

A Small Comment on a Big Issue

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On January 1, 2011 the Federal Law No 89-FZ from 19/05/2010 came into effect. According to the Law, the State service on provision of geological information on subsoil use (obtained through geological study by the State) is rendered free of charge.

This measure is aimed at enabling a wide range of geological enterprises and even individual geologists to work, at their own or investors' expense, on discovering areas prospective for further study.

In my opinion, the measure is one of the steps on the way to stimulating the prospecting stage of geological exploration. This stage is already not financed by the Government and is not yet financed by the commercial sector in the volumes necessary to reproduce the mineral resources base for exploration. Our company, RosGeophysica, is a typical interested party in this process, which became the basis for my "small comment" presented in this article.

There are quite a lot of specialists in our country interested in developing their own business in the field of geological prospecting and exploration. We have well trained geologists, who know the region they have worked in during the period of intensive prospecting, who have accumulated experience and invaluable information on the exploration potential of mineral and oil reserves. These geologists are the legacy of the Soviet period. There have also a number of service companies emerged that offer forecasting and prospecting solutions for the licence holders and have succeeded in advancing their methods through implementing modern techniques in this field, so now could attempt to implement their experience in business. These accumulated knowledge and experience on discovering mineral reserves is a product in its own right; and many of our geologists have plenty of such products in their heads.

Here I am talking not about participating in tenders for a through-right to subsoil use (prospecting and exploration), which, should some interesting objects be discovered, become tradable and the costs of such a license are unaffordable for medium and small sized businesses. Clearly, this is a stake for larger

companies. I am talking about establishing favourable conditions for investing in high risk geological projects. **Those companies that at their own expense evaluate the potential of a subsoil area and invest money in confirming their forecasts should be able to receive at minimal cost a permission to carry out such works and to have guarantees that they will be able to sell the product, including the right to explore the discovered deposits.**

Under such conditions, medium and large businesses will receive somewhat equal opportunities, because if the initial prognosis is confirmed, investments can be attracted to continue prospecting works. And a smaller company working on a high risk project and betting everything on discovering a deposit has much higher stimulus to actually discover the deposit than a larger company that owns deposits with a lifetime of 30-50 years.

It seems that there is a mechanism for the realisation of such projects by small businesses and individuals – a mechanism of submitting an application for obtaining the right to subsoil use for the purpose of geological studying. In case of a successful discovery of a deposit and placing of it on the balance sheet, the company has the right to further explore the deposit. The procedure for the assessment of such applications is prescribed by the Order of the Ministry of Natural Resources of the Russian Federation from 15/03/2005 No 61. However, in addition

to this being a rather lengthy procedure (six months to a year), there are some significant barriers that almost invalidate this option.

The weak points of the Law on Subsoil have been a subject of heated discussions; and in this article I would like to mention some widely known issues for those, who are not familiar enough with the legislation regulating geological business in Russia.

In accordance with the Article 3.4 of the Order of the Ministry of Natural Resources of the Russian Federation from 15/03/2005 No 61, if there are two or more applications received for the right to subsoil use for the purpose of carrying out a geological survey at own expense, the Russian Federal Agency of Subsoil use shall organise a tender for the through right to use a subsoil area. Applications received are not reviewed for their conformity with the requirements; any submitted application is taken into account.

In this respect, in recent years some companies emerged that submit applications not for the purpose of obtaining the right, but just to racketeer serious applicants who wish to remain sole applicants to avoid a tender. By the way, names of such companies are well known, but no action is taken against them as they operate perfectly within the law.

Therefore, under the current legislation, any attempt to study a selected subsoil area will, most



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likely, result in a tender. There is, however, an opportunity to revert things to normal: following the approval of the participants list, which can take three to six months, the racketeers and hesitant investors are likely to pull out, because the winner of the tender not only invests in geological works, but also has to make a single payment to receive the right.

About the hesitant investors – if they somehow obtain detailed information about your prognosis on the area in question and evaluate it as a convincing one, they have good chances of winning the tender because it is quite likely they are not random but experienced players that in this game. There have been a number of such cases, and in some of them there was an element of dark humour, when the initial applicant has been subcontracted by the winner to realise the project.

If the application procedure goes smoothly and you will remain the sole applicant, then you can make use of a special opportunity prescribed by the changes in the Order from 15/03/2005 No 61, that have been introduced by the Ministry of Natural Resources on 20/08/2009 No 326 and came in force on the date of publishing – 22/10/2010. In accordance with Article 5.2 of this Order, the sole applicant can apply for a geological survey. Looks like you have succeeded... but it is still too early to celebrate! The application has to conform to the respective requirements as well as to the type, volume, time and duration of works that were specified for the abandoned tender. Exactly what types and volume of works these will be and will they be to your liking is under question.

You would probably agree that the overall situation does not look promising for stimulating prospecting; it can only be improved by finding solutions to the key problems in delineation of powers and responsibilities between the state and private segments of the geological sector. Coming to the main point of this discussion, but still a little ahead of the argument, I would mention that, however paradoxical it may seem, now is the best time to invest in prospecting works for various mineral resources in Russia – a country that has huge potential for new discoveries.

From my position of the Director of a small company working in the sphere of application of geophysical methods to prognosis and prospecting of various mineral deposits, I see the following main trends.

In recent years we worked quite a lot with companies-owners of licences for areas large in territory but with uncertain prospects on discovering new hydrocarbon and solid mineral deposits. Our task was to localise within the licensed area the objects with the highest potential in order to minimise the risks of expensive mining and drilling operations. The fact that such licensed areas have emerged suggests that the stage of tenders for discovered deposits is nearly finished. Although companies at large are still focused on buying and selling the assets, we can say with certainty that this process will become less intensive as far as these assets will be consolidated by larger players. Thus, in the near future, successful development of large mining and oil companies will depend, to a large extent, on discoveries of new deposits, which will lead to increased competition in this sphere.

As for small and medium businesses, now is the momentum for them to choose their niche. Now there are still not many players prepared to overcome the above mentioned legislative barriers, large companies have not yet taken leading positions in this sector and, therefore, opportunities are vast. By the way, initiation of this process through small and medium sized business could trigger the interest of larger companies to prospecting works. In this respect, quite interesting is the global experience on the establishment of brand new geological prospecting companies, more than a half of which have residence in Canada where they drive the development of the geological sector. Besides, the key people behind this development are not the capital owners but the specialist geologists. As far as I know, this issue of developing high risk geological prospecting business in Russia was worked on by the specialists of the A.P. Karpinsky Russian Geological Research Institute (VSEGEI), the leading institute in the geological field. Now the matter is not in the form of organisation, but in the substance of prospecting. With our company as an example, I can demonstrate in which

direction plans can be made by a small or medium organisation.

In oil and gas sector we will not even attempt to receive an individual license because even the first evaluation stage require serious investments, which we do not have and which are very difficult to attract. To those who would like to work in this sphere, we can render assistance on selecting the areas with the highest potential. During more than ten years of work with large companies we have accumulated significant experience in prognosis with the use of the modern methods of processing and interpretation of retrospective geological and geophysical data. As of today, we have confirmations of our prognosis.

On solid minerals, we are quite interested in working with gold. Here we see not only good confirmation rates for our prognoses, but also our ability to take them to the stage when investment attractiveness of a selected area is guaranteed. In this direction we can attempt setting up our own business.

Today it is important to fully utilise the opportunities presented by the current legislation. In particular, it is the establishment of an information database, which will help to make the right choice when selecting most interesting areas for prospecting projects. Taking into account the large amount of data accumulated through geological and geophysical studies carried out in mineral and oil-and-gas regions of Russia, this information database can become an important element of the geological business.

We are ready to discuss specific projects with those interested in developing their business in the direction of the discovery of new deposits on the territory of Russia.

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