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BSG Role in Guinea's Vale Venture Faces State Review

By Franz Wild February 08, 2012

(Corrects to show that BSG is the subject of the review in the first and second paragraphs. The story was originally published yesterday.)

Feb. 7 (Bloomberg) -- BSG Resources Ltd. didn't follow the law while managing an iron-ore mining license in Guinea, which the company plans to mine in a venture with Vale SA, and the permit will now be reviewed and may be canceled depending on the findings of a commission, Mines Minister Mohamed Lamine Fofana said.

The license will be probed by the commission in the West African nation that will decide on possible sanctions, Fofana said in an interview at the Investing in African Mining Indaba conference in Cape Town today. A way for Vale to keep its stake could be found as BSG is the subject of the review, he said separately today.

BSG "didn't follow the law," Fofana said. "If you want to bring someone in you have to follow the law. Their treatment will depend on the results of the review. If the results show that the infringement merits cancellation, that will happen, if not, it won't."

Vale bought the Simandou North Blocks 1 and 2, previously owned by Rio Tinto Plc, and the Zogota project in Simandou South for \$2.5 billion in April 2010. The government in 2008 ordered Rio Tinto to hand Simandou North over to BSG, which is controlled by Israeli businessman Beny Steinmetz.

Vale fell for the first time in eight days, dropping 0.7 percent to 43.62 reais by 2:29 p.m. in Sao Paulo.

Vale didn't have an immediate comment, an official in Rio de Janeiro said when contacted by Bloomberg News today, declining to be named in line with the company's policy.

Guinea's civilian administration, which replaced a military junta after elections in November 2010, has reviewed its mining code and is reassessing contracts to ensure it draws more benefit from its mineral assets.

Investors 'Protected'

The contract reviews will initially be conducted by "high ranking local staff" supported by international lawyers to protect Guinea from claims that it is conducting an asset grab, before being finalized by the ministerial commission, Fofana said. "The interests of the investor will be protected," he said.

The world's top bauxite exporter will also lower its tax and royalty regime for miners of the aluminum ingredient to remain internationally competitive, Fofana said.

"Guinea is fighting very hard competition" and is far from the market in Asia, Fofana said. Guinea will "give a bonus to investors who are prepared to invest in bauxite" processing, he said, adding that he is studying the competitive advantage nations such as China, India, Indonesia and Australia have.

Guinea needs total investments worth \$45 billion to develop its iron-ore industry and \$20 billion in bauxite mines, Fofana said. The amount refers to both mining assets and associated infrastructure, he said.

--With assistance from Juan Pablo Spinetto in Rio de Janeiro. Editors: Ana Monteiro, Stephen Cunningham

To contact the reporter on this story: Franz Wild in Johannesburg at fwild@bloomberg.net

To contact the editor responsible for this story: John Viljoen at jviljoen@bloomberg.net

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