

The  
Economist

## Mining and corruption

# Crying foul in Guinea

**Africa's largest iron-ore mining project has been bedevilled by dust-ups and delays**

Dec 6th 2014 | From the print edition

“AN emblematic tragedy” is how Sir Paul Collier, an adviser to the British government, describes the situation in Guinea—referring not to the Ebola outbreak (awful though he considers that to be) but the saga of Simandou, a mining project mired in allegations of corruption, expropriation and corporate espionage.



Simandou, a mountainous area in southern Guinea (pictured), has been called the El Dorado of iron ore. It is the world's largest known untapped deposit of the stuff, with enough ore to sustain annual production of 200m tonnes—7% of global iron-ore output—for more than a quarter of a century. Better still, the ore there has unusually high iron content. The potential project cost for the mine, and the railway and port that would be needed to get ore on to ships, is \$20 billion, making it Africa's largest ever proposed mining venture. Guinea could do with the investment: it ranks 179th out of 187 countries in the UN's human-development index. Wags, alas, have taken to calling Simandou “Simandon't”. Exploration rights were first granted in the 1990s, yet the earliest anyone expects production to begin is 2019.

The saga oozes intrigue. Among its cast of characters: two of the world's biggest mining groups, the Anglo-Australian Rio Tinto and Vale of Brazil; Beny Steinmetz, an Israeli diamond tycoon; George Soros, a billionaire philanthropist; Mark Malloch-Brown, a former deputy head of the UN; the wife of Guinea's former leader; and, possibly, members of South Africa's elite and security services. It is, as one lawyer involved in the case wryly puts it, “a slightly Hollywood story”.

The opening chapter was the awarding of exploration licences for four blocks at Simandou to Rio Tinto in 1997. The northern two blocks were snatched back from the company in 2008, as the then dictator, Lansana Conté, lay on his deathbed. The

ostensible reason was that Rio was not developing the site quickly enough. Months later the rights to these blocks were assigned to BSG Resources (BSGR), a firm indirectly owned by a Steinmetz family trust. With no upfront payment required, the deal appeared to be very attractive for BSGR. Mo Ibrahim, an African billionaire, asked whether the Guinean officials who agreed to it were “idiots, or criminals, or both”. After Conté’s death, BSGR sold 51% of its interest to Vale for \$2.5 billion, \$500m of which was paid immediately.

A new government, led by Alpha Condé, took power in 2010, after Guinea’s first democratic elections, and set up a committee to review past contracts. This concluded that BSGR got its blocks through bribery. As a result, the firm was stripped of its concession earlier this year. The government signed a new deal with Rio and its Chinese partner, Chinalco, to develop the two southern blocks they had held onto. This involved Rio having to pay \$700m, part of which was upfront taxes.

This wrangling has generated lots of work for lawyers. Rio has filed a racketeering suit in New York against BSGR and Vale, claiming they conspired to steal the northern blocks. BSGR has an arbitration suit against Guinea; Vale has one against BSGR. The latter is sealed but understood to argue that BSGR duped Vale into buying an asset that was presented as legitimate but had been corruptly obtained. (Vale never paid the remaining \$2 billion to BSGR, but says it spent a further \$700m on Simandou.) In an interview with *Piaui*, a Brazilian magazine, Vale’s former boss, Roger Agnelli, said of the union with BSGR: “A guy can marry a former hooker and only discover years later that his wife used to be a prostitute.”

On top of these actions, BSGR sued Global Witness last year. The firm claims that the group violated Mr Steinmetz’s privacy by publishing “personal” data in its investigative reports on the case, arguing that since Global Witness is not a bona fide journalistic outfit, but an advocacy group, it needs to comply with higher data-protection standards. Global Witness denies this. The case, which is before Britain’s information commissioner and the High Court, could break new legal ground on the free-speech rights of lobby groups. Last year a related case was settled out of court when Mr Steinmetz received a portion of his costs—but no admission of fault—from Lord Malloch-Brown (a former employee of this newspaper) and FTI Consulting, the public-relations firm of which he was a regional chairman. The tycoon had sued for breach of contract and defamation, accusing Lord Malloch-Brown of persuading FTI to cancel a contract to represent BSGR, in response to pressure from Mr Soros (an associate, and a patron of Global Witness).

And then there are government investigations into Simandou, in America, Britain and elsewhere. Last week a court in Florida allowed prosecutors to seize property owned by Mamadie Touré, the widow of Conté, the late dictator, including restaurant equipment and houses, which the prosecutors believe was bought with the proceeds of corruption.

The firm alleged to have given the bribes in the American government's complaint is not named, but it is unmistakably BSGR. The next legal development, expected any day, will be a ruling by a judge in New York on a motion by defendants to have Rio's racketeering suit moved to London, where the bar for proving its allegations would be higher.

Rio's legal complaint is spicy stuff. It alleges that BSGR doled out \$100m in bribes and that Frédéric Cilins, an associate of Mr Steinmetz, befriended staff at the business centre of the Novotel hotel in Conakry, the Guinean capital, to obtain copies of faxes detailing Rio's plans at Simandou. The complaint also claims that Vale feigned interest in buying assets from Rio, months after the Brazilian group had begun secret negotiations with BSGR, in order to hoodwink Rio into showing it confidential information about Simandou's geology. Seeing an opportunity to wrest control of part of the site from its rival "on the cheap", Vale shared this data with BSGR in violation of a confidentiality agreement, Rio alleges.

Testimony and surveillance transcripts from an FBI investigation, made public by the Guinean investigating committee, are particularly illuminating. Ms Touré (who has turned co-operating witness) says BSGR offered her millions of dollars, jewellery, two Toyota Land Cruisers and a 5% stake in the project to persuade her dying husband to sign over the Simandou rights. Some of her allegations are supported by photocopies of cheques. In one transcript, Mr Cilins, having flown to Florida to meet her, urges her to destroy apparently corrupt contracts: "You have to destroy everything, urgently, urgently, urgently." He promises more money if she does, saying the message comes "directly from the number 1". When she asks who that is, he whispers "Beny". In March Mr Cilins pleaded guilty to obstruction of justice and received a two-year prison sentence.

BSGR denies wrongdoing. The company says the seemingly damning documents were "fabricated" and plays down its relationship with Mr Cilins, saying he never signed a formal contract to represent the firm. The Guinean committee was established "to provide a pretext to illegally seize our assets in Guinea", the company states. BSGR says it "looks forward to testing the evidence" at a forthcoming arbitration tribunal.

As for Rio's racketeering claims, a lawyer for BSGR describes them as "amazingly fictitious". Nevertheless, the trust that controls BSGR is said to have hired Joe Lieberman, a former United States senator, and Louis Freeh, former head of the FBI, to conduct an internal probe of the bribery allegations—though the firm will not say whether they have begun their work.

Spooky

The narrative being pushed by BSGR became clearer when it filed its defence in the Rio suit and a request for arbitration. It alleges that the election that brought Mr Condé to power was rigged with help from South African interests. These provided Mr Condé with

financial and other support—including altering voter registers—in return for a promised stake in the nation’s mining assets, including the blocks snatched from BSGR, its arbitration filing states. In another document it names 83 individuals and companies, including South African politicians, businessmen and spies, who could have “discoverable information” that might support its claims.

A spokesman for Guinea’s government says of the alleged election-rigging: “BSGR has never provided Guinea with any evidence to back its allegations.” A spokesman for the Rainbow Coalition, of which Mr Condé’s party is a member, says: “The suggestion that an outsider like Alpha Condé rigged the elections against a military insider [Cellou Diallo] beggars belief.” Guinea’s supreme court certified the poll result, and the Carter Centre, which promotes democracy worldwide, said the electoral process was “broadly consistent with the country’s...obligations for genuine democratic elections.”

Mr Condé has insisted he is cleaning up government after many years of corrupt dictatorship. But some of the regime’s dealings with business raise questions about its judgment. In May, for instance, the Common Court of Justice and Arbitration, the highest tribunal of a west African body overseeing commercial law, ruled that the government acted illegally in tearing up a container-terminal management contract with Getma International, a French company, in 2011 and handing it shortly afterwards to Bolloré, another French firm. The panel awarded Getma \$49m in damages. Guinea scored just 25 out of 100 in Transparency International’s latest corruption-perceptions index, placing it below Ukraine.

The closest thing the drama has to a central character is Mr Steinmetz. But seen from another angle, the colourful individuals, and even BSGR, are a sideshow. The big-picture story is a titanic battle between the giants of iron-ore mining—a business in which BSGR is a minnow—for control of the world’s richest deposits. Some analysts think Rio’s intention all along was to go slow with Simandou, holding it as a defensive play to frustrate global competitors.

The company may have grown less inclined to mine the site: the iron-ore price has fallen by 60% from record highs in 2011. But it is probably also loth to let it fall into the hands of a rival that could reap rewards once the price rebounds. Tellingly, Mr Agnelli said of the joint venture with BSGR: “It was strategically important for Vale not to leave Rio Tinto alone with all that ore.” So important, in fact, that some of the contract terms with BSGR were rushed (or even agreed only verbally), leading to much executive disquiet at Vale.

Rio says it is committed to developing its two remaining blocks. It is less clear how keen it is to regain the other two. The firm has said it no longer wants to increase its exposure to Guinea, but not everyone believes that. If the government were to auction them off—it is

preparing a tender—interest could come from, among others, Vale, ArcelorMittal and Glencore.

But prospective investors will have to weigh up the risks. One is the outstanding legal challenge from BSGR. Bigger ones are political uncertainty—a presidential election is due to be held next year—and Ebola.



### Tunnel vision

Company accountants worry more about the project's steep costs. Simandou sits in a thickly forested mountain range—difficult terrain that greatly raises the cost of building the 650km railway (with 35 bridges and 24km of tunnels) to the coast. It doesn't help that Mr Condé has insisted the tracks run through Guinea to a domestic port, rather than taking a shorter, easier route through Liberia (see map). The government had wanted to take a big stake in the infrastructure but could not afford to. With help from the World Bank's International Finance Corporation (IFC), Simandou's managers are now looking to assemble a private consortium to finance, build and operate the railway and port. Roadshows for potential contractors begin this month. The estimated infrastructure costs are \$13 billion. Whether the project is economically viable will depend on the future trajectory of the iron-ore price.

Simandou could do wonders for Guinea's emaciated economy (GDP per person is a mere \$530). Tom Butler of the IFC, which has a 5% stake in Rio's project, describes it as "potentially transformational": even at today's deflated iron-ore price, it would produce annual revenue for the state of "a multiple of the current annual budget". It could generate tens of thousands of jobs and, thanks to the railway, make agri-business in the country's interior competitive for export. Moreover, success would encourage investment in Guinea's sizeable deposits of other minerals, such as bauxite, graphite and manganese.

But nothing will come out of the ground for at least five years. It could be closer to ten. A recent presentation by Glencore, seen by Reuters, predicted that Rio will not rush to produce iron ore from Africa because its focus in coming years will be on growth projects in Australia.

Meanwhile, the legal skirmishes will continue. The arbitration cases, for instance, could grind on for up to five years—prolonging this cautionary tale of the ugly recriminations that can follow when the rights to vast mineral riches are handed out in questionable circumstances. The beleaguered people of Guinea deserve better.

From the print edition: Business