

# The new bauxite marketing strategy of Guinea: the case of OBK

By Sidiki Conde and Ibrahima Cherif Bah

Guinea is a developing country rich in minerals. Bauxite is the most important both in the quantity and the quality of reserves. To develop these mineral resources, the mineral policy of the government has been based on partnership with or help from foreign investors in order to generate foreign exchange and promote economic development. On this basis, three bauxite mines are presently operating with a combined annual production capacity of 15 Mt a year. These mines are operated by two joint mining ventures (FRIGUIA, and CBG) and a state mining enterprise (OBK).

Most of the bauxite produced from these mines is sold directly to multinational aluminum companies, Guinea's partners in these joint ventures on a long-term sales contract basis. This is essentially due to the restricted nature of the bauxite market, the vertically integrated nature of the aluminum industry,

the lack of marketing skill and a lack of sufficient financial resources in Guinea at the time these operations started.

On the other hand, during the past few years of severe crisis in the aluminum industry, the government of Guinea has been preoccupied with finding other methods and strategies of marketing part of bauxite produced in the country. In addition, the government wants direct and increased state participation and control in marketing minerals produced in Guinea so that its revenues may be increased.

The purpose of this paper is to examine and assess Guinea's past and current bauxite marketing methods and new government decisions related to bauxite marketing in the context of the formulation of an appropriate marketing strategy. The main focus is on OBK, because, being a state mining enterprise, it

**Table 1**  
CBG bauxite distribution quantity per buyer and per year  
(in t)

Buyers	1983	1984	1985	1986	Total
Alcoa	2 160 564	2 365 373	2 315 113	2 526 422	9 367 472
Alcan	2 360 093	1 977 923	2 189 581	2 199 890	8 727 487
MMA	1 710 544	1 670 313	147 186	83 789	3 611 832
Pechiney	874 261	1 281 550	1 104 726	1 022 922	4 283 459
Alluit	223 435	487 722	545 823	825 992	2 082 972
R. Guine	268 490	311 014	350 151	457 406	1 387 061
Kaiser	320 595				320 595
VAW	705 506	784 837	993 584	890 213	3 374 140
Billion		55 140	217 686	332 627	605 453
Common			412 107	435 989	848 096
Reynolds		106 256	383 661	288 822	778 739
Tot BM	8 623 488	9 040 128	8 659 618	9 064 072	35 387 306
Cal BX	97 453	130 252	100 270	122 163	450 138
<b>Total</b>	<b>8 720 941</b>	<b>9 170 380</b>	<b>8 759 888</b>	<b>9 186 235</b>	<b>35 837 444</b>

**Source:**  
Compiled by the authors.

Sidiki Conde, Ministry of Natural Resources, Energy and Environment; Ibrahima Cherif Bah, OBK

is therefore ideal for the implementation of new marketing strategies.

The paper is divided into three parts: the first section examines past and current bauxite marketing methods; the second section analyses new government decisions related to its new mineral marketing strategies; and the paper ends with the suggestions and the recommendations of the authors.

## 1. Guinea's past and current bauxite marketing methods

As already noted, most of the bauxite produced in Guinea is sold to government partners on a long-term sales contract basis. As a result, bauxite produced from the Boke mine is sold directly to the Halco partners, while 90% of the bauxite from the Debele (Kindia) mines goes to the Soviet Union. A small quantity of this output is appropriated by the government for sale to third parties.

### 1.1 Boke bauxite distribution

CBG is a mining joint venture created in 1963 by the Government of Guinea (49%) and the Halco consortium (51%) to exploit and sell bauxite from the Sangaredi deposit (Boke). Present Halco partners are: Alcan (Canada), Alcoa (USA), Reynolds (USA), Pechiney (France), VAW (FRG), Billiton (Holland), and Alumetal (Italy). Production started in 1974; annual capacity is 9 Mt/year.

Boke bauxite was entirely sold to the Halco partners until 1981, when the government obtained the right to buy 500 kt/year for sale to independent clients. Bauxite is sold to the Halco partners on a long-term sales contract basis with a "take and pay" formula. Statistics on the Boke bauxite distribution for the 1983-1986 period are presented in Table 1.

The long-term sales contract defines, among several others, the following parameters:

- the duration of the contract (20 years for CBG);
- the base quality of bauxite (base alumina, silica and moisture contents);
- the base price and its escalation factor by semester;
- the price adjustment factor resulting from changes in bauxite base quality;
- the quantity of bauxite to be delivered to each partner by year or per month. Quantities are in prorata of each partners' share in the Holding, this quantity is called the nominal quantity.

Having suffered from a long lasting worldwide economic recession that heavily affected the aluminum industry, the Halco partners in CBG requested that the government lower the price of

**Table 2**  
**KINDIA bauxite distribution**

Year	Buyers	Quantity(t)	YTD(t)
1974	USSR		374 617 80
1975	USSR	1 650 614 40	2 025 232 20
1976	USSR	2 237 272 20	4 262 504 40
1977	USSR	2 374 920 90	6 637 425 30
1978	USSR	2 372 246 10	9 009 671 40
1979	USSR	2 075 510 00	11 085 181 40
1980	USSR	1 660 903 20	12 746 084 60
	Yugoslavia	34 708 50	12 780 793 10
	<b>Total</b>	<b>1 695 611 70</b>	<b>12 780 793 10</b>
1981	USSR	1 350 554 40	14 131 347 50
1982	USSR	2 070 429 30	16 201 776 80
	Rumania	127 041 90	16 328 818 70
	<b>Total</b>	<b>21 977 471 20</b>	<b>16 328 818 70</b>
1983	USSR	2 105 478 90	18 434 297 60
	Rumania	182 844 90	18 617 142 50
	<b>Total</b>	<b>2 288 323 80</b>	<b>18 617 142 50</b>
1984	USSR	2 553 615 90	21 170 758 40
	Rumania	28 909 70	21 451 668 10
	<b>Total</b>	<b>2 834 525 60</b>	<b>21 451 668 10</b>
1985	USSR	2 492 469 00	23 944 137 10
	Rumania	27 536 90	23 971 674 00
	Czechoslovakia	57 962 28	24 029 636 28
	Ste Balla C.	281 466 00	24 311 102 28
	<b>Total</b>	<b>2 859 434 18</b>	<b>24 311 102 28</b>
1986	USSR	3 181 401 00	27 492 503 28

**Source:**  
Compiled by the authors.

bauxite in 1984 by suppressing the bauxite levy. The main argument was that governments of Jamaica, Brazil and Surinam had lowered their bauxite prices, and as a result, Boke bauxite was not competitive anymore on the international bauxite market. After a series of negotiations the two parties ended by agreeing to apply the existing contract up to December 1987. A new contract is being negotiated. In this contract, the price of bauxite will take into consideration market conditions for aluminium and alumina. The new contract will also permit more flexibility with regards to the quantities of bauxite that each partner will take per period.

For long-term planning purposes and for stability in government revenues, CBG long-term sales contract has been very useful to Guinea. In addition, the long-term contract price has always exceeded the free market price. It should be noted, however, that most state revenues in CBG come from taxes which represent about 75-80% of government revenues.

### 1.2 O.B.K. bauxite distribution

OBK is a state mining enterprise which was created in 1969 by an agreement between the Governments of Guinea and the Soviet Union. Bauxite production started in 1974 with an annual capacity

of 2.5 Mt/year which was increased to 3.0 Mt in 1983. The main objective is to contribute to the repayment of debts contracted by Guinea with the Soviet Union. In order to implement this objective 90% of the bauxite produced by OBK is sold to a Soviet mining firm RAZNOIMPORT, 56% for debt reimbursement and 44% as commercial exchanges between the two countries. The remaining 10% is sold by the government on other markets.

From 1974 to June 1986, these transactions were effected by another state marketing enterprise called Prominex. The role of Prominex consisted of buying bauxite from OBK at production cost, and selling this bauxite to RAZNOIMPORT on the basis of a long-term sales contract. Prominex was responsible for paying to the government a bauxite levy and any profit realised on its operations. Statistics on O.B.K. bauxite distribution are shown in Table 2.

In June 1986, OBK started selling its own production directly to Soviet Union (90%), the remaining 10% being sold to other buyers.

The following are some negative aspects of Prominex bauxite marketing:

- (a) There was an unwieldy administrative system;
- (b) People working for Prominex did not know much about bauxite and good

marketing requires good knowledge of the product.

(c) A very passive marketing method was applied to sell the free 10% of OBK production. As a result, this bauxite was mainly used for debt compensation with Yugoslavia, Czechoslovakia and Rumania.

(d) No hard currency was available to OBK for the purchase of spare parts for equipment on markets other than the Soviet one.

### 1.3 Bauxite sales by the government

Following the depressed market conditions for bauxite commencing in 1980, the Government of Guinea obtained in 1981 the right to acquire 500 kt/year of Boke bauxite for sale to other potential buyers who were non-partners in CBG. The main purpose was to decrease the quantities going to the Halco partners and to permit the government to make an extra-profit by taking this bauxite at a reduced price 22 USD/t (no tax) and selling it at more than 35 USD/t (with tax). In 1981, Phibro, a US mineral trading company was hired by the government to sell this bauxite on the international mineral market. Phibro had a sales commission of 1 USD/t of bauxite sold and was entitled to 35% of the realised profit.

Although no official statistics on Phibro's operations are available from 1981 to 1986, it seems, however, that in total 785 782 tonnes of bauxite were sold from 1983 to 1986 for a total value of 27 900 533. The government also contracted Phibro's services to monitor and coordinate the operations of debt compensation with bauxite between Guinea and Yugoslavia as well as Rumania, but no clear report exists on this situation.

In any case it clearly appears that Phibro's operations have not been profitable for Guinea. And this is one of the reasons why Guinea should acquire necessary marketing skills and expertise.

**Table 3**  
**Guinea's bauxite shipments for debt compensation**

Bauxite source	Quantity(t)	Value(USD)	Dest.country
O.B.K.	366 333 40	9 749 930 00	Rumania
O.B.K.	57 962 28	1 643 230 60	Czechoslovakia
O.B.K.	34 708 50	590 644 50	Yugoslavia
<b>Total</b>	<b>459 004 18</b>	<b>11 983 805 10</b>	
C.B.G.	141 191 00	5 298 876 00	Rumania
C.B.G.	282 123 00	9 337 556 00	Yugoslavia
<b>Total</b>	<b>423 314 00</b>	<b>14 636 432 00</b>	

The unattached 10% of Kindia production have been used essentially for debt compensation or for barter. Statistics on these operations are not officially established. However, our findings are presented in Table 3.

This method of marketing was not profitable to Guinea for the following important reasons:

(a) It caused a drastic decrease in government tax revenues from CBG because of the use of tax receipts to pay the 500 kt of Boko bauxite.

(b) The goods for which bauxite was exchanged were generally overpriced, and Guinea had no control over those prices.

(c) The same bauxite was sold on the world market to the same mining companies, partners of Guinea in CBG, at a lower price. This disrupted the market for Guinea.

These are some of the main reasons why Guinea forbade the system of barter and debt compensation with bauxite in 1986.

## 2. The new bauxite marketing strategy of Guinea

As shown above, during the past years, the Government of Guinea has played as secondary and passive role in marketing minerals produced within the country. The new government, through its Ministry of Natural Resources, Energy and Environment, wants direct, increased and active state participation in mineral marketing to control and increase its revenues through this operation. To reach this objective some decisions and institutional changes have been made during the past two years. Two of the most important changes and decisions recently made by the Department of Natural Resources are the creation of the "Direction Generale de la Planification et du Marketing Minier"; and the transfer of Kindia bauxite sales from PROMINEX to OBK itself.

### 2.1 The "Direction Générale de la Planification et du Marketing Minier"

One of the present government mineral policy objectives is an aggressive state presence on the international mineral market. The first step towards this objective has been the creation of the General Direction of Planification and Mineral Marketing in the Ministry of Natural Resources, Energy, and Environment. The objectives of this Direction are:

to elaborate in collaboration with other technical agencies the mineral policy and strategy of Guinea;

to prepare and supervise the implementation of mid-term and long-term mineral development plans;

to perform market studies and participate in the commercialization of minerals produced within the country;

to promote mineral development projects.

In this Direction there is a Mineral Marketing Division in charge of elaborating and supervising an appropriate mineral marketing policy and strategy for the government, and promoting mineral development projects. We believe that the creation of this new institution was an excellent idea. In fact, without being an handicap for the cooperation that has existed between Guinea and its partners in joint mining ventures, this institution will permit the Division to:

(a) acquire the necessary marketing skills and expertise through by understanding the international mineral market (its nature, structure, mechanisms, pricing systems; demand and supply, relationships, different marketing techniques and strategies);

(b) perform market studies, research and development;

(c) carry out price modelling, projections of supply and demand and prices for minerals produced in Guinea.

Thus, it should be understood that the government strategy in the short run consists of gathering and analysing information on the international mineral industry and market in order to obtain

better contracts. In the medium term, it will consist of acquiring stronger marketing skills and a more aggressive presence on the world market.

### 2.2 The new bauxite marketing strategy of O.B.K.

As already noted, OBK has been marketing its own production since June 1986. It should be noted, however, that OBK's main role remains unchanged, that is the repayment of Soviet debts with its bauxite production. 56% of 90% of production is used for debt reimbursement, while the remaining 44% are for commercial exchanges between Guinea and the Soviet Union. The applicable long-term contract price is to be reviewed every two years.

The real challenge now for OBK is its ability to apply an appropriate marketing strategy for the sale of the remaining 10% of total production on the international bauxite market. For this reason, OBK's General Direction of Export is making every effort to contact different foreign firms which are likely to be interested in its bauxite, samples are being sent to some of them for an appreciation. Thus, OBK's new bauxite marketing strategy consists of making its bauxite known to aluminum companies in free market economy countries. In order to do so, the General Direction of Export of OBK contacts potential buyers by phone, telex, in person, and through Guinean Embassies in different countries. It should be noted, however, that in order for OBK to sell its bauxite on a competitive market, it needs a competitive price. This requires some flexibility in the pricing system as opposed to long-term contract prices. This competitive price will require in turn low production costs.

## Conclusions and recommendations

After examining Guinea's different bauxite marketing methods and new

government decisions related to mineral marketing, the following conclusions and recommendations can be made:

The government should maintain long-term bauxite sales contracts because of their advantages (stability in government revenues and in bauxite production);

Although Phibro's operations have not been profitable for Guinea, collaboration with a mineral trading company could generate technical assistance to the new General Direction of Planning and Mineral Marketing which needs highly qualified employees;

As the monitoring and organizing of the system of barter and debt compensation with bauxite is very difficult and not profitable for Guinea at this moment, we support its suppression by the Department;

The creation of the General Direction of Planning and Mineral Marketing is an excellent initiative on the part of the Department of Natural Resources. With the support of the government and with qualified personnel, it will play a major role in marketing minerals produced in Guinea.

The best marketing strategy for Guinea at this moment seems to be the gathering of information on the international mineral market in order to negotiate better contracts; the acquiring of marketing skills and expertise in order to be able to sell a significant quantity of minerals produced within the country.

OBK, with government support, should not only maintain, but also increase its share of the Soviet market.

But supplementary efforts should be developed to monitor the level of Guinea's Soviet debts.

OBK should be encouraged to penetrate the bauxite market of the Western world in order to sell on this market at least 10% of its annual production.

OBK should develop every effort to produce its bauxite at reasonable cost in order to be able to sell it at a very competitive price on the international baux-

ite market which is already oversupplied.