

Turkey – Treasure Chest or Lobster Trap?

In their heyday, one of the principles that the Rothschilds (supposedly) operated by was that the best time to invest was “when the blood was running in the streets”. In more recent times the mantra has been cited by Mark Mobius, the guru/PM of Templeton as a measure for testing emerging markets for investability. By this criteria Turkey would certainly be a very attractive market for bottom-fishers these days. However for us, the “blood running in the streets” is less attractive if it is our own or that of mining executives, and thus investors should be careful what they wish for.

Multiple terrorist attacks in Turkey have made even walking through the airport or one of the major streets of Istanbul or Ankara an exercise in which one literally puts one’s life at stake. This has been further compounded by the recent attempted coup in Turkey. In the wake of the failed military uprising has come a round of oppression that has sent all indicators of investability (or even moral acceptability) plunging, leaving a challenge for miners that are either established already with operating mines in the country or in the process of proving up mineral properties. From my own bitter experience of the country (running a gold explorer in Turkey for three years) the problems for foreigners doing business in the mining sector there have been brewing over a much longer period and predate the latest terrorist outrages and problematic coups. Turkey under the current regime is just “bad business”.

Treasure Chest?

Turkey sits in the prime stretch of the Tethyan Belt that stretches from Pakistan, through Afghanistan, Iran, Turkey the Balkans and then arches up to become the Carpathian Mountains

in central Europe. Along its way is strewn some of the most impressive base and specialty metals deposits on the planet, not to mention resources in precious metals. For obvious geopolitical reasons the “eastern end” of the belt became a no-go zone in recent decades, except for the truly intrepid, while the western end has been intensively mined in the past but fallen into relative quiescence in the post-Communist period as states morphed into EU territories with varying degrees of mining friendliness (or unfriendliness). Turkey sat in the middle as ostensibly a Western(ish) state with a perceived rule of law and much vaunted “open for business” attitude.

Turkey has been the scene for Western companies, in particular hunting for gold and, to a much lesser extent silver, some desultory hunting for base metals and almost no attention to its specialty metals. There was even a uranium hunt going on with a foreign company involved, looking to service Turkey’s nascent nuclear energy build-up.

Lobster Trap?

The trouble in paradise for miners began way before the political train was derailed. The old adage of “Looks like a Duck, Walks like a Duck and Quacks like a Duck, but not a Duck” held for Turkey and the 800lb gorilla of international mining. Newmont found out a decade ago that the duck could bite even if it didn’t have any of the other advertised qualities. The company held the most advanced gold project in the country, Ovacik, when it ran into “local opposition” that effectively blocked it from moving forward and ended up with Newmont selling out for a song to a local group. The local group went on to greater glory, listing with much fanfare and sharp elbows amongst international investment bankers. It peaked at around a \$3bn market cap in a welter of enthusiasm that it was the “anointed” of the government in the gold mining space, a national champion. The wheels fell off that theory in recent years when the group fell out of political

favour and was accused of being involved with the cleric who is currently getting the blame for the attempted coup. The group's problems mounted. Say no more...

Many is the time that we have heard the claim about how foreigner-friendly the Turkish mining regime is. However, our own experience has been that the devil is in the details, to put it tactfully. Owners of mining concessions in Turkey may have once been able to stake them relatively cheaply but then they find themselves brutally milked for forestry licenses (even when there is nary a tree or bush on their properties). License and concession renewals, and the rigmarole involved, consumes enormous amounts of time and money to the detriment of actual exploration. For a junior miner the effect is somewhat like going to the bloodbank and forgetting to say "whoah".

Then comes the *coup de grâce*. A project gets to the feasibility stage and has to get an Environmental Impact Assessment (a ÇED in the local parlance). This is when the fins start appearing in the water. Someone sidles up to the unsuspecting miner and tells them the news that that they hadn't heard before that to get the ÇED they must take on a local partner – indeed a "secret" partner – and the secret partner will open all sorts of magical doors and, by the way, the secret partner is a free-carry.. A what?? Yes, the secret partner's work is so valuable that he/she gets to have not 5% , not 10%, not 20% but up to 40% of the equity and will pay nothing for the privilege. Indeed the foreign miner should consider themselves favoured that the tailor to the Great & Good or the person who is a human hot water bottle to "Number One" has deigned to choose your humble project to be taken to the Most High. Indeed, it's not just the foreign policy that is Neo-Ottoman in "modern-day" Turkey, it's like the eunuchs in the Topkapi Palace are back in business.

This sets the scene for the naïve miner trying to wrap their brain around how they explain (lie?) to the auditors,

regulators and shareholders as to how they are gifting 40% of the company to somebody that just appeared out of the fog of the *shisha* smoke in the bazaar. This naïve miner, in December 2013, when confronted with a demand for \$1m to a certain minister and \$800,000 to another minister (fortunately, and foolishly, laid out on a fax that the clueless intermediary left in our possession) fled to Istanbul airport, convened a board meeting the next day to repudiate attempts by those seeking *baksheesh* and reported the matter to the TSX. We suspect we were one of the very few to do so.

Like so many others we disappeared from the Turkish scene (making slightly more noise as we departed) but avoiding our own starring role in a personalized version of Midnight Express. Well may one ask of those that haven't departed as to what they had to do to get their ÇED. Don't expect a straight answer because there are laws on the books in Canada, the US and the UK that don't comprehend the existence of "secret" partners.

Post-Coup

Ever ones to put a positive spin on a situation, we are sure there are miners out there that probably say under their breath to investors that the coup was a good thing because it sank the Turkish lira and thus made costs "so much lower". The slight wrinkle in this theory is that "secret" partners like to deal in dollars and they aren't in the business of haggling or giving discounts no matter how hairy the political situation gets.

Conclusion

Regimes that start heading down the road towards totalitarianism rarely have a Road to Damascus and get back on the path to righteousness. Turkey is now on the slippery slide. The EU was prepared to tie itself in moral knots to accommodate the increasing repression of critics. The US was

prepared to play along with a major NATO partner. Now that both have felt the fangs of the dog that bites the hand that feeds, the mood is souring rapidly. Even as we write the history books are being rewritten as to who lit the touchpaper on Syria and who sold arms to both sides in that war and then bought oil from both sides.

Is this a place that one wants to make a mining investment at this point? Sure the geology is great but frankly with Iran, its eastern neighbour in the Tethyan Belt, rising in the acceptability stakes as Turkey takes a dive, and knowing what we know about Turkey's "mining friendly" regime (take a rabies shot before you negotiate), who needs it? Financing money is starting to flow again but it is not, as yet, indiscriminate, and countries with coups, failed or otherwise, in their immediate past are going to be a tougher sell than ones where the regime is stable and trustworthy. With countries like Argentina and Iran coming in from the cold then who needs to be invested in a country that has yet to show an example of any Western miner having knocked the ball out of the field? Turkey will still be around when all this passes. Better to await the coup that finally works out.