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ArcelorMittal SA, Kumba reach supply deal

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ARCELORMITTAL South Africa will be $20 (R205) a ton better off after the beleaguered steel maker mended fences with Kumba Iron Ore in an agreement that ArcelorMittal SA chief executive Nonkululeko Nyembezi-Heita admitted should ease the strain brought on by a global downturn in business in addition to the fight with its major ore supplier.

The new agreement to supply iron ore at cost plus 20 percent was a mutually beneficial improvement on the cost plus 3 percent arrangement that locked the companies into a dispute in March 2010.

"We will be $20 better off now," Nyembezi-Heita said at yesterday's announcement.

ArcelorMittal SA's share price did not register the deal as good news yesterday, losing 3.72 percent to close at R37.74, while Kumba, whose earnings are expected to improve significantly, rose 2.33 percent to R439 by close of trading.

"The subdued performance was due more to the global cycle than the issues with Kumba, we don't blame [Kumba] but this agreement will help" improve performance, she said, clarifying that the timing of the deal was not meant to pre-empt an impending Constitutional Court ruling on the dispute.

Under the agreement signed yesterday at the Hyatt Hotel in Rosebank, Kumba Iron Ore, a unit of Anglo American, will from January supply as much as 6.25 million tons of iron ore a year to ArcelorMittal SA at the reference costs of production plus a 20 percent margin, subject to a ceiling equal to the export parity price for ore from Kumba's Sishen mine.

The accord replaces a one-year arrangement reached in December last year and includes any volumes from Kumba's Thabazimbi mine.

"There is an agreed floor price for 1.6 million tons and 2 million tons of iron ore for the first two years of the agreement," Nyembezi-Heita and Kumba chief executive Norman Mbazima explained.

The new agreement is also expected to extend the life of mine of Thabazimbi with the introduction of technology and capacity to resift ore dumps that are believed to still have mineral value.

In March 2010 Kumba cancelled a 2001 deal to supply ArcelorMittal SA with 6.25 million tons a year from the Sishen mine in the Northern Cape, the continent's biggest iron-ore operation. Kumba ended the pact, in which the steelmaking ingredient was sold at cost plus 3 percent, after ArcelorMittal SA's mining right over the operation expired the previous year.

Kumba's Sishen Iron Ore Company (SIOC) controls and runs the Sishen mine, while Exxaro Resources owns 20 percent of SIOC. The deal is subject to conditions, including that SIOC retains the entire mining right for Sishen.

The chief executives emphasised yesterday that the new deal annulled the need for further arbitration.

Kumba was awarded 100 percent of the mining right when ArcelorMittal SA failed to convert its old-order mining right into a new-order mining right. The steel maker held 21.4 percent of the right while Kumba previously held 78.6 percent. In May 2009 the Department of Mineral Resources had awarded ArcelorMittal SA's stake to Imperial Crown Trading 289 (ICT), whose owners include a business partner of President Jacob Zuma's son, Duduzane.

The last court injunction on the matter was a dismissal by the Supreme Court of Appeal of an appeal made by the state and ICT to have rights to the complex reinstated.

The case has gone to the Constitutional Court and a ruling is to still be made.