Business News And Notes

Backroom Deals Threaten American Interests

(NAPSA)—Billions of dollars in mining assets belonging to companies like Alcoa, BHP Billiton, Rio Tinto, American oil company Hyperdynamics Corporation and their shareholders could be handed off to middlemen thanks to a secret deal struck by the government of Guinea.

Not long after the Obama administration lifted sanctions against Guinea, a new mining code was passed that gives 15 percent of every mine in Guinea to the state mining company free of charge, including another 20 percent at market rates. This law will cost billions of dollars in current assets to U.S. and European free-market businesses and their shareholders.

The agreement, which may be in violation of the Foreign Corrupt Practices Act and the Dodd-Frank Act, has taken place between Guinea and a well-known businessman known for trading diamonds in Angola and the Democratic Republic of the Congo named Walter Hennig, who is based out of South Africa. The deal could prove an embarrassing election year misstep for the Obama administration, which restored the country to privileged trade partner status last October. The deal, which puts billions of dollars of U.S. investments at risk, was made between Mvelaphanda Holdings, whose founder is listed in the United Nations report on illegal transactions under the Oil-for-Food Program, and the U.S.-based firm Och-Ziff. Och-Ziff's billionaire CEO has given hundreds of thousands of dollars to U.S. politicians and PACs and continues to provide support for candidates in the upcoming elections.

Recently, a new law gave 15 percent of every mine in Guinea to the state mining company, free of charge. This could cost U.S. companies billions of dollars.

Widely documented media reports published recently show that last April, five months before the code became law, Mohamed Lamine Fofana, the mining minister, agreed to a $25m loan with Palladino Capital, an investment vehicle registered in the British Virgin Islands. The deal was signed by Fofana, Kerfalla Yansane, the finance minister, and Samuel Mebiane, listed as "proxy holder" for Palladino. Hennig set up Palladino Holdings in 2003 as a vehicle for "mining, energy and other assets in Africa." The company is close partners with U.S. investment company Och-Ziff.

As reported in London's Sunday Times recently, the terms of the loan are rumored to include a provision that if the cash-strapped government defaults, Palladino can convert the debt into a 30 percent stake in the operations of the national mining company. This would potentially be worth billions. Simandou alone—owned by Rio Tinto, China's state giant Chinalco, resources tycoon Beny Steinmetz and Vale, a Brazilian iron ore group—is worth at least $10 billion.

The Palladino agreement was signed less than a month after Hennig signed a memorandum of understanding under which another vehicle, Floras Bell, would become a "partner" with the government in the mining industry.

Guinea has the world's largest reserve of bauxite and is home to Simandou, a huge undeveloped iron ore deposit. These resources are vital to U.S. business and national security interests.

Some people have begun to protest the asset seizure tactics and the government has recently said publicly that it would repay the money, but so far Western governments appear, for the most part, unconcerned over the backroom deal.

American oil company Hyperdynamics Corporation, Alcoa, BHP Billiton, steel group ArcelorMittal and Rusal, the Russian aluminum producer, all have assets in the country affected by the new code and each stands to lose billions.

Many individuals, some politicians in the States and Europe, and some entities like the World Bank have been calling on political oversight committees and watchdog groups to further look into the recent Guinea laws and those involved.

The United States may be forced to intervene, having previously signed an investment guarantee agreement with Guinea that offers political risk insurance to American investors through the Overseas Private Investment Corporation (OPIC). If this occurs, then the issue may not only gain the attention of legal oversight, but could very well become an issue for both Obama and Congress to contend with.