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DOING BUSINESS IN SIERRA LEONE: GRAEME HOSSIE AT LONDON MINING (A)

"We had heard through the grapevine that two large piles of iron ore concentrate were sitting on a quayside in Sierra Leone, and our initial thoughts were that we could negotiate with the government to take it away to generate early cash flow," said Graeme Hossie, chief executive officer (CEO) of London Mining, an iron ore mining firm based in the United Kingdom. "Then we started wondering where the iron ore came from. There had to be a mine somewhere." It was September 2008, and Hossie had just landed in Freetown, Sierra Leone. He was on his way to meet a senior minister in the Sierra Leone government, intending to move ahead with his company's bid on a mining licence in the war-torn country.

First, however, he had to address a huge issue: a competing group with a strong local presence seemed to have surface and mineral rights that overlapped with London Mining's mining lease area. "The boundary points had not been drawn in a mutually exclusive way," said Hossie. "And the others had a good working relationship with the minister of mines. How should we approach this issue?" Hossie was eager to resolve the boundary dispute so that his firm could restart operations at the Marampa mine.

SIERRA LEONE

A resource-rich country in West Africa, Sierra Leone had recently emerged from a long civil war that had lasted from 1991–2002. The rebels had funded their campaign by selling diamonds, leading to the emergence of the terms *conflict diamonds,* or *blood diamonds*. The conflict devastated the country's industry and infrastructure, including much of its mining operations. Prior to the 1990s, Sierra Leone was known for its deposits of diamonds, bauxite, rutile, gold, and iron ore. Major mining operations started in the 1920s with the discovery of gold and diamonds. The largest mining firm had been the Consolidated African Selection Trust, which began operations in 1934 and was once one of the largest mining operators in the world. Not surprisingly, revenues from mining constituted the majority of Sierra Leone's export earnings.

The country gained independence from the United Kingdom in 1961 and suffered three military coups between 1967 and 1968. From 1968–1991, the country was governed by the All People's Congress (APC), which had originated as a breakaway group opposed to the previous ruling regime. The APC established a de facto one-party state and sought to reform and reorganize the country's industrial base, including the refineries, hotels, and cement factories. The 1970s were marked by civil unrest, including a failed mutiny and several protests aimed at overthrowing the government. In 1978, President Siaka Stevens reworked the country's constitution, making the APC the only legal political party in the country.

After Stevens retired in 1985, Major General Joseph Saidu Momoh, head of the country's armed forces, was elected as the country's president after being the only candidate to contest the seat. In the 1980s, a period of rampant corruption in the country, Momoh put in place a code of conduct for political leaders and public servants in an attempt to reform the civil service. Momoh successfully fought off a coup attempt in 1989, then arrested 60 senior government officials, including his vice-president. Of the 60 officials, five were hanged in 1989.

The military coup that began the 1991–2002 civil war was led by junior officers in the Sierra Leone army intent on overthrowing Momoh's APC party, which was accused of ongoing corruption. The coup was successful; it sent Momoh into exile and led to the establishment of a new party, the National Provisional Ruling Council (NPRC). Valentine Strasser, the 24-year-old leader of the coup, became the world's youngest head of state in 1992. Internal conflict continued, with various factions plotting over the next few years to overthrow Strasser; by 1996, Strasser's allies had deserted him, and he was exiled to Guinea. The leaders of the 1996 coup pledged to return the country to democratic rule, and later in 1996, Ahmad Tejan Kabbah of the Sierra Leone People's Party (SLPP) was elected as the country's president.

Kabbah faced an insurrection in May 1997 that ended with him being sent into exile, then he was reinstated as president two years later, in February 1998, after further conflict and leadership changes. On October 22, 1999, the United Nations Security Council established the United Nations Mission in Sierra Leone (UNAMSIL) to work with the Sierra Leone government to implement a peace agreement and to maintain order.[1] A force of 13,000 peacekeepers was sent to Sierra Leone as part of the mission, but rebel troops attacked the peacekeepers, taking 500 of them hostage in May 2000. In 2000, a U.K. initiative (code-named Operation Palliser) to evacuate foreign nationals was transformed into a military action involving 4,000 British troops, including Special Forces troops, and led to the defeat of the rebels and restoration of order in Sierra Leone. The decade-long civil war ended with the deaths of 50,000 civilians and significant disruption to the country's economy. Kabbah was re-elected as the country's president in May 2002, but lost his seat to Ernest Bai Koroma of the opposition APC in August 2007.

LONDON MINING PLC[2]

London Mining was a U.K. multinational enterprise that developed mines to supply the global steel industry. "I started my career in management consulting, with Bain & Company, and I became interested in building businesses in new, disruptive sectors," remarked Hossie. "I liked putting a business together, and I began to see opportunities in the mining space after speaking to a colleague of mine." Hossie participated in setting up a few deals in the junior mining industry, assisting with strategy and governance issues. Junior mining firms were small exploration companies that sought to raise capital to develop prospective mining projects.

[1] Peace and Security Section of the Department of Public Information, United Nations, "UNAMSIL: United Nations Mission in Sierra Leone," accessed October 7, 2016, www.un.org/en/peacekeeping/missions/past/unamsil/.
[2] "London Mining Plc: Exercise of Options over Primary Insider London...," FE Investegate, accessed October 7, 2016, www.investegate.co.uk/ArticlePrint.aspx?id=20080526153000H2682.

In 2005, he was introduced to Chris Brown, a mining analyst who was trained as a geologist. Brown was looking to start a firm of his own, and he and Hossie became co-founders of London Mining Plc. “This was in early 2005, when the iron ore market was showing signs of coming out of a long slumber. There had previously been no price changes for decades, and the industry was lacking in dynamism,” recalled Hossie.

> Business school graduates were heading to banking and consulting, and even technology—certainly not into mining. Mining for a long time was not seen as having a lot of opportunity because, well, it didn’t at the time. The rise of China and the resulting increase in steelmaking and consumption of all types of minerals spurred commodity price growth. And iron ore became of interest. China would need more of it, large providers were slower to react, and we knew that there were good projects that had been forgotten by the majors and neglected by their owners. We said to ourselves, “Let’s check this out.” I’m putting a simplistic slant on it, but we saw the opportunity in front of us.

After securing several rounds of seed funding, in 2007, Hossie helped London Mining raise US$50 million[3] in equity and $65 million in debt to purchase and develop mining assets it had acquired or held under option. London Mining used the proceeds to purchase a small but operational iron ore mine in Brazil. London Mining began to develop an international portfolio with mining, exploration, and development projects in Brazil, Saudi Arabia, Greenland, and Mexico. The firm was planning to develop operating mines in each of the countries in which it was active. In the mining industry, the large producers, such as Rio Tinto and Vale, were able to generate over 100 million tons per annum (mtpa) of iron ore production from their vast Australian and Brazilian mines. Medium-sized mines generally produced 15–50 mtpa of ore, and small mines produced less than 10 mtpa.

London Mining entered into a 50:50 joint venture with the National Mining Company in Saudi Arabia to develop the Wadi Sawawin iron ore project. The initial feasibility study for the project proposed a mine producing five mtpa (which could be doubled to 10 mtpa) and proposed further processing of the ore into pellets for the Middle Eastern steel industry, which was growing rapidly as a result of the region’s industrialization. London Mining also had 100 per cent interest (i.e., a wholly owned subsidiary) in the Isua mine project in Greenland, which had reserves of 961 million tons at a grade of 34 per cent iron. Isua was initially proposed to become a five-mtpa operation, but its feasibility later grew to 15 mtpa. London Mining’s Mexican operation was a 48-per-cent-owned exploration project on the El Artillero iron ore deposit, where a drilling program was being completed. The plan here was to develop a one-mtpa mine starting in early 2009.

In Brazil, London Mining purchased an operating mine, improved operations, and boosted production to 1.4 million tonnes per year, then sold it for $810 million to steelmaker ArcelorMittal in August 2008, just as the financial crisis began. The Brazilian mine had been in the hands of a local family for decades before its sale to London Mining in 2007. Hossie remarked:

> We bought it, conducted new research to get a fuller picture of its resource base, improved operations to international standards, built an new plant in nine months—which added 3.5 mtpa to the previous sales of 0.5 mtpa—linked the mine to rail logistics, then looked at strategic options to realize value as we could still not access the seaborne export trade where the higher pricing was available due to the lack of available port availability. In looking at all our options, we progressed a sale process to high demand from multiple potential buyers and sold to ArcelorMittal for $810 million in August 2008, just before the global financial crisis hit. The sale

[3] All amounts are in U.S. dollars unless otherwise specified.