



3. MINING: Investors should be wary of Alaska's Pebble Mine -- report (11/05/2009)

Eryn Gable, special to E&E

A new [investor advisory](#) released last week by environmentalists raises questions about the risks associated with the Pebble Mine Project in southwest Alaska, detailing a growing list of regulatory, legal, engineering and political challenges as the project's developers work to secure permits for the sprawling gold and copper mine.

The project, in remote southwest Alaska, is a 50-50 joint venture between London-based Anglo American and Canadian firm Northern Dynasty Minerals Ltd. that would extract minerals from the largest gold and copper deposit in North America. In addition to an estimated 72 billion pounds of copper and 94 million ounces of gold believed to be at the site, the property is estimated to contain 4.8 billion pounds of molybdenum as well as significant amounts of silver, rhenium and palladium.

But accessing those rich mineral resources is expected to come at a high cost. The total capital investment in the project is estimated to reach between \$3 billion and \$5 billion, and the companies have already spent \$360 million through the end of 2008, according to company reports.



Workers on the Pebble Mine Project site reclaim a drill pad area that was used to explore for subsurface minerals. The sites are serviced entirely by helicopter to minimize environmental impacts. Photo courtesy of the Pebble Partnership.

The project's location on a remote peninsula between Cook Inlet and Bristol Bay, 180 miles southwest of Anchorage, means the companies -- which operate under the banner of the Pebble Partnership -- will face significant infrastructure challenges. Additionally, the site is in the headwaters of the world's largest wild sockeye salmon fishery, and the companies' commitment to developing the project in an environmentally and socially responsible manner will require significant investment in environmental studies.

Many details of the project remain uncertain because of the ongoing assessments and environmental studies intended to help determine the best mining, processing, tailings storage and infrastructure options for the project. However, the mine development proposal is expected to include a combination of open-pit and underground mining, as well as a pipeline, road and tailings facility.

The partnership expects to work on financing for the project beginning in 2011, with construction starting in 2013. If all goes

as planned, the mine could start producing minerals as early as 2016.

But the analysis released last week by the environmental group Earthworks suggests that the project could face significant difficulties. While the companies have yet to enter the permitting phase of the project, the proposal already faces opposition from a variety of groups as well as potential legal hurdles.

Those opposed to the mine include Bristol Bay residents, Alaska native tribes and the commercial and sport fishing industries, which generate \$250 million to \$320 million annually for Alaska's economy and provide thousands of jobs. In addition, 18 leading jewelers in the United States and Great Britain -- with combined sales of \$3.5 billion -- have pledged not to buy gold from the mine.

The project could also be delayed by pending lawsuits against the state of Alaska, which has permitting authority for the project, or derailed by [legislation](#) being considered at the state level that would create protections for Bristol Bay salmon.

David Chambers, head of the nonprofit Center for Science and Public Participation and a technical reviewer of the Earthworks report, said no other mining project in North America comes close to the scale, complexity and technological challenges that face the Pebble project.

Appeal to lenders

Environmentalists hope the report will be of particular interest to lenders, especially those who have made environmental and social commitments in their lending policies and practices.

Investors are increasingly taking into account environmental and reputational risks, particularly with regard to mining. For example, the Norwegian Pension Fund, one of the world's largest sovereign wealth groups, divested from Rio Tinto and Barrick Gold due to environmental risks associated with specific mine projects.

Jonas Kron, an analyst with Trillium Asset Management Corp., which manages approximately \$900 million in assets for institutional and individual clients, noted that financial services companies also faced multiple challenges related to mountaintop removal mining in the United States that led some lenders, including Bank of America, to withdraw their financial support for such projects. Kron said the Pebble project could present similar challenges for the financial services firms approached by Anglo American and Northern Dynasty.

"My guess is that none of the financing companies are going to relish the prospect of having to go through again the same debate they have gone through and are going through with respect to mountaintop removal," Kron said.

In addition to costs associated with political opposition, the report highlights other risks including:

- Operational uncertainties, including securing contested water rights to billions of gallons of water a year; building a 100-mile road and 200 miles of transmission lines across rugged, undeveloped terrain; the construction of a new deepwater port; and the development of a facility capable of providing 600 to 700 megawatts of power.
- Legal and regulatory challenges, including an estimated 60 permits that must be secured and the likelihood of lawsuits stemming from the issuance of such permits.
- Technical and environmental challenges, including the construction of dams to store an estimated 9 billion tons of mine waste that would have to be secured in one of the world's most seismically active zones.

Earthworks hopes potential investors will be receptive to the report's findings and factor the information into their decision-making process, said Bonnie Gestring, a policy adviser with Earthworks who prepared the report along with attorney Steve Herz.

"Building a massive mine in the headwaters of the world's largest salmon fishery is risky business," Gestring said.

'Repackaged claims'

But Mike Heatwole, a spokesman for the Pebble Partnership, said the report is simply a repackaging of claims those opposed to the project have cited before. Moreover, he said, much of the criticism is based on speculation. He noted that the company has not yet come forward with an official proposal, so speaking definitively about the project's plans and outcomes, as the Earthworks report does, is premature.

Once a formal proposal is completed next year, the Pebble Partnership intends to take the plan to communities around Bristol Bay. "Then, we can have a conversation based on facts, not a lot of rhetoric, which is what we get right now," Heatwole said.

While acknowledging that the project will face some significant challenges, including protecting Alaska's salmon fishery, Heatwole said those issues can be addressed through careful planning. "We have to demonstrate that we can protect the fishery or the mine won't be built," he said.

Heatwole further added that infrastructure challenges are nothing new for projects in Alaska. For example, oil and gas companies on Alaska's North Slope and the Red Dog Mine in northwest Alaska faced similar infrastructure challenges before production started in those areas.

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