit Afghanistan's newly discovered mineral wealth, but executives of Western firms caution that war, corruption and lack of roads and other infrastructure are likely to delay exploration for years.

A few high-risk investors are sufficiently intrigued by the country's potential to take an early look. JP Morgan, for instance, has just sent a team of mining experts to Afghanistan to examine possible projects to develop.

"Afghanistan could be one of the leading producers of copper, gold, lithium and iron ore in the world," said Ian Hannam, a London-based banker and mining expert with JP Morgan. "I believe this has the potential to be transforming for Afghanistan."

But executives with international mining firms said in interviews that while they believed that Afghanistan's mineral deposits held great potential, their businesses were not planning to move into the country until the war was over and the country more stable.

"There are huge deposits there," said David Beatty, chief executive of Rio-Novo Gold, a mining company based in Toronto. "But as chief executive, would I send a team to Kandahar? And then call a guy's wife after he gets shot? No."

It has long been known that Afghanistan had significant deposits of gemstones, copper and other minerals, but United States officials say they have discovered and documented major, previously unknown deposits, including copper, iron, gold and industrial metals like lithium.

A Pentagon team, working with geologists and other experts, has shared its data with the Afghan government, and is working with the Afghan Ministry of Mines to prepare information for potential investors in hopes of placing some mineral exploration rights up for auction within the next six months. On Thursday, Afghan officials said they believed that the American estimates of the value of the mineral deposits — nearly \$1 trillion — were too conservative, and that they could be worth as much as \$3 trillion.

The Ministry of Mines also announced that it would take the first steps toward opening the country's reserves to international investors at a meeting next week in London. Two hundred investors from around the world have been invited to offer suggestions for how to develop the iron ore deposits at the Hajigak area of Bamian Province, according to Craig Andrews, the principal mining specialist for Afghanistan for the World Bank.

Nongovernment Western mining experts will be helping the ministry develop the bidding process, Mr. Andrews said.

At a news conference in Kabul, Wahidullah Shahrani, the mines minister, pledged to make the bidding and contracting of mining rights as transparent as possible to reduce the possibility of corruption. He said the ministry would post contracts on its Web site.

Mr. Shahrani and his advisers cautioned against overly high expectations, underscoring that development would take years and that there were many obstacles to overcome, not least of all the lack of security in some of the areas with the most minerals and the lack of a transportation infrastructure.

International mining officials and independent experts echoed that view. Jim Yeager, a Colorado-based geologist and former consultant to the Afghan mines ministry, said that poorly written mining regulations could also hamper future development.

Afghan officials have interpreted their mining regulations in such a way that if a company is awarded a concession to explore and then discovers valuable minerals, the government can tender the concession back and rebid it, undermining any incentive for a foreign firm to actually find large deposits, he said.

“They can take it back after you discover something,” Mr. Yeager said. “That needs to be corrected.”

Several mining executives and other experts said that the multibillion-dollar investment required to build a large copper mine, for example, meant that the industry would focus on other deposits in less risky countries before they turned to Afghanistan.

“The industry is going to take a look at Afghanistan, but they will weigh their risks carefully,” said Steve Vaughn, a Canadian lawyer and mining expert. “There is every indication that these deposits are very large. But as political risks increase, they will lay off spending.”

Today, many of the world's leading mining companies are based in Canada and Australia, but resource-hungry China is rapidly emerging as a major competitor for mineral deposits. A Chinese state-owned firm has already been awarded the concession for a copper mine in eastern Afghanistan.

No, many mining industry executives say they expect the Chinese to bid aggressively on Afghanistan's newly discovered mineral deposits even as many Western firms sit it out.

Robert Schafer, executive vice president of Hunter Dickinson, an exploration and mining firm based in Vancouver, Canada, which lost the bid for the copper mine concession to the Chinese company, said he believed that the Chinese "have a different perception of the risk" because they see mineral resource development as part of a national strategy.

"Their concern is for the supply of a commodity, so they are willing to do things at a loss," Mr. Schafer said. "So yes, I could see the Chinese being willing to make investments in areas where we are unwilling to."

Mining industry executives, as well as American officials, are also concerned about the corruption in the Afghan government, and are uncertain how to avoid turning the discovery of great mineral wealth into nothing more than a windfall for Kabul's oligarchs.

"I know some people have gone in to kick the tires, and some guys found there was too much risk, too much corruption, and didn't want to play the game," observed Mr. Yeager, the Colorado geologist. "They have got to resolve the corruption issue."