BUSINESS DAY, Companies & Markets
30 Sep 2013, p.16

Kumba, Mittal look at new supply deal

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KUMBA Iron Ore and ArcelorMittal SA could avoid arbitration altogether if they can reach agreement on a new long-term iron-ore supply contract.

Although an agreement also depends on the outcome of a Constitutional Court challenge, a resolution between two of the biggest companies listed on the JSE would end a three-year dispute that has drawn in a number of other parties, including the departments of mineral resources and trade and industry.

The two companies said on Friday that in the interests of ensuring long-term stability of domestic iron-ore supply they were discussing an agreement which would cover both the Sishen and Thabazimbi mines.

ArcelorMittal's shares, which were more affected by the uncertainty over the dispute than Kumba's, gained 1.29% to R34.44 after the announcement, while Kumba's shares added 0.54% to R464.

Coronation Fund Managers analyst Duane Cable said although there were still a lot of "uncertainties and moving parts", including how any new agreement would compare with the original one, the announcement was positive for ArcelorMittal because it showed that the two companies were working together. The uncertainty over this contract, together with weak global steel markets and pressure on steel makers' margins, were reflected in ArcelorMittal's share price.

Kagiso Asset Management equity analyst Ross Heyns said the announcement was positive as it suggested constructive negotiations between Kumba and ArcelorMittal after years of legal disputes. It indicated they were trying to resolve the dispute over the Sishen supply agreement along with finding a solution to the high cost of Thabazimbi iron ore.

The original agreement dates back to 2001, when state-owned Iscor was split into separate iron-ore mining and steel-manufacturing companies. At Sishen, ArcelorMittal held 21.4% of the mining right, with the entitlement to 6.25-million tonnes a year of iron ore at cost plus 3%. Kumba held the other 78.6% of the mining right.

Under the interim agreement at Sishen, covering the 12 months to December this year, Kumba will supply ArcelorMittal with up to 4.8-million tonnes of ore at an average price of $65/t. The price is lower than prevailing benchmark iron-ore prices, of above $100/t, but it is above the "cost plus 3%" pricing ArcelorMittal enjoyed at Sishen.

The dispute is only over the deal to supply ArcelorMittal with iron ore from Sishen at cost plus 3%. The supply of 2.5-million tonnes a year from the Thabazimbi mine, also at cost plus 3%, is not in dispute. But Thabazimbi is nearing the end of its life, costs are escalating and ArcelorMittal has been seeking other iron-ore sources.

Trade and Industry Minister Rob Davies has expressed dissatisfaction that the discounted prices enjoyed by ArcelorMittal on its local iron-ore supply were not being passed on to local manufacturers in the form of a "developmental" steel price.

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