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ENCOURAGING INVESTMENT INTO SUBSURFACE MANAGEMENT IN RUSSIA

In the beginning of November 2014 the MIGP-RSGPU received electronic Russian and English report versions of the Canadian gold-mining «**Kinross Gold Corporation**» from the Mining Advisory Council functioning in Moscow. The third analytical report is titled «Encouraging investment into subsurface management: suggestions of developing geological study and extraction in Russia» (October 2014). The report is prepared by the Corporation within the work of The Foreign Investment Advisory Council under the Government of the Russian Federation.

The report is both of scientific and educative importance for the MIGP-RSGPU as the text is presented in the Russian and English languages which is useful for our students and postgraduates who are planning geological prospecting and mining work in foreign companies or in the countries of Africa, Asia and Latin America.

What can be said about the Canadian Company?

During the 20 years of work in Russia it investigated over \$3 billion into acquisition and exploitation of four gold-bearing mines in the Magadan Region and the Chukotka Area. 97% out of 2200 staff employees of these mines are citizens of Russia. Since 2010 the **Kinross Gold Corporation** has been a member of The Foreign Investment Advisory Council under the Government of the Russian Federation. The Corporation proves that in the field of subsurface management of Russia large global corporations can work successfully and profitably within the Federal Subsoil Law. It is easier for Canada than for other countries to work here as such business has almost «cross-border value» and the cargo transportation from one country to another through the Bering Sea is very economic. Although the **Kinross Gold Corporation** points out great disadvantages in the applied geology organization and subsurface management in the Russian Federation and provides recommendations on their removal.

Among the specialists of the Ministry of Natural Resources and Federal Agency for Subsurface Use the first reports of the **Kinross Gold Corporation** devoted to the foreign investment use are well-known and being discussed. They are 1) «Fostering Foreign Investment in Mineral Exploration and Development in Russia» (October 2011) and 2) «The Impact of Foreign Direct Investment on the Socio-Economic Development of the Far East of Russia» (October 2013).

Russian geologists themselves are concerned about the absence of a comprehensive Federal Law on Geological Study of Subsurface Resources, since it is difficult to write a number of law principles into the Federal Subsoil Law. Incidentally, in the Resolution of the Federation Council Number 257 on June 18, 2014 on the Status of Geological Study of Subsurface Resources and Rehabilitation of Mineral Resources it is recommended to solve the problem of «establishment of priority right in the further geological survey including prospecting work and assessment of valuable deposits of useful minerals for the user of subsurface resources, who have carried out geological study of subsurface resources at his (or her) own expense».

Does a foreign company successfully working in Russia need to invest into such researches in «drawbacks» of the Russian geological and mining practice and legal framework? On

the surface it is a wonderful example of Kinross Gold's smart corporate practice. But we need to look deeper. It is obvious that Russia falls behind with the organization of the «capitalism» being created in the field of subsurface management from such great extracting countries as Canada, the USA, Australia, Norway. Unfortunately, what is solved in Canada in several month needs 2–3 years in Russia.

Canadians fairly criticize Russia on the basis of study of the better world experience in mining and call for the removal of economic and administrative barriers without losses in the field of «national security protection». Subsurface management is extremely centralized and closed to the decisions in Moscow. One of the general recommendations of all the three reports is the urgent expansion of geological prospecting in Russia in a number of potential regions of our country. Here the extraction of solid mineral deposits in the Far East Federal District and its Northern Territories is highlighted.

What is the essence of the main suggestions of the latest report of 2014?

1. *To reconsider the restrictions and the order of consideration of request for geological study of the units* contained in the order no.61 of the Ministry of Natural Resources and Environmental Protection on March 15, 2005 (edited on January 27, 2014). The industry representatives have been excited to receive the amendments to this order. However, the offered amendments upon a closer view are unlikely to enforce encouragement of investment into geological prospecting. More permissive management regime would provide better motivation for geological prospecting companies to take financial and other risks connected to the investments into useful minerals prospecting. As far as the full extent of such risks falls on geological prospecting companies the enlargement of licenced territory involves no noticeable risks for the government.

2. *To lift restrictions contained in Article 6 of the Federal Subsoil Law and demanding the conduction of a comprehensive geological study of deposits of federal importance before obtaining the process permission.* According to the existing order the company is obliged to conduct a geological study of the whole land area of the licensed unit that may occupy hundreds of square metres. It may take years before it would be allowed to process, what in its turn would become the source of the profit for covering spending on study and process. This restriction already exists in other countries. Its lifting would give the companies an opportunity to start extracting immediately after making a decision about economic effectiveness of the deposit processing, which corresponds to the standard world practice. The earlier such decision is made, the earlier new working positions are created and repayment of an income tax and other payments within licence commitment begins.

3. *To reconsider the concept of reference of the deposits to the class of «strategic», when it comes to foreign investments.* The limit of 50 tons of vein gold has become the most important reason for the slump of work scope on gold field search in Russia. This brings into question the processing of new deposits without which it is impossible to sustain the amount of gold mining in Russia at record levels in the latest years. «Strategic deposits» should reasonably be in any country, but with which

valid parameters? The solving of this problem requires a differentiated approach to the regions and types of resources, as well as more accurate assessment of raw materials and funds in the world markets. Russian small and medium-sized extracting business is especially interested in this innovation.

These and other questions are considered in the report of 2014 with an account of the latest practice of Canadian, Australian, Chilean and Brazilian mining business. Canadian manufacturers admit that in some areas as taxation the comparison in many parameters is in favour of Russia. Thus, in this country everything is not so bad.

The nineties in Russia are memorable to many citizens with their losses, as the co-operation between Russia and the USA, Germany, Great Britain and other countries was unorganized. By 2015 our government and Russian business became smarter and more experienced. That is why many recommendations of the Kinross Gold Corporation are well-timed and important for a more effective subsurface management.

In the coming years the importance of attraction of foreign investments for technological industry modernization and development of international competitive commodity and service trade of high quality is enhancing. If there might be obstructions in usage of own resources in one or another area in crisis conditions, a number of valuable projects could be implemented involving foreign investors. Moreover, there are significant financial assets in the world market that may be invested into profitable production. Here Russia has its attractive advantages for the EU investors.

It is doubtless that one should learn to attract foreign investors into Russia. It is a mission of a high school, especially of the MIGP-RSGPU.

According to the Federal Law № 57-FZ of April 29, 2008 «Procedures for Foreign Investments in the Business Entities of Strategic Importance for Russian National Defence and State Security» the access of foreign investors to large fields of oil, gas, rare metals and other valuable minerals is accomplished by the decision of the special government committee. Thus, according to the law, offshore fields may be produced only by Russian government companies. This strategy of subsurface management in Russia up to 2020 is inadequate, and the Federal Law itself should get its new «conservative» and «liberal» niches for foreign investments encouragement. In the context of economic sanctions of the USA and their allies the number of restrictions should be reduced, expanding management competences of our federal and regional authorities and supervising government oversight of their activities results. The government of the Magadan Region insists on it more actively.

The analysis of the situation with attraction of foreign investors into subsurface management in Russia shows the necessity of a great reconstruction of the Ministry of Natural Resources activity (development of legislation and international communication) and of the Federal Agency for Subsurface Use (ongoing work with subsurface managers). More than 10 years have passed since the beginning of «administrative reform». The analysis of administrative functions and authorities in the ongoing system of the mentioned government bodies shows their imperfection and inability to solve new foreign economic and trade problems rapidly and effectively.

Therefore, the conducted analytical work of the Canadian Kinross Gold Corporation deserves a high positive assessment of our geological and mining communities.