

LONG TERM INVESTMENTS, RISK OR OPPORTUNITY FOR ROMANIAN ECONOMY, CASE STUDY: ROȘIA MONTANĂ GOLD CORPORATION

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This article is aimed at describing the influence that foreign direct investments have on a recipient economy, as this study focuses on the changes that foreign direct investments imposed on Romanian economy. In principle, foreign direct investment should enhance one economy's results as they pump capital, the vital fluid of any successful enterprise, completing or replacing own capital, as the economy becomes interesting because of its raw material resources, financial facilities or human resource. Anyway, there are some instances that need turning own capital to profit, as, this would benefit more than permission for foreign capital to be turned into advantage. The actual study looks on investments that are to be conducted by Gabriel Resources in Roșia Montană area and tries to evaluate if the business site acts on long term in favor of our national economy.

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It is obvious that the times we face will change the way people think and act, changes are needed, as economies are not responding fast enough to outside stimuli and other control mechanisms are to be designed and brought into function if we want to avoid future economic and social struggles.

Most economic theories conclude that foreign direct investments act in favor of a recipient economy, as they influence all those elements that make an economy increase the pace it develops, and create, or become a part in creating a healthy environment governed by objective laws, having participants that accept a normal profit level, and avoid searching for those escape routes that guarantee an above the average level of earnings. The main problem of the contemporary way in which business is being done is that rationality has left a place for greed and abnormality. If all of us would understand that living this age of liberalism does not mean using all tools for self accomplishment, but being aware of the fact that turning global means that paths and channels are created and they become permanent bonds between economies, links that permit fast spreading of financial crisis and other negative influences on national or regional economies, and that some of our actions influence the way in which people live across oceans, then it is for us to be most careful when deciding to move one "brick" of the wall we could call "economy".

For being successful, foreign direct investments depend on a number of issues such as: the marginal cost of accessing a foreign market being smaller than the marginal income obtained in that field of interest, the existence of those elements that make operations abroad being less expensive than the export of the same product and a proven fact that, production abroad is far more efficient than the export or license selling.

As all developing countries Romania cries for foreign direct investments because they become important ways of sustaining the economy, as own capital is scarce and if it exists it is probably being directed to safe keeping, because of the unstable environment it has been created in, and if capital is not being engaged in an economic cycle, the results are not the best hoped for at the end of the mentioned cycle. Then, lacking basic production technology, knowledge and innovative

products, a developing economy is likely to import more than it exports, so, it should have an unbalanced balance of payments that can only be brought to a neutral level by absorbing and attracting all available capital. There would be more issues in favor of foreign investments, and it is hard to cast a shadow of doubt on any of them, but still, there are some intriguing questions that need to be answered, some things concerning the elements that make a country attractive for those who want to make good use of their capital and others concerning facts about national strategies and involvement of national authorities in choosing the best options on long term for its citizens.

As an European Union member, Romania has developed a legal framework on foreign direct investments that is based on transparency and non-discrimination. Romania's investment policies encourage capital transfer and the entry of well trained personnel in support for the foreign direct investments. Romania has a wide network of treaties that concern investments with neighbour countries and OECD countries. Romania is the single economy of the South Eastern Europe which is a member of OECD's Declaration on International Investment. Regarding investment promotion, Romania is reviewing all operations of the national investment promotion agency (ARIS). Romania could try improving the facilitation services at the pre-and post-entry phase of an investment, as it should consider implementing a strategy to facilitate greater commercial linkages between foreign investors and local firms. ARIS could also consider improving the quality of aftercare services it offers to foreign investors, such as obtaining business registration, licenses and work permits²⁹.

When deciding to invest, there are some facts that have to be taken into consideration: first, brings to front the fact that a decision to invest in a foreign country is influenced by those background facts that would either verify or not this simple mathematical equation (expected profits / risks investing in foreign country) > normal profit that can be obtained in own economy. If we would consider all economic risks that can emerge in home economy being equal to 1, normal profits being equal to 3, for instance, and if we conclude that emerging markets have an increased level of risks that concern capital investment in comparison with developed economies, then, it is certain that the only real attraction would be those profits that can be obtained. So, the equation into question would have to be $7/2 > 3/1$, and it is obvious that if business risks double, profits have to be more than double to make that emerging economy interesting for those who want to invest. Then, investments can be done in the single interest of imposing monopoly on some resources so, on a certain time extent, as resources become scarce and their price explodes, having a high demand and few that are capable of filling the demand means that profits will not take long to emerge. Of course there are other needs that could lead to foreign direct investment as the need to launch operations on certain markets, to obtain the desired market share, to relocate harmful and old industries, and so on³⁰.

All these instances show the same pattern, those who possess capital gain profits and strategic positions, are privileged, but what about those who seek for investors?

Romania tends to enter the same vicious circle, as foreign direct investments, as good as they seem to be have a real disadvantage: they deprive home economies of the chance to gain more by exploiting themselves those resources in some next economic cycles, engaging as much labor force as they desire, well, as much as they can sustain, and to redirect profits obtained in that field to those areas that need financial sustainment, so, by depriving economies of this opportunity, foreign investors push future generations further away from the chance to escape the same poor economic status, as home economy gave away or sold all those elements that provided strategic or competitive advantages.

²⁹ OECD, *Investment Reform Index 2010 Monitoring Policies and Institutions for direct investment in South - East Europe*, pag. 308

³⁰ Postelnicu Cătălin, *Economie Internațională*, Universitatea "Babeș-Bolyai" Cluj-Napoca, Editura Presa Universitară Clujeană, 1999, pag. 107-108

If on short term direct investments provide the economic boom needed to climb higher on the scale that measures living standards or income levels, on long term, it is obvious that they give up strategic economic investment gaps that can no longer be filled in by residents or home companies, that by now, have the capital needed to invest in that field.

It is not a question of being in favor of investments or of being a patriot even if it is not suitable, but a question of judging thoroughly and implementing a strategy that would only allow investments in those interest areas that are not strategic and that do not deprive national economy of gains and welfare that can be obtained and achieved later, when it has developed good managing capacities and has reached the needed amount of capital as to be able to start exploiting the advantages it has. It has been proven that the best way to act when dealing with this kind of problem is to think on long term, as on short term things tend to be unstable and reviving an economy takes more than few months or years. Then again, when foreign investors are resource seekers, and the investment they look for consists in precious metals things are even more complicated. The desired action would be investing own capital and if this does not exist, these type of resources have a rather stable evolution on international markets so, they can be thought of on long term.

A long disputed investment, one that shows all positive and negative sides of an investment is that desired by Gabriel Resources Ltd. Canada in the area of Roșia Montană, a renowned mining camp since ancient times. In this respect a new company emerged, Roșia Montană Gold Corporation, having as major stock holder Gabriel Resources Canada (80 %), Minvest S.A. Deva (19,3 %), this being the company that ran operations here until the possibility of an investment became a real fact, and 0,7 % other minor stock holders³¹. This new enterprise (RMGC) obtained an agreement to exploit an area of 4282 hectares, the intended goal being to build and operate the largest gold digging site in Europe for extracting a quantity of about 300 metric tones of gold and 1600 metric tones of silver, using the method of surface excavations in four opened quarries estimated being the equivalent of 100 hectares each, excavations that would result in over 220 million metric tones of displaced ore³².

The business plan extends for 17 to 20 years, and over, because the site will enter after the mining field will not be viable anymore in a preservation stage, one that is going to last for many years. Romanian economy would benefit, as stated by officials of RMGC, of a total sum of about 4 billion dollars (3 billion euro) as follows: 1.8 billion dollars as dividends, for being a stockholder with a share of 19,3 %, tax and royalties paid towards local, regional and national budgets, and the rest of 2.4 billion dollars³³, investments in human resource, infrastructure, spare parts, maintenance, etc. Other benefits consist in translation of service and operations to Romanian entrepreneurs and enterprises that would enhance local and regional economy.

For opening and operating the site the estimated investment would be about 1.7 billion dollars and until now there have been over 400 million invested in expropriating while other objectives as buildings and production facilities would cost about 900 million dollars, and the rest (over 500 million) being intended to cover operation and conservation schedule.

Sometimes, when trying to convince people that the importance of the investment is crucial it is decisive how the project is being brought to public attention, the way in which it is perceived by common people. The mentioned project was aimed at describing the poor and harsh environment in the area and showing all positive aspects about the investment plan. One of the many claims that made people become anxious to see the start of this project was that of those about 500 (some say not more than 300) jobs that are planned for the people in the area, a region living on the brink of poverty, where net gains were estimated for 2006 being around 653 euro/year/capita,

³¹ Official RMGC, internet site: <http://www.rmgc.ro/despre-noi/despre-noi>, last accessed: 20.04.2010

³² From regional urban planning, Roșia Montană, industrial area, a project by Ipromin S.A., experts in project designing - S.C. „Proiect Alba” S.A., for S.C. „Roșia Montană Gold Corporation” S.A., project nr. 4729/2006

³³ <http://www.rmgc.ro/proiectul-rosia-montana/economie/planul-de-afaceri>, last accessed: 21.04.2010

where 1 % of the inhabitants live on less than a dollar a day, and 7 % on less than 2 dollars a day³⁴, and where young persons would not have any opportunity but to become miners as their forefathers. Little did people know that creating this project meant that there could no longer be a second company to exploit the gold ore here, so, the not very efficient Minvest Deva facility, having around 775 employees did close up its gates, for the people living here a true tragedy.

The technology used to extract gold is based on treating the grinded ore with a solution of sodium cyanide, a method that can seriously damage the environment and the experience of the ecological disaster that happened in a similar facility near Baia-Mare is at least relevant if not scary. Similar accidents, more than 30, just after 1990 have happened in other countries that host this kind of business, major ones in the USA (1993 and 1998), The French Guyana, Australia and The Philippines, but fortunately in less inhabited areas, so with less harmful effects. Most of them because of dam failure but some because broken pipes and other transport accidents. No one can guarantee that similar ones will not happen in the future, and finding those guilty for the unwanted event and punishing them does not serve for anything, as a lot of harm has been done. In this instance, it is not very hard to imagine what would happen if about 250 million tonnes³⁵ of contaminated water, sterile and waste would end up in one of the major romanian rivers and finally in the Danube or The Danube Delta. Still, there are other chemical compounds used for neutralising cyanide, their effects are not very well known so it would be sensible if the matter would be treated very serious.

Another interesting aspect about the project is that, it is intended to operate in an area full of archeological remains, some dating back to the roman age, a true problem, another issue that prolonged an already frustrating debate, because Gabriel Resources Ltd. engaged in preserving those historical sites, but it lacked and still lacks some essential documents that should state that indeed, the company has preserved and assured all historical remains as it should had done. Anyway, a lot of fuss for a thing that becomes interesting only in documents, as no historical site in the area has ever raise true interest in dedicated circles before this investment opportunity emerged, and more, there are a lot of better preserved sites that could bring much more benefit than the ones in Roşia Montană and its surroundings (which are not very attainable), but suffered a similar treatment, one that shows critical lack of both funding and interest for our national heritage.

Indeed, something that indisputably could raise the region's potential would be creating a network of infrastructure, both social and economic that would boost interest for the area. Then again, even if a suitable infrastructure would exist, the constant danger of harmful chemicals used to extract gold such as cyanide would drive people away from the area, so, in the end, nobody, or some few citizens would benefit of the new, modern social and economic infrastructure. The process of extracting gold would irreversibly scar the landscape making it unattractive to other economic activities and minimizing its potential to attract tourists. In the end, this investment could result in actual net loses and not net gains, as, on long term, a lot of other investments would be needed as to reverse the situation to its original coordinates. Therefore it is decisive for this business opportunity to be turn upside down and again, because a study on the impact of this investment on future generations has not been conducted yet, and maybe it can not be done because of the multiple changes that influence world trade on a daily basis. Maybe, gold price on international markets will climb to ever higher rates, so, Romania will only benefit in a fraction

³⁴ Giovanetti Frederic, Guelph Stantec, *Managementul impactului social, Planul de acţiune pentru strămutare și relocare* (Social impact management - The action plan for moving and relocating), Volumul 1: Raportul principal, Elaborat pentru: S.C. Roşia Montană Gold Corporation S.A., Versiunea 3 - Februarie 2006, versiunea 3 - Februarie 2006, pag. 17, taken from the article "Roşia Montană, destine confiscate" (Roşia Montană, seized destinies) published in "Idei în dialog" Magazine in march 2008 by Anghel Cătălin

³⁵ Estimated content of the used water storage dam.

of about 1/5³⁶, the most part of the benefits being directed to Gabriel Resources Canada. No one, or some few have thought about analyzing and predicting how the international gold market would fluctuate, and if now, when the index is at a certain level of 1113.34 dollars/ounce³⁷ operations potentially run by the state owned company are not viable, maybe at a future level of 1650 dollars/ounce³⁸, and having the same amount of inputs means that extraction could prove being of great benefit for the national economy, that could use profits as investments in other sectors, so that the need for foreign capital and international loans would not be that great. The mirage of foreign investors is so great that a lot of people do not realize, forget or consciously admit that when giving up an activity in favor of somebody else, you are no longer able to exploit some of the actual prosperous opportunities on the international economic scene. The business plan proposal for the RMGC operations emerged on a basis of an average gold price of 900 dollars/ounce and an average price of 12,5 dollars/ounce for silver, these figures lead to an estimated net profit of RMGC around 1,9 billion dollars, the Canadian enterprise Gabriel Resources, as a major share holder will cash in dividends of about 1,3 billion dollars, which divided for an estimated operating time of 15 years result in an average of 87 million dollars/year net profits for the Canadian counterpart.³⁹

Investments help an economy by translating risks from that economy to those who invest. If investments go to non volatile sectors like precious metals, then, the investment is almost sure to pay dividends, so, it should be interesting for both private investors and for governments.

In this respect, there are a series of strange facts about this investment project, the main one being that instead of encouraging an enterprise based on foreign direct investment, the long desired investment plan is being directed to a waiting list for few minor issues that can be solved at an administrative level without debating so much on the reasons, and because this is not being done, makes some wonder if foreign direct investments is what Romania really wants.

It is also peculiar how a Canadian company saw potential in an enterprise that the Romanian government declared not worthy of any interest, and how, after luring investors with a lot of advantages, investors that bought a lot of the properties that make the interesting area for exploiting the gold ore, now, suddenly things got a lot more complicated and it is not sure yet that the project will finally start as planned or if Gabriel Resources bought a lot of unusable land.

Nevertheless, a strong debate emerged on whether operations should or should not begin, this debate concentrating inside and outside forces, so, an international strife emerged, one that eventually will drag away potential investors, as no one would risk their own capital in a place where things seem to move like a boat in the wind, never knowing where the next day will find you.

It is for all those deciding on this issue to analyze better, deeper and faster and never agree on long term foreign investments in strategic branches of the economy if a thorough study does not show an impossibility for Romanian capital to multiply in that branch. If state owned enterprises had better management, then, using the same strategy as foreign investors do, the trade deficit can be covered not by attracting capital in the shape of foreign direct investment, this being comparable to an outside action but by producing own one, and using it to stimulate other sectors from the inside, sectors that are going to produce competitive goods and services that are going to become desirable on international markets, in terms of efficiency a far better choice. In the

³⁶ The actual rate of benefits for Romania, as it is a share holder for 19,3 % of the total shares through Minvest Deva, a state owned company.

³⁷ Average gold price of April 2010 (<http://goldinfo.net/londongold.html>, last accessed: 22.04.2010); 1 ounce equals 28.3495 grams

³⁸ Estimated price for beginning of 2011 – *Jim Sinclair Bets a Million Dollars Gold Price Will Hit \$1650 before the 2nd Week in January 2011*, an article of Wednesday 2nd of April 2009, on www.goldprice.org, last accessed: 21.04.2010

³⁹ But, as mentioned above, the average gold price rose by more than 200 \$/ounce over the initial estimates, meaning that profits would be greater than estimated.

contemporary economy not assuming risks means not taking actions, but when having such an opportunity in a truly low risk segment, it is imperative to act before others do.

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