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## **Eritrea is the New Frontier for Mining Companies, Even in Spite Of UN Sanctions**

By Charles Wyatt

Not very often we start a mining article with a combined geography/history lesson, but in this case the only way to make sense of the recent moves by a number of mining companies into Eritrea is to understand exactly where the country is, what surrounds it, and what has been going on there.

The region is described loosely as the Horn of Africa but a close look at a map shows that the real Horn juts out south of Djibouti into the Gulf of Aden and largely consists of Somalia, with Ethiopia to its west and north. Djibouti has coast along the Red Sea and Somalia has a massive coastline in the Gulf of Aden as well as the Indian Ocean. That is where the pirates lie in wait for their victims, remember?

Ethiopia, however, has no coastline at all and that is why it has for generations made a pest of itself to Eritrea which cuts it off from the Red Sea, running all the way up from Djibouti to Sudan, with Egypt a bit further to the north.

Before the Second World War Eritrea was an Italian colony, but was taken over by the British in 1941. Once the war was over, in 1952, the United Nations decided to establish it as an autonomous entity federated with Ethiopia as a compromise between Ethiopian claims for sovereignty and Eritrean aspirations for independence. Ten years later the Ethiopians tried to annex it, triggering a war which lasted for more than 30 years. The result was victory for Eritrea which declared independence in 1993, leaving Ethiopia landlocked. The two countries hardly became good neighbours, with the issues of Ethiopian access to the Eritrean ports of Massawa and Assab, and unequal trade terms, souring relations. In 1998 there was another flare-up that lasted a couple of years and again it was Ethiopia trying to get access to the Red Sea.

Since 2000 there has been an uneasy peace, with Eritrea trying to rebuild its economy after a devastating period of war. It sits, however, in a difficult area and every time there were problems in Sudan, Djibouti or Somalia near its border, Eritrea was held responsible by the UN. This culminated in the adoption of a package of sanctions against Eritrea last December.

What has to be seen in the background of all this is the dark art of US diplomacy. The US wanted its favoured candidate Ethiopia to have access to the Red Sea and found Eritrea much too independent for its liking. Eritrea is fighting its corner to get the sanctions lifted.

In the meantime, as Ambassador Tesfamicael Gerahtu pointed out in London yesterday, the country is straining every muscle to become self-dependent in food production and improve education and health services.

Anyone arriving in the capital of Asmara today could easily think the plane had been re-routed to Italy, according to Rupert Baring of gold explorer London Africa. There are wide streets, Italianate architecture and a coffee culture, with plentiful cafes.

The people he describes as proud, independent and honest and he has never seen any sign of the corruption endemic in so many parts of Africa. These are just some of the reasons why mining companies, big and small, are taking a serious look at Eritrea. The biggest reason of all, however, is the fact that the country is unexplored in modern times and underneath Eritrea, as well as under the other countries in the Horn of Africa, lies the Arabian-Nubian Shield which is an exposure of pre-Cambrian rocks on the flanks of the Red Sea. The Shield also crosses over into Jordan, Saudi Arabia, and Yemen. In the north it's exposed as part of the Sahara Desert and Arabian Desert, and in the south in the Ethiopian Highlands.

The Arabian-Nubian Shield was the site of some of man's earliest geologic efforts, principally the Egyptians who extracted gold from the rocks of Egypt and north east Sudan. New gold discoveries have been made in Sudan, Eritrea, and Saudi Arabia. Last week Tim Goyder, executive chairman of the Australian gold explorer Chalice Gold Mines, was passing through London and he laid out a map which showed that his company's Zara and Koka projects lie on the same pre-Cambrian shield as Centamin's Sukari gold mine in the Western Desert of Egypt. For reasons of history and politics, the amount of modern gold exploration that has taken place in Egypt – Centamin apart – is modest, but none at all has taken place in Eritrea until recently. Someone has to be the original pioneer, and it appears to be the Canadian company Nevsun in this particular case. Nevsun is bringing its high grade gold, copper and zinc Bisha deposit into production later this year.

Tookie Angus, chairman of Nevsun, confirms that the Bisha project has received continuous support from the Eritrean government, which granted the mining licence in January 2008. Bisha will be the first modern-day mine in the country, with production slated to return over a million ounces of gold, 9.4 million ounces of silver, 734 million pounds of copper and more than one billion pounds of zinc during its life. The really interesting aspect, however, is the deal between Nevsun and the government of Eritrea.

Under existing Eritrean mining legislation, the State of Eritrea has an automatic right to a free carried 10 per cent interest, but under an agreement with Nevsun it also has an additional 30 per cent paid participating interest. This 30 per cent contributing interest was agreed upon in October 2007, with a provisional US\$25million payment made to Nevsun. The remaining balance to be paid to Nevsun will be determined by an independent valuator, and will be based on the net present value of 30 per cent of the project, as evaluated upon the first shipment of gold from the mine.

Not for Eritrea the black empowerment requirements of South Africa which so often end up with a 26 per cent stake in mining companies being effectively stolen by entities which have no intention of paying their way as partners. The Nevsun deal is straightforward stuff, with the Eritrean government setting out to get a significant stake in a project which should ensure it a satisfactory return. And it goes further than this. The Ministry of Energy and Mines is helping to organise a regional Geo-Conference in Eritrea in September which will showcase the potential for mining. It is especially interesting that Centamin has been invited from Egypt, La Mancha with its Hassai VMS mine, from Sudan, and Citadel which has the Jabel Sayed copper gold deposit, from Saudi Arabia. The whole region underlain by the Arabian-Nubian Shield is being represented, and little Eritrea is taking the lead. And that's hardly what the UN envisaged when it put in the sanctions at the behest of the US.

There are now getting on for 20 mining companies active in the country. The Chinese are there, the Koreans are there, and now some of the big boys are following the juniors in. The country has a very sensible mining code, modelled on the Australian one. Antofagasta, one of the world's largest copper producers is in a joint venture with the Canadian company Sunridge Gold on the Adi Rassi copper gold project within its Asmara project, and Anglo American is involved in the Thani-Ashanti Alliance. Newmont is also said to be taking a close look, which is another reason for the UN to reconsider its decision on sanctions. The Amir of Qatar not only owns the Asmara Place Hotel, where Brits and locals alike watch English football in the Green Bar, but is also building a summer home at Massawa overlooking the Red Sea. Eritrea, with a history that has precluded any exploration in modern times, is the new frontier and everyone is taking a look. The reaction from mining companies and fund managers alike has been universally positive, so this is likely to build up into a big story even if it is one that will not hit the headlines in the States.