

THE ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM – 2010
JUNE 17–19, 2010

Panel session:
Global Economy
AFRICA'S INVESTMENT REVIVAL

JUNE 19, 2010 — 12:00-13:30, Pavilion 4, Conference Hall 4.3

St. Petersburg, Russia
2010

Description:

Russia has recently joined other BRIC and developed economies in enhancing its investment and trade activities in Africa. The continent is not only an interesting hinterland for emerging market goods and services, but could serve as an important springboard for those firms with global aspirations in the provision of energy, other commodities and manufacturing.

- 1) What are the primary strategic interests of Russian business and finance in the African markets? Which African countries are best positioned to engage BRIC and developed economies?
- 2) How can investment in African hydrocarbons, in particular natural gas and LNG, help Russia realize its aspirations for extending its reach in global energy markets?
- 3) What African sectors are best positioned to benefit from access to BRIC capital, knowhow and markets?

Moderator:

Andrei Sharonov, Managing Director, Troika Dialog Investment Company CJSC

Panelists:

Olusola David-Borha, Deputy CEO, Stanbic IBTC Bank Plc

Dr. David Oluseyi Ige, Group General Manager, Nigerian National Petroleum Corporation

Boris Ivanov, Director, Gazprom International

Nand Khemka, Chairman, SUN Group

Vladimir Kremer, Managing Director, Renova Management AG

Jean-Jacques Lecat, Head of CMS BFL

Sergei Oulin, Vice President, Alrosa JSC

Transcript:

A. Sharonov:

Good day, ladies and gentlemen! My name is Andrey Sharonov, and I am managing director of the Troika Dialog Group. Today I will moderate our session on Africa's Investment Revival. Please take headphones for translation, for those who need it. And I want to start by introducing the members of our panel. Boris Ivanov, the head of Gazprom EP International BV. Sergei Oulin, Vice President of Alrosa. Vladimir Kremer, one of the leaders of the Renova Group. Olusola David-Borha, Deputy CEO of Stanbic, the largest investment bank in Nigeria. Dr. David Ige, the head of gas projects in the Federal Ministry of Energy of Nigeria. Mr. Nand Khemka, chairman of the SUN Group. And Mr. Jean-Jacques Lecat, a partner in the law firm CMS Bureau Francis Lefebvre.

And with that, we begin our session. We shall turn our attention to several aspects of the interaction between the BRIC countries and Africa. We shall address the topic of the economy of the African continent, the specifics of investing in Africa. We shall look at the comparative experience of Brazil, Russia, India, and China in various African countries, their preferences, their ways of working with national companies and with governments. And finally, of course, we shall deal with specific features of the relations between Russia and Africa, the historical experience behind today's projects, the political beliefs and economic expectations of the Russian Government and Russian companies concerning cooperation with African countries.

I would like for us to agree that we shall not make long speeches (the panel participants have already agreed to this). We shall try to conduct today's roundtable in a way that is comfortable for the audience, when the discussion involves more than one speaker, and I will try to involve all the panel participants in discussing specific issues. And I hope that we will have time left for you to ask questions.

So, I would like to ask Dr. David Ige to speak first. And I would like to ask him to start with the views of the Government of Nigeria. Nigeria is the largest African country, with a population greater than that of the Russian Federation. It is the largest producer of hydrocarbon resources. Please discuss your approaches, the approaches of the Nigerian Government, to relations with other countries and to attracting foreign investment. And discuss your experience with investors from the BRIC countries. Please go ahead, Mr. Ige.

Dr. D. Ige:

Thank you for the opportunity. First of all I think it's important to situate Nigeria in the context of this question. You already have a brief introduction. Nigeria is one of the largest countries on the continent. We have a population of about 150 million and a GDP of about USD 130 billion.

One of our aspirations as a nation is to be one of the top 20 economies in the world by 2020, which is a significant and a tall aspiration. And over the last few years the government has been trying to consolidate all its efforts to achieve these goals. Clearly the relationship with the BRIC economies is central to the realization of this agenda, likely because it provides a platform for us to grow our own domestic infrastructure requirements, as well as exploit our energy potential in a manner that is mutually beneficial for the BRIC economies, but implicitly beneficial for the growth of the Nigerian economy itself.

Now to do this, there's been a lot of effort in the country towards reform, in a manner that attracts investment. For example the energy sector, which is the key part of the Nigerian economy, is going through one of the most profound reforms in terms of establishing a legislative framework, through the Petroleum Industry Bill.

That legislative work for instance is going to address all the issues of access to oil and gas acreages in a manner that is more transparent and allows various investors from all over the world to be able to participate more effectively and more efficiently than they've done before. It also provides a clearer definition of the fiscal regime - the regime for participation of the local indigenes of the country among other things.

The same kind of reform is going on in all the vital sectors of the economy, like the banking sectors and so on and so forth.

So as a nation, preparations for our 2020 aspiration are clearly anchored on reforms of critical sectors of the economy, providing legislative framework and the regulated framework to make them work.

There's also a lot of emphasis on infrastructure development that would allow very, very rapid growth of the economy and also open up the potential for the interaction with outside economies. And also, things are being done in the year of fiscal incentives to attract economies — external investors — to Nigeria.

So things like the free trade zones that are being defined and a range of clarity in fiscal terms would actually enable investments to grow. Over the last few years we've seen a significant presence of the BRIC economies — the Chinese, the Brazilians, the Russians in the energy sector, but also in other sectors like solid minerals.

That has provided very good opportunities. We've had varied experiences. The external investors come, some with infrastructure ideas, some come purely with commercial ideas. And I think this forum provides an opportunity for us.

A. Sharonov:

Let me ask you about focuses, from the investor's point of view, from the BRIC countries — you mentioned China, Russia and Brazil, probably India. What are their focuses when investing in Nigeria and what are your expectations? What areas, from your point of view, are more important — for you, for the government to be invested in by foreigners? When foreigners will bring not only money, but also the competence, corporate governance, technologies, all these things?

Dr. D. Ige:

I think basically, across all of the four BRIC economies there has been a consistent strategy, which is based around leverage in the government-to-government platform to gain access. But once in the country, there are two distinct strategies that were seen in terms of the focus of different countries. The resource-rich countries like Russia and Brazil have a slightly different approach. When they come in to the country, there is a primary interest around energy, which is likely gas, but also on raw materials.

But the aspiration is more around market expansion and value optimization and increased influence in global energy markets for these BRIC countries. Whereas for the resource-hungry countries like China and India, their strategy is more around getting access to raw materials — energy products for exports to their respective countries. And in return they've focused on providing infrastructure investments — low-cost capital for wider investment in the country, for as long as they can get access to this product.

By and large the two approaches have been quite successful in Nigeria. I think the resource-rich countries are commercially driven; it is more of a profit motive. But all the same, the arrangement had worked for us in Nigeria; our aspiration is to make sure that these relationships are mutual.

Specifically, if you take gas for example, it is one unique opportunity as a country for us to grow our gas-resource base. We have one of the biggest gas reserves in the world. We have 180 trillion cubic feet of proven reserves and about 650 trillion cubic feet undiscovered potential which is quite a lot of gas.

Now in our relationship we're trying to make sure that we build these reserves and bring them to the market — both for growing domestic use, but also for export. So for the relationships with the BRIC economies, what we expect is that we leverage this growth, not only to export the products, but to use it to develop our institutions, because this is a once in a lifetime opportunity when you're going to have to grow such resource potential in a short time.

So this is an opportunity for us to make sure that the relationships are defined in a way that entrench our institutions, improve our regulatory frameworks, our policy frameworks. Also it is done in a way that ensures us that there is more local participation and local content involvement.

In some cases we have seen where the BRIC economies come in and still operate in a kind of insular manner. And so the level of local participation is restricted.

The idea really would be to leverage this opportunity for more local participation, such that these experiences can actually reside and help us grow our economy basically, but also to develop our capabilities too.

A. Sharonov:

We shall return to you. Since we started with Nigeria, I would like to invite the next panellist to speak. Boris Ivanov, you head a subsidiary of Gazprom, the world's largest natural gas company, which has big plans for work abroad, and assets abroad as well. Gazprom is currently interested in developing its project in Nigeria, although you also have projects in North Africa, Namibia, and other countries. Please tell us about the project in Nigeria, about your expectations and your work in Africa as a foreign investor.

B. Ivanov:

Thank you very much. Yes, I represent Gazprom EP International BV. "EP" refers to exploration and production. The company is rather young by Gazprom standards, having been established in 2007, but it is quite active on the international markets. We represent OAO Gazprom in "exploration and production outside the former Soviet Union." And Africa, without a doubt, is a major geographic focus for us and a high-priority region in our foreign economic strategy. It was correctly noted that Gazprom has quite a large number of projects in Africa. Africa has many faces. For example, there is North Africa. We as a company have great expectations for Libya, where we have three projects in exploration and production; in Algeria, where we are currently drilling, we will basically be ready to report on the results of this process sometime in late July. And West Africa is the region where our main office is located, in Nigeria, in Abuja. For us, of course, this is an absolutely priority region; perhaps I should go into more detail. We have been in Nigeria since 2008. As is typical, Gazprom's arrival in Nigeria was partly initiated by the political leadership of that country. It was back in 2008 at a meeting between President Yar'Adua and President Vladimir Putin in Germany, at what is now called the G20. Nigeria is a unique country, unique for us, for Gazprom, for the kind of work we do. We are first and foremost a gas company, although, of course, we cannot help but be interested in oil assets. Generally speaking, we have gotten stronger over the past few years in Nigeria — achieving good relations, a good understanding with the leadership of the country. Both with our direct supervisor, the National Nigerian Petroleum Corporation (NNPC), and with the Oil Ministry. Of course, you probably all know that the political calendar has been full of quite serious events. Unfortunately, the political leadership changed.

President Yar'Adua died, and now there is a new leader. Such changes cannot help but affect the work of the state apparatus, and we have already discussed this with our Nigerian colleagues. We hope to put these bureaucratic difficulties, so to speak, behind us, so that we can move forward with the agreed-upon strategy. I would like to remind everyone that Africa overall is a priority for the Russian leadership. The top Russian leaders have now visited the African continent, for the first time in the history of the Soviet Union and independent Russia. First there was the visit of Vladimir Putin to the Republic of South Africa, and then last year, Dmitry Medvedev went to several African countries, including the countries where Gazprom has specific business interests. And Nigeria was one of those countries. As a result of that visit, we created a joint venture with our Nigerian partners, called Nigaz, where (and this is pretty much a unique case in Nigeria) we work on a parity basis, 50:50. And the focus of this company is the development and monetization of the enormous gas resources that exist in Nigeria. The same amount of gas is burned off in Nigeria as is consumed in West Germany. This, of course, is an enormous waste, and given that Nigeria's relatively small territory makes it possible to build a compact gas-power system (Gazprom, as you know, specializes in such projects, both in Russia and in European countries), we believe that our services and our capabilities are in demand and can render good service to our Nigerian partners.

A. Sharonov:

Boris, please briefly describe, if you can, the essence of this project. Both with respect to Nigeria itself, and with respect to trans-Saharan ideas.

B. Ivanov:

In Nigeria, as I said, we are planning to use Nigaz to carry out large-scale projects for monetization of gas resources. We are one of the potential participants in the Calabar–Ajaokuta pipeline. This could theoretically become the first section, the first segment of a trans-Saharan gas pipeline, across Niger to Algeria, and perhaps on to Europe. The advisability of building such a pipeline is somewhat a future prospect, because, as we understand it, Nigerian law currently requires that the gas be monetized and used primarily on Nigerian territory, where there are huge requirements for electric power. And, of course, Gazprom is very actively looking into the resource base in Nigeria, which is owned by both the NNPC and independent Nigerian companies. These are interesting assets, we are studying them, and possibly in the near future we will consider some specific actions.

A. Sharonov:

By the way, what does the competition situation look like in Nigeria, from the standpoint of global majors, global companies, from the standpoint of companies from the other BRIC countries?

B. Ivanov:

Gazprom is not afraid of competition anywhere, including in Nigeria. We have good relations with the political leadership. We have been given to understand that one of the most popular majors is NNPC. We are proud of this status, which is reflected in the structure of the share capital of the Nigaz company. The competitive environment is tough, as in any country. We arrived very late on the African continent as a whole, in the oil and gas sector. And especially in Nigeria. We shall act aggressively, assertively, to win back the positions that we let slip a little. But in general, we are used to fighting for what we're interested in.

A. Sharonov:

Thank you, thank you, Boris. I would like to give the microphone to Mr. Lecat. Mr. Lecat represents a French law firm, which was founded in 1925 and is based in Paris, but whose main focus is Africa. The company advises foreign companies carrying out projects on the African continent. They have offices in Africa. For the past 30 years, Mr. Lecat has personally engaged in advising companies, advising international financial institutions, advising governments — both African and non-African — on major projects to attract investment to African countries. Mr. Lecat, I would like you to tell us about how companies approach expansion into Africa, investment in Africa; how questions of trade and investment interact; what your clients prefer, what they start out with, what they pay the most attention to; what you advise regarding the protection of foreign investments in African countries; and, well, how you compare different companies' approaches (for example, Russian, Brazilian, Chinese companies) toward specific projects, toward cooperation with African companies, the governments of African countries. Go ahead please.

J.-J. Lecat:

Thank you. I'm not sure I will cover all the subjects at the same time. I would like first to give some details of my firm's activity.

We have, of course, general activities in all areas of law, advising corporate clients and governance, so we always have had an African practice with lawyers fully dedicated to African projects for years. I head this group and we have offices in Algeria and Morocco.

Well, the first comments would be — I mean, somebody else already said this — that a distinction really must be made between North African countries and Sub-Saharan countries.

Of course, in terms of economics, in terms of needs, markets and approach, I think these are very different. And we can see also that we can find our partners in some North African countries investing and trading in Sub-Saharan countries.

One example is, for instance, the development of economic integration within regional organizations. I think that is important for Nigeria, which is a large country.

It's very important, if you trade or invest in Africa, that you can count on larger markets and larger organizations than those individual countries, because you can see that there are a number of small- or medium-sized countries.

And I think that a lot of progress has been made in regional integration. For instance, there is a West African organization, including Nigeria, which now represents more than 230 or 250 million people, regrouping 15 states.

And these organizations — that one is called ECOWAS — is working on more integration, common tariffs for custom duties, harmonization of certain regulations.

And there are other regional organizations within West Africa that allow the integration of regulations and the harmonization of laws. This creates a more transparent climate and makes investment and trade much easier than before.

By contrast, in North Africa, you don't have the integration of North African countries.

There are bilateral relations, for instance, between European Union and the three French-speaking countries, but those countries do not have treaties or those treaties are not really implemented. They don't have treaties allowing, for instance, the free movement of goods or persons between them.

And so that's, for instance, one major difference between North and Sub-Saharan countries. And those regional organizations, I think, indicate great progress in the investment climate of trade conditions.

Maybe another topic would be the attitude vis-à-vis foreign investments. Generally speaking, during the past years all the restrictions vis-à-vis foreign investments have been lifted in virtually all these countries.

There are some exceptions, of course. One recent exception is Algeria, where, last year a new law has been enforced, requiring 51% national ownership in any investments. So that's a difference compared to other countries.

A. Sharonov:

How did this influence the investment climate in this particular country — in Algeria — these changes in legislation?

J.-J. Lecat:

It actually stopped a lot of foreign direct investment, except maybe in oil and gas or certain other sectors, but in many sectors a lot of projects were stopped.

So we have clients there, those having already made their investment, of course, are protected against newcomers. But this new law actually stopped new investment.

This was the goal of the government, because they felt that new foreign investment cost money in terms of foreign exchange. So that was the official reason.

Another example that is quite different, of course, is South Africa with the Black Economic Empowerment regulations. But that has a totally different goal and totally different approach because the goal is not to have 51% ownership by national black people, but to look at a series of criteria. So it's quite different.

Regarding different approaches, I think it's very important to make a distinction between the Chinese approach and the other BRIC countries' approach.

I think basically Russian or Indian enterprises or Brazilian enterprises have an approach very similar to that of European companies or U.S. companies. It's more or less market economies.

Entrepreneurs are looking at the market, they are making choices, and they are getting some backup from the government during diplomatic missions.

If you look at the Chinese approach, it's quite different. The approach of the Chinese is an action from the government, from the Chinese state. The People's Republic of China is implementing an action plan of the government.

We have statistics documenting diplomatic missions. But, you know, the diplomatic mission from China is quite different from the diplomatic missions of Mr. Sarkozy or Mr. Medvedev.

According to what we can see, when the Chinese government decides to go to an African country, they have a very precise plan. They offer conditional financing. They offer to build infrastructure.

Correspondingly, they ask for certain rights, usually oil and gas and mining, and rights to send people to the country to implement the program. And then this program is implemented by state-owned companies.

When the door is opened, of course, you have some so-called private companies setting up and you have people who have entered the market, staying there and trying to develop their own small businesses.

But, the approach is quite different. This is an approach by the state, by the government. This is not, firstly an approach by private entrepreneurs, which might not be backed up by their government.

And one of the advantages for the African country is that they are offered packages. They are offered — at the same time — very consistent packages covering infrastructure, covering a lot of sectors, including financing.

You know that for OECD countries, this is not allowed. They do not allow themselves since 2001, for instance, to have development aid.

When an OECD country is granting aid, this aid cannot be exclusively attributed to their enterprises. It has to go to a competition and it goes to Chinese enterprises as well, you know?

Even the Chinese are helping the country; they are helping the country for their own benefit.

Well, I suppose, if you are not a member of OECD, of course you can do the same, but this is a major difference of approach: the approach by the state, by the government, and the fact that they can offer packages, all together, directed to their own enterprises.

A. Sharonov:

Maybe I will ask Mr. Ige to intervene. What is your impression in terms of comparative allowances of Chinese and other BRIC countries' approach? And what do you think about the new jobs created in the cases when Chinese bring their investment into a country? Are these places for African people or Chinese?

Dr. D. Ige:

Thank you. I think they could actually be sub-divided in two strategies very clearly.

What we have seen in Nigeria, really, is that the investment approach by the Chinese, like you said, is largely focused on infrastructure, which is a very critical area to unleash the potential of Nigeria. So on its own, it's a very, very purposeful strategy, which is appreciated by Nigeria.

Now, the other approach, by the other BRIC countries, which is more market-driven, clearly is also one that has worked, because it relies very much on competition and so on.

But the real issue there is, for that to work, it also requires a lot of things to be in place. It expects a more functional set of institutions; it expects things to work properly, so that competition can sit on top of that.

So in a way, you find that the two strategies are complementary. The infrastructure investments actually lead to stability, which ultimately provides for the kind of environment that the other BRIC economies use.

Now, the idea of the Chinese, is that they tend to come with their local workforce wherever they do those things. Clearly this has a little bit of a disadvantage, in the sense that the participation of locals is a bit restricted.

But in a sense, I think that can be managed because, fundamentally, for as long as the infrastructure comes, and that effort is going on, there is always a spill off effect on the broader economy. And once investment is in place, anyway, it opens up huge potential for the economy at large.

I think what we're trying to do in Nigeria right now, is to enforce the local content law that has just been passed here, which would help to provide a legislative framework for addressing some of these issues.

But on its own, really, I do not think that the approach the Chinese have taken, is in any way detrimental. More than anything, it is accelerating the pace of infrastructure growth and it is actually underpinning the growth in the GDP that we are seeing.

But also, with the other BRIC countries as well, we're seeing investments that are more targeted, that are leading to market expansions, and through well-written definitions we are reaching strategic partnerships — like with Gazprom — that are opportunities for us not only to do things in Nigeria but also to do things together elsewhere, also leveraging that too. I think their approaches are generally complementary and they're working well for us.

A. Sharonov:

I would like to ask Vladimir Kremer to speak next. He just returned yesterday from Johannesburg, but not from the World Cup, as you may have thought, but from a major project that Renova is undertaking. The project is United Manganese of Kalahari, a major mining metallurgy project based in South Africa. Vladimir, please tell us briefly about this project — not in terms of its parameters, but in terms of the business environment: how you evaluate the business environment in South Africa; how you evaluate the state's policy towards foreign investments; how you evaluate Russia's policy for you, as a Russian company; how much support you receive when moving into foreign markets. What the competition is like with other countries in the South African market, in particular the BRIC countries. Go ahead please.

V. Kremer:

Thank you, Mr. Sharonov. I will try to answer all the questions that you raised. Well, the Renova group of companies has been working since 2005 on a project called United Manganese of Kalahari, which refers to the development of a large manganese deposit in the Kalahari Desert, as well as a project for building a ferromanganese and silicomanganese production plant. The project is being developed under the auspices of an intergovernmental committee that was set up on trade and economic cooperation between Russia and South Africa. The committee is co-chaired by the Russian Minister of Natural Resources, Mr. Trutnev, and the Minister of Foreign Affairs of

South Africa. We have had permission to mine manganese ore since 2008. The project is now working at full capacity. I will not go into the technical details now, in terms of the technology of the project. From my point of view, there are no problems; it is working at full capacity, and we do not have any special difficulties.

A. Sharonov:

And what is the volume of investments there?

V. Kremer:

As of now, Renova's volume of investments will be in the order of USD 300 million by the end of this year. So what, in my view, is the key to doing business in South Africa? Well, first, a joint consortium with a BEE partner. What is a BEE partner? Under South African law, when a foreign investor forms a consortium for the development of mineral resources in South Africa, he is required to have a partner, called a Black Economic Empowerment (BEE) partner. In our case, it is the Majestic Silver Trading company, which, as our partner, joins a trust company that includes regional communities and local businessmen. I would like to stop here and discuss this. Because for the success of your project in South Africa — whether it is in manganese, or some other business — you should be aware that it is very important to build up a relationship, through BEE partnership, with the Department of Mineral Resources (DMR), and, of course, with the Department of Energy (DME).

A very important aspect of our work is, naturally, understanding what sort of competitive environment we are dealing with. It has to be said that the Kalahari, Northern Cape Province, this region in general, is very rich in deposits of manganese ore. And the competition, of course, is very serious. Very big companies like Samancor are sitting right next to our mining allotment. Samancor is a joint venture between BHP Billiton and Anglo American. It is 60% owned by BHP Billiton, 40% by Anglo American. Everything is run by the management of BHP Billiton. This is a very serious player in the market, not only in manganese ore, but in mineral resources overall. Samancor has very large mines — Mamatwan and Vessels — right next to us. In the immediate vicinity are deposits owned by the South African company Asmang. There is very important competition for access to infrastructure, because you mine the ore, you mine 1.5 million tons, and it then has to be shipped somewhere. And there is a bottleneck: access to the state railway is limited. We are all very much constrained by rail shipments on the state railways, Transnet, because what you cannot ship by rail, you have to ship by truck. The logistical costs are vastly different, so it is very important to understand, when you enter the competitive environment of South Africa, how you are going to deal with infrastructure.

A. Sharonov:

By the way, Vladimir, this is a well-known story for Russia also. You just need to realize that the railways have a deficit of throughput capacity. Do you feel that there are different approaches to different companies that are extracting ore and transporting it by rail? How equivalent are the services provided to all of the participants in production?

V. Kremer:

That is a very good question. Of course, access to administrative resources there is significant to some extent, but we are certainly not novices in this industry. When the honeymoon is over, when you're deep into a project, of course, real life begins. But still, access to resources is very important. Of course, as the representative from Gazprom already said, we take an aggressive, proactive position; so, we fight for it. Now, a very important point: what the competition looks like from the standpoint of the BRIC countries. You understand that in our business — manganese ore, alloys — the market situation is of course very important, especially in China, India and Brazil. As for China, because our company is oriented toward exports, and to a large extent what we produce goes to the Chinese market, we naturally follow the situation in China very closely. In my view, from my experience in South Africa in particular, I must say that China is undertaking massive expansion worldwide, of course. And the overall market for mineral raw materials depends to a significant degree on the Chinese market. Chinese companies come to Africa, come to South Africa, and frankly, I have noticed that the South African partners have perhaps started to treat this massive influx, especially of state companies, with a certain caution, not giving China's state companies a big priority, let's say. And maybe — I agree with the previous speakers — there is a tendency for private Chinese companies to come, especially to the South African market, in the wake of the large state companies. It is clear that there has been an influx of private Chinese companies.

A. Sharonov:

This is certainly a reaction to the behaviour of the governments of African countries that do not welcome such an aggressive pro-government expansion and prefer to work with private companies.

V. Kremer:

Now, regarding the position of Russian companies in the South African market. I believe that the opportunities for Russian companies are quite good, because there are still memories of Russia

providing significant aid during the struggle against apartheid. Therefore, the attitude toward the Soviet Union, toward Russia, is still very positive, and I think that large Russian companies with a presence here also feel this. Because at the government level, at the big business level where there are people who still remember what happened, how the struggle against apartheid went on, this is naturally very helpful to us.

A. Sharonov:

That is, Nelson Mandela and Sam Nujoma remember us well.

V. Kremer:

Absolutely. I think as long as that remains a factor, we should certainly make use of it. It also seems that a new trend has appeared that I never noticed before. South Africa has begun to position itself as a gateway to sub-Saharan Africa. Insofar as Johannesburg is a city that is comprehensible, so to speak, to Western businessmen and to Russian businessmen, it seems that the leadership of South Africa have started something like a campaign: we South Africans can promote your entry into the other African countries. This is a recent trend, and it has really become noticeable.

A. Sharonov:

Dr. Ige will categorically deny this. I get the feeling that a number of countries, especially those that are located close to South Africa, look somewhat askance at these attempts to become a big brother and lead all foreign investors by the hand, only through South Africa. They are trying to take measures, including at the state level, to directly increase their attractiveness for investment and to avoid this mediation by South Africa, which does not come free of charge. Although, on the other hand, the infrastructure that exists there is, of course, convenient and familiar, and that is their competitive advantage. I would now like to give the microphone to Ms. David-Borha. You head the largest investment bank in the largest country on the African continent. As an investment banker, you support projects with national and foreign capital. How do you view the entry points into the African continent for foreign investors, particularly from Russia, China, India, and Brazil? Which sectors are, in your opinion, the key ones for foreign investors? How do you evaluate the different strategies of foreign investors in the African market, the Nigerian market?

O. David-Borha:

Thank you very much, Andrei, and thank you for the opportunity to present Africa at this forum.

Like some of the earlier speakers have said, the critical gap in Nigeria and in most of the Sub-Saharan African countries is infrastructure. And what we have seen as investment bankers is that the Chinese approach of mobilizing funding to support specific projects has been quite successful. We have seen this in the support of Chinese companies who have been awarded real projects in Niger State, in Nigeria. We've also seen this in Botswana as well, where a Chinese company provided financing of close to a billion dollars for a coal power plant.

So it has been very effective. And we found that the challenge is being able to raise the domestic financing to support what comes in from China.

In addition to project finance, we've also had situations where Brazilian, Chinese companies look for acquisitions in Nigeria.

Because of the opening up of the sector, the reforms that are ongoing, and the encouragement of foreign companies to partner with local companies — particularly in the oil and gas sector — there have been potential acquisition opportunities, whereby indigenous companies that don't have technical expertise or don't have funding, are looking to partner with foreign oil companies that can provide this for them.

One reason...

A. Sharonov:

By the way — sorry, excuse me. Is it the only way to come to Nigerian market to buy local players, or do you see some examples when foreigners just try to establish their own subsidiary or 100% Nigerian company?

O. David-Borha:

Yes. In addition to partnering with local companies, you do have some foreign companies who have come in.

But typically, when you look at the sectors that the foreign companies have been focusing on, which primarily are the oil and gas sectors, power and infrastructure, and mining and minerals, typically these are fairly large investment sizes.

And even the foreign companies themselves want to share risk, so they are not looking to invest 100% of these amounts themselves. They are looking to partner with other people.

We have also had instances of sort of green field projects as well, but typically they are joint ventures as well. So, Andrei, I think what we have actually seen in terms of actual examples, it's unlikely that the foreign companies have owned 100% of these sectors.

And I think this is a good sign because, at the end of the day, it's a partnership. The idea is for it to be a win-win and for the foreign companies to partner with local firms and basically add value to local economies.

And I think also for many of the African countries, there is a learning process that you actually need to go through before you can operate successfully. It is quite difficult to come into these markets and navigate them by yourself.

So what we have seen increasingly, are partnerships among those institutions.

A. Sharonov:

Coming back to the issue Vladimir raised about the gate to Africa, where is this gate or are these gates?

What do you think about the comparative advantages that different African countries have, to be attractive or to dispatch this flow of capital to other countries? Is it to Nigeria or South Africa or Egypt or some other country?

O. David-Borha:

You know, Andrei, I think the gates of Africa are wide open. In terms of the amount of capital that Africa requires, even the BRIC countries are not going to be able to provide all of it.

And Africa understands the need to attract as much capital as possible. And so you would see that across Africa — whether you are looking at Nigeria; you are looking at Ghana; at the copper fields in Zambia, in East Africa as well; at the potential that is coming from the discoveries of oil in Uganda; in Tanzania, there are gas reserves that have been found as well; in Mozambique, Angola with oil and gas; the diamond trade — Africa is wide open.

And the reality is that I believe the Chinese have taken the best advantage of the fact that Africa is open and willing to do business, unlike the Brazilians who have largely focused on some of the Lusophone countries like Angola or Mozambique.

You have seen also the Indians as well who, due to historical ties, have focused in East Africa and South Africa.

The Chinese are everywhere. And not only are they engaged at the state level, also the smaller companies in terms of trade flows.

So I think the message is that the gates are wide open.

A. Sharonov:

I would like Sergei Oulin to be the next speaker. Sergei, you represent one of the world's largest producers of diamonds, which owns huge reserves in the Russian Federation. Why are you going

to Africa? What motivates you to work in Africa? I also want to ask you to discuss the topic of the complementarity of Russia and Africa. It is no secret that some people think that if we compare the BRIC countries, China and India are much more complementary with Africa, in terms of needs and opportunities, than are Russia and Brazil. Russia and Brazil, like Africa, are rich in natural resources, and, like Africa, they need capital. But for China and India, it is exactly the opposite. China and India need the mineral resources that Africa supplies, and they are prepared to be major exporters of capital, which Africa very much needs. How do you view this evaluation, and how great are the prospects for Russia now, particularly in African politics, in African business?

S. Oulin:

Thank you, Mr. Sharonov. Well, if I may, I will start with the last question. In fact, this is a fairly common misconception about Russia. It is indeed one of the largest exporters of mineral resources and raw materials (and what we export is certainly a priority); but we are also a quite serious importer of mineral resources. Today there is an acute shortage of a number of mineral resources in our country, ones that have not been mined in our country at all since the breakup of the Soviet Union. Today there are about 80 developing countries that have raw materials that Russia needs. Sixty countries have mineral resources that are badly needed for Russia's industrial production. The others have products that are not as scarce. Most of these developing countries are in Africa. Africa, therefore, is a vitally important partner for us. I did not misspeak — I don't mean as a source of raw materials, but as a partner to meet our mutual needs. And in terms of our business specifically, indeed, right now Russia is the largest diamond-producing country in the world. And Alrosa is the largest producer and the largest seller of rough diamonds. Nevertheless, the story of our investment in Africa, on the one hand, is a bit like a Christmas story, partly, perhaps, because of advertising spots, but this is real life. Using one of our projects in Africa as an example, I want to talk about our basic approaches to cooperation with African countries and our relations with other BRIC partner countries. The story begins in the early '90s. After the company's inception in 1993, we began work on diamond mining in Angola. We all remember that in 1993 Angola was in the midst of a civil war; much of the territory was controlled by UNITA troops led by Savimbi. We were offered deposits located about 1,000 kilometres north of Luanda, the capital of Angola, in territory that was, well, let's say it was deep in the rear of Savimbi's forces. We conducted a preliminary geological exploration, mainly to decide whether to do this project or not. We were guided by geological data that we had been able to find in the archives of the Republic of Angola. But still, our experts, having devoted in-depth professional study to the geological basis of the project, decided that the deposit and the project would be effective. And we made the critical decision to start this project. But the interesting thing is, what did it mean to start the project? Well,

everybody knows about Russian-Angolan relations. During the civil war, first the Soviet Union and then Russia stood firmly on the side of Angola, giving comprehensive support. Furthermore, Angola had a national debt to Russia. In any event, Alrosa won an international tender to develop this deposit. In fairness, it should be said that many potential competitors for this tender decided not to participate, knowing the risks and the complexity of developing the deposit, which was located in rebel territory. Alrosa made this decision, and as subsequent events showed, it was quite correct. Running ahead of my story, I can say that our investment in Angola at that time (mostly for the construction of the factory and development of the quarry) amounted to approximately USD 100 million. These investments paid off very well. Alrosa decided to undertake that project, and I can tell you that initially, we were actually working with a double ring of protection: that is, our own security for the new project, and the security provided by Government troops. Moreover, I can say that the USD 100 million investment was not insured, since no insurance company would provide coverage for any reasonable price, on any reasonable terms, knowing that the risks were unusually high. Nevertheless, the measures that we took allowed us to create a situation that made the project economically viable. There is yet another special aspect. If I may, I will discuss that just a bit more. All shipments had to be sent only by air, because the thousand-kilometre road that linked Luanda to the deposit was blocked in many places, because the bridges had been blown up, and most of this road, too, was controlled by UNITA troops. I will give one more example of successful cooperation. Our Embassy helped a great deal and managed to convince the leadership of the opposition army to allow freight to pass through, for the development of the deposit, and some of the loads, such as mills for ore-processing combines, which could not be transported by air (there were no airports that could handle planes with that large a load-lifting capacity), were allowed passage. Despite all these difficulties, the plant was built in the shortest possible time and mining began. A principle that I think illustrates the company's work ethic is that you must be highly professional and believe strongly in your professional skill. This certainly excludes complacency, but it is necessary to believe in one's professionalism. The second thing I wanted to say is about infrastructure. While building relations with the Government of Angola (which were already quite good), we firmly decided that we would actively participate in creating new infrastructure, which would improve life in the region where we were carrying out diamond mining.

A. Sharonov:

Was this part of the USD 100 million investment that the company made? Or was it a kind of gift from above?

S. Oulin:

It was not part of those investments, and thank you very much for pointing that out. Alrosa not only participated in that gift itself — it also convinced the other partners in Catoca (there were also Brazilian entrepreneurs, from a Brazilian company, and partners from Israel too) to adopt a policy for the Catoca joint stock company aimed at reconstructing the infrastructure for the inhabitants of the region where we were carrying out diamond mining. And it invested money in an infrastructure company for the construction of hydropower; this energy was used not only for the mining of diamonds, but also made it possible to supply electricity to neighbouring villages and towns. And it was also part of the agreement with the Government of Angola. The point is that the company actively participated in building infrastructure which, during the civil war, was intended to provide a degree of calm, order and confidence for the local population, that there were some islands where one could live a normal, peaceful life. Of course, the situation has fundamentally changed since the signing of the Lusaka Accords, but the company's policy of building and improving infrastructure remains the same. Jumping ahead, I want to say that it was not a bed of roses, but the company is still effectively and successfully working in the areas of its main activity. Our professionals are really world-class, and we win in competition with our peers. In terms of infrastructure, we look weaker; it is harder for us to compete, especially with representatives from China.

A. Sharonov:

Is it a matter of technology or the availability of resources, grant resources, which the Chinese government can provide to a significantly greater extent than others?

S. Oulin:

Yes. It is primarily the circumstances, but I can say with all due modesty that we are still one of the best in the world in our core business. Our colleagues from China do it better, I must admit. But politically responsible and socially responsible behaviour has played a major role in enhancing our position, not only in Angola and not only in relations with the Angolan Government. Catoca later became the calling card for Alrosa, and today we are judged not by our achievements on the world market or on the African continent, and not on the profitability of our activities in Africa, but on our policy of social responsibility which helped the company to earn a high reputation. Regarding cooperation or competition with business representatives of the BRIC countries, well, the global diamond business, the world diamond market, has its own special features. We do not have cutthroat competition. Such is the nature of the commodity we are dealing with. I will not claim that we were so farsighted in the early '90s, when we invited colleagues from Brazil to participate in the

Catoca project, that we had in mind that Brazil would later become one of the BRIC countries. We took them on simply because they were the best at logistics in Angola at the time. We invited a partner from Israel to set up the most effective security system possible at that time, considering a variety of circumstances. Both the ones I have already mentioned, and also providing security for the products we extracted. And we never regretted this cooperation. In general, we believe that the key to success lies in successful cooperation among the best in each business. Now, as far as relations with the Government of Angola are concerned. I think that socially responsible and economically responsible policies related to Alrosa's core activity made it possible to build a relationship that is very constructive, reliable, and, I would say, friendly. For example, oil is not a core activity of Alrosa, but the credibility of the company was so great that an interesting oil asset was proposed to us. And not even for us to develop ourselves, but for us to suggest a Russian oil company — this was particularly emphasized — so that the Russian presence in Angola would become weightier, more significant. Including —

A. Sharonov:

Apparently you can get into Africa not only through South Africa, but also through Alrosa.

S. Oulin:

If I may, I will comment on that later, as I find it to be a very important observation. Fundamentally important. To balance the active and constructive participation of business representatives, including from the BRIC countries, does not mean to limit this activity, but to balance it with the activity of representatives from other countries and regions as well. In my opinion, this is a very constructive policy. And Mr. Sharonov, about the "gateway" to Africa. Well, I don't think it sounds terribly arrogant to say so, but Russian businessmen should not and need not wait for someone to lead them by the hand to some gateway, so that something will open up. Our country has a highly professional reputation, we are known as people who do business in a professional way. And I think that precisely this reputation opens any gate in any country, wherever it may be. And I would like to emphasize again: first and foremost, believe in your professionalism and your strong points. Believe me, it really brings economic success and forges a reputation that will open all doors for you.

A. Sharonov:

Thank you, Sergei. I would like to give the microphone now to Mr. Nanda Khemka, who is here representing another BRIC country, India. Exactly two weeks ago, an Indian telecommunications company made probably the largest investment in history, in the entire history of Africa, by buying

a number of telecommunications assets in several countries, with an investment of USD 11 billion. The deal was closed two weeks ago; these companies serve 42 million people in Africa, and that gives you a concrete example of how India looks and acts on the African continent. Mr. Khemka, please share with us how the Indian Government and Indian companies see their interest, their focus, and specific sectors in Africa. And how this can be compared with the tactics, the behaviour of the other BRIC countries, companies from these countries.

N. Khemka:

India and Africa are strongly linked by centuries-old experiences of history, language and political and economic systems. I think more than three million Indians have lived in various countries of Africa over the last hundred years. It is a legacy of history, and now they are an integral part of Africa.

So that makes it easier for Indian involvement to be of a different nature. These age-old ties in Africa between India and Africa have today matured into a very vibrant economic, political and cultural partnership.

The fact is that trade between India and Africa until 2003 was about USD 3 billion, and is today in excess of USD 50 billion, and is targeted to grow to USD 70-75 billion in the next few years.

The Indian investment approach has been multi-faceted. It is not focused on any specific sectors. Indian companies — private companies — have been investing in Africa, in many countries, in different sectors: in chemicals, in plastics, in food and beverages, banking and financial services, oil and gas, pharma, health care, and as you mentioned telecom.

Indian companies have been there earlier. Only two weeks ago, one of our telecom companies took an interest in an African company called Zen, by investing USD 11 billion, which gives them a reach to 15 different countries in Africa with a subscriber base of 42 million subscribers.

And they will be investing many more billion dollars going forward to fill out their total program.

For example, the number of pharmaceutical companies from India are very, very active. It's a huge market for all health care services, pharmaceutical products, hospitals, education, and it is expected that Africa will need more than USD 25 or USD 30 billion — parts of Africa in the next five years — by 2030, I believe, for the health care program itself, and I am sure the Indian companies, with their expertise, will play a very, very important role in that.

Having said that, yes, there are sectors where — like the Chinese in the energy sector — in certain countries India has also been part of infrastructure development programs, such as in Nigeria, in Sudan when they had to go for certain oil and gas assets.

So I think India's approach in Africa has always been an approach of equal partners in progress. It's not new. Even during the 60s, when India didn't have much to offer and was battling with its

own problems, domestic poverty, etc. they had an active involvement in Africa — in terms of exchange of various capacity-building, education, and training — and we had mutually beneficial trade and investments.

The important thing about Indian investment is that, generally, it is very cost-effective — the investment itself — because the cost of technology, the labour, and a lot of equipment that is produced in India, and the fact that Indians are known to try to make do with things in order to produce the end product at a very cost-effective rate. This is what Africa needs, basically.

So that has been one of the great sources of success in Africa because of the experience in India. So I think it's just...

We can talk about it for a long time to come, but Africa, I think, will be one of the greatest stories of our times in the next 30 years.

It's just woken up after Asia. All these years we've been focused on Asia, China, Middle East, and I think this is the period of Africa.

They have everything: they have a population of a billion people, they have natural resources, they have over 200 million people who are middle class, emerging as a consumer market. So it is logical that people would come to Africa to invest, to trade.

But of course there are problems. People talk about when they go into Africa, they talk about infrastructure, as they are used to in many other parts of the world.

As Mr. Oulin mentioned, they have no roads. They had to use aircraft. Well, of course you can use aircraft if you are dealing in diamonds. [Laughs]

But that is a reality of the developing world. And we have to cope with it, make do with it.

So I'm very delighted that the world is talking about Africa, looking at Africa. But the Indian companies are involved in many, many sectors whether in steel, in metallurgy, in mining. You name it, they are there.

A. Sharonov:

What is the role of the Indian government? We have talked about the role of the Chinese government, the Russian government in supporting investments in Africa, but do you see some specific role of the Indian government, or that Indian companies — due to the historically positive legacy — are self-sufficient and work on their own very successfully?

N. Khemka:

The Indian government has been involved in Africa, as I mentioned, starting just after independence in the early 60s, trying to work with each of these countries in many, many areas of education, training, technical training. We have continuing programs.

I have with me a list of various Indian initiatives — there are about 15 of them. And they keep on expanding.

So the Indian government has always been involved and continues to be involved in building capacity, building empowerment, training of all kinds of things, including health care.

But they have also been involved, at a government-to-government level, in building infrastructure: railways and power projects and so on and so forth, on a somewhat smaller-scale for a long time.

As with regard to the Indian companies coming in too, the government is very supportive. For example, this telecom deal was not so easy. It's been under negotiation for the last 18 months.

The 15 governments involved are African countries, and the support of the Indian government was very, very important to push through this deal.

So, they have a policy like the Chinese, except that they don't go out and build themselves. The private sector — they support them.

And I think the Indian private sector is quite entrepreneurial. They have the capacity to move on their own. So it's a different model.

And I think the Chinese have the similar model in India. They are building a number of projects.

They are building a number of power stations and they do the same things. They build their team of people and they work round-the-clock 24/7 and they deliver very cost-effectively.

It does create some social problems of workers and so and so, and these problems are being resolved. So I support their approach because they do deliver what the host country wants.

A. Sharonov:

We are close to the end of our session, so let me ask the audience: does anyone want to ask a question? We have time for one or two questions. Go ahead please. Please introduce yourself and be very brief.

A. Nevredinov:

Alexander Nevredinov, Armada Group. South Russia, Astrakhan. We are a medium-sized company, we have joint fisheries projects in Africa, in countries such as Egypt, Cote d'Ivoire and Congo. I have a question for Dr. Ige. Is Nigeria interested in similar projects in the provisions industry? For example, we are prepared to make our instructional Fishing Industry University in Astrakhan available. Might it be possible to engage in these projects with your country? Thank you.

A. Sharonov:

Oil and fish, what an interesting combination...

Dr. D. Ige:

Yes. Well, clearly, I think there is a huge opportunity for us in that sector. One of the things we are trying to do for example is to leverage natural gas for the expanded production of fertilizers in Nigeria. The observation being that Nigeria probably has the lowest utilization of fertilizers in the world per hectare of arable land.

So, part of our strategy in the gas sector is actually to increase the production of fertilizer locally so as to create improved productivity in the agricultural sector. Obviously to complement that would be downstream processes, which will turn this agricultural output into processed food for Nigeria — which is a huge market on its own — and potentially for export.

So this is an area we are very keen on. First on the fertilizer side, for which there is a lot of Indian investment that has been evaluated. But also in the downstream side. So really, there is a strong connection between oil, gas, and food actually. And I think this is one that we welcome.

A. Sharonov:

You have the opportunity to speak with a representative of the Government and with representatives of business of Nigeria. Perhaps you will not go away empty-handed, but with agreements. Go ahead please. Your question.

M. Bello:

Earlier on, one of the speakers talked about how you get into the Nigerian market. I am Mohammed Bello, the MD of Nigaz, Niger Company Limited, the joint venture between Gazprom and NNPC.

The entrance into the Nigerian market in terms of investment is open. You can set up a company that is 100% owned by a foreigner or 10% owned by a foreigner.

The important thing is that besides the PI Bill — the industry bill for the petroleum industry — there is also the Nigerian Content Bill which recognizes the requirement for companies, whether Nigerian or foreign, to have a large amount of Nigerian content in their business, either in terms of materials, people, technology or whatever.

So there is no restriction as to how you can enter the market. You can come and own your own company, but you must use the resources of the country in terms of materials, people and services. That is all that is required.

Regarding the joint venture, and what NNPC and Gazprom are trying to achieve, basically, yes, this joint venture is supposed to be an all-inclusive joint venture from ENP all the way to marketing and trading.

But at the moment — the beginning — the important area is because the Nigerian government and state requires a lot of investment in gas and power systems, the company is focusing in that particular area in terms of what it should be doing in the initial period of its operation, which is developing power and gas networks, power plants, processing facilities, and also generating electric power from different sources, especially from gas.

So I think that's what I wanted to just add to what has been said. Thank you.

A. Sharonov:

Thank you for your comments. Please, the last question.

J. Lu:

Hello, everyone. My name is Jennifer Lu from the World Eminence Chinese Business Association. Now I'm doing the Future Leaders Club and the Hope Africa Project.

This is the second generation of my club; we are the successors of the Top 500 Chinese Enterprises, and the second generation of very successful Chinese entrepreneurs.

Now, the Africa Hope project is a charity project. We want to help Africa's hungry children. And my question is where do you think we should send our members?

And also, our Chinese Business Association, we want to send our members to invest in Africa, because many of them have a lot of interest in that. And where do you think we should send them?

Before you answer, I want to emphasize one point.

Chinese investment in Africa is not only for our benefit. I think it also benefits Africa, because we want to create a win-win situation and love between both countries. Thank you.

A. Sharonov:

Thank you for your question and for your proposal, and probably I will ask our Nigerian colleagues to answer, or to invite you to come to Nigeria with your services, with your charity, and with your projects.

O. David-Borha:

Yes. Thank you. Certainly you're very welcome in Nigeria.

I think from the charity perspective, typically NGOs are set up — or you partner with existing NGOs so that have adequate reach across the country.

But I believe, not only Nigeria, but certainly other countries within Africa would be very happy to support any initiative that will help to alleviate poverty across the continent.

Thank you.

A. Sharonov:

Thank you, I want to thank all the participants for the interesting discussion. And to thank the audience for their attention. I would also like to say that it is clear there are huge opportunities and huge needs in Africa, which in turn provide opportunities for investments from Russia, the BRIC countries and from all over the world. This is a great challenge and we should take full advantage of it. Thank you.