The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

State Policy Hampers Development of Siberia's Klondike

By The Moscow Times

December 23, 2012

A GV Gold worker holding out gold ore nuggets at Golets Vysochaishy, a deposit of the same type as Sukhoi Log. **Clara Ferreira Marques**

BODAIBO, Irkutsk region — It looks like any one of remote eastern Siberia's low-lying, peat-colored hills: only the thin trenches that scar Sukhoi Log hint at the work of generations of geologists to measure the riches beneath.

This bleak expanse, uninviting against a steel gray sky, is probably the world's largest virgin gold deposit, with mineral wealth to rival the world's biggest, in Grasberg, Indonesia.

Yet it has remained untapped for half a century, held back by its remoteness, state restrictions and, in recent years, a lack of interest on the part of a government riding the wave of energy profits and holding out for higher gold prices.

"[The government] would love more gold, but they have no time to think about these issues at the top level," said Sergei Guriev, rector of the New Economic School in Moscow. "At the lower level, people are happy with the status quo."

Soviet geologists surveyed Sukhoi Log intensively in the 1970s, yet little came of it. But now the Russian government has stirred long-dormant interest, suggesting it might invite bids to mine the gold.

While such talk has come and gone in the past — and no details of any tender have been given — there is new debate on how, and at what cost, the ore might be exploited.

Beyond the future of Sukhoi Log itself, the outcome could be a litmus test for Moscow's willingness to embrace changes some have been lobbying for in the mining sector — whether lifting a ban on foreigners' involvement in strategic assets or simply showing any appetite at all for turning earth into bullion.

For all the gold fever of pioneers who claimed Russia's wild east for the tsars in the 19th century, Sukhoi Log — meaning dry gully — remains a symbol of a more recent lack of drive to mine the riches beneath the world's biggest country.

Analysts say the latest study on that single deposit indicates that it could produce 1.6 million to 1.9 million ounces of gold a year over three or four decades, worth an annual $3 billion or so at today's gold price, which is near $1,700 per ounce.

Initial development costs are forecast at upwards of $2.5 billion.

There are traces of Soviet ambitions in this distant corner of Siberia, 1,000 kilometers northeast of Irkutsk: Half-built bridges are scattered along the cratered road out of the gold rush town of Bodaibo, concrete pillars sticking out among the fir trees.

Nearby, a handful of five-story apartment blocks, the start of a miners' colony, stand forlorn in the taiga, close to where, in 1912, soldiers shot dozens of striking gold miners from the Lena River fields in a massacre that helped foment revolution.

In Bodaibo, few expect a new rush to develop Sukhoi Log.

"For now, it is worth more in the ground," said Alexander Tuluptsov, a senior engineer at GV Gold, a private firm that is mining the neighboring Golets Vysochaishy deposit.

A local whose wife's father was among the geologists who first charted Sukhoi Log, he does not expect to see it worked in his lifetime.

There is little pressure locally for work to start. Gold prices are riding high, bringing jobs and money to the sparse population.

In Bodaibo, home to about 15,000, shiny SUVs are testimony to work at other mines and along historic riverbed deposits of the Lena basin. So too are prices in shops, where basic produce can cost three times what it does even in Moscow.

The Irkutsk region is bigger than France but has less than 2.5 million people. Anyone wanting to mine Sukhoi Log would probably have to fly in workers from farther afield.

Speaking in London, where his mining firm is listed, Vitaly Nesis, the U.S.-trained chief executive of Polymetal, said the Kremlin sees no haste in doing anything with the deposit.

"It is an asset that is a natural hedge against global inflation," he said. "Why does the government need to turn a real asset into a pile of dollars or euros that could be inflated away?"

However, he believes Russia's leadership should foster more exploratory digs across the country.

"What the government should do," he said, "is promote investment in exploration to find new assets."

Yet that, too, has lagged in Russia. Exploration alone could bring development to its farthest reaches: paved roads, modern airports, railroads, electrical power, not to mention training and jobs.

But, mining entrepreneurs say, encouraging small pioneering outfits and attracting foreign prospectors will required an overhaul of red tape and changes to laws, notably limits on foreigners' rights to exploit any big new seams they discover.

Lou Naumovski, who runs the Moscow office of Canadian mining firm Kinross, estimated that more investment in exploration could bring Russia an additional $1.6 billion a year — but only if the government improves the regulatory framework:

Prospectors "take huge risks for high returns", he said. "If you have so many barriers, it simply doesn't work. "You need huge political courage to say 'We need to really work to diversify, even within natural resources.'"

Golden Ambition

Russia has gold deposits second only to South Africa, and it has major deposits of copper, coal, diamonds, nickel, palladium and much else.

But it has remained underdeveloped and underexplored since the collapse of the Soviet Union, as the state has focused on profiting from oil and gas reserves, which account for 70 percent of Russia's exports.

Whereas in Canada, where an average of $178 was spent on exploration per 100 square kilometers of its vast reaches, in the last five years, Russians spent just $28.

"In other countries, there is a lot more interest in developing their mining industry," said Nikolai Zelenski, chief executive of Nord Gold, one of the few Russian mining companies to operate beyond the former Soviet Union.

He contrasted his country with Africa's Burkina Faso.

"It is a country not very rich in mineral resources," he said. "But since 2005, they have built six mines, and I am not sure that many more mines have been built in Russia since then."

Foreign-owned miners have been the engine of development in much of the emerging world, but they have had little success in Russia, with the notable exception of Kinross. The world's biggest producer, Barrick Gold, pulled out this year.

Most have decided to tap resources elsewhere — even in countries as challenging as the Democratic Republic of Congo — rather than tackle Russia's climate, restrictions and red tape.

However, easy pickings are running out in Africa, which may push miners to look again at Russia, while Moscow's leaders may also see more reason to encourage them.

Official figures suggest that Russia's viable reserves may run out in 15 to 30 years. And a lower oil price may spur the Kremlin to exploit other resources.

Mark Bristow, chief executive at London-listed Randgold Resources, said his Africa-focused firm could look east in five or 10 years, and he expects that in time, Moscow will pay more attention to encouraging gold production.

"I think it will eventually matter," he said.

From Scratch

There is already a range of companies ready to expand.

Unlike other sectors in Russia, gold mining has not become dominated by the fabulously rich and politically influential "oligarchs" who took over other industries privatized in the 1990s. Arguably, there were few existing gold assets to grab.

"Whatever we did, we did from scratch. That is what is special about gold mining," said German Pikhoya, chief executive of Polyus Gold, Russia's largest producer, which has spent billions in exploration and works on the fringes of Sukhoi Log. It is seen as a top contender to develop the deposit.

Russia is not without success in gold mining, even in areas where nature is at its toughest. Firms have tackled complex projects, building operations like Polyus' Olimpiada mine or Polymetal's Amursk processing hub for complex, refractory ore or Kinross' Kupol mine in hostile Arctic Chukotka.

Some 30 kilometers from the swelling outline of Sukhoi Log, tapping a satellite deposit, GV Gold has gone from startup to mid-ranking producer in just over a decade.

It aims to produce 5.2 tons of gold this year, has fund manager BlackRock as an investor and dreams of listing its shares. It could reap the benefits of development at Sukhoi Log.

Its director for corporate development, Maxim Gorlachev, stressed that GV Gold would not overreach in talking about potentially the world's biggest deposit, but it was willing to take advantage of opportunities if conditions were right.

"We understand our place in the food chain," he said. "But if there was an opportunity to participate, we would evaluate. And if cost-efficient for us, why not?"

Getting conditions right for investment in gold exploration may take some time yet, however. There is no sign the government will move soon to lift a limit on foreign ownership of strategic assets; legislation scheduled for this year has not appeared.

Russia has overtaken South Africa as South African output has slowed, and it is now the world's fourth-largest producer of gold, according to data from Thomson Reuters GFMS. With Sukhoi Log, Russia could rival top producer China.

But its exploration — key to securing a future for Russian gold mining — still lags.

Legislation is not the only problem. Lack of labor and skilled contractors in Siberia is another, as is funding, especially tough at the moment. Poor infrastructure is a barrier too.

Bodaibo's airstrip, for example, is served by only small, aging turboprops. And they cannot land in heavy rain.

Some mining firms adopt a go-it-alone strategy, building infrastructure themselves rather than relying on local officials. But without a clear political signal in Moscow that it wants to develop Sukhoi Log, none is rushing to build the new highways, airport and water and power plants a major deposit requires.

"Is there going to be a gold rush in the next five years?". "I would like to believe there will," Naumovski said. "But not unless the government undertakes those reforms that we and other mining companies are recommending."

Related articles:

- Far East Development Hinges on Branding and Diversity
- Nord Gold Ups High River Stake
- Polyus Gold Sales Up

Original url:
https://www.themoscowtimes.com/2012/12/23/state-policy-hampers-development-of-siberias-klondike-a20385