



### RECOMMENDATIONS

- The governments of Guinea and Liberia, along with Rio Tinto, VBG and Anglo American, should convene a summit to carve out a regionally focused strategy to which they can all credibly commit. This level of co-operation is likely to serve each stakeholder in the future.
- Rio Tinto and the Chinese firm that is considering constructing a Simandou-Conakry railway line should abandon this plan in favour of refurbishing the old Lamco Liberia line to run through Gbarnga from Simandou to Buchanan.
- The FBI should complete its investigation into BSGR to prevent further delays in the VBG partnership, which has not yet been fully consummated. Until this is resolved, production on Simandou blocks 1 and 2 (north) will remain dormant, to the detriment of the region's development potential. Rio Tinto should also disclose why it paid a settlement of \$700 million to the Guinean government in 2011.

# Mining for Development in Guinea: An Examination of the Simandou Iron Ore Project

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### EXECUTIVE SUMMARY

The Simandou Mountain Range in Guinea possesses the world's last substantial 'tier-one' iron ore deposit. Discovered in 1997, mining has yet to begin. Rio Tinto acquired the original exploration rights but invested little in it. In 2008, two years after the Beny Steinmetz Group Resources (BSGR) began negotiations with the Guinean government, the late President Lansana Conté unilaterally stripped Rio Tinto of its rights to Simandou and granted them to BSGR. Exactly how Steinmetz acquired the rights is the subject of a US Federal Bureau of Investigation (FBI) probe. This briefing examines this question and assesses the current situation. It argues that production is being hindered by infrastructure constraints and the question over whether to use the old Lamco railway line in Liberia or build a new line from Simandou to Conakry. It proposes that the former is optimal for catalysing regional development and ensuring that iron ore production begins as soon as possible.

### INTRODUCTION

In the south-eastern corner of Guinea, the Simandou Mountain Range is 110 km in length and home to the Guinean forest, one of the world's most biologically diverse and endangered terrestrial ecosystems. It is also home to the world's last substantial 'tier-one' iron ore deposit.<sup>2</sup> Aside from the threat of biodiversity loss, the tussle over the mining rights has been contentious. This briefing attempts to uncover what has unfolded since the discovery of iron ore in the late 1990s, and suggests how Guinea and the region can harness this wealth for more equitable, inclusive and sustained development.

### POLITICAL AND ECONOMIC REALITY IN GUINEA

Guinea is home to approximately 10.3 million people with an average per capita income of \$909 (2009), Gross Domestic Product (GDP) of only

\$5 billion (2012), life expectancy of 58 years and one of the highest child mortality rates in the world at 142 deaths per 1 000. In 2008 the country scored 0.333 on the Human Development Index and 1.8 on the Corruption Perception Index.

At the same time, the country possesses at least 30% of the world's bauxite reserves (a key component of aluminium). It exported 19.7 million metric tonnes of bauxite in 2012, along with 23 metric tonnes of gold and 300 000 carats of diamonds in 2011. Minerals accounted for a quarter of the country's GDP and roughly 95% of export earnings in 2011.<sup>3</sup> Guinea thus exemplifies the typical paradox of plenty.

The expectation is that the effective extraction of Simandou's iron ore will catalyse regional integration, with positive spillover effects for economic and political development. Some experts estimate the value of Simandou at \$140 billion over the next 25 years, which would result in an annual doubling of GDP. This briefing contends that regional political and economic co-operation is a critical prerequisite for the expectation to be realised.

#### A BRIEF HISTORY OF SIMANDOU

According to Rio Tinto, the Guinean government approached them in the late 1990s, urging them to explore Simandou. Rio Tinto sent two 'reconnaissance' missions and was granted exploration licences in 1997. Today the company claims to be drilling non-stop.<sup>4</sup> However, this version of events appears selective.

In July 2008, the Guinean government (under Conté) stripped Rio Tinto of its licence (shortly after its then CEO Tom Albany boasted that Simandou was the top iron ore asset in the world). Industry commentator David Gleason believes that Conté's government was accurate in its assessment that Rio Tinto was developing the resource too slowly.<sup>5</sup> He argues that it was otherwise occupied with its Pilbara iron ore deposit in Western Australia, hoarding the Simandou deposit to deter competitors. It seems Conté had met Israeli billionaire Beny Steinmetz in 2006 and reappportioned half of Rio Tinto's stake in 2008, when BSGR was awarded the rights to half of the Simandou deposit.<sup>6</sup>

#### WHO IS STEINMETZ AND WHY DOES IT MATTER?

Rio Tinto suspected that Steinmetz had acquired access to the deposit through questionable means and planned to sell it on at a substantial profit. One year after Steinmetz secured the rights, he sold part of the deposit to Brazilian miner Vale for \$2.5 billion (giving Vale a 51% stake in BSGR's Simandou operations). BSGR had obtained its exploration licence for nothing and had invested only \$160 million in the site. To date Vale has paid up only \$500 million.

Recent evidence suggests that Steinmetz used his representative, Frederic Cilins, to bribe Conté's fourth wife, Mamadie Touré, to secure the licence. This came to light as a result of the FBI's involvement in the case.

#### ALPHA CONDÉ, GEORGE SOROS AND THE FBI

Alpha Condé became president of Guinea in the country's first democratic elections in 2010. After campaigning on a ticket of clean governance, he set about reviewing existing mining licences and contracts. While he could not simply void the existing contracts, he could revoke BSGR's licence if he had proof that something suspicious had occurred in the process of its acquiring the rights to the deposit. The mining contract review committee has completed its report on the matter and will provide recommendations once the relevant parties have had an opportunity to respond.

The former Foreign Minister of France, Bernard Kouchner, introduced Condé to George Soros, the billionaire investor who bankrolls Revenue Watch, an organisation committed to promoting transparency in the extractive industries. Steinmetz is convinced that Soros has a personal vendetta against him.

In the wake of the violence that erupted in Guinea in 2011, Steinmetz claimed that Condé was trying to expropriate Simandou. BSGR also noted that Rio Tinto had reacquired the rights to the southern half of Simandou for \$700 million.

A *New Yorker* article on the Simandou debacle suggests that Rio Tinto's payment is a partial reflection of the New Guinea Mining Code (which Revenue Watch had been instrumental in drafting).<sup>7</sup> The Code is widely lauded as a breakthrough in creating robust mineral governance institutions in Africa.

One excellent scholarly article demonstrates that its provisions – including higher royalties and strict environmental and social responsibilities – are unlikely to deter responsible investment in Guinea’s extractive sector (as its critics suggest).<sup>8</sup> However, it is unclear exactly how the payment of \$700 million reflects the Code – no iron ore has yet been mined and the amount can therefore not credibly be accounted for as royalties. The company’s Economic Impact Assessment categorises the payment as a ‘Settlement Agreement’ but provides no further explanation.<sup>9</sup> David Gleason has asked whether the payment merely constitutes a transparent bribe.<sup>10</sup>

The FBI commissioned Touré to meet Cilins in April 2013 and record a conversation about documents pertaining to the alleged bribery mentioned above, which Cilins reportedly requested her to destroy. Cilins was subsequently arrested.

In the final analysis, BSGR appears to have operated questionably. And while different versions of the truth play out, Simandou’s iron ore remains in the ground and the people of Guinea remain poor; the paradox perpetuated.

## NEXT STEPS AND INFRASTRUCTURE CONUNDRUMS

Rio Tinto had originally planned to begin production at Simandou in 2015. However, the head of the diamonds and minerals division, Alan Davies, admitted that the deadline was unrealistic. Production is now projected to begin in 2018. The partnership between Vale and BSGR is still in dispute, and it remains unclear what will happen to their block. Rio Tinto has suggested that it would be interested in acquiring the block.

Potential iron ore wealth is meaningless until it is extracted and sold, either as a raw export or – preferably – as a beneficiated product such as pig iron. In addition to licensing procedures that required clarification, the Simandou project lacks another prerequisite for feasible extraction – infrastructure. Drilling has previously been carried out with machinery flown in by helicopter, making it a prohibitively expensive operation.

An economic impact assessment carried out by Rio Tinto in May 2013 envisages the building of rail infrastructure from Simandou to Conakry.<sup>11</sup> It will, however, not be built by Rio Tinto, but reportedly by an as-yet-unnamed Chinese firm,<sup>12</sup> although the

company recently made a pitch for new investment in the infrastructure project.

Commentators claim that the Guinean government is pressurising Rio Tinto to build a Simandou-Conakry railway line because it wants the full benefit of Simandou to accrue to Guinea first (before the region).<sup>13</sup> These claims are questionable, however, as there are also suggestions that Condé favours regional integration vis-à-vis shipping through Liberia.<sup>14</sup>

This briefing argues that it would be more beneficial, both economically and politically, to revive the existing 350 km-long Lamco rail link that runs through Liberia to Buchanan (see Figure 1). The blueprint provided by BSGR/Vale (VBG) for the project envisions such a move.<sup>15</sup> There are two major advantages to utilising the Liberia option, as proposed by VBG.

The first is purely to do with economic feasibility. The rail link through Liberia would require only upgrading and minimal extension, as opposed to building a new 700 km line at a cost of approximately \$10 billion. Liberia also has the right geographic conditions for a deep-water port near Buchanan, which is not the case in Guinea. Using the Liberia line would also mean that revenue from Simandou could start flowing three years from now, rather than the minimum of five years if current plans are followed.

Second, there is another iron ore deposit just south of Simandou in Liberia (near the existing rail line), which Anglo American’s Kumba Iron Ore, in partnership with Jonah Capital, is exploring. The joint venture is to invest \$10.5 million in exploration over three years (having started in 2012).<sup>16</sup> This creates an opportunity for positive economic spillover effects. The iron ore from both Simandou North and South, and the Liberian Kalasi/Gbarnga blocks, provides potential returns to scale if processed into pig iron before export, significantly raising the value added for the region. Indirect economic activity also invariably accompanies infrastructure and mining projects. These positive spillover effects could deepen regional economic integration and consequently catalyse political co-operation in the region. The importance of the latter cannot be overstated in the context of the serious regional instability that has characterised this part of West Africa in recent history.<sup>17</sup>

**Figure 1: Map of VBG's planned development**



Note: The red dotted line from Simandou to Buchanan depicts VBG's proposed refurbishment of the old Liberian railway line.

Source: National Geographic, [http://education.nationalgeographic.com/education/mapping/interactive-map/?ar\\_a=,customised](http://education.nationalgeographic.com/education/mapping/interactive-map/?ar_a=,customised) by author

## CONCLUSION

Guinea stands to benefit significantly from its tier-one iron ore deposit at Simandou. The battle for access to the deposit has been shrouded in mystery; the truth, it appears, is delicate. However, it is clear that if Guinea and the region are to benefit, iron ore production must begin as soon as possible. The current plans to build new rail infrastructure from Simandou to Conakry inhibit this possibility. They also preclude the possibility of positive regional spillovers that could spur development.

## ENDNOTES

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