



# BULLETIN

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## The Golden Age of Gold in Romania?

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*The alarming protests that have been ongoing for more than a month in Romania seem to be the most significant since 1989 and could lead to a split in the governing coalition. The protests burst forth after a bill was passed by the government granting strategic investment status for a gold mining project at Roșia Montană, the largest known gold deposit in Europe. Public concerns include environmental safety, the real economic benefits for the state, as well as politicians' ability to enforce the national interests. At a time when a debate on a re-launch of gold mining is gaining Europe-wide, the EU should make sure that Member States conduct these projects in a transparent way and fully comply with existing European regulation on the extraction of raw materials and minerals, especially environmental standards.*

**Exposition: Gabriel Resources Comes into Play.** The commune of Roșia Montană, located at the foot of the Western Carpathians in Transylvania, is known as the “Romanian California” due to its underground reserves of an estimated 300 tonnes of gold ore, 1,600 tonnes of silver and more than 40 other types of metals including vanadium, titanium, molybdenum and nickel. Gold was mined at Roșia Montană even during the Roman Empire, but since then has been explored mostly on a small scale.

Gold reappeared in the public debate in the 1990s as a stream of hope amidst the strain of a painful economic transition that hit the mining industry particularly severely. In 1995, the state-owned operator of the mine struck a deal with the offshore investment fund Roșia Montană Gold Corporation (RMGC). Only 19.3% of the consortium is held by state-owned enterprise Mininvest, while the remaining stake is in the hands of Canadian firm Gabriel Resources Ltd. The inability of Romania's political leaders to strike a more advantageous deal was interpreted as either a sign of incompetency to stand for the public good or as corruption.

Moreover, the project developed by RMCG has been facing constant opposition by environmentalists and archaeologists. The opposition's fears concern environmental dangers of cyanide leaching, which is part of the gold-mining process, particularly in the shadow of the disastrous cyanide spill in 2000 at a gold mine in Baia Mare, considered the largest industrial catastrophe in Europe since Chernobyl. At Roșia Montană, a massive reservoir for 214 million tonnes of cyanide waste is planned, which would make it the largest cyanide mining project in Europe. Its presence would expose the groundwater and surface waters in the region, including the Danube, to serious contamination in case of a failure of the reservoir. For archaeologists, the destruction of Roman sites in Roșia Montană is of concern, as is the evacuation of the commune itself and the removal of three other surrounding villages.

**Rising Action: Ponta's Turn.** The extraction of the gold and other minerals is still awaiting final authorisation and in the meantime has become the centrepiece of political debates and public protests on the economic benefits versus environmental implications. Yet on the 11 July 2013, the governing Socio-Liberal Union (USL) led by Victor Ponta expressed its support for RMCG—unlike any other cabinet beforehand—by including gold extraction in the National Plan for Strategic Investments and the Creation of Work Places. On 27 August, a draft law allowing for the mining operation to go ahead was passed by the government and is awaiting approval by parliament. These moves are in strong contrast with the earlier position of USL, which, when it was in the opposition, had criticized the Roșia Montană project and used the issue as one of the emblems of its election campaign, even to the extent of promising a total closure of gold mines in the country.

Thus, USL's unexpected turn is explained by an economic rationale, as it is contends the project would generate \$5.2 billion in total direct income to the local and state treasuries, create around 2,300 new jobs and attract other foreign investors. The state should receive 6% in royalties from the contract (vis-à-vis 4% from other mining projects) and negotiations are now underway to increase its share in the consortium from 19% to 25%. The change in USL's approach may also be explained by a local referendum that took place in Roșia Montană in December 2012 that suggested strong local support for gold mining, although the referendum did not reach the required threshold to be valid.

**Climax: Revolution Ante Portas?** This 180-degree turn in the government's stance—comparable to the change in USL's position on fracking as part of shale gas exploitation, which it also harshly opposed before the elections then fully endorsed them afterwards—led to fresh anti-gold mining protests that were more fervent than ever. Going beyond the environmental concerns that have been voiced ever since the initiation of the project in the 1990s, this time the target of the public's anger has been the overall lack of transparency in the way the government deals with the issue. There is widespread fear that even if the mining requirements were improved, the government would be too corrupt to properly oversee the implementation of the project and inspect it to ensure that ecological norms were being respected and that the proper revenues were being delivered to the state. Such a general lack of trust towards the authorities is not without grounds, bearing in mind that only three other EU Member States score lower on Transparency International's corruption index than Romania.

Taken aback by the force of public opposition, the authorities have started to water down their position. President Traian Băsescu proposed a public referendum on the issue, while Ponta himself says that while he has to defend the project for the economic interests of the state, he would vote against the bill as a member of parliament. Although somewhat undecided, his Social Democrats still support the RMGC project, while the coalition partner, National Liberal Party (PNL), has taken a fierce turn against it. These quickly changing positions need to be viewed in the context of next autumn's presidential elections, which are already generating rivalries within the USL. Whether to grant Roșia Montană the right to mine could thus easily be the spark splitting the already loose coalition, especially if the parties nominate two different presidential candidates (for instance, Ponta and rival Crin Antonescu).

**Falling Action: Bad Prospects for Roșia Montană.** If RMGC receives authorisation and the project is properly implemented, in addition to the benefits for the local economy, Romania could also draw some macroeconomic advantages. The country could become Europe's largest gold exporter, and with a view to the prospective rise in the value of precious metals, this could make its economy more competitive. While macroeconomic indicators suggest that Romania is on its way out of the crisis and the opening of a new €4 billion credit line with the IMF and the EU in July also send positive signals to international markets, Romania still seems to lack a long-term economic development strategy. Under these circumstances, even if gold is not the ultimate remedy to Romania's economic problems, it could mean a much welcome initial boost.

However, at this point, the future of the project remains questionable out of concerns about environmental safety, the real benefits to the state, and the Romanian political elite's ability to enforce the country's interests. As such, even if mining at Roșia Montană gets the green light, it may easily fall victim to vested interests and result in environmental damage with only short-term, local economic gains. Should the project be blocked again for several years, alternative strategies will need to be drawn up involving other, environmentally safer extraction technologies, whilst perhaps also finding new investors. Without changes, Romania may renounce gold extraction at Roșia Montană—a compromise the Romanian economy can ill afford.

**Dénouement: What the EU Can Do?** The emerging debate on gold mining in Romania fits well into a general trend in Europe. At a time of crisis, when traditional monetary policies seem to be discredited, and in spite of the recent drop in gold prices, the mid to long-term prospects for gold offer relative safety for investors. Mining companies around the world are gearing themselves up accordingly and re-shifting their focus from the developing world to Europe. Besides Romania, potential target states include Bulgaria, Finland, France, Greece, Macedonia, Northern Ireland, Portugal, Slovakia, Spain, Sweden, the UK, as well as—until recently—the Czech Republic and Hungary, where large-scale gold mining has been banned.

The EU's tools to influence the regulation of gold mining, as well as the extraction of other raw materials and minerals are the "2020 Agenda for Smart, Sustainable and Inclusive Growth" and the recent "Creative Europe Agenda." The management of waste from extractive industries is regulated by Directive 2006/21/EC, the so called Seveso II Directive, and the Water Framework Directive. The industry has also come up with a voluntary "Cyanide Code" that aims to reduce environmental impacts through third party audits of a given company's cyanide use and waste management.

Rather than creating new legislation, the EU should ensure that Romania and other Member States considering launching new extraction projects—be it gold or shale gas, for instance—fully comply with all existing regulations. Moreover, it is recommended that the EU encourage the Romanian government to adhere to the Extractive Industries Transparency Initiative, a global standard ensuring transparency and better governance of natural resources.