

AFRICA RISK CONSULTING

Country briefing – Guinea

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Summary

President Alpha Condé has started negotiations to replace BSG Resources (BSGR) on the Simandou iron ore project. Mining companies remain interested in the project but hesitant in the global mining downturn. The government wants to secure another long-term partner willing to finance infrastructure alongside Rio Tinto, which owns the adjacent Simandou concessions. Negotiations for financing Simandou infrastructure will also gain momentum in the coming months, after the government moved away from a controversial deal with African Iron Ore Group Ltd (AIOG). There are also unverified reports that the government and its Liberian counterpart have plans for a shared infrastructure investment in order to ship Simandou iron ore through Liberia's Nimba-Buchanan railway before the Trans-Guinean railway is built. As the legislative election deadlock continues, support within the electorate and among international partners for the opposition has weakened. The elections were postponed from the scheduled 30 June 2013 date as expected. Although United Nations (UN)-led mediation had made significant progress, the opposition has pulled out of negotiations.

The government steps up its search for a new Simandou partner

President **Alpha Condé** has increased his efforts to find a new partner for the Simandou iron ore project to replace **BSG Resources (BSGR)**. The government is expected to cancel BSGR's licence. A joint **United States (US)-Guinea** corruption investigation has gathered substantial evidence to prove that BSGR secured its Simandou blocks 1 and 2 licence through corrupt means. The case against BSGR's former agent **Frederic Cilins** is continuing in a **New York** federal court.¹

The government is in negotiation with several companies to re-award the blocks 1 and 2 concession and to work with **Rio Tinto**, the majority shareholder of the adjacent blocks 3 and 4. However, mining

¹ U.S. v. Cilins, 13-cr-00315, U.S. District Court, Southern District of New York (Manhattan).

companies remain interested but hesitant, “*Who is willing in this global climate?*”² The global mining downturn has resulted in significantly reduced investment in Guinea. Finance Minister **Kerfalla Yansané** claims that mining investment may decrease 33% in 2013 on 2012 due to the fall in commodity prices. Investment could fall from \$1.5 billion forecast to \$1 billion, according to Yansané.³

*“There is more urgency in the Guinean presidency to unlock the mining potential. Whether Condé will be around long enough to see it through is another question.”*⁴

The government will also demand large infrastructure spending from any new investor in Simandou,

*“The government has finally realised that Simandou is not just a quick cash cow. They’ve started to realise this is a long-term project and anyone else who comes in will need to spend money on infrastructure.”*⁵

The main candidates for BSGR’s concession include:

- **Vale:** several sources in Conakry have long held that Vale will work with Rio Tinto at Simandou. *“They will come back in some form or another.”*⁶ Vale officials have been frequently seen at Conakry **Novotel** in recent weeks despite the company stalling its joint venture agreement with BSGR for the Simandou and **Zogota** concessions. The 2010 joint venture provided Vale with an entry, *“...they knew the original BSGR deal was rotten and it would be cancelled, but they also knew it would position them for the re-award.”*⁷
- **AGN Participacoes: Roger Agnelli**, the influential former Vale CEO, is now head of this subsidiary of Brazilian investment bank **BTG Pactual**. In September 2012 BSGR threatened to launch legal action against BTG Pactual for seeking to win its Simandou licence.⁸ Agnelli is also allegedly often in Conakry.
- **Glencore Xstrata:** the emerging global player is an *“interesting possibility.”*⁹ Glencore signed an offtake agreement for 50% of the output from the **Forecariah** iron ore mine in August 2012.¹⁰ *“They are getting to the right size and they are expanding in the region.”*¹¹
- **Bellzone:** The joint owner of the Forecariah and **Kalia** iron ore deposits with **China International Fund (CIF)** has signalled its interest in Simandou. However, *“this is unlikely... Simandou needs a big miner.”*¹²

² Source, West Africa correspondent, Senegal

³ Quoted in Bloomberg 31, May 2013

⁴ Source, banking executive, Guinea

⁵ Source, western diplomat, Guinea

⁶ Source, banking executive, Guinea

⁷ Source, journalist, Guinea

⁸ *O Estado de S. Paulo*, 29 September 2012

⁹ Source, banking executive, Guinea

¹⁰ Financial Times, 9 August 2012

¹¹ Source, banking executive, Guinea

¹² Source, banking executive, Guinea

Other iron ore mining companies are active despite the downturn. **Patrice Motsepe**, chairman of **South Africa's African Rainbow Minerals (ARM)**, was in Conakry in late April. In an interview on 24 June 2013, Condé confirmed that the government had awarded ARM an exploration permit and spoke highly of the company.¹³ Condé has close links to South Africa's ruling **African National Congress (ANC)** developed during his time as head of an African student federation in **France, Fédération des étudiants d'Afrique Noire**. **BHP Billiton** officials have also been seen in Conakry despite the company selling its investment in **Global Alumina Corporation** on 15 May 2013 and confirming its exit from its **Mount Nimba** iron ore concession in July 2012.¹⁴ *"They might want to resurrect Nimba... but it's more likely because they can't sell Nimba."*¹⁵

...and kickstarts negotiations over mining infrastructure

Condé will hold negotiations with a leading and reputable bank over financial arrangements for mining infrastructure in July and August.¹⁶ The government has *"moved away"*¹⁷ from a controversial 30 November 2011 Shareholders Agreement between **African Iron Ore Group Ltd (AIOG)** and Guinea parastatal **Société Guinéenne du Patrimoine Minier (SOGUIPAMI)** to develop mining infrastructure.¹⁸ **George Soros** chaired a meeting between Condé and representatives of Simandou partners Rio Tinto, **Chalco** and **International Finance Corporation (IFC)** on the sidelines of the **G8** summit in **London, United Kingdom** on 16 June 2013.¹⁹ The government has conceded that Rio Tinto will not meet the 2015 target to start production. Mines Minister **Mohamed Lamine Fofana** says the \$20 billion project, including the mine, 670 kilometre Trans-Guinean railway and deep-water port in Forecariah, will be delayed due to the *"complexity of the project."*²⁰ Rio Tinto claims it has already spent \$2.3 billion on the project and is waiting for the government to guarantee its share of financing.²¹

Condé's team is also considering using the Liberian export route (Nimba-Buchanan railway) for Nimba and Simandou iron ore before the Trans-Guinean railway is built. There is allegedly a plan for a *"shared infrastructure investment."*²² The Liberian government claims that it has *"commitment"* from the Guinea government to take Simandou ore to Nimba to export through Liberia.

¹³ Jeune Afrique, 24 June 2013

¹⁴ Sunday Times, 15 July 2012

¹⁵ Source, banking executive, Guinea

¹⁶ Source, banking executive, Guinea

¹⁷ Source, banking executive, Guinea

¹⁸ AIOG press release

¹⁹ Guinee News, 16 June 2013

²⁰ Quoted in Bloomberg, 12 June 2013

²¹ Bloomberg, 12 June 2013

²² Source, banking executive, Guinea

Opposition support weakens amid the legislative standoff

The first legislative elections since 2002 have been postponed for the fourth time under President Condé's administration. The **Commission Electorale Nationale Indépendante (CENI)** says it was "*technically impossible*" to hold elections on the scheduled date of 30 June 2013.²³ The opposition candidates have not enlisted in the registration process. The CENI has proposed to hold the elections on 28 July 2013.²⁴ However, holding a vote in the peak of the rainy season and during Ramadan will prove a challenge. No official announcement has been made.

The UN-led mediation had made significant progress. UN mediator **Said Djinnit** secured support from the opposition to join negotiations with the government on 3 June. "*Djinnit is trying to shame the opposition into making some concessions.*"²⁵ By 11 June the opposition agreed to accept the election technical operator **Waymark**. The government agreed to allow the opposition to designate international experts to monitor the CENI and to allow Guineans abroad to vote. Thus, the opposition ended its boycott and pledged to rejoin the registration process.²⁶

However, opposition leader **Cellou Dalein Diallo** withdrew from the negotiations on 20 June. This followed clashes between his supporters and security forces as well as government supporters on 19 June near his residence.²⁷ Diallo is refusing to resume negotiations until the government identifies those responsible for the attacks and assures his personal security.²⁸ Condé returned from a meeting in **Addis Ababa, Ethiopia** and demanded answers from his security hierarchy. He subsequently fired his minister for security, security sector reform and emergency preparedness **Maramany Cissé**, and replaced him with **Madifing Dianè**, a former ambassador to **Senegal**.²⁹ A journalist embedded with troops during the **Mali** conflict went to several recent opposition protests.

"The protests are well choreographed. Act 1: youths start burning tyres and everyone locks up their houses and shops. Act 2: the police arrive and the protesters throw rocks or anything they can find at police. It's chaotic, I didn't have my armour and I was scared. I didn't see any live rounds from the security forces. They were throwing rocks in response. I'm a little sympathetic to the security forces. They seem fairly restrained."

As the legislative election deadlock continues, support for Diallo and the opposition has declined in the electorate and among international partners. "*The embassies do not have a lot of time for Diallo.*"³⁰

²³ Quoted in Jeune Afrique, 18 June 2013

²⁴ Noted in Reuters, 17 June 2013

²⁵ Source, West Africa correspondent, Senegal

²⁶ RFI, 11 June 2013; Reuters, 9 June 2013

²⁷ Jeune Afrique, 19 June 2013

²⁸ RFI, 24 June 2013

²⁹ Guinee News, 27 May 2013

³⁰ Source, journalist, Guinea



“The opposition is getting weaker. They are not offering choices for Guineans. Tactics are more obstructive rather than constructive. Guinean officials are also less worried about electoral support in recent weeks.”³¹

Implications

The government’s recent actions in the mining sector have reassured current and potential investors. Despite the mining downturn, it’s evident that a number of prominent mining companies remain interested in the country. As noted in previous briefings the handling of the BSGR corruption probe is commendable, and the government is starting to take a long-term approach to the management of its resources, an example of which is its attempts to secure reputable financing for the Simandou project. Thus prominent and reputable investors are willing to join in longer term and more transparent partnerships.

That said, the militancy of opposition supporters and obstructiveness of their leaders has resulted in ever-increasing unrest on the streets of Conakry. Investors and diplomats are growing wary and frustrated with the opposition’s motives. The opposition withdrawal from negotiations with the government – despite Condé’s quick action to fire his security minister – will further isolate opposition leaders and may increase Condé’s support.

³¹ Source, banking executive, Guinea