West African state aims to expand role Financial Times (London, England)
October 9, 2007 Tuesday

SECTION: FT REPORT - ALUMINIUM 2007; Pg. 2

BYLINE: By MATTHEW GREEN

Guinea grabbed headlines this year when soldiers shot scores of protesters to quash a popular uprising against the West African country's president.

Less was written about plans by mining companies to invest Dollars 10bn in refineries to transform Guinea's massive bauxite reserves into alumina, the material used to make aluminium. The blueprints could turn into some of the biggest foreign investments in Africa, rivalling the vast projects built by energy companies.

Some might think twice about gambling on a country emerging from January's revolt, but the chaos has done little to dent the industry's enthusiasm.

Miners are betting that insatiable demand for aluminium to make everything from aircraft and cars to cans and kitchen foil, fuelled by rising Chinese demand, will guarantee profits whatever happens on the streets of Guinea's capital Conakry.

"There are no mines in New York, London and Tokyo," says Nelson Silva, president of the aluminium division at BHP Billiton, a partner in a Dollars 3bn refinery with Global Alumina Corporation. "The risks involved are probably higher than in other places, but that's where the opportunity is."

Like leaders in many resource-rich African nations, Guinea's President Lansana Conte has succeeded mainly in enriching a tiny military and political elite in the 23 years since he seized power in a coup.

Worsening corruption and deepening poverty for most of the country's 9m people provided the kindling for the protests and nationwide strike that threatened to drive him from office.

While Mr Conte, a diabetic who smokes heavily, has flown to Switzerland to consult his doctor, health services at home have crumbled. Children gather by airport lights to study at night because of the lack of electricity in what could be one of Africa's wealthiest states.

The former French colony is home to roughly a third of the world's reserves of bauxite, exported to South Korea, Ukraine and Russia at the rate of about 18m tonnes a year. Dominated by Russia's United Company Rusal and Alcoa of the US, the industry accounts for about a fifth of the country's gross domestic product.

Mining companies want to expand rapidly Guinea's meagre refining capacity to allow it to turn almost all of its bauxite into alumina, which sells at a much higher price, before it is exported. The alumina would then be shipped to growing numbers of smelters in China and the Middle East to be made into aluminium.

Guinea currently produces only about 700,000 tonnes of alumina a year at a single refinery, a 47-year-old plant operated by UC Rusal. Global Alumina says the country's total output could grow more than tenfold to almost 10m tonnes in the next decade if all the plans go ahead.

The Toronto-listed company has already started construction of the planned Dollars 3bn refinery project at Sangaredi. BHP Billiton took a 33.3 per cent stake for Dollars 140m in April, joining Dubai Aluminium Company and Mubadala Development Company, the Abu Dhabi government investment fund, as partners. The refinery aims to produce 3.2m tonnes of alumina per year.

Alcoa, which has mined bauxite in Guinea for decades, is spending Dollars 30m on a feasibility study on a refinery project that was planned in partnership with Canada's Alcan. It could add another 1.5m tonnes to Guinea's annual alumina output. UC Rusal also plans to expand its refining capacity. Other mining companies are looking at similar projects.

"I think it will be a tremendous boost to the economy of Guinea," said Karim L Karjian, co-chairman of Global Alumina. "We are not affected at all by the political bickering between the parties, nor is anyone else who is coming in."

Mining companies may be upbeat, but Guinea's stability rests on a knife-edge. The strike in January paralysed the country's bauxite exports for the first time since independence in 1958, pushing up alumina prices by 97 per cent as traders fretted over global supply and companies evacuated staff. More than 130 people were killed during the unrest, many by Mr Conte's presidential guard.

The planned refineries would make Guinea even more pivotal to the global aluminium industry, but miners are confident their role in the country's economy will compel any future government to ensure production continues.

"We have been there for more than 40 years, so we've seen a lot, we understand what it takes to operate there," says Kevin G Lowery, a spokesman for Alcoa. "Anytime that there is some type of blip, people understand the importance of the bauxite industry and the abilities of what it can do for the country."

While neighbouring Liberia and Sierra Leone are littered with the rusting skeletons of mining projects ruined during civil wars, Guinea has proved remarkably resilient to the instability that swept much of the region in the 1990s.

Mr Conte defused this year's crisis in February when he appointed a new prime minister, Lansana Kouyate, to placate trade unions. Regarded as free of the taint of past regimes, Mr Kouyate has won support from donors. But he has yet to deliver tangible improvements to meet expectations among his people.

Parliamentary elections, which could take place in March, will show whether Guinea's divided opposition can bring about peaceful change. For mining companies measuring investments in decades, though, the big question will be who will succeed Mr Conte when he eventually leaves office.