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Iron ore boost for defunct West African transport links

NEWS Analysis
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SIERRA Leoneans had not seen a functioning railway engine in 30 years until African Minerals rebuilt the rail network to export iron ore in November, almost a decade after civil war ended.

An iron ore boom in West Africa, which may have deposits to rival Australia's ore-rich Pilbara region, is motivating African Minerals, as well as miners Rio Tinto and ArcelorMittal, to spend $25bn on 1 981km of new and rebuilt railways and 11 new ports in West Africa, according to JPMorgan Chase.

African Minerals is already benefiting, with its stock gaining 25% this year.

More is to come: nations including Guinea, Sierra Leone, Liberia and the Republic of Congo may supply 250-million tons, or 9% of global iron ore output, by 2020, according to mining researcher Raw Materials Group.

"The standout development is African Minerals," says Matt Fernley, an analyst at GMP Securities in London, the stock being his "pick in the sector.

" If you're in Africa in iron ore, you want a world-class deposit and you want control over your own infrastructure. They have both."

Most of Sierra Leone's transport network was destroyed or left to ruin during the civil war that ended in 2002. Only 8,9% of the West African nation's 11 555km of roads is paved and the main port, Pepel, has an annual capacity of just 16-million tons.

President Ernest Bai Koroma's Sierra Leone was ranked third-lowest of 155 countries on the World Bank's 2010 logistics performance index, a measure of the quality, cost and efficiency of transport networks.

Iron ore exports from African Minerals' Tonkolili and London Mining's Marampa mines are set to boost Sierra Leone's economy by 51% this year, the fastest projected pace of any nation in the world, according to the International Monetary Fund. Guernsey, UK-based African Minerals is spending $1,2bn on rails and ports and developing a mine in the first phase of its Tonkolili project.

In Guinea, where two coups have ousted presidents since the mid-1980s, Rio Tinto is spending $1bn on the first phase of its Simandou project, which is estimated to produce 95-million tons of ore by 2015. London-based Rio plans to invest more than $10bn on an iron ore mine, 650km of industrial railway, 21km of tunnels and a new deep-water port south of the capital, Conakry.

"It's amazing for our country," Guinean Mines Minister Mohamed Lamine Fofana said in Cape Town earlier this month.

"The direct impact is hugely beneficial to the population: about 10 000 jobs, local sales, subcontracting. And, indirectly, we get a lot of taxes."

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African Minerals said on Tuesday that starting shipments last year "would not have been possible without the support of our investors who have funded this $1,5bn project and the government of Sierra Leone who have created a positive investment climate for mining".

Shares in London Mining, which also has development projects in Greenland and Saudi Arabia, have lost 1,4% this year. That is mainly from uncertainty about "access to funding, slower pace of production ramp-up, smaller development scale and slightly lower quality infrastructure links", says Seth Rosenfeld, an analyst at Jefferies Group in London.

China's steel makers are driving the boom in iron ore, with imports set to increase 1,25-billion tons over the next decade, from 679-million tons last year, according to Raw Materials Group, based near Stockholm. Global iron ore exports amounted to 1,1-billion tons last year, from 504-million tons in 2001.

Prices for iron ore delivered to China have more than doubled in the past three years. The cash price of the benchmark 62% iron ore arriving at China's Tianjin port surged to $135,40 a ton by Tuesday from $59,50 on November 21 2008, when data became available, according to the Steel Index, a London-based independent provider of prices.

Investing in West Africa does not come without risks, as Rio Tinto and ArcelorMittal have experienced. Guinea's government ordered Rio Tinto to hand over two blocks of its Simandou deposit in 2008 to BSG Resources, the Guernsey-based company controlled by Israeli diamond investor Beny Steinmetz. While exporting through Liberia would be a cheaper and shorter route, Guinea has pushed Rio Tinto to build the railway to support the country's development.


Ernest Bai Koroma

Vale, the world's largest iron ore producer, will decide only at the end of the year whether to go ahead with its plan to develop a mine with BSG at Simandou after assessing mining rules in the West African nation, the company says.

Senegal took ArcelorMittal to the International Chamber of Commerce in Paris last year, accusing the company of reneging on an agreement to begin production at its Faleme deposit in line with a mining licence awarded in 2007. ArcelorMittal has "consistently met our commitments in Senegal" and will defend itself against the charge, Lynn Robbroeckx, a spokeswoman for ArcelorMittal, says..

"These newly empowered governments are intent on capturing a greater slice of its natural resource wealth, increasing the risk of resource nationalism," says Tom Wilson, a senior consultant at africapractice, a business advisory firm in London. "The challenge for mining companies is how to engage with governments around this."

Still, in Liberia, ArcelorMittal, the world's biggest steel maker, invested $800m to refurbish an iron ore mine, port and railways to produce the nation's first exports in about 20 years in September.

The Luxembourg-based company renovated 240km of rail lines, rebuilt bridges and roads and installed a new drainage system in the first phase of the project's development. "With the iron ore mines located hundreds of kilometres from the coast, the newly renovated railway line linking Tokadeh mine with the sea port at Buchanan is a crucial part of our operations," Ms Robbroeckx says. "ArcelorMittal's investment and commitment to Liberia is a huge sign of confidence in the region." *Bloomberg*