

**CORPORATE RESEARCH BULLETIN**

# **EVALUATING RISK**

## **INVESTORS' GUIDE TO GABRIEL RESOURCES LIMITED'S ROSIA MONTANA MINE PROPOSAL**

Prepared by  
**Mineral Policy Center**

In Association With  
**Alburnus Maior  
CEE Bankwatch Network**

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**Alburnus  
Maior**



**MINERAL  
POLICY  
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## ABOUT MINERAL POLICY CENTER

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MPC is a non-profit organization dedicated to protecting communities and the environment from the destructive impacts of mineral development in the U.S. and worldwide.

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## ABOUT ALBURNUS MAIOR

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Alburnus Maior is an NGO based in Rosia Montana, Romania. Founded in September 2000, it represents the interests of over 300 family farms and has 2000 members in total.

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## ABOUT CEE BANKWATCH NETWORK

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The CEE Bankwatch Network is a nongovernmental organization based in 12 countries in Central and Eastern Europe that monitors the activities of international financial institutions.

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## **INTRODUCTION**

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Gabriel Resources Ltd. (listed as “GBU” on the TSX) is attempting to secure financing for its proposed open-pit gold mine in the Apuseni Mountains of western Romania. The proposed mine project has come under serious criticism from scientists, archeologists, economists, and environmental and human rights groups around the world due to a number of financial and environmental risks. This guide for investors has been prepared by Mineral Policy Center in Washington, DC, in association with Alburnus Maior in Romania and CEE Bankwatch in Hungary.

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## **THE PROPOSAL**

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Gabriel Resources Ltd. has established the Rosia Montana Gold Corporation S.A. (RMGC), a Romanian incorporated company that holds the exploration concession title to the Rosia Montana project. Through a joint venture agreement, the state-owned enterprise, Minvest S.A., holds a 19.3 percent interest in RMGC, other investors collectively hold 0.7 percent, and Gabriel Resources, Ltd. has an 80 percent interest with preemptive rights to the other 20 percent.<sup>1</sup>

The project is budgeted at \$400 million. Thus far, only \$90 million have been raised out of the \$250 million needed to begin construction (which is scheduled for September 2003).<sup>2</sup> Gabriel Resources Ltd. claims that the net present value of the project is \$489 million, using a gold price of \$275 per ounce and a discount rate of 5 percent.<sup>3</sup>

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## **FINANCIAL RISKS**

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Gabriel Resources Ltd. is a new company that has never operated or developed any type of mine. It was incorporated in 1997 for this project—which was reportedly passed over by major mining companies.

Gabriel Resources Ltd. had been in talks with the World Bank Group to secure 25 percent of the total funds for the project—\$100 million—through the International Finance Corporation (IFC), the private sector arm of the World Bank. In early October 2002, the IFC announced that it would not financially support the project.<sup>4</sup> According to Bloomberg News, the IFC was concerned about the lack of planned pollution controls, revenue management, and the relocation of hundreds of residents. IFC Spokesperson Carrie Shanahan explained that “there were significant environmental and social issues connected with the project.”<sup>5</sup>

According to Berlin-based Transparency International, Romania is one of the world's most corrupt nations.<sup>6</sup> It ranked at 77 among 102 countries surveyed, scoring 2.8 on a scale of 1 to 10, with 1 being “most corrupt.”<sup>7</sup> There are also serious concerns about Gabriel's own management team. According to Dundee Securities, Gabriel Resources' founder and chairman Frank Timis has two convictions for possessing heroin with the intent to sell.<sup>8</sup>

The project has come under criticism from a group of 83 professors of Economics from Romania's ASE University (Romanian Academy of Economic Studies). This group of scholars wrote to the President of Romania to register their opposition to the project on economic, social, and environmental grounds.<sup>9</sup> According to the economists, this project could be a pure speculative stock exchange operation. They put forth a hypothetical scenario in which Gabriel Resources Ltd. attempts to increase the stock value of the company through a PR campaign, sells its shares once the share price rises, and then declares bankruptcy without ever actually mining.<sup>10</sup>

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## LEGAL RISKS

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Romania is a member of the Council of Europe and is therefore subject to the European Convention for the Protection of Human Rights and Fundamental Freedoms (ECHR) of 4 November 1950. RMGC's community consultation process, the environmental protection plans, and the resettlement plans, among others, appear to be in violation of the ECHR and with other environmental protection provisions in the European Union such as the Environmental Impact Assessment Directive (EIA Directive) and the Strategic Environmental Assessment Directive (SEA Directive).<sup>11</sup>

Romania has also applied to join the European Union. EU laws provide legal standing for individuals to sue on a number of fronts that may be relevant to this proposal. The existing local opposition to the resettlement action plan could significantly influence the future of the project.

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## ENVIRONMENTAL RISKS

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Gabriel Resources Ltd. has still not completed any of the required environmental studies required by the Romanian government, the International Finance Corporation, or the European Union.<sup>12</sup> In an interview with the Romanian Press, Romanian Environment Minister Mr. Lificiu stated, "the Rosia Montana project will not receive approval unless it is accepted by the public, NGOs, civil society and the European Commission."<sup>13</sup>

The ore grade at Rosia Montana is extremely low—Gabriel Resources Ltd. estimates it to be approximately 1.4-1.5 grams per ton for gold.<sup>14</sup> The ore would be processed using the cyanide-leaching method—which is controversial because it has led to the contamination of rivers, streams and aquifers, and to wildlife deaths and fish kills. If Gabriel Resources Ltd. were to mine such low-grade ore using the cyanide process, the local and regional environmental consequences would likely be severe. Already, the project proposes to transform the valley of Rosia Montana into four open-pit mines. The neighboring valley of Corna would be converted into a 400-600 hectare tailings storage facility held back by a 180-meter high dam, storing roughly 196.4 million tons of cyanide-laced waste.<sup>15</sup>

Romanian authorities currently lack the facilities to monitor the safe use of the cyanide and its by-products, and cannot guarantee that the cyanide will not leak into the soil, groundwater and rivers. In 2000, a tailings dam failure at Baia Mare, Romania sent some 100,000 tons of contaminated wastewater into the Tisza River, and eventually into the Danube—destroying 1,240 tons of fish and polluting the drinking water supplies of 2.5 million people.<sup>16</sup>

The type of dam proposed in Gabriel Resources' feasibility study could pose high economic and environmental risks for the company and the country. According to Dr. David Chambers, geophysicist and Executive Director of the Center of Science in Public Participation, Gabriel Resources' Feasibility Study does not detail the risks of a landslide or an earthquake in this area, nor does it describe the standard to which the dam was designed in order to

withstand this risk.<sup>17</sup> If the dam were to fail, toxic mining residues could be released into the Abrud River near the dam—potentially resulting in severe environmental damage similar to the experience at Baia Mare.

The project also requires clear-cutting local forests to access the mine site, compounding the pollution threats with dangers of mudslides, flash floods, siltation of streams, and increased runoff.

Closure costs for Rosia Montana have been estimated at \$19.53 million, which does not include any costs for water treatment.<sup>18</sup> According to Dr. Chambers' analysis, closure costs for mines of a similar size in the United States have been in the \$30- \$60 million range; long-term water treatment costs could be an additional \$30-\$60 million.<sup>19</sup>

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## **HISTORICAL AND SOCIAL CONSIDERATIONS**

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If the project were to proceed as proposed, it would require more than 2,000 people to be relocated. Many of the people subject to relocation are subsistence farmers who do not want to leave their lands. Nearly 900 homes would have to be torn down. Eight churches and nine cemeteries would be destroyed or relocated.<sup>20</sup>

As proposed, the project would also lead to the destruction of the oldest-documented settlement in Romania. This area houses Roman and Dacian ruins that are several thousand years old and are considered archeologically valuable. The status of Rosia Montana as a Romanian national heritage site and cultural treasure would also be threatened if this mining project goes forward. In light of the significant losses represented by this proposal, 47 archeological experts from across Europe and North America have written to the Romanian government expressing their opposition.<sup>21</sup>

Gabriel claims that it will bring significant employment benefits to the region. However, the project is predicted to provide only some 550 jobs during operation.<sup>22</sup>

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## WIDESPREAD OPPOSITION

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The mining project has come under fire from Romanian and international non-governmental organizations (NGOs), the religious community, economists, archeologists, and farmers because of the social, environmental and economic risks associated with the project. Romanian NGOs have already jointly expressed their opposition to the project in a common declaration. (See [www.rosiamontana.org](http://www.rosiamontana.org).) A national campaign "Save Rosia Montana" is now underway, and about 100,000 people have already signed the petition against the project. An international coalition from Canada, Austria, Hungary and the United States have joined the Romanian groups in a united effort to publicize the flaws of the Rosia Montana project.

Church groups and scholars have also opposed the proposed mine project. In late October, fourteen representatives of the Roman Catholic, Unitarian, Calvinist and Protestant churches in Romania released a joint statement against the proposed project.<sup>23</sup> The church representatives stated, among other things, that given the size of the project, there should be a referendum for all of the residents of the Ariesului Valley.<sup>24</sup>

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## CONCLUSION

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The European Union is very strictly monitoring the actions of the Romanian government. Corruption and a poor environmental record are among the leading concerns expressed by the EU. The fact the IFC has passed on this project illustrates the economic precariousness of this project. The international coalition that has grown in opposition to it demonstrates the broad range of environmental and social liabilities attached to this project.

Investors should be wary of backing the Rosia Montana project given the ongoing concerns around corruption, high environmental risks, and the broad-based local and international opposition.

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## ENDNOTES

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<sup>1</sup> See [www.gabrielresources.com](http://www.gabrielresources.com)

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> Neil King Jr., "Romanian Gold-Mine Loan is Blocked by Wolfensohn," *Wall Street Journal*, 11 October 2002. [http://online.wsj.com/article\\_print/0,,SB1034285853548371156,00.html](http://online.wsj.com/article_print/0,,SB1034285853548371156,00.html)

<sup>5</sup> Bloomberg News, 11 October 2002, "World Bank halts talks on Gabriel's Romanian Mine."

<sup>6</sup> See [http://www.transparency.org/pressreleases\\_archive/2002/2002.08.28.cpi.en.html](http://www.transparency.org/pressreleases_archive/2002/2002.08.28.cpi.en.html)

<sup>7</sup> Ibid.

<sup>8</sup> See [http://www.minesite.com/archives/brokers\\_archive/2001/Aug-2001/](http://www.minesite.com/archives/brokers_archive/2001/Aug-2001/). The convictions (1990 and 1994) were both in Australia.

<sup>9</sup> A copy of the appeal is available at [www.rosiamontana.org](http://www.rosiamontana.org)

<sup>10</sup> Ibid.

<sup>11</sup> "The Compatibility of the *Rosia Montana* Mining Project in Romania with the Principles and Norms of EU and EC Legislation - An Expert Opinion" by O. Univ. Prof. Dr. Peter Fischer and Univ. Ass. Dr. Alina Lengauer, LL.M, Vienna, October 2002, Translation from the German Original.

<sup>12</sup> See [www.gabrielresources.com](http://www.gabrielresources.com)

<sup>13</sup> Ion Longin Popsescu, "Formula AS," No. 522, 18 July 2002.

<sup>14</sup> Rosia Montana Gold Corporation (RMGC), "Rosia Montana Definitive Feasibility Study," Table 1.1.1, p. 5

<sup>15</sup> Ibid., p. 71.

<sup>16</sup> "Disastrous Cyanide Spill Could Spawn Liability Reforms," *Environmental Science and Technology*, 1 May 2000, pp. 202a-03a; Guy Gugliotta, "'Toxic Bullet' of Cyanide Contaminates Rivers," *Washington Post*, 15 February 2000.

<sup>17</sup> David Chambers, "Comments on RMGC's Rosia Montana Definitive Feasibility Study," 18 September 2002, p. 3.

<sup>18</sup> Rosia Montana Definitive Feasibility Study, p. 88.

<sup>19</sup> David Chambers, "Comments on RMGC's Rosia Montana Definitive Feasibility Study," 18 September 2002, p. 2.

<sup>20</sup> Alburnus Maior, "Churches Stand Against Gabriel Resources' Rosia Montana Gold Mining Project," Press Release, 30 October 2002.

<sup>21</sup> See [www.rosiamontana.org](http://www.rosiamontana.org)

<sup>22</sup> Rosia Montana Definitive Feasibility Study, p. 8.

<sup>23</sup> Alburnus Maior, "Churches Stand Against Gabriel Resources' Rosia Montana Gold Mining Project".

<sup>24</sup> Ibid.