

AFRICA DOWN UNDER 2012 CONFERENCE WRAP UP AND INSIGHTS

BY ANASTASIA TUBANOS



Africa is open for business. Paydirt's 2012 Africa Down Under conference laid that message out loud and clear. But is Africa truly as ready as they say for the foreign investment they so fervently seek?

ONE OF AUSTRALIA'S largest mining events wrapped up last month and there's no question as to what the overarching theme was: Africa's resources sector is booming, it's eagerly open for business and Australia wants to be part of that growth story.

Held from August 29 to 31, Paydirt's 2012 Africa Down Under conference in Perth saw more than 2,500 delegates participate in the event, which was attended by dignitaries - including 17 African government ministers, Australia's foreign affairs minister Bob Carr and Australia's former prime minister Kevin Rudd - as well as mining companies, NGOs and other investors with the collaborative goal of expanding Australian-African resources investment, project development and government-to-government cooperation between the two well-endowed continents.

In his opening keynote, Carr painted an optimistic picture of Africa. A continent that will be among the world's fastest growing economies by 2015. A region that has seen its foreign investments rise from US\$9 billion in 2000 to US\$80 billion last year. He also drew similarities between the not-so-dark continent and Australia's evolution as a major mining player, stating that in many ways the two continents were "natural partners."

"Australia has secured its economic prosperity through industries that are very familiar to

Africa such as mining, agriculture, fisheries and forestry," said Carr. "Like Africa, we understand the opportunities and risks of natural resource endowment. On our side, however, we have the advantage of mature, world's best practice mining and gas industries. And in the spirit of cooperation, and in our own national economic interest, Australia is committed to developing a long-term partnership with Africa, one that helps African countries realise their economic potential and promotes self-reliance."

Carr's enthusiasm in Africa's mining potential and Australia's role in its development was reflected in the conference delegates as well.

According to an opinion survey conducted at ADU by mining software company Scope Systems, 89.6 per cent of delegate participants expected investment in Africa from Australian mining companies to increase over the next 12 months. Interestingly, 80 per cent of them are looking to increase their very own investments in Africa as well.

There are currently 200 Australian companies involved in 650 projects in Africa's minerals and resources sector in 37 countries across the continent. Market analysts estimate current and planned Australian investment into Africa's mining sector sitting at around US\$24 billion.



AUSTRALIA'S FOREIGN AFFAIRS MINISTER BOB CARR AT THE 2012 PAYDIRT AFRICAN DOWNUNDER CONFERENCE

With such a substantial monetary investment already at play, not to mention over 10 years of assistance in helping Africa revamp their mining codes, it's no surprise Australia is working hard to keep an influential role in Africa's resources development, especially as competition increases from mineral-hungry nations like China and India.

Yes Africa is mineral rich. And yes, Australia is optimistic about Africa and its underexplored prospects. And although conferences such as these are set up to encourage an open dialogue among

attendees and dignitaries, often times the glossy upside to these types of partnerships are touted while maintaining a radio silence to the risks that continue to exist today.

RISKY BUSINESS

There is a very palpable sentiment among Australians that as Africa continues to grow it could emerge as a resources powerhouse. As mining billionaire Andrew "Twiggy" Forrest said

"African leaders need to stop threatening the expropriation of assets and they need to stop threatening to increase tax rates. Each of these actions dramatically reduces the stability of African investments and it limits the capital that funds are willing to invest...If companies can't raise the money, then they can't build the mines."

in a speech during ADU, "It will be Australia's greatest competitor and let's celebrate that. Let's say what is great for Africa is great for the world and great for Australia."

Resource ministers from South Africa, Zimbabwe, Zambia and even the newest country in the world, South Sudan, spoke to hundreds of keen listeners about "virgin" territories that were still under-explored for its mineral potential, which included gold, coal, iron ore, uranium, copper, oil and gas.

What they didn't speak so openly about were the ongoing issues and risks many of these regions were struggling to address but continued to maintain such as lack of infrastructure, government regulations and fears of nationalisation, skill shortages and the lack of security overall.

"Africa is the new mining frontier, with companies from all over the world descending to find the next great deposit," says Nolan Watson, president and CEO of Sandstorm Gold and Sandstorm

Metals and Energy, two companies that provide financing to the resource sector and have been evaluating the opportunities and challenges associated with investing in Africa.

Watson reveals that while Africa is as risky as it ever was, growing demand for commodities, rising production costs on other continents and increasingly burdensome environmental regulations in North America, Australia and Europe are motivating more and more companies to accept these "African risks" to find good projects.

Exploration geologist and industry analyst Michael "Mickey" Fulp, better known amongst peers as the Mercenary Geologist, agrees that while the perception of Africa is an emerging, exploration environment, there is still a very high geopolitical risk involved that outweigh the opportunities, a factor that may not influence Australian investors as much, but greatly affect the decisions of North American companies.

This stark contrast between the Australian

versus North American investor mindset paints a more balanced picture.

"A lot of exploration and venture capital and entrepreneurs will go to other places because of the perceived geopolitical risk in Africa as a whole," explains Fulp matter-of-factly. "Negative things include corruption, bureaucracy, civil wars, labour disputes, lack of infrastructure, falling GDPs. The biggest problem is tribal warfare in Africa. No matter what kind of government delegation is at some conference trying to get foreign money, that may be a regime that's in power now. It may not be the case in one year, five years or 10 years. Security of mineral tenure is paramount to our business."

Meanwhile Greg Hull, former Australian senior trade commissioner for Sub-Saharan Africa and director of consulting firm Africa Reach says it goes without saying that certain countries in Africa carry a high political risk, but argues a number of "so-called advanced economies in Europe, the Americas or Asia are no different."

THE REAL DEAL

Africa is far from perfect, but it's improving. Governments are easing the way for explorers, miners and investors through the passing of mining laws – resulting in enthusiastic invitations for joint venture partnerships.

Certainly there's evidence to suggest that African governments overall seem to be aware of the measures that need to be taken and situations that need to change in order to attract the foreign investments they seek. At least, that is, some of the time they do. "African leaders need to stop threatening the expropriation of assets and they need to stop threatening to increase tax rates," expresses Watson. "Each of these actions dramatically reduces the stability of African investments and it limits the capital that funds are willing to invest in mining companies operating in Africa. If companies can't raise the money, then they can't build the mines."

Africa is rich in arable land, mineral reserves and energy deposits with 30 per cent of the world's mineral resources and 10 per cent of the world's oil reserves, according to data from ADU. "The geological potential in Africa is immense and that has to do with the nature of the rocks," says Fulp.

Africa has many areas with very old granite greenstone belts that were deposited millions of years ago and are now very endowed with useful metals and minerals. The East African Rift, where a lot of interest is developing today, is very favourable terrain for giant mineral deposits.

For mining houses in Australia the high-risk is likely able to return a high-reward due to the

"Africa is the new mining frontier, with companies from all over the world descending to find the next great deposit."

incredible wealth in the land. And the return is not just for the investor, but for the host country as well. "The opportunities in Africa are endless, but more importantly the safe and stable development of Africa's resources has the potential to lift tens of millions of people out of poverty," explains Watson.

The incentive for African governments to remain, and perhaps become even more, co-operative should be the trickle-down effect that arise from such investments. "Miners make more money than anybody else," says Fulp. "In a lot of these countries, there is no economy. Most companies are increasingly very in tune with sustainability issues and corporate social responsibilities. In every camp that goes into Africa, I dare say, there will be a health clinic, a school, these sorts of infrastructure build outs that are necessary to build a mine and help the people. Companies will train and build a local workforce."

Hull says Australia has another role to play as well - to help foster the opportunities for small countries with narrow economies to work closer

together. "Like farmers sharing ploughs or harvesters, African states need to see more what they have in common and can share, rather than exacerbating differences or striking independent, even self-destructive policies." He believes this applies to sharing insights on geoscience, infrastructure, effective policy and public administration.

The biggest mining issue today that have resource players from around the world waiting on bated breath is seeing how African governments and officials will handle prickly situations like the five-week strike besetting Lonmin's Mankwato platinum mine in South Africa, at the time of press. One can't help but question whether foreign investments in Africa's resources sector might be more trouble than it's worth.

"Any time there is money to fight over, people will fight over it. This is not just a phenomenon of mining but a phenomenon of money," says Watson. "Africa needs more industry, more mining, a stronger economic foundation. To prevent the fighting over the money that is created, Africa needs more stable political environments and better enforcement of law. We need to help Africa strengthen its economy and resources are a good place to start. In the long run, it will save more lives, so yes...it is worth the trouble." **TABJ**

RAPID-FIRE ROUNDTABLE

Examining Africa's resources potential

In light of the wrap up of one of Australia's biggest mining conferences, Africa Down Under 2012, and the overarching theme that Africa is wide open for business, we reached out to some notable experts with their fingers on the pulse of Africa's resources to share their thoughts on some key questions potential investors might be interested in.



NOLAN WATSON is president and CEO of Sandstorm Gold and Sandstorm Metals and Energy, two companies with a combined market capitalisation close to US\$1 billion that provide financing to the resource sector in the form of 'commodity streaming agreements' and have been evaluating the opportunities and challenges associated with investing in Africa.



LARRY SERUMA has over 20 years of experience in portfolio management, investment research and quantitative investment strategies and is the founder and chief investment officer of Nile Capital Management, an investment management firm focused on Africa. Its mutual fund, the Nile Pan Africa Fund, invests only in African companies.



ROBERT WESSLEY (L) and GLEN ROBERTS II (R) are both partners at Withers Bergman, an international law firm specialising in advising wealthy individuals on their investments and boasting global revenues of over US\$160 million. With natural resources sitting in the top three biggest areas where wealth is investing, it was natural for Robert and Glen to offer insights on how the mining sector in Africa compares to other regions.



MICHAEL "MICKEY" FULP is an exploration geologist and industry analyst better known amongst peers as the Mercenary Geologist. He has 35 years experience in the industry and has worked for junior explorers, major mining companies, private companies and investors as a consulting economic geologist for over 20 years specialising in geological mapping, property evaluation, and business development.

	Nolan Watson	Larry Seruma	Robert Wessley and Glen Roberts II	Michael Fulp
What commodities turn your head?	Copper and gold. Copper gives you an insight into the fundamentals of the world's economy and gold gives you fundamental insights into the world's financial and monetary systems.	Oil and Gas	<ul style="list-style-type: none"> Oil and Gas Bauxite Gold (still) Conflict Minerals (as recently defined by the SEC) used in mobile phones: especially Tantalum, Tin & Tungsten Copper, Zinc Rare Earths All food/agricultural commodities, generally, turning Africa back into a global "breadbasket" represents a challenge/opportunity for the ages Infrastructure (not a commodity per se, but a crucial missing component for the development of commodities wealth) 	I'm always interested in gold because that moves markets. Copper, Uranium. Very bullish on the longterm future of those three metals.
What countries/commodities are safest to invest in and what would you recommend today?	I like Burkina Faso, Ghana, Senegal, Sierra Leone and Liberia. In terms of commodities, nothing is safe to invest in, although my preference is gold and natural gas.	Ethiopia, Tanzania, Mozambique, Uganda, Kenya, Somalia, Ghana and South Sudan. Recommended commodities to invest in are oil and gas.	African countries and commodities safest to invest in are: Ethiopia (infrastructure, Agriculture, Gold), Senegal (Oil & Gas, Agriculture, Gold), Gambia (Oil & Gas, Agriculture), Guinea (Conakry) (mining concessions for bauxite, gold and diamonds), Eritrea (mining concessions, primarily for gold), Libya (oil & gas), Angola (oil & gas), Namibia (diamonds), South Africa (numerous minerals). What we would recommend to invest in now are companies seeking mining concessions, particularly for alternatives to conflict minerals, rare earths, agricultural land and production capacity, and oil and gas.	I'm not a certified financial advisor so I do not recommend anything. But countries I'm interested in include Ghana, which has a history of gold mining that's very successful. Burkina Faso is viewed as a good destination as well as Namibia (with a caveat of water issues). Eritrea has been a very good success story and I'm looking at Morocco right now.
Which territories are most prospective? Which have the most potential in the future?	Sierra Leone, Ethiopia, Morocco and Eritrea but Africa is a highly prospective continent. Great mines could be discovered in almost every country. It is just a matter of the kind of risk that you are willing to take on.	East Africa is most prospective. Most potential for the future: South Sudan	In West Africa, Senegal, Gambia, Guinea (Conakry), in East Africa Ethiopia and Eritrea, Angola in Southwest Africa and possibly Libya in North Africa.	Bit of a loaded question because we know that the best copper deposits are in Zambia and the Democratic Republic of Congo. However, extreme geopolitical risk has basically kept that copper off the market for the last 15 to 20 years. Lots of potential there, fantastic deposits that haven't been mined because of geopolitical issues.
What are the challenges/risks people need to keep in mind before they invest in Africa's resources?	There are significant and underappreciated infrastructure risks. You may find a deposit but may not be able to economically get the material to market or build the mine. There is also an underappreciated amount of risk in African countries expropriating assets and giving them over to the Chinese.	Political, regulatory (the time involved to get this done because regulatory hurdles) and macro risk	Governance (lack of structure, rule of law), ethnic and religious conflict, stable source of water for mining, corruption and geopolitical risk, including competitive environment relating to Chinese investment.	Negative things include corruption, bureaucracy, civil wars, labour disputes, lack of infrastructure, falling GDPs. The biggest problem is tribal warfare in Africa.
Which governments do you find to be the most business-friendly?	Burkina Faso, Ghana, Senegal, Sierra Leone and Liberia.	Tanzania and Ethiopia	In no particular order, they include: Senegal, Gambia, Ethiopia, South Africa	N/A
In your opinion, what's the best kept secret regarding resources in Africa?	Some African governments are secretly expropriating assets and giving them to Chinese companies.	There is a lot more than has been discovered or declared	<ul style="list-style-type: none"> The continuing abundance of untapped natural resources The lack of transport infrastructure and the role that plays in a country's ability to develop its own natural resources wealth The potential role of solar and other renewable power sources in mining and other resource development projects The willingness of governments to structure "win-win" deals - serious motivation to pursue new investment and liberalize the regulatory environment (in some countries) 	You know there are not a lot of secrets to this business to begin with. There are many geologists like me that have traveled around the world and it's a well known fact that geologists like to go to the bar after work and drink beer. At the bar all we talk about is what we do all day long, ie. Work. It's no secret that secrets become less secretive after a few brews.