

## **THE ROSIA MONTANĂ MINING PROJECT A BUSINESS-PSYCHOLOGY PRESENTATION**

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### **—Abstract —**

*In 1997, a Canadian corporation obtained the concession license for exploitation of gold and silver ores of an old Roman gold mine, at Rosia Montană, Romania, with the intention of developing it into one of the most ambitious business projects, of Eastern Europe.*

*The intended technology for the project was “gold cyanidation” (also known as the cyanide process or the MacArthur-Forrest process) a technique for extracting gold from low-grade ore by converting the gold to a water soluble coordination complex.*

*The essential agreement was a Canadian, 80% – Romanian 20% cooperation project, according to which, the Canadian corporation was to take the extracted gold out of the country leaving behind the cyanide-poisoned environment.*

*Such a deal could have succeeded only as a result of a vast public relations campaign, which had to rest on the best possible application of business psychology factors. This paper examines the Rosia Montana project by using Herbert A. Simon’s views of the decision making processes in a given organization.*

**Key Words:** *decision making, Herbert A. Simon, psychology, Rosia Montană*

**JEL Classification:** D70

### **1. INTRODUCTION**

The Rosia Montană mining project in Romania is one of the most ambitious business projects, of Eastern Europe, ever.

In 1997 an old Roman gold mine, which was declared non-profitable for exploitation by the Romanian government, was purchased by the Gabriel Resources, a Canadian Company. The alleged simplified version of the deal was

to have RMGC mine the Rosia Montană site, extract the gold from the ore by the use of cyanide, and then take the gold out of the country, leaving a 20% of the profit, and the cyanide-poisoned landscape for the Romanian government. As expected, to have such a deal approved, RMGC had to invest seriously into a public relations campaign, which was to make politicians, economists, and government officials, agree to the deal. In the case of the local population, however, PR was not enough. It took straight forward psychological warfare initiatives to make the locals not only understand but also agree, that the destruction of their environment, including the villages, with its houses and churches was good for everybody. Attractive relocation plans for the affected population were promoted, along with innuendoes of great profits for all involved.

The project soon ran into serious oppositions and was halted, but not terminated. While politicians, businessmen, economists and government officials, are still struggling to find a palatable method to spoon-feed the deal to, not only the locals, but now pretty much to the whole world, a new sensational technical break through surfaced.

The focus of this paper will be on the psychology of the decision making process of large business deals, as laid out in Herbert Simon's theories, and applied to the Rosia Montană case.

## **2. THE PSYCHOLOGY OF DECISION MAKING: HERBERT A. SIMON**

Decision-making is a process in economics with complex psychological factors. In this part of my paper I would like to present a few theses of Herbert A. Simon about his views of the decision making processes in an organization.

According to Simon, economics and psychology are illuminating the organizational decision making processes and we can understand decision making in its most general sense. (Mahoney, 2005:2)

“The classical theories of economic decision making and of the business firm make very specific testable predictions about the concrete behavior of decision-making agents.” (Simon, 1978:346)

Organizations make decisions through processes of human logic and thinking, with psychological influences. A decision always has a purpose to accomplish, to achieve a goal.

The process of decision making includes three steps: first, listing all the alternative strategies, then determinate all the various consequences of the

decisions, and finally, a comparative evaluation of these sets of consequences. (Simonsen, 1994:3)

“Within these three steps the function of knowledge in the decision-making process is then to determine which consequences follow upon which of the alternative strategies (Simon, 76, p. 68), the problem of choice becomes one of describing consequences, evaluating them, and connecting them with behavior alternatives (Simon, 76, p. 77), and this evaluation involves a listing of the consequences in their order of preference, and the choice of that strategy which corresponds to the alternative highest on the list (Simon, 76, p. 73).” (Simonsen, 1994:3)

It is important that the decision-maker knows the steps of the decision-making process, in order to utilize all means to make the best decision to achieve ones goals.

Sometimes an organization cannot connect its goals operationally with its actions. In such cases, the decisions will refer to a sub-goal that can be connected. The formulations of these subordinate goals are depending on the decision-makers knowledge, experience, and the organizational environment. (Simon, 1978:353)

Simon writes that in order to transform an unsolvable decision to a solvable one there are some procedures. In the first place the satisfactory choices are better than the optimal ones; another procedure is to replace the global goals with tangible sub-goals. Another important procedure is that the decision-making task has to be divided up among the specialists of the organization. (Simon, 1978:353-354)

“Decision processes, like all other aspects of economic institutions, exist inside human heads. Decision processes are subject to change with every change in what humans know and with every change in their means of calculation. [...] Simon (1982) suggests that organizational economics will progress as we deepen our understanding of human thought processes and will change as human individuals and human societies use progressively sharpened tools of thought in making their decisions and designing their institutions.” (Mahoney, 2005:51)

“Simon (1947) suggests the following mechanisms of organization influence:

- The organization divides work among its members. By giving each worker a particular task to accomplish, it directs and limits attention to that task.
- The organization establishes standard operating procedures.

- The organization transmits decisions by establishing systems of authority and influence.
- The organization provides (formal and informal) channels of communication running in all directions through which information flows.
- The organization trains and inculcates its organizational members.” (Mahoney, 2005:15)

The authority can be defined as “the power to make decisions which guide the actions of another.”(Simonsen, 1994:6) This authority is a relationship between a superior and a subordinate individual. (Simonsen, 1994:6)

Communication is the important part of the organizational influence this is how the information, the goal of the decision can achieve the target audience. Formal communication is expressed by the media’s letters, reports, and spoken word. Informal communication is built around social relationships. (Simonsen, 1994:6)

Human decision-making takes place in a wide variety of situations. There are many similar theories to account for these data. They incorporate the search for alternative decisions, targets, and satisfying goals. We can understand many of the mechanisms of human rational choice. We know that people use their information processing capacities to seek out alternatives, calculate consequences, resolve uncertainties and find ways of action that can satisfy. (Simon, 1978:366-368)

### **3. ROSIA MONTANĂ – HISTORY AND PRESENTATION OF THE ACTUAL SITUATION**

Rosia Montană is a commune of Alba County of Romania. It is located in the Valea Roşiei, where the Rosia River flows. The area is rich in mineral resources and these minerals have been exploited since Roman times. The first written notice is from 6th February 131, when the name of this locality was Alburnus Maior. The gold mining was the basic and specific activity of this place, since the 2nd century, during the Roman occupation.

After the Romans left Alburnus Maior (today Rosia Montană), the mining was practiced occasionally, just for the personal need of the people of the villages. Mining appears to have started again in the 13th century, when the Hungarian Kingdom brought over the German colonists. This continued until the 18th century, and with the beginning of the Austro-Hungarian Empire, the mining was greatly expanded.

In 1948, after a break in the warring periods, the mines were taken over by the Romanian state, and underground mining was practiced until the late 1960s. After that time, in the 1970s, an open cast pit was constructed, and the mine was operated by Rosiamin, a subsidiary company of RAC (Regia Autonomă a Cuprului din Deva, a state-owned company). Only primary mining stages took place in Roșia Montană, while the ore was extracted by the use of cyanide leaching at Baia de Arieș and the final processing took place in Baia Mare. The mine from Rosia Montană was closed in 2006, because of losses, lack of investments and lack of funds for development.

1996, however, a Canadian company, Gabriel Resources, showed interest in the mining operations in Rosia Montană. It created the EURO GOLD RESOURCES S.A. in 1997, which changed its name into Roșia Montană Gold Corporation (RMGC) in 2000. RMGC is owned 80% by Gabriel Resources, 19.3% by the Romanian government via Minvest Deva, and 0.7% by local businessmen.

RMGC obtained the concession license for exploitation of gold and silver ore in the Roșia Montană area in 1999. According to the projected goals of its business plan RMGC expects to exploit around 300 tons of gold and 1600 tons of silver from four open pits. According to the plan, tailings will be retained from the technological processes after the gold and silver has been exploited. These tailings, polluted with sodium cyanide, will be collected and stored in a large reservoir behind a dam of 185 m high made of rock. The lake's capacity will be 250 million tons over a 100 hectare surface (600 hectare according to other sources)

#### **4. THE PSYCHOLOGICAL FACTORS AT WORK IN THE CASE OF ROSIA MONTANĂ GOLD MINING PROJECT**

The goal of the RMGC is to be the one who has all the legal rights to exploit the minerals in the Rosia Montană area. The company wields influence and psychological pressure over the people of Romania, the government, environmental protection area, the residents of Rosia Montană and everybody else who has a decisive role to play in the implementation of the Rosia Montană Gold Mining Project.

Why would RMGC want to start this project? As with every business, the goal is the profit. And if this project materializes, the RMGC will gain a huge profit from it, which is the main goal of the whole process.

For the company to realize this goal, it has to make a series of decisions. Every decision is made to achieve a sub-goal, which leads to the main goal. The decision

makers of the RMGC are examining and evaluating all the alternative strategies which can be used to achieve each appointed sub-goal. After this evaluation they can make their choice, depend on which decision will have the preferred consequences.

A few of the RMGC sub-goals could be:

- To convince The Ministry of Environment about the safety of the Rosia Montană Gold Mining Project regarding pollution
- To obtain any missing permissions
- To make the residents of Rosia Montană consent to move and sell their properties and houses
- To convince the Romanian Government and the citizens that the project will benefit them
- To put the Rosia Montană Gold Mining Project in practice as soon as possible

To obtain these sub-goals, the RMGC must go through several decision-making processes, which have major psychological factors. Many psychological methods are used in their decision-making processes.

The Rosia Montană Project has its benefits and risks. It is important to know these benefits and risks, in order to understand whether or not this whole project is useful for Romania in every way.

The Gabriel Resources from Canada, being the main shareholder, will gain 80% from the profit. The project location being in a disadvantageous zone, the RMGC will benefit from a 10-year tax exemption and the cutting of customs taxes. This way the company can export the gold and silver at a very low price. (I. Haiduc, 2010)

The Romanian State will gain 19.3% from the profit, which is a negligible amount compared to the profit of the Canadian company. The State's only income from taxes will be the sum gained from the taxes paid after the worker's salary. The other income from taxes is canceled because of the location's disadvantageous zone.

As for the residents of Rosia Montană, they are promised job possibilities. This benefit is relative, because it won't be a large number of jobs, and it will be available just for few years, until the project ends. This is a project risk, and an

economical and social risk. The area will be a seriously affected and greatly polluted, and the social problems won't be solved for long period of time. After the project ends, the area won't be able to offer any further job opportunities. Furthermore, the workforce will also be supplemented by workers from outside locations, even foreign countries, in the cases of expert workers and specialists. In conclusion we can say that these benefits for Romania are relative, minimal, unsecure and debatable.

The technology that is planned to be used is based on the exploitation of the gold and silver with the use of sodium cyanide solution. This technology will gravely affect the environment. The open exploitation will produce a significant degradation; it will mutilate the landscape and severely pollute soil, water and air. Explosions will be implemented five times a week. The mountains will be blasted with 20 tons of dynamite per day. This also presents a risk of vibrations, which could have negative effects. These vibrations could result in the weakening and crashing over of the old buildings and old mining galleries. In such a case it won't leave any option for quick environmental regeneration, due to the severity of the pollution and destruction. This fact will result in a destroyed landscape, not just in Rosia Montană, but in the greater area of the Western Carpathians as well. The destroyed landscape and the polluted area will cancel the touristic potential of the whole place, and this area won't attract other investments either.

To persuade the residents of Rosia Montană to consent to move and sell their properties and houses is one of the sub-goals of RMGC. To make this goal happen, they use psychological factors in their decision making process, wherewith they can influence the residents.

There are some facts that show clearly how the company manages this situation in that area. In the first place the RMGC is telling just part of the whole truth, focusing only on the benefits. They promise jobs, better life quality, etc. And these promises have had the desired effect, because most of the young are consenting to move. 30% of the people want definitely to stay, and the third group of residents has not decided yet. The company pressures the people who are living there directly and indirectly. For example a police officer uses the Gold Corporations car. The mayor was elected in 2002 because he promised to get the Gabriel Resources Company out of Rosia Montană. After the election the mayor started supporting the mining project. The RMGC's people are visiting the residents every day, and pressuring them to sell their houses and move, because if not, they will remain without a roof over their heads and without a sum of money. If they agree to sign the contract, they are allowed to stay in their homes until the

constructions for the project begins. The residents are under stress, and uncertain, unable to decide what to do. The people of Rosia Montană see every time when a neighbor or a friend sells their house and they become more insecure, and might break. This is already an abused community; people don't agree with each other anymore, there are constant conflicts and stress between the residents. Furthermore, The Gold Corporations people are threatening the miners that if they resist, than they won't get jobs at the exploitation.

To convince the Romanian Government and the citizens about the potential benefits of their project, the RMGC spent in the last three years more than 12 million Euros on publicity. From this sum of money, almost every Romanian media company was given a share. The most viewed Romanian news TV channel, Realitatea TV, received 2 million Euros. RMGC invited, on own expense, the leading journalists from the most important media companies to a study-trip to New-Zealand. The purpose was for the journalist to see a gold-mine which uses cyanide-technology. Some of the Romanian journalists denounced this act, because they argued such kinds of trips will affect the authenticity of the participant journalists and their work.

To convince The Ministry of Environment about the safety of the Rosia Montană Gold Mining Project, concerning the pollution and to obtain the missing permission, RMGC is greatly publicizing the safety of this project and the validity of its safety guaranties. These documents are detailed with lots of explanations and promises about the technologies safety and about the predicted future. Clearly, promises are promises and not guarantees, - as for guarantees, it is hard to even imagine, how anything could be guaranteed in such a complex and complicated business deal. Nevertheless, it is these guarantees upon which depend the safety of thousands of people and the safety of large areas of land, water and air.

## **5. CONCLUSION**

Observing the whole decision making process that the RMGC is practicing; one can tell that it has a strong psychological side. The company had to invest a serious sum of money, work and energy to put the whole planned psychological campaign into action. It is also true, however, that in terms of risks and threats to people and to the environment, the projected benefits of the Romanian side are dwarfed by the expected benefits of the Canadian Company. Consequently, RMGC has no choice but to implement functional psychological methods in their decision-making processes, to make a strong case for the projected benefits of their project, which seeks to over-shadow the numerous negative consequences.

Simon is right that it is useful to make sub-goals, and that a well-constructed decision making process can lead to the realization of these sub-goals, - which will bring us closer to the main goal. Indeed, in the case of the Rosia Montană Mining Project, the psychological strategy worked for the break down and for the establishing of sub-goals, such as: the acquiring of the license, the forcible relocation of the population and the possible destruction of the settlements, and the environment, but it is arguable how close it got to the main goal. The psychological campaign failed in counterbalancing the over-advertised gains and benefits of the project, versus its destructive profit-driven main goal. The pursuit of the sub-goals has created such a strong national and international antagonistic reaction that it may well be that Simon's sub-goals strategy has backfired. Whether or not the Rosia Montană Mining Project will succeed according to the projected goals of RMGC remains to be seen.

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