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Wealth of iron ore in Guinea's Simandou buried by corruption, politics

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Simandou has been called the El Dorado of iron ore, but with a racketeering case and corruption probes under way, the resource might remain untapped for some time

Aerial photographs of the 110-kilometre Simandou mountain range in southern Guinea depict a surreal landscape. Wherever the forest and grasslands are scraped away, the exposed earth is rust red or burnt orange, as if a child had splattered ketchup on a sheet of green paper. The vivid colours are the product of the unusually rich iron oxides in Simandou's iron ore lode.

Simandou has been called the El Dorado of iron ore; it's thought to be the biggest untapped resource of its kind on the planet and is worth a fortune. The problem is, too many companies want a piece of it and the intrigue and alleged corruption that have surrounded its exploitation seem lifted from a John le Carré espionage novel.

The battle for Simandou's iron ore has gripped the mining world for more than a decade. It has pitted two of the world's biggest miners – Rio Tinto Group and Vale SA – against each other and ensnared an unlikely resources player in the form of Beny Steinmetz, the buccaneering Israeli billionaire who built an empire out of diamonds and recruited Vale as his Simandou partner.

A racketeering case against Mr. Steinmetz and Vale is underway in New York, and investigations into possible fraud by Mr. Steinmetz and companies associated with him are ticking away in several countries, including the United States and Switzerland. The outcome of the battle for Simandou could be decided shortly as the corruption probes and court cases proceed. No one has more to lose than Mr. Steinmetz, who potentially faces indictments for bribery in the United States. He may soon discover that iron ore and diamonds don't mix.

In 1997, Anglo-Australian mining giant Rio Tinto poked around Simandou and realized that Simandou's red earth had the potential to make it the king of the global iron ore market for decades. It was granted exploration permits for most of Simandou and, in August, 2008, officially put the size of the resource, which would cost \$20-billion (U.S.) or more to develop, at an extraordinary 2.25-billion tonnes. Four months later, the Guinean government stripped Rio Tinto of fully half of the Simandou concession and handed it to a small company called BSGR – Beny Steinmetz Group Resources.

BSGR paid nothing for the concession, thought it did invest \$160-million (U.S.) in the project and produced a mining feasibility study, and later sold 51 per cent of it to Vale, the Brazilian mining biggie that had bought Canada's Inco in 2006, for \$2.5-billion (U.S.), or \$1-billion more than the entire annual budget of the Guinean government. In the iron ore game, it was considered the deal of the decade and the purchase stunned the global mining and African business worlds. At a conference in Dakar, Mo Ibrahim, the Sudanese telecommunications magnate, said, "Are the Guineans who did that deal idiots or criminals or both?"

Rio asked the same question and quickly convinced itself that the deal of the decade was the theft of the decade, the result of blatant and massive bribery on BSGR's part. It went to war against Vale and Mr. Steinmetz.

Today, Mr. Steinmetz, who declined to be interviewed, is the central character in a global – and often bizarre – investigation and legal drama. Its cast includes Rio and Vale, a dead Guinean dictator and one of his four wives, the FBI, philanthropist and former hedge fund manager George Soros, armies of lawyers, advisers and investigators,

among them former FBI boss Louis Freeh, and possibly South African secret service agents who may or may not have profited from the fantastic tangle of events.

Already one associate of Mr. Steinmetz – a Frenchman named Frédéric Cilins – has gone to prison, and a U.S. investigation into the Simandou affair could trap others. In July, Swiss investigators went to Guinea and have asked to talk to Mr. Steinmetz. In an interview with The Globe and Mail in September, Mr. Steinmetz's front man in London, Dag Cramer, a Swedish-born former vice-president of the mining group Anglo American, said a jurisdictional decision in Rio Tinto's U.S. racketeering case against Vale and BSGR "is expected soon" and could drop BSGR from the case, leaving Vale as the main defendant. If it does not – Mr. Steinmetz has scored more losses than victories in this epic campaign to clear his name – BSGR will enter the house of legal pain.

Diamond-encrusted helmets

The Simandou affair marks a rare setback for Benjamin (Beny) Steinmetz, who stepped way out of his comfort zone when he snagged the Simandou concessions.

BSGR, which is controlled by the Steinmetz foundation in Lichtenstein, has never produced a gram of iron ore in its existence and may never do so, for the simple reason that Mr. Steinmetz has been dismissed as a crook by Alpha Condé, Guinea's president since 2010. Mr. Condé's government has stripped BSGR of its Simandou rights, and Mr. Steinmetz and Mr. Cramer are fighting to get them back or receive compensation for their loss. A few months ago, Mr. Condé, who faces an election on Oct. 11, accused Mr. Steinmetz of orchestrating a campaign "to destabilize" his country.

Mr. Steinmetz has been described as the richest Israeli, or one of the richest. He is 60 and had a fortune estimated by Forbes magazine in 2011 at \$6-billion (U.S.). The few public references to the man suggest he is a highly ambitious risk taker who never shied away from danger spots as he built the African side of the family's diamond empire.

In a glossy marketing book called *The Steinmetz Diamond Story*, first published in 2003, the author quotes an acquaintance of Mr. Steinmetz who said: "The term 'the sky is the limit' isn't applicable to Beny. To Beny, the sky is merely the beginning."

Mr. Steinmetz was born in Israel in 1956 and is the fourth and youngest son of an orthodox Hassidic Jew, Rubin, who came from the southern part of pre-First World War Poland. Rubin went to Antwerp, Belgium, in 1928 and, like so many young Jewish arrivals, was seduced by the diamond world. For five centuries, Antwerp has been the centre of the diamond trade. It is where rough diamonds from all over the globe, from Botswana to Canada, are cut and polished into the gems that are sold to jewellers.

The Steinmetz family left Europe in 1936 for Palestine to set up a diamond business, a fortuitous move. Rubin's father, mother and eight siblings did not survive the Nazi atrocities of the Second World War. A company called R. Steinmetz & Sons Ltd. was formed in 1948, Israel's founding year, and would soon become the country's biggest dealer of rough diamonds, according to the Steinmetz marketing book. By the late 1960s, Rubin's company was Israel's third-largest diamond exporter.

Rubin died in 1980. A year later, one of Rubin's sons, Eldad, drowned while surfing in the Mediterranean. It was pretty much up to Beny and his far older brother Daniel to keep the Steinmetz diamond show rolling. Daniel was put in charge of the Israeli operations; Beny – lean, athletic and darkly handsome – was sent out to conquer the diamond world. He based himself in Antwerp, returning the family business to its founding city after a four-decade absence, and developed a network of contacts in sub-Saharan Africa, the prime source of rough diamonds.

According to *The Looting Machine*, Tom Burgis's book on corruption in the African resources business, Beny Steinmetz "started to build a reputation as one of the most formidable figures in the African diamond trade. He bought stones from war-torn Angola. The company he founded with his brother, Steinmetz Diamond Group, became the biggest buyer of rough stones from De Beers, the cartel that dominated the trade."

In the 1990s, according to the Steinmetz marketing book, "Beny realized it had become essential to establish direct relationships with the governments of many African producing countries." This allowed him to secure direct buying licences to countries, including diamond-rich Angola, that chose to bypass the De Beers channel.

By the 1990s, Mr. Steinmetz's African pipeline was evidently secure. He lived the good life, dividing his time between Antwerp, Geneva (where he resides for tax purposes), London (where BSGR is based) and Tel Aviv. There were private planes and yachts, and burgeoning mining, real estate and financing investments in several countries, Canada included. In the early part of the last decade, Mr. Steinmetz, through BSGR Capital Markets, invested \$1.9-million (U.S.) in Shore Gold, a Saskatchewan diamond explorer. Later, a 16-per-cent stake in Toronto's Gabriel Resources, the gold company whose ambitions to build Europe's largest gold mine, in Romania, have gone nowhere for two decades, was added to the investment portfolio.

The Steinmetz diamond company sponsored Formula 1 racing events. A lengthy New Yorker article about the Simandou scandal by Patrick Radden Keefe, from 2013, says the company sometimes gave diamond-encrusted helmets to the drivers. At a 2004 race in Monaco, a Steinmetz diamond was affixed to the nose of a Jaguar, which

crashed into a guardrail. The 108-carat stone, then worth \$200,000 (U.S.), was never recovered. Some of the diamond income supported the Steinmetz Foundation, whose recipients included the Tel Aviv Museum of Art and an "adopted" unit of the Israeli Defense Forces' Givati Brigade, which is both famous and infamous for fighting in Gaza.

In the past decade, Mr. Steinmetz became a minor celebrity in Africa and joined the Mediterranean glam set. The Steinmetz book is stuffed with pictures of him with Nelson Mandela and his successor as South Africa's president, Thabo Mbeki, Prince Albert of Monaco and a variety of ballerinas and supermodels, among them Helena Christensen, sporting hefty Steinmetz diamonds. But at some point, Mr. Steinmetz evidently decided that diamonds aren't forever and went after iron ore.

Wearing a wire

Guinea's Simandou mountains are wedged between Sierre Leone, Liberia and Côte D'Ivoire, collectively forming one of the poorest, most corrupt and most routinely violent regions in the world, though one blessed with fabulous mineral riches.

In late 1990s and into the last decade, the Guinean government, then led by Lansana Conté, dreamed of ways of using Simandou to raise the country's flagging fortunes and put it on the global mining map. BSGR became aware of its vast size about 10 years ago. "We knew that this was the world's greatest iron ore assets," said Mr. Cramer, who describes himself as a non-executive director of BSGR. "Its very rich grade makes it the magic sauce for the steel makers."

But how to get at Simandou? Rio Tinto and its Simandou partners, including Chinalco (Aluminum Company of China), had wired up all of the resource's four major exploration and concessions, known as Blocks 1, 2, 3 and 4. Enter Frédéric Cilins, the old Africa hand turned BSGR associate who would later land in prison.

The Looting Machine said that Mr. Cilins started to work as an intermediary for BSGR in Guinea in 2005. He plied the political corridors in Conakry, the Guinean capital, and got to know then president Conté's fourth wife, Madamie Touré.

Rio Tinto's RICO (Racketeer Influenced and Corrupt Organizations Act) case in the U.S. district court in Manhattan against Vale and BSGR, launched in 2014, alleges that the contact between Mr. Cilins and Ms. Touré was designed "to induce the Conté regime to illegally rescind Rio Tinto's mining rights and award them to BSGR."

BSGR representatives allegedly showered the old dictator with gifts, including a watch inlaid with Steinmetz diamonds, while the mines minister received a diamond-studded model racing car. Rio Tinto alleges that the effort to snatch Simandou from Rio eventually saw millions of dollars in bribes paid to Ms. Touré and that they were funnelled to her by a BSGR affiliate company called Pentler. Bizarrely, and evidently recklessly, the alleged arrangement between BSGR and Ms. Touré was spelled out in signed contracts. BSGR denies any gift giving or the existence of any contracts. "BSGR was absolutely not engaged in such activities," Mr. Cramer said.

The bribery campaign "paid dividends," according to Rio Tinto's RICO complaint. On Aug. 1, 2008, president Conté cancelled Rio Tinto's rights to Simandou's blocks 1 and 2 (it kept blocks 3 and 4), ostensibly because the mining company had been dragging its feet in developing the monster mining project, which was to include 650 kilometres of rail to deliver the iron ore to an ocean port. On Dec. 9 of the same year, those same blocks were granted to BSGR, by which time, according to Rio, BSGR was already conspiring to form a partnership with Vale to develop Simandou; with no iron ore experience, BSGR obviously could not take on Simandou by itself.

Twelve days later, Mr. Conté died after 24 years in power, taking some of the secrets of the Simandou transfer to the grave. But not all of them, for in 2010, after the end of the military dictatorship installed after Mr. Conté's death, a new president, Alpha Condé was elected and promised to clean up Guinea's resources act. Mr. Condé soon launched a BSGR investigation, which was initially financed by George Soros, the former hedge fund manager turned philanthropist. Mr. Soros bankrolled Revenue Watch (now Natural Resource Governance Institute), which, since early 2011, has been advising the Guinean government's efforts to write a new mining code. Mr. Soros also sponsored Global Witness, the anti-corruption watchdog group in London that has published several hard-hitting accounts of the Simandou affair, earning the ire of BSGR and its lawyers. Mr. Soros's save-Guinea effort was assisted by Tony Blair's Africa Governance Initiative.

BSGR has always denied that it paid bribes to Ms. Touré to persuade her dictator husband to hand the Simandou concessions to BSGR. But an FBI wiretap put Mr. Steinmetz and BSGR into an exceedingly uncomfortable position.

In March and April, 2013, Frédéric Cilins, the Frenchman who allegedly set up BSGR's bribery system in Guinea, went to Jacksonville, Fla., three times to meet with Madamie Touré. She had moved there after the death of her dictator husband. At the time, a U.S. grand jury had opened an investigation into potential breaches of the Foreign Corrupt Practices Act related to BSGR's activities in Guinea.

Speaking in French over a chicken sandwich at Jacksonville airport, Mr. Cilins offered her millions of dollars if she were to destroy the contracts that outlined the alleged bribes. "That's the message I received from Number 1, I don't even want to mention his name," Mr. Cilins said in an April 11 meeting.

Ms. Touré asks who Number 1 is. "Everything that I am telling you comes directly from Beny," Mr. Cilins said. "The other day ... I went to see him directly, to talk face-to-face. He told me, 'Listen ... I want you to tell me, Frédéric, I want you to tell me that you have destroyed those papers.' "

What he did not know was that Ms. Touré was co-operating with the U.S. investigation into the Simandou affair and was wearing a wire – the FBI heard every word of her meeting with Mr. Cilins. He pleaded guilty to obstructing a federal investigation, was sentenced to two years in prison and was released and deported early this year. No other associate or employee of BSGR has been charged or convicted.

Mr. Cramer insists the contracts with Ms. Touré were forgeries and that she had been trying to use them to blackmail BSGR, which raises the question: If they were fakes, why would anyone want to pay millions to have them destroyed?

Mr. Cramer also denies that BSGR has any arrangement with Mr. Cilins, or any agreement in any way that paid him commissions. Quoted in the 2013 New Yorker, Mr. Steinmetz said: "We never paid her. We never promised her anything ... I didn't ask to destroy those fake documents or any other documents."

But an affidavit signed by Mr. Cilins in late 2012 said that Mr. Cilins had worked with BSGR in various African countries. Translated from French, he said: "There has never been any question of me hiding my co-operation with BSGR. Of course I have always specified that I was not a collaborator with BSGR but rather was independent. But the essential component of my work consisted of representing the company and promoting its firepower."

BSGR says that Pentler, the company that allegedly did the bribing, owned 17.5 per cent of BSGR Guinea, the project company, until 2006, when spending by BSGR on Simandou diluted Pentler's stake to zero. After that date, Pentler was "fully independent of BSGR," company spokesman Dag Cramer said.

'Playground of skulduggery'

The publicity surrounding the racketeering case, the investigations and the U.S. grand jury have, apparently, not been kind to Mr. Steinmetz and his ability to do business.

Swiss media have reported that he has transferred his ample interest in Steinmetz Diamond Group to his brother, Daniel. There are rumours that the companies under Mr. Steinmetz's control have had trouble arranging bank financing.

True to character, Mr. Steinmetz has gone on the offensive. BSGR has launched an international arbitration case against the Guinean government, claiming it had no right to shred BSGR's Simandou concession since the allegations of fraud are unproven.

Mr. Cramer alleges South African businessmen and spooks were offered stakes in Guinea's mining assets, including Simandou, in exchange for their support in rigging Alpha Condé's win in the 2010 election. At the same time, Mr. Steinmetz had hired Mr. Freeh, the former FBI boss, and former U.S. senator Joe Lieberman to run an internal probe on the bribery allegations. Mr. Cramer would not confirm or deny the probe's existence.

The legal morass, the threat of criminal indictments and the fallen iron ore price have left Simandou in limbo. Guinea may have to wait another decade before it sees the megaproject – Africa's biggest – open for business. In the meantime, the Simandou affair, as Mr. Cramer put it, has turned Guinea into a "playground of political and corporate skulduggery" instead of a wealth-creating development site.

"Beny Steinmetz, with customary resilience and tenacity, will set the record straight and leverage these proceedings into new and exciting business opportunities," he said.

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