

Cooler Heads Must Prevail

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The recent announcement by Rio Tinto plc, stating that they were stopping the development of the Simandou project in Guinea only surprised observers in that it came so soon.

Although we fully expected and often publicly predicted that Rio had no intention of developing Simandou in the foreseeable future, we also expected the company would not so soon abandon its now 19 year hold on the mountain. Rio's aim has always been to prevent any existing or potentially emerging competitor from having access to these vast and high quality iron ore reserves.

The current state of the global iron ore market provides both the excuse and the barrier to entry that Rio needed to cover its exit. It allows the Anglo-Australian miner to justify its withdrawal on economic terms and provides a natural barrier to entry for any potential candidates to replace them. Indeed the economics are simply not there at the moment to take the project forward under its existing development model. Other forces may also be at play here, however. Markets have repeatedly signalled that they do not want Rio to take on a new mega project. The Simandou write-off announcement was, in fact, greeted by an increase in Rio Tinto's share price.

It is also fair to say that Rio and their immediate competitors Vale, BHP and Fortescue effectively form an informal cartel for the supply of seaborne iron ore. And that their common interest is not served by bringing on new iron supply from Simandou.

Finally, it is worth noting that since 2010, Rio, Vale and the rest of the "cartel" have managed to substantially increase their global capacity to produce iron ore. They have done so without any contribution from Simandou, simply by tapping into their existing brownfield assets in Pilbara, Carajas, and other places around the world. For instance, Rio has spent \$19.8 billion in Pilbara and grew its production from 171 million tons per annum (mtpa) to 360 mtpa in the past ten years while Vale spent \$19.6 billion in Carajas to increase its production by 90 mtpa by 2016. Simandou is clearly no longer useful to either of the two companies that had Guinea's iron ore destiny in their hands. Fortescue tripled their capacity and BHP certainly increased theirs before pulling out on Nimba, our other hope in Iron Ore. As a reminder, in its efforts to fend off BHP's hostile takeover attempt in 2007, Rio announced that it would develop the 70-mtpa mine at Simandou for \$6 billion. They then proceeded to shelve that \$86 per ton project and elected to pursue a \$105 per ton capacity increase elsewhere.

With these facts in mind, it is important that Guinea avoids rushing into an alternative plan just to fill the void created by Rio. The disastrous market conditions might be an opportunity for the country to take a deep breath and take its time to get it right for the sake of the nation's future. Neither public pressure nor the desire to correct a perceived affront from Rio should make

our government “lose its cool”.

While many brokers will make enticing promises to the Government, the reality is that no technically sound or financially capable partner can be found under the prevailing market conditions. Only on terms extremely detrimental to the long-term interest of Guinea can a replacement partner be found right now. Many speculators might be willing to engage, but none with the ability or intention to develop the mine(s) in a timely manner will touch this project.

That is why we believe it does not serve Guinea's best interest to rush into a new partnership, nor engage in an effort to force Rio to fulfill obligations they never intended to meet in the first place.

Our sole objective, as a nation, should be to orchestrate a total, immediate and amicable exit of Rio and its partners from Simandou by relinquishing the concession to the Government of Guinea. After all Rio Tinto is an important partner of ours in CBG and long may that continue. But having publicly stated their intention to abandon such a potentially transformative project for our country, relinquishing the asset should be the only outcome acceptable to Guinea. The Government should understand that playing the Simfer partners against each other is not an option. It would be futile and possibly embarrassing. Rio Tinto would not take such a momentous decision— a decision so detrimental and likely to antagonize Guinea without the approval of its single largest shareholder, Chinalco. In all likelihood, Rio is planning to launch a formal process to sell its stake in the project. The government should put them on immediate notice that it expects a total asset return similar to the BHP relinquishment their bauxite asset in Boffa – Santou Houda. The Guinean people have waited for 19 years for this asset to contribute to their welfare; they now need to take back control. The government should simultaneously put any potential buyer on notice that Guinea will not approve any transaction concluded under such a process.

As the new owner of the asset, Guinea can then take advantage of the forced idle-time this project will necessarily go through, and completely rethink a strategy that will best serve our national interests once markets recover and the project is again viable.

A simple fact underlines how Simandou is handicapped right now and is worth repeating: both Rio and Vale have reached their global production targets, with no contribution from Simandou. No one is eager to bring that additional capacity on line while demand is dwarfed by both excess inventory and supply. The wise course for Guinea is to take back control of its vast reserves, take the time and seek the counsel necessary to design an innovative and flexible development model that can be deployed when market cycles offer the next opportunity.

This is a national challenge. It transcends any political consideration and all Guineans need to add their voices to the effort. History and fate hands Guinea one more opportunity to do it right. If we miss this one, our grandchildren may have another chance to right the ship, but will certainly not enjoy the rewards

from our iron riches.

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