

## **ALUMINIUM BAHRAIN**

The establishment of Aluminium Bahrain, or ALBA for short, was described in a recent review of the Bahrain economy as "visionary" and this evening I would like to share with you some of the story behind the creation of the Gulf's first aluminium smelter over 40 years ago which certainly was a brave new venture of which Bahrain can be justly proud. In so doing I draw in particular on my own recollections of the events and also the relevant chapters in a book written by a certain Paul Brauner, now sadly deceased, entitled "A Man of his Time - a biography of sorts".

As so often happens it was a case of combining a vision with an opportunity. Looking back over the development of Bahrain, the discovery of oil in the early 1930s immediately springs to mind as the event which transformed the economy and provided a revenue stream that enabled the Government to lay the foundations for a modern state. As we now know this discovery, which was the first oil strike on the Arabian side of the Gulf, was all the more remarkable given the vastly greater oil reserves that were subsequently found in Kuwait, Saudi Arabia and the U.A.E..

Welcome as it was and leading on to the establishment of an oil refinery in Bahrain processing also oil from Saudi Arabia, it was already evident by the 1960s that Bahrain's known oil reserves were limited, making it difficult to expand production and indeed having a finite life. However during the course of the efforts to find additional oil reserves the discovery was made of reserves of Natural Gas but not it seems in the scale or of the quality that would justify processing and export in its own right as was the case elsewhere. In any event the Bahrain Government had an interest in job creation for the growing well educated Bahraini workforce and therefore favoured using the Gas as a feedstock for local industry, but what industry? BAPCO (50% owned by TEXACO at the time) were asked to find possible uses for the Gas.

Meanwhile back in the UK the Government, in an attempt to sustain the country's capital goods industries, which were struggling to survive in the face of competition from restored and renewed manufacturing capacity in Europe, had introduced an export credit guarantee scheme. This scheme encouraged the commercial banks to offer long term (well 8 to 10 years) loans to finance the UK content of capital goods contracts abroad in sterling at a fixed interest rate of 5 1/2%pa. Such loans were expected to meet prudent lending criteria but in the days before the eurodollar and eurobond markets transformed international lending practices the scheme filled a real gap and generated much activity over the next 10 years or so.

While most contracts were of course won by established industrial giants, the scheme also attracted the attention of entrepreneurs looking to put together a consortium of companies to handle a large scale or diversified project. One such person was an individual by the name of Paul Brauner. who had interests in a small firm of Aluminium traders known as Amari Ltd. Paul had escaped to London from Berlin as a young man just before the outbreak of the Second World War and after serving in the British Army during the conflict had a varied career before joining Amari who were in a modest way

of business as Aluminium stockholders

He had spotted the rapidly expanding demand for Aluminium, a metal that had the virtues of light weight, strength and non corrosiveness. Transforming the raw material required a great deal of electrical energy and smelters had in the past often been constructed alongside sources of hydro electric power but by the mid 1960s suitable sites were becoming difficult to find and the price of aluminium was rising strongly. Asian markets such as Japan had a particularly strong appetite while mining companies in Australia had identified vast reserves of Bauxite, the raw material for alumina, the essential ingredient of Aluminium.

Brauner and Amari Ltd used the services of Guinness Mahon & Co, a smallish London Merchant Bank (in the days before everyone wanted to be an Investment Bank!) who also had an office in New York to help them search for business opportunities. One day in May 1967 there was a call from New York to say that a member of their staff, a lady named Jessica Tindale, had been to a dinner the previous evening where she sat next to a man from Texaco (50% owners of Bapco). He had mentioned the search being undertaken to find a use for a Natural Gas field that had been discovered in Bahrain. Within days the MD of Guinness Mahon had flown to the USA and suggested that the answer might be to build an aluminium smelter.

Even more remarkably Paul Brauner followed this up by flying out to Bahrain and at a dinner with His Highness Sheikh Isa on 5th June 1967 signed what can perhaps best be described a Memorandum of Understanding for such a project. This was all the more remarkable because exactly at that time the Arab World was convulsed by the outbreak of war between Israel and Egypt over Sinai but the outlines of a deal had been put in place, the question was how to deliver the promises!

The proposed capacity of the smelter at this stage was 60,000 tonnes pa and a preliminary price estimate was around £15 million. This now sounds derisory even if we are talking of the world before the great oil price inflation of the 1970s, but the truth was that at this stage Paul really had no basis for a serious estimate, the project hinged totally on the availability and price of the energy and the world wide demand for aluminium, the price of which in the long run had to reflect the cost of creating new capacity. The Smelter would cost what it cost!

First of all who would actually build the Smelter since Amari itself was in no way able to do so. The answer was to set up a consortium company named (after some objections by the Registrar of Companies) British Smelter Constructions owned by George Wimpey, a major British construction company well established in Bahrain, John Brown Engineering, manufacturers of Gas Turbine electricity generators and Amari as project coordinators which included design largely procured from Switzerland.

The next question was how to finance it without it becoming a direct burden on the limited revenues of the Bahrain Government who would however be a significant shareholder and the counterparty to the Loan Agreement. This was proposed to be on the

basis of getting together a group of aluminium users who would agree to take the output of the smelter at whatever price was necessary to enable ALBA to pay its operating costs, interest and loan repayments, a so called take and pay Agreement. Due to the dominant role of energy availability and cost it appeared to make sense to bring alumina from Australia and ship the finished product in the form of ingots to Japan or Europe or even America. The Bahrain Government would initially at least sell its share of metal on the open market.

The main source of finance was to be the long term fixed interest sterling funding I mentioned earlier, the loan being underwritten by the UK Export Credit Guarantee Dept known as ECGD. The bank for which I then worked, Glyn, Mills & Co specialised in such lending (in the Victorian age Glyns had been prominent in the development of capital goods industries and railways and despite the absence of a branch network were still bankers to the head office of many industrial giants). In truth Glyns Export Finance Office comprised myself, an assistant and a secretary but we knew our way around ECGD and also the banking market!

I had first met Brauner a year or so earlier when he attempted to get a contract from Swiss Aluminium for a project in Iceland. Brauner had spotted that Swiss Aluminium named Glyns as their London Bankers and had approached us. The attempt failed but I had flown to Iceland with him for a meeting on the subject at short notice and this led him to come back to us with the Bahrain project. It so happened that a firm of London lawyers which had a close relationship with the Government of Bahrain, Trower Still and Keeling (as it then was) were customers of Glyns and their senior partner Michael Gilbert was very supportive of our involvement. Through him I soon came to know HE Sayed Mahmood Al Alawi the Minister of Finance and HE Yousef Shirawi Minister of Development both of whom played a key role in promoting and supporting the ALBA project.

Initial approaches to ECGD were however met with less than total enthusiasm by their underwriters whose job, as they saw it, was to protect the taxpayer from losses on the loans. They viewed Bahrain as an unlikely place for such a project and were only too well aware of its limited oil reserves. The effect was that the viability of the project depended on the willingness and ability of the shareholders to honour the proposed "take and pay" contracts. Who they asked are these shareholders? In truth formal commitments hardly existed but "interested" parties included British Metal Corporation, (global traders in metals), Kaiser Aluminium and ASEA as well as one or two smaller concerns of whom the most noteworthy was Breton Investments, part owned by Eckart Werke in Germany.

Eckart Werke deserves special mention as being sponsors right from the start of a downstream project based in Bahrain namely Bahrain Atomisers which planned to use aluminium powder to manufacture aluminium paint and coating materials for the regional market. Breton Investments remains to this day a 3% shareholder in ALBA although all the others eventually sold their shares to the Bahrain Government.

Discussions with ECGD moved therefore rather slowly until an exasperated Brauner decided to use a little moral blackmail and reminded Downing Street of the promises of help made by the British Government when it had announced the decision to withdraw from military bases East of Suez, including Bahrain where the British forces presence underpinned much of the property market and commercial activity. The underwriters succumbed (or were directed!) and the drafting of the Loan Agreement began. Another aspect of this episode was evident in the decision not to build another Awali type village for expatriate staff but to let the free market provide additional housing in and around Manama for ALBAs non Bahraini employees.

At some stage in the next few months as the likely real cost of the project began to emerge I made some calculations on the cost of production and it became apparent that the smelter was too small to be viable at the then current price of the metal, it needed to be twice as big ie 120,000 tonnes pa from two potlines, which created sufficient economies of scale. Breaking this news to Brauner sent him off on a search for additional offtake partners which fortunately proved successful after some tense moments, but we found that ECGDs underwriters were still very,very reluctant to envisage the increased loan that was required. Perhaps they thought their original scepticism had been justified.

By a stroke of good fortune however the then Foreign Secretary, a certain George Brown (no relation) made a short stopover in Bahrain on the way back from a trip to the Far East and exchanged warm words with His Highness about the smelter project and the UK support for it. This news was relayed back to London and Brauner immediately took steps to make it known to No 10 and the Prime Minister that his officials at ECGD were about to halt the project in its tracks. Strangely enough ECGD found it possible to review their position and the show was back on the road but it has to be said that it led to intense scrutiny of every word in the Financial Agreement. In the days before computers that meant that my secretary retyped parts of the Agreement many more times than she would have wished!

Progress was sufficient for the Foundation Stone to be laid in January 1969 (19 months after the initial meeting with His Highness, and the first metal was poured by Sheikh Isa on 11th May 1971, which given the scale and pioneering nature of the project was a very creditable achievement indeed. For example the power station was at the time the largest grouping of John Browns 16MW Gas Turbines in the world while the transport of raw materials in and the finished product out between Sitra harbour and the smelter was achieved by the then longest overhead cable way in the world, a solution that would now be seen as a very green way of keeping lorries off the road but it has I believe been superseded as the capacity of the plant has multiplied 6 or 7 fold. The final cost of the smelter was in the region of £60m pounds which was certainly rather more than the initial estimates but could be compared with £1 billion pounds that was said to be the cost of the smelter in Dubai that opened ten years later, to be fair it was slightly larger!

Undoubtedly the original smelter was by today's standards somewhat basic and a degree of pollution was evident in years to come in the surrounding area, which was however well away from habitation, but it provided the inspiration for other smelters to be built in neighbouring countries in years to come and also for the staged expansion of ALBA to its current level of over 800,000 tonnes pa. with a family of downstream companies including rolling mills and extrusion plants taking much of the output for added value local processing thus fulfilling the intention that Alba would create significant industrial activity and employment opportunities.

The value of the output of the Aluminium sector now exceeds significantly that of the oil sector in Bahrain although of course there is a large imported content in the cost of raw materials. Plans to float part of the Government's shareholding on the Bahrain Stock Market have currently been put on hold due to the world economic situation.

There is a particular personal epilogue to this story which I could perhaps mention.

Typically, given the nature of capital goods industries, by the time that ALBA came on stream the supply shortage was not as acute as at the time it was planned and ALBA's partners struggled for a time to cover their outgoings. Glyns rallied to the cause by arranging a revolving euro dollar credit to provide working capital and kept closely in touch with developments. In the summer of 1974 I met with HE Sayed Mahmood Al Alawi during his summer visit to London and suggested that the newly founded Bahrain Monetary Agency might well be able to organise the local banks to support ALBA's working capital needs, to which his reply was "Come and run it for us!". By the end of the year I was a Central banker!

Thus I owe to ALBA the opportunity to spend 5 years in Bahrain establishing the financial services industry which now plays such an important role in the commercial activity and yet again has shown Bahrain's ability to lead the way in the development of a diversified economy in the Arabian Gulf.

Truly for me ALBA was a life changing experience.....