STEEL MATERIALS

Holistic Deal

Following years of dispute, Kumba and AMSA in 'holistic' iron-ore settlement

TERENCE CREAMER | EDITOR

Steel producer ArcelorMittal South Africa (AMSA) and iron-ore miner Kumba inked a "holistic" deal last week, aimed at resolving a long-running dispute between the two JSE-listed companies, while also potentially meeting government's increasingly vociferous calls for arrangements that facilitate higher levels of resource beneficiation.

The deal is subject to a number of conditions, including confirmation that Kumba's Sishen Iron Ore Company (SIOC) is indeed the sole owner of the mining rights at the Sishen mine in the Northern Cape – a matter that has been affirmed by both the Gauteng North High Court and the Supreme Court of Appeal, but which is yet to be deliberated upon by the Constitutional Court.

The matter has been lodged with the Constitutional Court by Imperial Crown Trading (ICT) and the Department of Mineral Resources (DMR).

Signed in Johannesburg by AMSA CEO **Nonkululeko Nyembezi-Heita** and Kumba CEO **Norman Mbazima**, the agreement circumvents the need for any arbitration over a disputed 2001 supply agreement, which was due to arise once the courts had fully settled the dispute over the ownership of the mineral rights.

Effective from January 1, 2014, the deal regulates the sale of 6.25-million tons of iron-ore a year from Kumba's Sishen and Thabazimbi mines to AMSA's steel mills in Gauteng, KwaZulu-Natal and the Western Cape.

The material, which will be supplied in line with agreed specifications, is to be supplied at a price derived using the cost of production at Sishen's dense-media separation (DMS) plant, plus a 20% margin. A ceiling price equal to the Sishen export parity price at the mine gate has also been agreed. The pricing arrangement will endure for the life of the Sishen mine, which is currently estimated at more than 18 years.

Without offering specifics, Nyembezi-Heita indicates that the arrangement is an improvement on the current interim pricing agreement, which arose following Kumba's decision to terminate a supply agreement reached at the unbundling of Iscor into separate mining and steel entities in 2001. Based on 2012 prices, the new deal would have offered AMSA as much as a $20/t benefit.

She also stresses that AMSA's acceptance of a cost-plus-20% deal is not directly comparable with the cost-plus-3% arrangement secured in 2001, owing to the fact that it is now an all-in price for both Sishen and Thabazimbi material.

The termination of the cost-plus-3% arrangement was announced on March 1, 2010, owing to what Kumba interpreted as AMSA's failure to convert its 21.4% ownership in the Sishen mine from the old to the new order, in line with the prescripts of South Africa's mining legislation.

However, AMSA has consistently argued that it did not need to convert the rights as it effectively had a right to SIOC's already-converted right. Both AMSA and Kumba agreed, however, that the DMR had no authority to grant a prospecting right to ICT over the 21.4% undivided share of the Sishen mineral right previously held by AMSA. To date, the courts have concurred with this argument.

The settlement also includes a two-year transition period to allow Kumba to ramp up a brownfield mining plan at Thabazimbi, in Limpopo, which would otherwise have faced imminent closure.

Mbazima indicates that Kumba is currently piloting its proposed mining solution at Thabazimbi, which, if successful, will extend the life of the mine significantly and save about 1 300 jobs in the process.

NONKULULEKO NYEMBEZI-HEITA
The new arrangement is an improvement on the current interim pricing agreement

Pictures by Chief Photographer Duane Daws

NORMAN MBAZIMA
Kumba is currently piloting a proposed mining solution at Thabazimbi

Details of the project have not been provided, but it is expected that it will incorporate the so-called Project Phoenix plan, which involves the mining and processing of hitherto unexploited material. In previous years, the mine produced at a rate of around two-million tons a year.

Mbazima also indicates that the arrangement is in line with the spirit of proposed amendments to the Mineral and Petroleum Resources Development Act, which are designed to increase the amount of value addition to South African-mined minerals ahead of export. However, the deal includes an escape clause should the legislation take a different direction.

Nyembezi-Heita refuses to be drawn on whether AMSA is ready to take the deal a step further by offering to extend what government describes as a 'developmental' steel price to downstream steel consumers.