

RESOURCE SECTOR IN AFRICA AND THE BRAZILIAN EXTRACTIVE NATURAL RESOURCES INDUSTRIES

Speech given by **Celio Bermann**, University of Sao Paulo and Brazilian NGO's and Social Movements Forum for Environment and Development, at the Expert Roundtable "Resource Governance in Africa in the 21st century", Berlin, March 26-28, 2007. (E-mail: cbermann@iee.usp.br)

It's not just China that is actively working to tap into Africa's natural resources; Brazil, India and Russia are rapidly expanding as well. Like China, these countries are working to offer Africa much-needed basic technology, infrastructure and investment in return for access to its minerals and energy.

Together, the BRICs nations accounted for 11% of Africa's total trade in 2004, up from 5% in 1995, while that of Africa's traditional trading partners - the United Kingdom, France, Germany and the U.S.- declined to 33% in 2004, from a level of 36% attained in 1995, according to a report published by the African Export-Import Bank.

By 2025, the BRICs could account for over half the size of the G6 (U.S., U.K., Japan, Canada, Germany and France), according to a recent study by the American investment bank Goldman Sachs.

China is still seen by some African industries and governments, as well as by Africa's traditional partners in the west, as the most aggressive of the BRICs in its quest for Africa's energy and other natural resources.

Russia's Renova - which has shareholdings in metals, oil and coal assets - has a 49% stake in United Manganese of Kalahari, which is exploring a manganese deposit in western South Africa. And Russia's metals giant Russian Aluminum owns Friguia in Guinea, which produces about 600,000 metric tons of alumina per year and is on track to expand to 1 million tons by 2008. It's also exploring at the Dian Dian bauxite deposit nearby.

Although Brazil, Russia and India aren't unified in their approach to Africa, and enter markets in different countries in varying ways, each country is pursuing a somewhat different path, there have been some recent examples of cooperation between the countries.

The recently launched "Triangle Trade" under the India, Brazil and South Africa Forum, or IBSA, represents an initiative to promote the interests of their rapidly-growing economies.

India's trade with South Africa grew from \$2.4 billion in 2003-04, to \$4 billion in 2005-06. Meanwhile Brazil's trade with South Africa doubled in 2005-06. In 2005, trade between the two countries was estimated at \$1.5 billion.

Brazilian trade with Africa as a whole is already around \$5 billion annually, or about 5% of Brazil's total, according to a recent report by the country's Trade and Investment Promotion Agency, and there's scope for expansion.

Among the Brazilian extractive natural resources industries which have activities in Africa, two of them play an important role: Petrobras, the Brazilian oil and energy company; and CVRD-Companhia Vale do Rio Doce, one of the biggest metal and mining companies of the world.

1. Petrobras activities in Africa

Petrobras, enjoying the international recognition it has achieved with the ultra- deepwater technology it developed, has been producing oil in offshore fields at even greater depths and at competitive prices. This has attracted the interest of oil companies from around the world, with which it has been signing partnership agreements for the exploration and production of its reserves in the vast Brazilian continental shelf. Opening the exploration and production area to international partners, in turn, created Exploration & Production opportunities in other parts of the world, particularly where Petrobras' know how can contribute to further business. An

example of this is the Company's increasing presence in the Gulf of Mexico and off the West coast of Africa, where its deepwater experience adds value to the projects.

Internationally, Petrobras has operational activities or offices in 23 countries. The international production, which was only 58,000 barrels of oil and gas in 1997, surged to 230,000 barrels a day in 2006. In the global ranking, Petrobras became the 14th biggest company among all oil companies, the 7th biggest among the open capital ones.

On the environmental point of view, two negative events occurred in 2000: a leak of approximately 1.2 million cubic meters of fuel oil into the Guanabara Bay in January, with dire consequences for the biodiversity and for the fishermen's activities; and another of about 4.0 million cubic meters of oil from the Araucária Refinery in Paraná at mid-year, with severe consequences for the Iguaçu river ecosystem.

On March 15 of 2001, an accident in the P-36 off-shore platform that was operating in the Roncador Field (RJ), cost the lives of 11 employees and culminated with the its sinking. A column was damaged and progressive flooding of the buoyancy spaces occurred, resulting in continuous heeling until the platform sunk on March 20. As a result of the sinking of the platform, around 1,200 cubic meters of diesel oil and 300 cubic meters of oil spilled into the ocean.

In 2005, Petrobras faced difficulties in Ecuador due to criticism of local social movements against the Company plans to start up operations in an oil field occupying a total area of 2000,000 hectares in the Amazonian Rainforest. About 70% of this area is located within the Yasuní National Park, considered one of the most biodiverse biomes on the planet and home to the Huaorani Indians.

Despite this fact, since September 2006 Petrobras earned the right to be listed in the Dow Jones Global Sustainability Index (DJSI), the leading international index used as an analysis parameter by socially and environmentally responsible investors.

The African continent is among the investment priorities, set forth by Petrobras' Strategic Plan 2015. The company already has oil exploration and production activities in Angola, Equatorial Guinea, Libya, Mozambique, Nigeria, Senegal, and in Tanzania.

- Angola

Petrobras began operating in the country in 1979, after the country became independent in 1975. Since 1979, Petrobras holds exploration rights in oil exploration and production in the Lower Congo Basin off the Angolan coast. In this project, it is in partnership with Chevron, Angolan state-owned Sonangol, and the French oil company Total. In another block, situated in deep water of the same Basin, Petrobras is a partner with Sonangol and the companies Hydro, ConocoPhillips and Shell.

Recently (November 2006), Petrobras signed four exploratory block agreements with the Sociedade Nacional de Combustíveis de Angola (Sonangol), one block in shallow Kwanza Basin waters; another one in deep Benguela Basin waters; and two blocks in deep Lower Congo Basin waters.

- Equatorial Guinea

Since January 2006, Petrobras has participation in a production apportionment contract of a oil field situated in the deep water portion of the Muni River Basin, with Chevron Equatorial Guinea Limited; Amerada Hess Equatorial Guinea Resources Inc.; Energy Africa Equatorial Guinea Limited; and Sasol Petroleum International (PTY) Limited.

- Libya

In January 2005, Petrobras was one of the winners in the first round of bids held by the Libyan National Oil Corporation (NOC), for oil and gas exploration field located in the Northeastern part

of the Libyan Coast, in the Mediterranean. The production share agreement provides for five years for the exploration stage and 25 years of production rights shared with the Libyan national oil company.

- Mozambique

Petrobras and the Mozambique's national oil company signed a memorandum of understanding for onshore and offshore oil and natural gas exploration in Mozambique. The memorandum also foresees biofuel research and production in that country. The Mozambican government is interested in developing and producing biodiesel from jatropha, an oleaginous plant that is abundant in local vegetation, in addition to manufacturing ethanol from sugar cane.

- Nigéria

Petrobras began deepwater operations in Nigeria, West Coast of Africa, in 1988, in the delta of the River Niger. Since then its share in oil exploration and production in the country has grown, and should be a valuable contribution to the international production of Petrobras, when the giant oil fields of Agbami, in association with Chevron-Texaco and Statoil, and Akpo field, with Total, start producing in 2008.

Petrobras also has interests in others Nigerian oil fields, like one of them where drilling began in October 2004 in a record water depth of 2,525 meters for the region. The company uses its deep and ultradeep water expertise, and nowadays is waiting for opportunities to increase its interest in Nigeria by participating in new bids to be called by the Nigerian government.

Regarding renewable fuels, Petrobras will begin exporting anhydrous fuel alcohol to Nigeria. On January 2007, the Brazilian Company has concluded negotiations with the NNPC (Nigerian National Petroleum Corporation) to add ethanol to the Nigerian gasoline, and on February, the first 20,000 cubic meter load was shipped and unloaded in Lagos.

- Senegal

Senegal adopts the production sharing contract system. Since 2004, Petrobras purchased a participation in the exploration of the Rufisque Profond block, in Senegal, Western Africa, with Edison Spa and Petrosen (the Senegalese national oil company).

- Tanzania

Petrobras has been in Tanzania since June 2004, when it signed an agreement with the Tanzania Petroleum Development Corporation (TPDC), the national oil company. As a result of this, the company enhanced its activities to the East of the African Continent.

The contract foresees four years of activity until June 2008, including seismic surveys, geological studies and assessment of the basin, and may extend for another two periods of exploration, totaling seven years more.

In May 2005, Petrobras participated in the third round of bidding opened by the Tanzanian government, and won the concession of another oil field exploration in the Tanzanian sector of the Indian Ocean, with a contract for 11 years.

1.1 Petrobras social activities in Angola and Nigeria

According to its web site, Petrobras is a longstanding partner of the Angolan government and population, "operating with social responsibility in humanitarian and social work and in professional formation and management training of skilled labor for the country's oil industry".

The company, in partnership with non-government organizations, has also been contributing to Angolan society through a program of humanitarian work that includes a number of communities. The beneficiaries are schools, day care centers, hospitals and rural communities.

Its contribution also extends to supporting Angolan sociocultural entities, such as the National Historic Archives, Agostinho Neto University and the Alpha-Omega dance group.

On the other hand, Petrobras also provides educational aid and donations in Nigeria. Examples of the work of Petrobras Nigeria are the recent donation of school notebooks to eight high-schools involving 12,000 students, plus food and blankets for orphanages in the Lagos region, and the company's anti-AIDS campaign in 40 secondary schools in the same region through a local NGO.

2. Companhia Vale do Rio Doce activities in Africa

Companhia Vale do Rio Doce (CVRD) is one of the biggest metal and mining companies of the world, with a market capitalization of approximately US\$ 11 billion. Leader in the production and exportation of iron ore and pellets, Vale is an important global producer of copper, bauxite, alumina, aluminum, potassium, gold, kaolin, manganese, nickel and ferroalloys. It invests strongly in research and mineral exploration in Brazil and abroad, in countries of South America, Africa, Asia and Oceania.

CVRD currently operates in 14 Brazilian states. Abroad, CVRD is present in 16 countries: South Africa, Angola, Argentina, Australia, Chile, China, USA, France, Gabon, India, Japan, Mozambique, Mongolia, Norway, Peru and Switzerland.

According with the Company itself, "CVRD performance is ruled by a transparent management, the respect to shareholders' rights, the development of its employees and the promotion of life quality improvement of the communities. Through Vale do Rio Doce Foundation, it carries out social programs oriented to the sustainable development of the regions where it operates, always guided by a deep respect to the local values and customs."

Despite the Company's rhetoric, CVRD has a lot off complaints. For instance, since 1996, the municipality of Itabira, in the state of Minas Gerais alleges that the Company's iron ore mining operations have caused environmental and social damages and claims investments with respect to the degradation of the site, as well as the restoration of the affected ecological complex and the performance of compensatory environmental programs in the region. The damages sought, as adjusted from the date of the claim, amount to approximately US\$ 1.0 billion. Nowadays, the Company also faces to several actions by protestors, including from indigenous communities that live near the Carajás mining sites, in an effort to influence CVRD and public authorities to continue or increase the level of support provided to such communities.

In Africa, CVRD already has mining activities in Angola, Mozambique and Gabon.

- Angola

Copper, cobalt, nickel, gold, platinum metals and phosphate - these are the main minerals that CVRD is prospecting in Angola, Africa. The mineral research campaigns are underway in the southern provinces of Namíbe, Huíla, Cunene, Kuando, Kubango and Bié and in the coastal province of Bengo,

To support these new projects, the Company is presently negotiating electric energy supplies from hydroelectric plants and natural gas powered energy producers. CVRD has been present in Angola since March of 2005 through its subsidiary Gevale, located in Luanda, the country's capital.

- Mozambique

Companhia Vale do Rio Doce has been present in Mozambique since November 2004, after winning an international tender for exploiting the Moatize coal deposit in the central region of the country. CVRD is conducting viability studies for the development of one of the world's largest unexplored carboniferous provinces. The studies include technical aspects, geology, social investments, legal matters, logistics, the environment and the due assessments of the financial

aspects and risks involved. Coal reserves in Moatize are estimated at 2.4 billion tons suitable for the extraction of energetic and coking coal grades.

The project is aligned with the New Partnership for Africa's Development (NEPAD) and, if implemented, will represent one of the largest partnerships between public-sector and private-sector initiative for the development of infrastructure in the area and part of the Zambezi Valley development initiative. The project will involve the development of the mine to produce coking and steam coal (respectively with low and high ash content) for export and domestic consumption, the reconstruction of the Sena Railway line, and the development of a port near Beira, for coal export.

A Consortium was established, involving Companhia Vale do Rio Doce (CVRD), Iscor (LNM Group), and the Industrial Development Corporation (IDC). CVRD intends to commercialize the coking coal to the Brazilian steelmakers. Iscor, the largest steel producer in Africa, with an annual production of about 6 million tons of steel products, both for the South African and for the international markets, intends to use the Moatize coking coal for its South African Steel Plants. IDC, in turn, is a development finance institution (DFI) and is the first South African DFI to have its mandate extended to the rest of the African continent. It is expected that the IDC will play a major role in putting together finance. Other financiers have also shown interest in participating in the project.

At last, it is important to point out that CVRD and Petrobras signed a Memorandum of Understanding to initiate efforts to identify and evaluate new business opportunities in Mozambique, a country known for its great potential for natural gas exploitation. Studies will be conducted in the areas for prospection, production, natural gas transportation and electric energy generation. This is the first time that the two largest Brazilian companies have joined forces to study and seek out new businesses opportunities on the African continent.

- Gabon

Since 2003, CVRD has been present in the country through its company Compagnie Minière Trois Rivières – CMTR with a head office in the Gabonese capital of Libreville and base operation camps in Franceville, Okondja and Makokou.

At the present time manganese mining represents one third of all export revenues in Gabon based on an annual production of 2.5 million tons. The CVRD's objective is to evaluate the technical and economic feasibility of developing manganese deposits located in Franceville and Okondja in the Province of Haut Ogooué.

To confirm the technical and operational feasibility of a manganese mining operation in Gabon, a pilot-plant was inaugurated in Franceville at the end of last year with a feed capacity of 5 tons per hour. Should the project prove successful, CVRD will invest in infrastructure and logistics projects including development of a local electric energy supply that will be needed to power the project. Initial implantation was started on January 2007 and should be concluded in 2009.

CVRD is also developing the Belinga Project in Gabon, an iron ore prospection campaign. Technical and economic feasibility studies began in 2005 forecasted for conclusion in 2007. This project is located in the extreme north of the country in a densely forested area offering a very precarious infrastructure. CVRD is also developing several regional mineral prospection campaigns in Gabon focusing on other commodities such as copper, gold and new manganese deposits in other areas.

3. Petrobras/CVRD and the existing initiatives for sustainable and responsible investments in Africa

Among the existing international initiatives, mechanisms and standards that aim for sustainable and responsible investments in the resource sector, it is important to point out that the Companhia Vale do Rio Doce (CVRD) is absent from all initiatives taken into account in the Memorandum "To have and have not" (see the Annex).

Concerning Petrobras, in October 2003 the Brazilian Company signed up to the UN Global Compact and is involved in the dissemination of the document's ten principles, which includes topics such as human rights, workplace conditions, the environment and combat of corruption. In January 2005, Petrobras signed the PACI: Pact Against Corruption Initiative, launched at the World Economic Forum, in Davos, Switzerland, in 2003 to bring into line corruption-related problems. More over, since June 2005 Petrobras has been a member of the international council board of Extractive Industry Transparency Initiative (EITI). At the end of 2005, the Company created the Corporate Social Responsibility area, subdivided into three sectors - Social Programs, Environmental Programs and Guidelines and Practices for Social Responsibility.

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