

Guinea smelter – the perfect model for Africa?

Katrina Manson and **James Knight** continue their odyssey through West Africa, this month filing an exclusive report from Guinea Conakry on a new aluminium smelter that could transform the country's economy and the people's quality of life.

The first thing you notice about Sangarédi is the electricity. In the middle of rural Guinea, miles from the national grid, streetlamps shine brightly, and there are no power cuts. The juice comes courtesy of the giant, open-pit, bauxite mine just down the road, operating 24 hours a day, 365 days a year. But that, unfortunately, is where Sangarédi's perks end. The rest of the town features problems common to many Guinean towns – open sewerage, chronic unemployment, and roads that could grace a war-zone.

In a story common to Africa, despite the wealth of natural resources on its doorstep, Sangarédi's residents did not see much improvement in their daily lives. That is, until Global Alumina arrived. The Canadian-listed company, a newcomer to the market, is building the country's first post-independence alumina refinery at Sangarédi (the second only in Guinea), to add value to the country's plentiful bauxite reserves. Alumina (aluminium ore) is smelted to create aluminium, the lightweight industrial metal used in manufacturing.

Guinea's largest foreign direct investment, the \$3bn project is one of the biggest on the continent, with the capacity to transform the Guinean economy.

Not only does it shatter a 30-year monopoly over Guinea's bauxite industry by the world's two largest aluminium companies, it is a commercial venture that sets new standards in socially responsible investment. "Guinea has never seen anything of this scale before," says Chris Albert, the construction manager responsible for infrastructure. "It is a mega-project for Africa, and even in the mining world it is one of the largest

green-field projects ever to hit the planet. It's something which has been needed in Guinea for years. This part of the world will benefit from this kind of development long-term."

Adding value

The world's second largest producer of bauxite, after Australia, Guinea accounts for at least one third of the world's known reserves. The bauxite is also extremely accessible, sitting exposed amid the topsoil, and high-grade: Guinea's Ministry of Mines estimates that on available data at the moment there is up to 40bn tons of the stuff with an alumina content of 40%, the threshold at which bauxite is economically viable for export.

Guinea's vast bauxite reserves are currently shipped out of the country, on long rail wagons heading to the ports of Kamsar and Conakry. But for Guinea it makes sense to refine it onsite. Bauxite sells for around \$19/t or \$20/t a tonne; spot prices for alumina are \$400/t, driven by a supply shortfall and massive industrial demand for the lightweight metal from the Chinese economy. The long-term contracts that determine the price of alumina bought from the refinery will be lower, at around \$220 (although this has not yet been agreed), but the plant will still increase the value about five-fold.

"Guinea is the top country in the world in terms of bauxite reserves, and today doesn't even transform 2% of its alumina and none of the aluminium," says Mamady Youla, director general of Guinea Aluminum Corp., Global Alumina's subsidiary in Guinea. "Therefore, it's important for Guinea to think of the transformation stage."

Above: A cement factory is already built to supply the smelter's construction site.

Stranglehold broken

When Global first began negotiating exploration and mining rights with the Guinean government in 2000, the business landscape was very different. Guinea's lucrative bauxite industry was controlled by Compagnie des Bauxites de Guinée (CBG), a joint venture between the Guinean government (with 49%) and a powerful alliance of the world's two largest aluminium players, Alcoa and Alcan (each with a 45% stake in Halco, which has 51% of CBG).

The Sangarédi site, until Global's entry, belonged exclusively to CBG and produced 13m tonnes of bauxite a year. CBG bitterly opposed Global's attempt to secure a concession, citing the pre-emption rights guaranteed in its original agreement.

Yet Global's ambitious plan to build a refinery that would provide permanent jobs for 2,000 Guineans – 10,000 during the building stage – and add value to raw materials, had the ear of government. "The government has changed its mining policy to favour the transformation of mineral resources, notably bauxite, at source," says Noramou Cécé, technical adviser to the Ministry of Mineral Resources in Guinea.

After a difficult four years, Global's efforts to develop the mine are starting to bear fruit. The project was given the official go-ahead when it was ratified unanimously by parliament in May 2005. To encourage the venture, the government has given a tax holiday of 15 years, with no export royalties payable for the first five years of alumina payments, and 10 years of reduced



A downtown scene in Guinea's bustling capital Conakry. The new aluminium smelter at Sangarédi has the potential to transform the country's economy.

royalty payments staggered until the target of a 35% tariff on export value is reached. In all, Youla estimates government coffers could receive \$100m a year in the long-term.

In November, the company announced the start of negotiations to enter into a joint venture partnership with BHP Billiton, the world's largest mining resources company, which would take over project management.

It gives BHP Billiton a long-coveted foothold in the Guinean market, bringing added credibility to the project and easing access to finance. Under the terms of the deal, Global Alumina will retain a third share, BHP Billiton will acquire a third, Emirates-based aluminium smelter Dubai Aluminium will acquire a quarter, and Mubadala Development Company, the Abu Dhabi government investment arm, a twelfth. In the meantime, a \$100m loan facility is being provided by the participants to cover costs.

This comes at a vital time in the project's evolution, which was in danger of stalling after \$50m-worth of subscription financing from Emirates International Investment LLC fell through in late spring, leaving Global with "liquidity issues".

Global's success, and the new-found keenness of government to see bauxite transformation take place within the country, has spurred the other players to raise their game. Halco, among others, is now considering building its own refinery.

"Since 2000, the government has done a lot of promotion to facilitate and encourage

investors to produce alumina in Guinea," says Cécé. "This is what brought us to sign accords with Alcan/Alcoa, Rusal and Global, and other big companies, such as CBRD, Mitsubishi and Chalco, who have research permits for bauxite and who will present development plans to the government."

Currently the only other company refining alumina in Guinea is Rusal, the Russian aluminium company, which operates a plant at Fria in the south of Guinea. Working with machinery that is almost 50 years old, built by French colonial authorities pre-independence, the plant manages an output of less than 1m tonnes a year. When it goes operational in 2009, the new plant at Sangarédi aims to reach 2.8m tonnes a year.

Local dividends

While the economics make sense for business, the real legacy of the project could be the lasting impact it has on Guinea's population. The West African country suffers from chronic unemployment and high inflation. Until now, international investors have been reluctant to commit to building facilities in a country that lacks so much basic infrastructure: roads and rail links are poor, and the power supply is erratic. Even to transport much of the heavy equipment to the site, about 130km inland, requires infrastructure development, including 13km of roads and a 14km railway line. One single bridge, outside the town of Boké, is being built at a cost of \$1m, and the company

will dredge a new channel at Kamsar port. After four years of awareness-raising and consultation with the 4,000 locals affected by building the refinery and related infrastructure, the company developed a \$10m social and environmental impact study and compensation package, acclaimed as one of the most thorough and socially responsible in the business world.

Two villages will be relocated, displacing 70 families – 412 people in total. Two new replacement villages are being built from scratch at a cost of \$1m, providing new, modern housing, schools, dispensaries and wells. Villagers are also compensated for loss of assets, such as mango and lemon trees, and parcel lands. The company is also building a 10,000ha new town housing development for the 2,000 permanent factory workers and their families. There is enough room set aside for it to swell to 80,000 inhabitants within 30 years.

The company entered into a public-private partnership with UNDP in September 2005 in an effort to develop a programme to help reach the Millennium Development Goals by 2015, and is a signatory to the UN Global Compact (see *African Business* February issue), the world's largest corporate social responsibility organisation.

It is working with numerous local NGOs to help provide skills training to enable the local population to take full advantage of the employment and business opportunities that the refinery will provide. This is a huge leap forward, in terms of putting corporate social responsibility speak into firm action.

"It's not enough simply to move a population," says Misbaou Bah, community and social development officer with Global Alumina. "There needs to be education to train the population and reinforce its existing capacity, for development to happen. There's no point building a dispensary if the local population can't afford the medicines. If people in the community can learn trade, or engage in small commerce, that will help. Even if you can't get employment with the company, you can find a related enterprise."

Already, local people are employed as guards, drivers and manual labourers, and for the people of Sangarédi, and the villages around it, there is a new sense of hope that they will not be frozen out of their region's immense natural resources.

"We could end up being the largest employer in Guinea," says Christophe Alpert. "We're putting in training and skills required not only for our own use but for whoever's coming afterwards." ■