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Kumba and Mittal bury differences in new deal

Pricing agreement will cut a key input cost for the steel producer

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KUMBA Iron Ore and ArcelorMittal SA said yesterday they had agreed on a new pricing formula for iron ore that will cut a key input cost for the steel producer and draw a line under their long and acrimonious dispute.

ArcelorMittal SA will now get up to 6.25-million tonnes of iron ore a year for up to \$20 less per tonne than it has been paying, after the South African unit of the world's largest steel maker settled all of its disputes with Kumba.

This brings an end to years of bitter arbitration proceedings triggered when ArcelorMittal SA let its partial mining right at Kumba's Sishen Iron Ore mine in the Northern Cape lapse in 2009, by failing to timely convert its old order mining right.

Both companies said the peace deal was positive for steel beneficiation in SA, although it is unlikely it will satisfy government demands for a "developmental" steel price ahead of the country's R4-trillion infrastructure spending drive over the next 15 years.

But markets are likely to react positively to the deal, which ends years of tension between the two

South African industrial titans. These added to the uncertainty of recession-ravaged domestic and foreign markets.

The deal was announced as the markets were closing yesterday. However, ArcelorMittal SA's share price closed 3.72% down at R37.74, while Kumba closed 2.33% higher at R439.

The dispute had seen Kumba suspending its cost-plus-3% agreement to supply ArcelorMittal SA with cheap iron ore after the Department of Mineral Resources abruptly gave ArcelorMittal SA's 21.4% mineral right in Kumba's Sishen mine to Imperial Crown Trading — a company linked with President Jacob Zuma and the Gupta family — in 2009.

This became the subject of protracted legal proceedings, including a related arbitration process, and a succession of interim — and for ArcelorMittal SA — punishing pricing deals that helped to push the price of its iron ore to a weighted average of \$85-\$90 a tonne.

"We put all disputes in a pot — to find a solution that draws a line ... and moves forward from there," ArcelorMittal CEO Nonkululeko Nyembezi-Heita said.

The agreement kicks in on January 1. Ms Nyembezi-Heita said



Kumba Iron Ore CEO Norman Mbazima and ArcelorMittal SA CEO Nonkululeko Nyembezi-Heita at the signing of a new pricing agreement in Rosebank, Johannesburg, yesterday. Picture: MARTIN RHODES

this was a "massive change" from the bad blood between the two.

She also said the new pricing arrangements would be in transition for a few years, with ArcelorMittal SA accepting a higher iron-ore price during this time.

The agreement is based on the price of iron ore from the Sishen mine being delivered at cost plus 20%. This means the price for iron ore that ArcelorMittal SA now pays should fall to about \$60 or \$65 a tonne. This gives it a potential saving of \$120m a year.

The cost-plus-3% pricing deal was struck from early 2000 when former state-run Iscor unbundled its iron-ore and steel-making divisions. Anglo American-owned Kumba took the parastatal's iron-

ore mining assets, while Luxembourg-based international steel maker ArcelorMittal Group eventually took over the steel assets.

The long-running battle over iron-ore prices has been integral to the battle over mining rights.

It has also been at the core of ill-feeling between the government and the private sector. This was generally over the state's determination to designate some of SA's mineral wealth as strategic, setting prices for steel inputs — including commodities such as iron ore and coal — and also for scrap metals.

The Supreme Court of Appeal ruled earlier this year that Kumba

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Kumba and Mittal agree

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now owned 100% of the rights to the Sishen mine.

Kumba CEO Norman Mbazima said yesterday the new pricing deal was "consistent" with the government's aspirations for industrial beneficiation.

The deal is likely to expand the life-span of Kumba's ageing high-cost Thabazimbi mine in Limpopo, which separately provided a few million more tonnes of iron ore a year to ArcelorMittal SA under the cost-plus-3% agreement.

Mr Mbazima said new lower grade iron-ore beneficiation technology being used at the mine had shown promising results, and would help secure 1,300 jobs there. "The results are encouraging. (Thabazimbi) will produce at a reasonable price for a long time to come."

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