

Roughly half of Mexico unavailable for staking

GOV'T SNAPS UP SWATHS OF LAND BEFORE
ENERGY COMPANIES NOTICE STAKING LOOPHOLE

VANCOUVER — The Mexican government has staked over 3.2 million sq. km of mineral concessions to prevent oil and gas companies from exploiting a loophole in Mexican mining law that officials say could have seriously hindered mineral exploration in the country for years. The move means roughly half of Mexico is currently closed off to claim staking, at least for the next few months.



BY GWEN PRESTON

The sudden move came in mid-August with no explanation — mining companies working in the country only realized the land was gone when they tried to stake claims of their own and found them unavailable. As such, speculation over the move abounded until Sept. 6, when the minister of mining for Mexico, Norberto Roque, held a meeting in Vancouver to explain his actions to a crowd of Canadian mining companies working in Mexico.

In short: last year, the Mexican government added methane gas to the list of substances that a mineral concession allowed the holder to extract. Meant only to allow coal mine operators to siphon off the otherwise wasted and dangerous gas byproduct, on closer review, the new government realized the change would have actually allowed oil and gas companies to stake large mineral claims in Mexico for future gas exploration, tying up the mineral rights for years.

To prevent that from happening, the Mexican government staked four vast claims. The largest claim, named Pacifico, covers 2.8 million sq. km and includes an area extending out more than 1,600 km

from the coast over the Pacific Ocean. The 1 million-sq.-km Hidalgo claim covers land and sea in the eastern part of the country, while the smaller Juarez and Mexicali claims cover the Baja Peninsula and a chunk of northeastern Chihuahua state, respectively.

The Mexican Geological Survey (Servicio Geologico Mexicano or SGM) will survey the huge claims, outlin-

ing the parts that hold high gas potential. The government will maintain its hold on those parts, making them available to interested energy companies through a bidding process. The rest of the claims will be released, free for anyone to claim. The evaluation process could take up to three years, though areas with high mineral potential are being prioritized and should be reviewed by year-end.

Reaction from the crowd was mixed. One geologist with 13 years' experience



BY JAMES WHYTE

Large swaths of land, like this valley in Jalisco state, Mexico, have been claimed by the Mexican government in an effort to close a loophole that could allow oil and gas companies to stake large claim blocks and hold them with only an aim to long-term development. Mexican government officials tried assuage the concerns of Canadian miners and explorers at a recent meeting in Vancouver.

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with a major oil company (who wished to remain anonymous) supported the move, saying that if oil companies had seen this loophole none of the land would be available at all because they would have staked it. Others were less optimistic, pointing out that oil and mineral rights often overlap and the bidding process will hurt small companies, and noting that the move puts strain on the relationship between explorers and the SGM. But Roque stressed that the move was necessary to protect the mining industry.

“The moratorium on staking has two faces — mining companies can’t stake right now, but neither can a gas company who holds it for years without doing any work,” he told the audience. “That would not be good for Mexico, and it would not be good for you.”

The long version

The loophole came into being in April 2006, when the former federal government altered the law governing mining concessions in response to the disaster at Pasta de Conchos, an underground coal mine in the state of Coahuila, where 65 miners died in a methane explosion that February. Only two bodies were ever recovered.

The disaster prompted the government to look at ways of allowing coal-mining companies to extract and sell methane gas, both to avoid future accidents and to help Mexico meet its energy needs. A ban on siphoning off and selling methane from coal mines to protect state energy company Petroleos de Mexico’s (Pemex) monopoly on producing and selling natural gas was, at the time, resulting in significant volumes of wasted methane. Mexican steelmaker **Altos Hornos de Mexico** (AHMSA-M) said 150 million cubic metres of methane was seeping into the air from Mexican mines annually, worth an estimated \$200 million.

The modified mining law contained two

major changes. First, gas associated with mineral coal was included as a concessionable substance. Second, the sea bottom was opened for concession claiming.

The intent behind the first change was simply to allow coal mine methane to be extracted and sold, rather than being a wasted and dangerous byproduct. But the law did not stipulate the gas could only be extracted as a mine byproduct; it simply included gas associated with mineral coal as a concessionable substance, along with everything from iron to gold.

After a summer federal election, the new government had until December to publish the full rulings relating to the new mining law. In preparing the rulings, Roque saw the law had created a loophole: large oil and gas companies interested in extracting coalbed methane could stake large claims in Mexico to explore at some future date, when other energy sources dried up, and in holding the claims would prevent hard rock miners from being able to get hold of any land.

“It was possible for a company to say: ‘The underground gas here is concessionable, so we want this large claim,’ and that would stop all other mining activities in that area, even though the concession might sit unexplored for a very long time,” Roque explained. “We realized we had to do something to protect the mining industry.”

To prevent energy companies from grabbing the large claims to which they hadn’t yet noticed they were entitled, the government staked large claims in the four regions of Mexico with potential for coalbed methane and assigned those claims to the SGM. All of the areas not considered to have high potential for gas exploration will be released. As well, existing mineral claims are unaffected by the government’s claims, even if an existing claim is now completely surrounded by government-controlled land.

Roque said that even though a signifi-

cant amount of the land area will be released, the vast claims were necessary nonetheless.

“We couldn’t do the gas exploration first and then make our move because we didn’t want to signal what we were doing to the oil and gas companies,” he said. “If they had realized about the loophole, it would have been too late.”

Evaluating the claims for areas of high gas potential is a process that could take up to three years to complete. To minimize impacts on hard rock mining, the four prime mineral areas covered by the new claims will be reviewed first: government concessions in Chihuahua, Sonora, Baja California, and Hidalgo provinces are to be evaluated and, if not considered as high gas potential, released by the end of 2007. Southern Mexico is the next target, followed by the east of the country. If a mining company wants to stake a claim on land before it is reviewed, it can request the review be expedited.

“What we are doing is working to support and promote mining in Mexico,” Roque said. “This is not a political move; it is a proactive, business-minded move. Gas is not in the same price cycle process as minerals, which means we had to move.”

As for why he didn’t go after the root of the problem and try to reverse or alter the law’s inclusion of methane as a concessionable substance, Roque was reluctant to talk on the record. However, he indicated that because the disaster at Pasta de Conchos is still a recent, painful and politically charged event — especially considering the history of oil and gas exploration in Mexico and the relatively poor safety records of Mexican coal mines — a political reaction to the situation could well stall or backfire. He recognizes that a legal solution is likely the best in the long term, and indicated his department may try to change the law later.