

Press Release from the office of Eric Joyce  
For immediate use  
18 November 2011

# MP exposes \$5.5 billion loss to Congolese people through questionable mining deals with BVI 'shell' companies

Ahead of this month's Presidential elections in the Democratic Republic of Congo (DRC), documents have been released by UK Member of Parliament Eric Joyce that appear to show a systematic pattern of underselling Congolese mining assets to off-shore 'shell' companies incorporated almost exclusively in the British Virgin Islands (BVI), the ultimate beneficial owners of which are often unknown, with the result that the Congolese people do not benefit from the vast mineral wealth in their country.

Eric Joyce, chair of the UK Parliament Great Lakes of Africa Group, said documents passed to him "*confirm for the first time that elements of the DRC Government, in particular the current President, Joseph Kabila, has sold vast mining assets at knock down prices to various off-shore 'shell' companies.*"

Eric Joyce continued, "*This powerful evidence proves that the natural resources of the Congo are not being used as a legitimate source of revenue for the people. Instead, a series of complex arrangements between their own government and various BVI shell companies means that a few are enriched at the terrible cost of the many.*"

*"The UK government alone will contribute £700m\* in aid in the next 4 years. At a time of austerity at home we must be certain this is money well spent. This evidence shows that UK tax payers' money is being poured into a country where billions in tax revenue and mineral assets are being diverted from the people."*

## Questionable mining deals with BVI companies

At least 45 recently incorporated BVI shell companies have been identified as having acquired assets in the DRC over the last four years, nine of which are identified in the documents released today. (See attached 'deal summary').

These transactions were not disclosed by the DRC government. None of these asset sales were put out to public tender. None of the BVI companies have any known track-record of expertise in the mining or resource sectors. None of the owners of these BVI companies have been made public by the DRC government; however several of these companies appear to be connected to Israeli businessman Dan Gertler.

Based on fair-market valuations of the assets sold, the total loss to the DRC people, in lost monies and lost assets is more than US\$5.5billion. After these state or expropriated assets are acquired at well below market value by the BVI companies, they are then sold, in part or outright, to multi-national firms, some of which are listed on the London Stock Exchange. In the process, the BVI companies realize vast windfall profits for their owners, all of whom are cloaked in anonymity.

## Failure of IMF to enforce transparency initiatives

In December 2009, the IMF approved a \$551 million line of extended credit to the DRC government. In return for this three-year credit facility, the DRC government agreed to lift the cloak of secrecy around its mining sector. Agreed benchmarks included:

- Publishing all partnership agreements between state-owned mining firms and private enterprises

- Offering transparent public tender processes for state mining assets
- Publishing the contractual results of the 2007 – 2010 country-wide mining contract renegotiation
- Implementation of a global transparency program called the Extraction Industries Transparency Initiative (EITI), currently headed by former UK minister Claire Short
- Establishment of an independent anti-corruption agency

Eric Joyce said, *“I can find almost no evidence that the DRC government is complying with the requirements attached to their IMF loan. Not a single contract from the massive country-wide mining contract renegotiation has been published, except the Tenke deal.*

*“The government has not produced any documentation of the ownership structure of these assets. The involvement of off-shore British Virgin Island companies makes it very hard to tell, without extensive research, who is benefiting from the immense wealth in the country. There is one thing for sure: it is not the ordinary people of the DRC”*

Within the last two years, the failure of the IMF, the World Bank and the EITI to enforce the requirements of the credit facility on President Kabila’s government have resulted in asset sales to BVI shell companies at \$ billions below asset value on the open market.

Three such deals alone, the sale of the SMKK, Kansuki and Mutanda mines were sold by the state owned mining firm to BVI shell companies for well under \$1 billion of what they would have fetched on the open market. (See attached deal summary)

Despite this, the IMF in April 2011 concluded:

*“Structural reforms have progressed as planned. The [DRC] government reported that it published all new partnership agreements. Implementation of government and transparency reforms in the extractive industry is proceeding satisfactorily. The timing of some measures has been slower than envisaged but progress in being made on all fronts.”*

Eric Joyce said, *“All the evidence I have released thus far would suggest this is a laughable statement from the IMF. The IMF has not been firm enough with the DRC government and has allowed the president and his advisors to run rings round them. The people of the DRC are losing their natural wealth, tax revenues and jobs because the IMF and governments around the world will not enforce the agreed benchmarks made on Kabila’s government.*

*“The Department for International Development has a so called ‘zero tolerance’ policy on corrupt or opaque behavior by recipient governments. Therefore I believe it is incumbent on Andrew Mitchell and others in the UK government to call IMF head, Christine Lagarde, to account and end this scandal.”*

#### **Questions that need clear answers**

- Why is the DRC government making secret sales of publicly owned mining assets to BVI shell companies?
- Who ultimately owns these BVI shell companies?
- Is anyone connected with President Kabila benefiting from these secret, below-market asset sales?
- Where has US\$5.5billion gone?
- Why is the international community standing-by while the wealth of the Congolese people is being lost in questionable sales to BVI shell companies?

#### **Conclusions**

Eric Joyce said in conclusion, *“The Congolese people have huge natural wealth in their country. With some \$24 trillion in natural resources, the DRC could be the economic power house of Africa – it’s potential is that great. Sadly the international community is unwilling to act to put an end to the sort of deals that are exposed in these documents.”*

*"I hope the UK Government will work with others to finally ask the question, where has all the money gone? The wealth of the country is being lost through a series of sales to off shore 'shell' companies. I have exposed some of this today. It is now for the UK government to act to stop the great Congolese give away of state assets."*

**[END]**

**Notes to Editors**

For more information contact Eric Joyce MP: [ericjoycemp@gmail.com](mailto:ericjoycemp@gmail.com) or 0044 (0)7527450028

\*The EU resumed structural aid in 2002, and €961 million (not including humanitarian aid) has been mobilised since. The EU multi-annual indicative programme in the DRC for the current spending round has budgeted €561.7 million for structural priorities.

During this spending round (2008 – 2011) the USA will commit \$949m of aid to the DRC

**Summary of dealings with BVI and other off-shore, 'shell' companies costing the DRC people US\$5.5billion in lost cash and assets**

<b><u>Asset</u></b>	<b><u>Sales Price</u></b>	<b><u>Market Value</u></b>	<b><u>Government Losses</u></b>
Mutanda/Kansuki	\$137,000,000	\$1,057,000,000	\$920,000,000
SMKK	\$15,000,000	\$75,000,000	\$60,000,000
Kolwezi	\$60,000,000	\$2,690,000,000	\$2,630,000,000
Comisa/Frontier	\$60,000,000	\$1,976,000,000	\$1,916,000,000
<b>Total:</b>	<b>\$272,000,000</b>	<b>\$5,798,000,000</b>	<b>\$5,526,000,000</b>

### **\*\*\*Sale of Interest in Mutanda and Kansuki Mining Operations\*\*\***

*Name of DRC assets sold:* 20% Gecamines interest in the Mutanda joint venture (including all rights to royalties and bonus payments); and, 25% Gecamines interest in Kansuki SPRL

*Source:* Document 1

*Name of state-owned company selling asset:* Gecamines

*Source:* Documents 1, 2 and 3 (see last page).

*Name of BVI company buying asset:* Rowny Assets Limited; and Biko Invest Corp.

*Source:* Document 1

*Price paid by BVI companies:* A combined \$137 million for both Mutanda and Kansuki; it is not publicly known how the consideration was split between the two assets.

*Source:* Document 3 (see last page)

*Fair market valuation of asset:* approximately \$1.057 billion.

*Source:* The Mutanda valuation was prepared using the data in Glencore's prospectus at page 129 of the Golder valuation) (Document 1). Using Glencore's discount rate of 10%, the NPV for the Gecamines' dividend (free cash flow) and royalty (2.5% of gross revenues) is nearly \$849 million. These calculations are consistent with numbers previously published by Bloomberg ("may be more than \$800 million"): [www.bloomberg.com/news/2011-07-12/gecamines-undisclosed-sale-of-congo-copper-mines-may-threaten-share-offer.html](http://www.bloomberg.com/news/2011-07-12/gecamines-undisclosed-sale-of-congo-copper-mines-may-threaten-share-offer.html)

Regarding Kansuki, the best-known source is a report prepared by Deutsche Bank (Document 4). Page 117 of the Deutsche Bank analysis values Glencore's 37.5% stake in Kansuki at \$313 million, meaning that each per cent would be worth \$8.35 million, making Gecamines' stake of 25% (not including royalties) worth \$208.7 million. Using Glencore's data and Deutsche Bank's valuation, the combined market value of Gecamines' interests sold to Rowny and Biko would be \$1.057 billion.

*Name of beneficial owner:* Glencore describes both Rowny and Biko as "associated with" Dan Gertler

*Source:* Document 1 (see numbered page 70)

**DRC Government Loss/BVI Shell Company Windfall: \$920 million**

### **\*\*\*Sale of SMKK Mining Operation\*\*\***

*Name of asset sold:* Gecamines' 50% interest in Société Minière de Kabolela et de Kipese SPRL ("SMKK")

*Source:* Document 7 (page 21 (see post balance sheet events))

*Name of state-owned company selling asset:* Gecamines

*Source:* Document 8 (Section 11 "*Problématique de la vente des parts GECAMINES dans SMKK.*")

*Name of BVI 'shell' company buying asset:* Emerald Star Enterprises Limited

*Source:* Document 7 (page 21). This is also confirmed in roughly 10 other ENRC documents available on ENRC's website.

*Price paid by BVI company:* \$15 million

*Source:* Document 8 (Section 11) Minutes state that Gecamines received \$15 million for the sale of its shares in SMKK.

*Fair market valuation of asset:* At least \$75 million. ENRC paid Emerald Star Enterprises \$75 million for this asset; CAMEC had bought the other 50% of SMKK for \$85 million the previous year.

*Source:* ENRC purchase price: Document 7 (page 21). This is also confirmed in several other ENRC documents available on ENRC's website. For CAMEC purchase price of \$85 million, see Document 9.

*Name of beneficial owner:* ENRC describes Emerald Star as "an entity controlled by the Gertler Family Trust"

*Source:* Document 11 (numbered page 67)

**DRC Government Loss/BVI Shell Company Windfall: US\$60million**

### **\*\*\*Sale of Kolwezi Mining Operation\*\*\***

*Name of asset sold:* a 70% interest in the Kolwezi (also known as KingaMyambo Tailings) mining concession. This asset was one of the assets taken from First Quantum Minerals (FQM).

*Source:* Document 12 (see article 2.2) and Document 13

*Name of state-owned company selling asset:* Gecamines

*Source:* Document 12 and Document 14

*Name of BVI companies buying asset:* Highwind Properties Ltd., Pareas Ltd., Interim Holdings Ltd. and Blue Narcissus, Ltd.

*Source:* See above-referenced JV agreement

*Price paid by BVI companies:* Cash consideration of \$60 million

*Source:* Document 12 (article 7.1). This has also been discussed in FQM's BVI statement of claim filed against the Highwind Group (Document 15).

*Fair market valuation of asset:* According to Numis Securities, the fair market value of FQM's 65% interest in Kolwezi is \$2.498 billion, meaning that 100% of Kolwezi would be worth \$3.84 billion (and 70% - the amount acquired by the Highwind group – is worth \$2.69 billion).

*Source:* Document 16 (pages 7 and 8). This report has been cited by media organizations in respect of the value of FQM's assets: <http://mobile.bloomberg.com/news/2011-09-15/congo-sells-30-stake-in-ex-first-quantum-mines-to-virgin-island-companies>

*Name of beneficial owner:* ENRC describes the parent companies of the Highwind group as being "held by the Gertler Family Trust"

*Source:* Document 13

**DRC Government Loss/BVI Shell Company Windfall: Approximately US\$2.6 billion.**

## **\*\*\*Sale of Frontier and Comisa Minings Operation\*\*\***

*Name of asset sold:* 100% interest in the Frontier and Comisa mining operations. These assets were some of the assets taken from First Quantum Minerals.

*Source:* Documents 21-23

*Name of state-owned company selling asset:* SODIMICO

*Source:* Documents 21-23

*Name of companies buying asset:* Fortune Ahead Limited (Hong Kong), Sandro Resources Limited (BVI), Garetto Holdings (BVI)

*Source:* Documents 21-23

*Price paid by BVI companies:* Total cash consideration of \$60 million (\$30 million by Fortune Ahead; \$30 million by Sandro/Garetto)

*Source:* Document 21 (article 6.2.4) and Document 23 (article 1)

*Fair market valuation of asset:* Numis Securities has valued FQM's stake in Frontier at US\$1.568 billion and its stake in Lonshi at \$408 million, for a total of \$1.976 billion.

*Source:* Document 16 (pages 7 and 8). This valuation has been cited by other media organizations in respect of the value of FQM's assets:

<http://mobile.bloomberg.com/news/2011-09-15/congo-sells-30-stake-in-ex-first-quantum-mines-to-virgin-island-companies>

*Name of beneficial owner:* Unknown

**DRC Government Loss/BVI Shell Company Windfall: Approximately \$1.916 billion.**

### \*\*\*Index of Referenced Documents\*\*\*

Document	Description
1.	Pages from Glencore Prospectus. 4 May 2011 (entire prospectus is available at: <a href="http://www.glencore.com/documents/Glencore_IPO.pdf">http://www.glencore.com/documents/Glencore_IPO.pdf</a> )
2.	<i>Réponses de Gécamines Sarl au questionnaire du FMI sur la Cession des Parts Sociales dans MUMI Sprl.</i> 16 September 2011.
3.	<i>Communiqué de Presse de Gécamines.</i> August 2011.
4.	Pages from Glencore - The value in volatility, Initiating with a Buy. 6 June 2011. Deutsche Bank. (entire document is available at: <a href="http://www.scribd.com/doc/57254342/34/Mutanda-a-tier-1-greenfield-development-asset">http://www.scribd.com/doc/57254342/34/Mutanda-a-tier-1-greenfield-development-asset</a> )
5.	BVI Records – Rowny Assets Limited
6.	BVI Records – Biko Invest Corp.
7.	ENRC Africa Holdings Limited Financial Statement for the year ended 31 March 2010
8.	<i>Procès-Verbal Synthétique de la Réunion Ordinaire du Conseil d'Administration de Gécamines Tenue le 09 Avril 2010.</i>
9.	Central African Mining & Exploration Company Plc Acquires Extensive Copper & Cobalt assets in the DRC. 23 October 2008.
10.	BVI Records – Emerald Star Enterprises Limited
11.	Pages from Eurasian Natural Resources Corporation PLC Announcement of 2010 Preliminary Results. 23 March 2011. (entire document is available at: <a href="http://www.enrc.com/PageFiles/5041/23-03-11%20Announcement%20of%202010%20Preliminary%20Results.pdf">http://www.enrc.com/PageFiles/5041/23-03-11%20Announcement%20of%202010%20Preliminary%20Results.pdf</a> )
12.	<i>Contrat d'Association.</i> DRC, Gécamines and Highwind Group. January 2010. <a href="http://mines-rdc.cd/fr/documents/contrat_gcm_highwind.pdf">http://mines-rdc.cd/fr/documents/contrat_gcm_highwind.pdf</a> .
13.	Eurasian Natural Resources Corporation PLC Acquisition of 50.5% of the Shares of Camrose Resources Limited. 20 August 2010.
14.	8 January 2010 Gécamines' Board Minutes (re: Metalkol)
15.	BVI Statement of Claim against Highwind Group
16.	Numis Securities Ltd. report on First Quantum Minerals. 7 July 2010.
17.	BVI Records – Highwind Properties Limited
18.	BVI Records – Pareas Limited
19.	BVI Records – Interim Holdings Limited
20.	BVI Records – Blue Narcissus Limited
21.	<i>Convention de Joint-Venture</i> between Sodimico and Fortune Ahead Limited. 10 June 2010. <a href="http://mines-rdc.cd/fr/documents/Contrat_convention_sodifor.pdf">http://mines-rdc.cd/fr/documents/Contrat_convention_sodifor.pdf</a>
22.	<i>Accord de cession des parts</i> between Sodimico, Sandro Resources Limited and Garetto Holdings Limited. 28 March 2011. <a href="http://mines-rdc.cd/fr/documents/accord_cession_parts_sodimico_sandro_garetto.pdf">http://mines-rdc.cd/fr/documents/accord_cession_parts_sodimico_sandro_garetto.pdf</a>
23.	<i>Accord relatif au prix d'achat</i> between Sodimico, Sandro Resources Limited and Garetto Holdings Limited. 28 March 2011. <a href="http://mines-rdc.cd/fr/documents/accord_prix_achat_sodimico_sandro_garetto.pdf">http://mines-rdc.cd/fr/documents/accord_prix_achat_sodimico_sandro_garetto.pdf</a>
24.	BVI Records – Garetto Holdings Limited
25.	BVI Records – Sandro Holdings Limited