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Love in the Tropics: Brazil Falling For Africa

"I am falling in love with Africa," proclaimed Roger Agnelli, the chief executive officer of Brazilian iron ore mining giant Vale SA, this week in London.

Loving Africa's economic prospects is in vogue. While not yet as popular as China, Africa is becoming a favorite destination for many companies' investments. The continent is being raised higher on the emerging market pedestal as companies and countries look for the next growth story.

It makes sense a mining company would talk up the continent's prospects, since what Africa offers most of all are untapped natural resources. Mining and exploration on the continent certainly aren't new, but Africa is experiencing a particular celebrity right now.

When asked where growth in its future iron ore production will come from, Agnelli said Africa ranks closely behind Brazil in terms of production potential.

"Africa will be a completely different continent in five to ten years," Agnelli said, pointing to the desire for development and job creation in many countries and the stimulative effect of money coming in from China and India.

Vale, which is the world's largest iron ore producer, a material used to make steel, operates in seven African countries. It made a dramatic entry into Guinea earlier this year following a controversial \$2.5 billion acquisition for a 51% stake in privately-held BSG Resources and its Simandou iron ore project. Vale plans to invest more than \$5 billion in its Simandou iron ore mine.

The iron ore major isn't the only Brazilian enterprise spreading across the continent nor is Agnelli the only Brazilian singing the continent's praises. His comments echo wider moves by the country's own government.

In August, Brazil's Banco Bradesco SA (BBD) and state-owned Banco do Brasil SA (BBAS3.BR) teamed up with Portuguese bank Banco Espírito Santo SA (BES.LB) to invest in financial services companies in Africa. The announcement was made at a ceremony where Brazil's Finance Minister Guido Mantega said, "The African continent is the future, especially for us here in Brazil."

Brazil's current president Luiz Inacio Lula da Silva is also a frequent visitor to the continent. The outgoing president most recently visited in July, with stops in countries such as Tanzania, Kenya and Equatorial Guinea. The president signed a series of accords as he went, including a bio-fuel cooperation agreement with Zambia.

How long Brazil and Vale's love affair with the continent lasts is yet to be seen. Project development won't be easy, nor will it be cheap in Guinea for example; projects with expensive infrastructure and development costs could quickly change from opportunity to disaster depending on where the iron ore price goes.



Xinhua

Zambian President Rupiah Banda (2nd L) holds the copper cup offered by Roger Agnelli (3rd L), CEO of the Brazil's Vale mining company, and Patrice Motsepe (1st L), executive chairman of African Rainbow Minerals (ARM), at the ground broken ceremony for the Konkola North Copper Mines project, in Zambia's Chililabombwe District, Oct. 14, 2010.

And as several mining companies have found, a deal with one political regime may not be honored by the next. The Simandou iron ore project Vale has bought a stake in was previously owned by Rio Tinto. Rio disputed the loss of its rights to that part of the Simandou project; it still is the owner of the other half of the Simandou project. In August, Rio's CEO Tom Albanese said the company continues to engage with the Guinean government "on all aspects of our tenure and we will continue to assert our rights on all aspects of our tenure."

On the day before Agnelli was in London saying, "Democracy is spreading out in Africa," in Guinea, where the country is making a multi-billion dollar investment, one man was killed and at least 62 were wounded during demonstrations as the country prepared for its first democratic election since its independence from France in 1958.

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