

AFRICA RISK CONSULTING**Guinea Monthly Briefing September 2017**

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The Guinean government signs a 20-year \$20 billion loan deal with China in exchange for bauxite concessions. Protests break out in the mining town of Boké as local residents demand improved provision of electricity and water. United States (US)-based Hyperdynamics Corp announces that the Fatala-1 offshore exploration has not encountered hydrocarbons. Nigeria-based South Atlantic Petroleum Ltd (SAPETRO) announces that it will withdraw from the joint operating agreement (JOA) with Hyperdynamics and assign its 50% interest to Hyperdynamics free of cost.

Guinea signs \$20 billion loan with China

A **Guinean** government delegation signed a 20-year \$20 billion loan deal with **China** in exchange for bauxite concessions, after the **BRICS** Summit in **Xiamen** (China) on 6 September.¹ In exchange for the funds, over three times Guinea's national gross domestic product (GDP) of \$6.3 billion, Chinese companies will develop two mines and an alumina refinery in **Boffa (Boké Region)**.² The Chinese government will spread out disbursements from 2017 to 2036, with an estimated interest rate of between 4-6%.³ Guinean government officials claim that the true market rate for such a loan would be between 8-15%, even among multilateral lending institutions.⁴ The first disbursement will comprise \$1.4 billion for the 2017/2018 period.⁵ China is the world's largest producer and consumer of aluminium, and requires secure long-term access to the resource. The Chinese companies plan to increase bauxite ore production by almost 60 million tonnes per year by 2020.⁶ Guinea is Africa's single largest producer of bauxite ore, aluminium's derivative ore.⁷ President **Alpha Condé** (2010-present) in April designated the Boké Region a special economic zone (SEZ), after a Chinese delegation visited Guinea in March.⁸ The SEZ will facilitate export of mining products.⁹

Chinese state-owned **China Power Investment Corp (CPI)** will develop the alumina refinery, while **Aluminum Corp of China Ltd (Chinalco)** and **China Henan International Cooperation Group** will respectively develop a bauxite mine.¹⁰ Mines minister **Abdoulaye Magassouba** confirmed that the revenue from the mines will act as the reimbursement for the loan.¹¹ However, Magassouba specified that the repayment from mining revenues would be calculated from the fiscal revenues from the mine, and not from the output in tonnes.¹² Magassouba said that the funds would be used to build a \$400m road rehabilitation project, covering 330 kilometres of road, a \$700m expansion of the port of **Conakry**, as well as the extension of the **Université de Sonfonia** (Conakry).¹³ State investment minister **Kassory Fofana** explained the government's intentions in signing the deal,

¹ Guinée News, 6 Sept 2017.

² Guinée News, 6 Sept 2017.

³ Multiple sources: Guinée News, 8 Sept 2017; Jeune Afrique, 8 Sept 2017.

⁴ Guinée News, 8 Sept 2017.

⁵ Guinée News, 8 Sept 2017.

⁶ Financial Afrik, 7 Sept 2017.

⁷ Reuters, 6 Sept 2017.

⁸ Source, mining journalist, Conakry

⁹ Source, mining journalist, Conakry

¹⁰ Guinée News, 6 Sept 2017.

¹¹ Reuters, 6 Sept 2017.

¹² Guinée News, 8 Sept 2017.

¹³ Reuters, 6 Sept 2017.

*“We do not have money and we want to move quickly. We do not want to wait until we have **Simandou** tomorrow before starting to build our infrastructure in order to attain our goal of double digit growth. In asking for loans, Chinese financial institutions cannot commit without a guarantee from the Chinese state. In this case, the Chinese state is the guarantor whilst also helping its private sector.”¹⁴*

Fofana said that the deal will entice the partnering Chinese companies to accelerate their prospecting, as repayment of their loan is dependent on the mines’ revenues, especially as the full evaluation of resources is not known.¹⁵ Fofana said that this sort of agreement has a positive impact on mining development,

“This is the advantage of such an agreement, as prospecting is often expensive and implies sunk costs. From that moment on, the probability of finding exploitable resources is hypothetical.”¹⁶

According to speakers at the **International Bauxite Alumina & Aluminium Society (IBAAS) 2017** conference on 21 September, there are 32 billion tonnes of bauxite reserves in Boké Region.¹⁷ However, head of the non-governmental organisation (NGO) **Action Mines Guinée, Amadou Bah**, says that there is no concrete information of the amount of resources attributed to the Chinese companies,

“Is this not a deal which bypasses public tendering processes? Will the value of the infrastructure reflect the value of the exported minerals? For the moment, we haven’t heard this from government, which negotiated the deal without giving many details.”¹⁸

Chinalco – which will develop the **Simandou** iron ore mine – will develop the same bauxite mine as that which **Anglo-Australian BHP Billiton Ltd** had abandoned in 2013.¹⁹ Chinalco says it will invest up to \$500m in development of the mine.²⁰ CPI’s alumina refinery project has been in the pipeline since 2012, for which CPI planned to invest around \$6 billion.²¹ The refinery plans to produce an annual output of 4 million tonnes of alumina (or aluminium oxide), before final transformation into aluminium in China.²² The project also planned to include a deep-water port in Boffa, as well as a power plant.²³

The agreement with CPI, Chinalco and Henan is politically sensitive. Many members of the Guinean opposition have been critical of the deal following the long, public trial of former mines minister **Mahmoud Thiam**, sentenced in August to seven years in prison for receiving and laundering bribes from China-based companies (see *ARC Briefing Guinea August 2017*). One local mining consultant believes that the current deal with China follows the \$7 billion infrastructure-for-resources deal signed with **China International Fund (CIF)**, the group that the **Manhattan United States (US) Court** for the **Southern District of New York** found to have bribed Thiam in 2009,

*“This agreement is an update to the pact signed in October 2009 by the **Moussa Dadis Camara (2008-2009)** military junta government with CIF. The 2009 deal had clearly announced that it is a mines for infrastructure exchange, while this one maintains its ambiguity of a loan to be reimbursed through mining revenue.”²⁴*

¹⁴ Guinée News, 8 Sept 2017.

¹⁵ Guinée News, 8 Sept 2017.

¹⁶ Guinée News, 8 Sept 2017.

¹⁷ Source, mining journalist, Conakry

¹⁸ RFI, 7 Sept 2017.

¹⁹ Reuters, 6 Sept 2017.

²⁰ Reuters, 6 Sept 2017.

²¹ Reuters, 21 Dec 2012.

²² Reuters, 21 Dec 2012.

²³ Reuters, 21 Dec 2012.

²⁴ Source, mining analyst, Conakry

Opposition members allege that the ruling **Rassemblement du Peuple de Guinée (RPG)** may misappropriate the funds or use them to support a large “*propaganda campaign*”.²⁵ According to Fofana, however, the mode of transmission of funds will ensure that this does not happen,

*“It’s important to explain the mechanisms that underpin this important agreement for Guinea’s economic development. Not a cent will be transmitted to a public treasury account, nor an account in the **Banque Centrale de la République de Guinée (BCRG)** (central bank). These will be specific projects which will be put forward to the Chinese banks, which, once the profitability has been demonstrated, will accept and finance the projects.”²⁶*

Guinea faces significant infrastructural challenges that need to be addressed before meaningful economic diversification and less reliance on mining are possible. There is also a risk of corruption, considering the history of Chinese investment into Guinea.

... as protests in Boké Region halt mining activities

Protests broke out in the mining town of Boké from 13 September, as local residents demanded improved provision of electricity and water.²⁷ The protests were initially non-violent, but turned violent as they continued over a period of 10 days and led to two deaths and nearly 80 people injured.²⁸ Economic activity in the city all but halted, as protesters vandalised police station vehicles and the RPG’s local headquarters building.²⁹ As one local observer states,

“The whole city was paralysed including businesses, petrol stations, transport. Nothing worked.”³⁰

Youths put up barricades on roads and threw stones, while many were armed with rudimentary weapons, as violence and opportunistic vandalism increased.³¹ As one local said,

“As long as we don’t see electricity, we won’t listen to any speech and we will not remove any barricades.”³²

Police officials confirmed that security forces had temporarily retreated to their barracks.³³ Anti-riot police later returned to the streets and fired tear gas at protesters.³⁴ Some security force members allegedly even fired live rounds at the protesters.³⁵ The protests later extended to the town of **Kolaboui**, which lies on an important mining transport route near the **Sangaredi** plateau.³⁶ Although mining companies did not comment officially on the economic impact of the protests, local mining experts believe that the damage has been significant,

“The operations of companies that work there [in Boké] were heavily affected. Expatriates were evacuated by private security companies.”³⁷

Boké Region is the most competitive region in political terms, and therefore is also prone to political protests. Although Condé is a Boké native and the Guinean electorate tends to vote on lines of ethnicity and region, the RPG obtained only 48% of votes in **Boké Prefecture** (the most populous

²⁵ Guinée News, 8 Sept 2017.

²⁶ Guinée News, 8 Sept 2017.

²⁷ APA, 13 Sept 2017.

²⁸ RFI, 22 Sept 2017.

²⁹ RFI, 14 Sept 2017.

³⁰ AFP, 13 Sept 2017.

³¹ BBC, 17 Sept 2017.

³² Guinée Matin, 19 Sept 2017.

³³ BBC, 17 Sept 2017.

³⁴ AFP, 13 Sept 2017.

³⁵ AFP, 13 Sept 2017.

³⁶ RFI, 22 Sept 2017.

³⁷ Source, mining consultant, Conakry

prefecture in Boké Region) in the 2015 presidential election.³⁸ The broader Boké Region is the opposition UFDG's single most competitive electoral battleground for the 2020 presidential election.³⁹ Boké Prefecture is the fifth most populated in the country, and the single largest contributor to the economy, due to its abundant mining resources (see above).⁴⁰ Hence, social tension there is all the more significant. The Boké protesters feel that much of the mineral wealth is unfairly distributed.⁴¹ Boké residents had already held similar protests in April, spurred by the death of a taxi driver after a collision with a truck transporting bauxite, which in turn led to the death of five people.⁴² The recurrence of the protests could indicate that the government response has been inadequate.

Social tension in Boké is particularly sensitive, as it is an area that is both politically and economically important. Political unrest could have significant repercussions on mining revenues in the short term. It is currently unclear whether protests will continue, but mining companies resumed normal mining operations from 25 September.⁴³ So far, the government has made no definitive communication on its response to the protests. However, it appears likely that mining companies will be pressuring the government to accede to the protesters demands.

Hyperdynamics finds no hydrocarbons at Fatala-1 well

United States (US)-based Hyperdynamics Corp on 8 September announced that the **Fatala-1** offshore exploration well has not encountered hydrocarbons.⁴⁴ Hyperdynamics had announced that it had begun drilling, after its deep-water drillship reached its target drilling location, and expected to unlock "world-class oil"⁴⁵ at Fatala-1 (see *ARC Briefing Guinea August 2017*).⁴⁶ Hyperdynamics CEO **Ray Leonard** said the company was disappointed in the result,

"We are very disappointed at the results of Fatala-1, considering the extremely promising geophysical data on the prospect."⁴⁷

Hyperdynamics' local subsidiary, **SCS Corp**, and **Nigeria-based South Atlantic Petroleum Ltd (SAPETRO)** each have a 50% in the concession, which was scheduled to expire on 21 September.⁴⁸ On 21 September, Hyperdynamics announced that it had notified the government that it is seeking a two-year appraisal period under its current production-sharing contract (PSC).⁴⁹ Hyperdynamics said that after further analysis of the Fatala-1 results, there is still potential for extraction,

"Based on further analysis of the results of the recently drilled Fatala-1 exploration well... we believe that we have made a petroleum discovery that implies the presence of commercially exploitable resources as specifically defined in our PSC."⁵⁰

However, people are now doubtful of Hyperdynamics' ability to extract oil:

"Public opinion is very sceptical of effective completion of oil exploration at Hyperdynamics. People are waiting for the annual report before changing this stance... Even at the [state-owned] Office Nationale de Pétroles (ONAP) (national petroleum office) many engineers doubt the

³⁸ Multiple sources: www.ceniguinee.org; www.stat-guinee.org

³⁹ Multiple sources: www.ceniguinee.org; www.stat-guinee.org

⁴⁰ Multiple sources: www.ceniguinee.org; www.stat-guinee.org

⁴¹ RFI, 14 Sept 2017.

⁴² RFI, 28 Apr 2017.

⁴³ Reuters, 25 Sept 2017.

⁴⁴ www.hyperdynamics.com

⁴⁵ www.hyperdynamics.com

⁴⁶ www.hyperdynamics.com

⁴⁷ www.hyperdynamics.com

⁴⁸ www.hyperdynamics.com

⁴⁹ www.hyperdynamics.com

⁵⁰ www.hyperdynamics.com

effectiveness of the drilling. Some people are beginning to call for an independent audit of the Fatala-1 well.”⁵¹

... and SAPETRO withdraws from JOA

After Hyperdynamics’ announcement for application for an appraisal period, SAPETRO announced that it would not apply for an appraisal period extension and would withdraw from the joint operating agreement (JOA), assigning its 50% interest to Hyperdynamics free of cost.⁵² SAPETRO will uphold its liabilities in regard to the PSC and JOA, but will not contribute to the expenditure for the appraisal programme.⁵³ Hyperdynamics said that it would look for partners to share the risks and costs of the appraisal. As Leonard said,

“We remain committed to seeking to create value for our investors. While SAPETRO has decided not to continue exploring with us in Guinea, we want the opportunity to appraise the Fatala prospect area to determine whether or not it is commercial.”⁵⁴

At present Guinea produces neither oil nor gas, despite several companies exploring since the late 1960s.⁵⁵ Hyperdynamics entered the Guinean oil sector in 2004.⁵⁶ In March 2017, SAPETRO and Hyperdynamics agreed to give SAPETRO a 50% stake in the production sharing agreement (PSA) between the government and SCS, in exchange for a commitment to pay 50% of the Fatala well costs, estimated at around \$15-20m.⁵⁷

Although Hyperdynamics has failed to discover commercially viable oil reserves at the Fatala-1 well, the company’s confidence in Guinea’s oil and gas potential shows that there is a good chance of extraction in medium-term. However, it appears unlikely that Hyperdynamics will continue drilling and exploration without the financial support of a partner.

Planner

9 May 2018 **Conakry (Guinea)** *Press Release*. The **Symposium Mines Guinea** (international mining conference and exhibition) **2018** begins;

4 Feb 2018 **(Guinea)** *AFP*. Tentative date for local elections;

Chronology

27 Sept 2017 **(Guinea)** *Africa Guinée*. President **Alpha Condé** arrives in **Moscow (Russia)** for a state visit;

26 Sept 2017 **Conakry (Guinea)** *AFP*. The **Commission Électorale Indépendante** (electoral commission) suggests 4 February 2018 for local elections;

25 Sept 2017 **Boké (Guinea)** *Reuters*. Mining companies resume normal operations after 10 days of protests;

21 Sept 2017 **Offshore (Guinea)** *Press Release*. **Nigeria**-based **SAPETRO** announces that it will withdraw from the joint operating agreement with **United States**-based **Hyperdynamics Corp** and assign its 50% interest to Hyperdynamics free of cost;

21 Sept 2017 **Offshore (Guinea)** *Press Release*. **United States**-based **Hyperdynamics Corp** announces that it has notified the government that it is seeking a two-year appraisal period under its current production sharing contract (PSC);

⁵¹ Source, ONAP employee, Conakry.

⁵² www.hyperdynamics.com

⁵³ www.hyperdynamics.com

⁵⁴ www.hyperdynamics.com

⁵⁵ www.eiti.org

⁵⁶ Multiple sources: www.africanewsmag.com; www.hyperdynamics.com

⁵⁷ *Offshore Energy Today*, 31Mar 2017.

18 Sept 2017 **Boké (Guinea)** *Reuters*. General manager of the **Société Minière de Boké, Frédéric Bouzigues**, says that the company has resumed operations following protests at its three sites on 15 September;

15 Sept 2017 **Conakry (Guinea)** *APA*. Prime minister **Mamady Youla** sacks agriculture minister **Jacqueline Marthe Sultan**;

12 Sept 2017 **Conakry (Guinea)** *Guinée News*. The **Assemblée Nationale** (lower chamber of parliament) adopts a revised 2017 budget;

12 Sept 2017 **Conakry (Guinea)** *AP*. The **United States** will stop issuing certain visas to Guinean officials;

8 Sept 2017 **Offshore (Guinea)** *Press Release*. **United States**-based **Hyperdynamics Corp** announces that it will abandon the **Fatala-1** exploration well, after drilling to a depth of 5,117m below sea level and failing to encounter hydrocarbons;

7 Sept 2017 **Conakry (Guinea)** *RFI*. The **Chinese** government will reportedly lend \$20 billion to the Guinean government over a 20-year period, in exchange for the attribution of mining concessions;

6 Sept 2017 **Conakry (Guinea)** *Africa Guinée*. The opposition **Union des Forces Démocratiques de Guinée** announces it will resume street protests from 20 September;

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