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Sishen, Mittal agree on iron-ore supply

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SISHEN Iron Ore Company and ArcelorMittal SA have agreed on the further supply of iron ore from the Sishen mine when the existing agreement between the two companies expires.

The new interim pricing agreement is for one year from January 1, which matches previous contracts. But Trade and Industry Minister, Rob Davies, said yesterday the deal does not ensure a discounted iron-ore price will be passed on as a "developmental steel price" to South African manufacturers.

He said that as set out in recent Cabinet decisions, the government is "conscious" of a potential threat to SA's steel production and security of supply, arising from the arbitration dispute between Kumba Iron Ore-owned Sishen Iron Ore and ArcelorMittal SA.

The minister's comments come after the Cabinet last week adopted a range of measures, including amending the Competition Act to force ArcelorMittal SA to pass on iron-ore price concessions to downstream steel users.

They include the amendment of SA's Mineral and Petroleum Resources Development Act, and amendments of shareholder compacts with state-owned enterprises. They also gave the green light to control the export of scrap metal.

Mr Davies said yesterday while the latest agreement secured short-term security of iron-ore supply and steel production, government "noted with considerable concern" the parties had "failed to agree on the developmental intent and outcomes" it wanted from the iron-ore and steel value chain.

"This failure strongly underlines Cabinet's conviction on the need for a set of policy interventions to secure a competitive advantage for the domestic manufacturing sector."

Both Kumba and ArcelorMittal SA yesterday said shareholders would be informed of developments in this regard. The latest agreement ensured Sishen Iron Ore would supply a maximum 4.8-million tons a year of iron ore to the steel maker at an average $65 per ton.

The agreement stems from a mediation process undertaken by Mr Davies. He appointed Zavareh Rustomjee, previously executive director at BHP Billiton, and also a former director-general in the department, to ensure any agreement would be "without prejudice to government's longer-term policy objectives".

Last week, the department said "very sensitive" negotiations were under way between the Industrial Development Corporation (IDC) and global steel industry players to establish a new steel production facility in SA.

The government regarded a competitive steel price as crucial for iron and steel beneficiation, and the further industrialisation of the economy. Talks about the new plant were "far advanced" and prefeasibility and feasibility studies would be completed next year.

The government would prioritise the provision of electricity to the new steel producer.

But the state said these negotiations had nothing to do with the recent acquisition by the IDC of 74% of steel group Scaw from Anglo American for R3.4bn.

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