Ghana's Ashanti Goldfields going for a song

By Trevor Johnson
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The Ghana-based company, Ashanti Goldfields, is being sought by a rush of potential buyers looking to purchase gold mines at rock-bottom prices. Ashanti owns some of the most productive gold mines in Africa—altogether worth over $2 billion at current prices. Besides the giant Obuasi mine in Ghana, existing and potential operations dot the continent—in Mali, Senegal, Guinea, Sierra Leone, Burkina Faso, Niger, Angola, Mozambique, Zimbabwe, Tanzania, Ethiopia and Eritrea. Ashanti's Geita deposit in Tanzania has been described as "Africa's new El Dorado".

First to enter the bidding was British-based transnational Lonmin (the mining group, formerly part of Lonrho), which put in an early bid of around $6 per share. Lonmin owned Ashanti prior to its partial nationalisation in 1968, and already owns a third of the company's shares.

Other companies and individuals competing to win control of the group include the Saudi Arabian investor Prince Al-Waleed Bin Talal Bin Abdulaziz Al Saud, the Canadian-based Placer Dome mining group, and possibly AngloGold of South Africa.

What has made Ashanti such a lucrative target? Most important have been the wild fluctuations in gold prices, which have destabilised Ashanti's finances, meaning that its share price is unusually low. The long-term profitability of the company is not in question, but its short-term liquidity crisis is making it vulnerable to a take-over bid.

For some years, the price of gold was in continual decline, and it was widely expected that this would continue. Ashanti gambled on gold prices falling by putting money into hedge funds, usually taken out as a form of insurance against a decline in the value of a company's products.

The sudden reversal in the trend of gold prices saw Ashanti's hedge fund turned into a liability, leaving the company owing as much as $570 million. It now needs its creditor banks to extend its loan repayment time. Lonmin cut its original offer of $840 million down to $665 million, citing these losses.

Lonmin had hoped that Ashanti's weak financial position would force the government and others to sell their shares, rather than see the company crash. Following privatisation, the government retained a "golden" or controlling share in Ashanti of 20 percent. Despite this, the company effectively continued to be run by Lonmin, which pays company manager Sam Jonah's salary. Ashanti pays Lonmin a $1 million annual fee for services.

Its plan has backfired, however. Bankers such as Goldman Sachs, who are Ashanti's main financial advisor and its largest hedge fund creditor, are not prepared to simply accept a bargain sell-off. They have told the government that it must seek other offers.

Competition over Ashanti's fate has caused political problems for the government. The minister for mines and energy, Fred Ohene Kena, was sacked following his comment that the government favoured a Lonmin takeover. Sam Jonah is also seen as a political threat to the present government, when President Jerry Rawlings steps down next year.

Twenty-five percent of the world's gold production takes place in sub-Saharan Africa, a region with 33 of the 41 Highly Indebted Poor Countries. These countries were badly affected by the downward pressure on the price of gold. Instead of benefiting from the present price rise, it is likely that other gold producers will be also caught out by hedge fund losses.

The biggest losers from Ashanti's travails are its miners and their families. Ashanti laid off more than one-fifth of its 10,000 workforce in Ghana earlier this year. Some 500 casual workers were also sent home during the summer. At Obuasi, 2,000 out of 8,152 shift workers were laid off on September 1. An unnamed

Ashanti official said that the redundancies were "permanent layoffs" and would not be reversed. New owners of Ashanti are virtually certain to bring in a further round of job cuts and productivity measures.