



PROSPECTS FOR PEACE IN GUINEA - HASKELL SEARS WARD

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Statement of Haskell Sears Ward Senior Vice President Global Alumina Corporation

Committee on House Foreign Affairs Subcommittee on Africa and Global Health

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Mr. Chairman and Members of the Committee:

I am pleased to have been invited to speak about prospects for peace in the West African nation of Guinea. Guinea is a country that I know very well, having visited there for the first time in the late 1960s. Since that time I have had the pleasure of returning to the country more than 40 times.

I have long admired both the spirit, resolve and pride of the people of Guinea. After withdrawing from the French community in the 1950s, Guinea was regarded as the most independent country in West Africa. As such, Guineans are much admired and respected by Africans throughout the continent. In fact, Africa's various independence movements owe much to this nation. Nelson Mandela's first passport was given to him by the nation of Guinea. However, in large part because of this independent streak, during the last three decades Guinea has been isolated from funding and trading opportunities with Europe and the United States, driving the country into deep poverty. Nevertheless, the country has been a beacon of stability in Africa. It is rich in gold, diamonds, timber, iron ore (it has the largest untapped reserves in the world) and, of course, bauxite.

I am here to address the following three issues: 1) The role the bauxite industry has played in the development of Guinea, 2) How the recent crisis in Guinea has affected both the bauxite industry as well as the country's overall economy, and 3) the prospects and challenges facing Guinea's private sector today and in the future.

The Aluminum and Alumina Industry in Guinea

Aluminum is one of the most plentiful metals in the earth's crust. It occurs naturally in the form of bauxite, an ore containing aluminum oxide, commonly called alumina. Alumina is extracted from bauxite ore through a refining process. Refined alumina is the primary raw material used for aluminum smelting. As a general rule, it takes two tons of alumina to produce one ton of aluminum.

Aluminum products compete with other materials, such as steel and plastics for automotive and building applications. It competes with magnesium and titanium composites for aerospace and defense applications, and it competes with wood and vinyl for building and construction

applications. Aluminum's diverse characteristic, particularly its light weight, resistance to corrosion, high strength, and ability to be recycled, has made it an essential for modern economies. In this respect it is considered to be a strategic mineral.

Guinea possesses some of the world's highest quality bauxite and more than one-third of the world's known recoverable bauxite. Over the last several decades Guinea has exported in the range of more than 15 million tons per year, making the country the world's largest exporter of bauxite. In particular, Guinean bauxite supplies nearly 50% of the US. and Canadian import markets. On a global scale it is estimated that up to 15% of all primary aluminum is produced from Guinean bauxite.

At the present time Guinea has three active bauxite mining operations, located at Boke, Fria and Kindia, each of which has been in operation for over 25 years. The Boke mine exports more bauxite to offsite refineries than any other bauxite mine in the world, supplying more than 12 million tons per year of bauxite to alumina refineries in North America and Europe. The mine at Fria supplies bauxite to a refinery in Friguia, Guinea, Africa's only existing alumina refinery. This refinery is currently owned and operated by Alumina Company of Guinea, which is owned by RUSAL (85%) and the government of Guinea (15%). The refinery produces up to 700,000 tons per year of alumina and exports alumina primarily to RUSAL's smelter in Russia and the Ukraine. The mine at Kindia is owned by Societe des Bauxites de Kindia ("SBK"). SBK's mine is leased and operated by Compagnie des Bauxite de Kindia, a subsidiary of RUSAL. This mine exports approximately two million tons per year of bauxite primarily to RUSAL's alumina refineries in Russia and the Ukraine. The bauxite produced at the existing mine in the prefecture of Boke is particularly rich in alumina content and economically recoverable bauxite is spread over many square miles. The mine is operated by CBG under a 75-year concession awarded by the Government of Guinea in the mid 1960s. CBG is owned 51% by HALCO, a consortium of integrated aluminum companies consisting of ALCOA, Inc. (45%), ALCAN Inc. (45%) and Dadco, Ltd (10%), and 49% by the Government of Guinea. Alcoa, Inc. serves as the contract mine operator on behalf of CBG. Guinea's mining sector, driven principally by bauxite, is responsible for roughly 80% of the country's foreign exchange earnings. On the other hand, Guinea, once Francophone Africa's largest agricultural producer, is now a net importer of food.

Because of its vast depth and quality of bauxite reserves, Guinea will always play a central role in the industry. In 2001 Global Alumina and the government of Guinea entered into an agreement to develop a second alumina refinery in Sangaredi. Until the Global Alumina agreement, which was finalized in 2005, the country had been unable to attract investors to address the country's long standing desire for developing an additional refinery with its attendant value-added benefits. Because of that agreement, other companies have followed suit and agreements have now been reached with Alcoa, Inc-Alcan for another refinery and negotiations are under way with other key companies in the industry. Given the cost advantages associated with in-country production, and despite the challenging political and infrastructure environments, the country has been able in the last two years to attract other major investors. Thus, in many ways, and for the first time in its post independence period, Guinea appears poised for an economic take off. While currently political uncertainty exists, there is a broadly based consensus in the country which supports the need to expand the economic value of the country's abundant natural resource endowments. Guinea's future is directly related to the country's ability to attract investors and this part of the puzzle now appears to have been solved.

Global Alumina's refinery project, representing a capital cost of \$3 billion, is not only the largest such investment in Guinea's history, it is also one of the largest such investments in the history of

Sub-Saharan Africa. Moreover, other larger investments are currently on the drawing board for the country. The projected economic benefits to Guinea of Global Alumina's investment portend the beginnings of the development of both a cash economy and a middle class. The greatest real threat that Guinea confronts is the massive poverty of its citizens. When a sack of rice consumes 1/2 of a Guinean's monthly salary there can be little prospect of political stability.

Global Alumina's experience in Guinea is instructive for others. Because despite the country's reputation for entrenched corruption, neither Global Alumina nor its officers were ever approached for any consideration in return for a favorable government decision during the more than five years that it took to reach an accord and ratification of its basic agreement.

The Recent Crisis

The recent crisis in Guinea was characterized by a national strike, followed by the imposition of martial law. Widespread looting, the killing of demonstrators by the Guinean army and a near total collapse of commerce, to include the closing of most work sites and facilities, occurred. The exportation of bauxite was also interrupted. There are few, if any parallels, to this level of discontent in Guinea's post independence history. This discontent has been fueled by 1) the apparent declining health of President Conte and the uncertainty of succession; 2) Guinean inability to afford fuel and food; and, 3) the continued inflationary decline of the Guinean Franc which led to a combustible mixture of social and political forces which found expression this year. In order to avoid a recurring spiral of strikes and repressive counter measures, Guinea needs jobs and investors more than ever before. This will be a tall order under current conditions yet potentially highly rewarding.

Prospects and Challenges Facing the Private Sector

From the very outset, and often under my leadership, Global Alumina has placed special emphasis on seeing to it that Guinean's at the community level see benefits from this project. A Community consultative approach has characterized our work and is a feature of every aspect of the project. Relationships with development enterprises from local NGOs to international development agencies have been established. The African Development Foundation and Global Alumina have established a strategic partnership that is designed to foster community participation and create opportunities to Guinean enterprise development. We have been in negotiations which should be concluded shortly in the creation of another strategic partnership designed to train Guineans for skills needed in our construction and operations phases. Strategic partnerships have also been established with the United Nations Development Program and the Guinean national Council Against HIV/AIDS. Global Alumina is a signatory to the UN's Global Compact and the company's work has already been recognized for best practices in the extractive industry field. At a recent UN conference in Accra, Ghana presented a special workshop session and special task force report on the company's community program of community development.

Global has also engaged in extensive discussions with the United States Agency for International Development, the Canadian International Development Agency and the government of Guinea's Ministry of Technical Education to develop a training program for construction trades. The intent of the program is to develop trained workers who will meet the requirements of the contractors for the project. Through the training program, Global will seek to increase the participation of Guinean labor in the construction phase of the project.

Global Alumina expects that the structure of the program will be finalized shortly and that the program will commence soon thereafter. The company has already begun training programs for heavy machinery operators through the assistance of expatriate operating experts. The heavy equipment training program will be incorporated into the larger training program once the latter is finalized.

In addition to the construction trades training program, Global intends to establish sustainable development programs that will assist local Guineans in maximizing their participation in employment opportunities which may be indirectly created by the project, such as service industry positions resulting from the influx of workers. Global is working with the African Development Foundation and other non government organizations (``NGOs``) to develop and execute these programs.

Conclusion

In light of the recent crisis many people are probably asking themselves if Guinea is open for business? Although my response may seem counterintuitive to many, my answer to that question is yes. Like many countries in Africa and the developing world, Guinea is a high-risk place to do business, but the country is a hospitable destination for investors. In fact, Guinea has never expropriated or nationalized any foreign assets. And unless and until replacements can be found for gold, diamonds, iron ore and, of course, bauxite, the business climate can be tolerated much as it is in problematic petroleum producing countries. A good deal of my optimism can also be attributed to the high priority given to investors who want to create a value-added dimension to their mining projects. Yes, the roads are bad, electricity unreliable, skilled labor in short supply and political uncertainty exists. But I believe that Global Alumina's entry into Guinea represents a historic turning point for the country. One has only to observe the number of major private sector initiatives which have been announced since the unanimous parliamentary ratification of our agreement to observe a fundamental shift in the economic environment.