

New legislation to attract investors

Bulgaria faces the task of reconciling policy development with a growing mining industry

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FAST FACTS

Capital:	Sofia
Population:	7.1 million
Currency:	Bulgarian leva
Government:	Parliamentary democracy
GDP real growth rate:	-4.9% (2009 est)

ON NOVEMBER 10, it will be 21 years since Bulgaria made the transition from a socialist to a free-market economy. During this period of transition the country has sustained relatively high economic growth, in part driven by foreign direct investment. Bulgaria joined the European Union (EU) in 2007.

Today, Bulgaria faces new challenges: to reduce the negative impact of the global financial crisis and to emerge as quickly and strongly as possible from recession; and to increase its economic competitiveness and regain high economic growth.

Government efforts in this direction include the integration of environmental issues into all areas of economic activity.

This has included controversial plans to ban the use of cyanide in gold-mining activities in the country, a move that has been opposed by both the mining industry and the European Commission.

The Bulgarian mining sector comprises 5% of the

country's GDP and provides direct employment to approximately 30,000 people. It also creates indirect employment opportunities for satellite industries for approximately 120,000 people.

The sector is dominated by metals and coal mining, each accounting for more than a third of total mine production in 2009, at 28Mt and 27Mt, respectively.

The sector contracted significantly last year, as a result of the global economic downturn, with overall production falling by 18% following a 5% decline in the general economy.

The total output from the extractive industry in 2009 (including liquid fuels and industrial minerals) is estimated at Lv2 billion (US\$1.3 billion), 15% less than the previous year.

In addition to the state of the economy, the development of the Bulgarian mining industry has been strongly influenced by ineffective legislation, in particular the Law on Mineral Resources, adopted in 1999.

As a result, the working group within the Ministry of Economy, Energy and Tourism, including members from the Bulgarian Chamber of Mining and Geology, has drafted a mining law that the Council of Ministers adopted. The draft is being voted on by the National Assembly of Bulgaria and is anticipated to be passed in September.

Changes to the existing mining law include: the creation of a single authority for the management of mineral resources; significant streamlining of the procedures for prospecting and exploration and for mineral resource concessions; improvement of the methodology for calculating concession fees;

Coal mining in Bulgaria



simplification of land expropriation procedures; and the elimination of illegal mining.

The development of a new national policy and strategy in the field of mineral resources was started in June, and the expectation of the mining sector in Bulgaria is that the strategic documents under preparation will enhance investor interest in the sector and will lead to the launch of projects.

ESSENTIAL ENERGY

The coal mining sector in Bulgaria (including lignite and brown coal) is an essential industry for power generation in the country.

Bulgaria previously relied on both coal-fired and nuclear power, but was forced to close two nuclear reactors accounting for 35% of domestic power generation when it joined the EU in 2007.

As a result, electrical and heating production companies now consume 97% of coal produced in Bulgaria.

According to 2009 preliminary data, 27Mt of coal was extracted (including lignite, brown and black coal). Coal stocks in Bulgaria are just over 2,000Mt with 86% of the stock in use. The country is dominated by lignite coal reserves and 91% of the studied deposits have been shown to be suitable for open-pit mining.

The state-owned company Maritsa Iztok Mines operates in the East Maritsa basin exploiting three open-pit lignite mines (Trojanovo 1, Trojanovo North and Trojanovo 3), supplying three thermal power plants and a briquette factory.

The company produced 24Mt of lignite coal last year, and is expected to continue operating for the next 50 years.

However, there is uncertainty about the future of the Bulgarian coal mining and energy sector, as the country has to meet the requirements of a 2001 EU directive to limit greenhouse gas emissions.

CENTRE FOR COPPER PRODUCTION

Bulgaria also has an existing copper mining industry. The copper mining sector is dominated by three companies, the domestic Assarel-Medet JSC and Elatsite Med AD and Canada-based Dundee Precious Metals Inc.

A total of 27Mt of copper ores and concentrates were produced in 2009, a 1% decline on the previous year.

Assarel-Medet is the largest copper producer in Bulgaria, providing around 50% of the national



Bulgaria's power plants rely heavily on coal



production of copper. The company received the country's first concession for extraction of ores and minerals in 1998 and was the first to be privatised in the extractive sector in 1999.

The company mines the Assarel copper deposit, and produces about 13Mt/y of copper ore. The Assarel-Medet complex also includes a leaching and processing plant.

Elatsite Med AD is a private joint-stock company engaged in mining and processing of copper and gold-containing ores.

The company's Elatsite mine is one of the largest open-pit mines in Bulgaria and is scheduled to continue operating until 2021. The extracted ore is transported for milling, flotation and drying in the filter unit by a unique 7km long underground conveyor belt beneath the ridge of the Balkan Mountains.

In 2009, Elatsite-Med AD reported a 9% growth in total production, compared with 2008.

Last year, the company was awarded Investor of the Year 2009 by the Bulgaria Invest Agency for its 2008 investment in the design and construction of large-scale crushing facility No3 and optimisation of the ore transportation facility in the Elatsite complex.

Dundee Precious Metals' Chelopech mine is one of the largest underground copper-gold deposits in Europe. The property is west of Chelopech village, on the southern slope of the Balkan Mountains in the Zlatitsa Valley. In 2009 the underground operation produced 71,600t of concentrate, a 31% increase on 2008.

To date, Dundee has invested more than Lv300 million in re-developing the historical mining operation, but is planning a further investment of Lv170 million as it implements expansion plans to more than double production to 150,000t.

The expansion project consists of increasing mine production capacity to 2Mt/y of ore (including the installation of an underground crushing and conveying system), installing a new semi-autogenous grinding mill and upgrading the existing concentrator.

Dundee had also planned to develop a metals processing facility that would allow the production of gold and copper cathode as end products, but the environmental impact assessment for the development was revoked by the Supreme Administrative Court of Bulgaria in April.

The court cited several reasons for its decision, in particular the 30-month delay between public hearings

and the issue of the resolution, that the impacted communities were incorrectly defined by the Ministry of Environment and Waters, and that the technology proposed was deemed not to be based on the best available techniques.

The processing facility would have used cyanide to process the gold from the mine.

Dundee said at the time that while it is disappointed with the decision, it in no way impacts the expansion of the operation to 2Mt/y, adding that the Tsumeb smelter in Namibia will continue to be used to process the fully expanded Chelopech production.

GOLD LEADS EXPLORATION

Exploration activity has identified over 245 mineral deposits in Bulgaria including iron ore, chrome, tungsten, molybdenum, zinc, copper and uranium, but foreign exploration activity has focussed mainly on gold and copper-gold deposits.

Dundee is developing the Krumovgrad gold project in southeast Bulgaria. The project is at the feasibility stage and has the potential to produce up to 800,000oz of gold over the life of the mine.

In September 2009, the Bulgarian Ministry of Environment and Water issued a Commercial Discovery Certificate for the Krumovgrad deposit. The certificate is the final requirement for conversion of the property to a mining concession, the application for which has been filed with the Bulgarian government.

Euromax Resources Ltd is developing two gold projects in Bulgaria: Breznik and Trun.

The company is conducting early-stage exploration drilling at the projects and a resource estimate for the Breznik project estimated indicated resources of 1Mt at an average grade of 2.01g/t Au and 6.05g/t Ag, and inferred resources of 689,000t at 1.79g/t Au and 5.66g/t Ag.

Cambridge Mineral Resources plc is also exploring two gold projects in Bulgaria.

The Tashlaka Hill project has an estimated indicated resource of 15.8Mt at an average grade of 0.85g/t Au and the Chaira project has an estimated resource of 6.74Mt at 2.11g/t Au under the old categorisation (C1 and C2 categories).

Exploration companies have also been actively investigating a range of minerals not previously mined in Bulgaria, including a range of iron-hosting deposits, as well as projects to treat previous mine waste such as bacterial-leaching of low-grade ores and treatment of metalliferous solutions with ion exchange resins.

Although Bulgarian mining and exploration companies were heavily affected by the global financial crisis and falling metal prices in 2008 and the beginning of 2009, the industry is starting to recover and is expected to report significant growth in 2010.

A major task the country is facing, however, is the development of a policy and strategy for effective use of natural resources and to remove the link between economic growth and environmental degradation.

It is instead necessary to accelerate reforms in the interest of better environmental protection and sustainable development, and to develop policies and measures to achieve this goal.

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"Bulgaria's major task is the development of a policy for effective use of natural resources"

