SE MINING

HD Africa's iron ore revolution edges nearer

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Africa is currently the source of just 4-5% of the world's iron ore produc- tion but possesses reserves substan- tially in excess of that proportion. Major projects such as Simandou in Guinea are regularly referred to as the next Pilbara - the iron ore-rich region of Western Australia that has been the backbone of the country's economic success.

The continent's vast deposits can enable it to play a much bigger role in this market and numerous projects are now edging closer to production. Mauritania, Guinea, Sierra Leone, Liberia, Cameroon, Republic of Congo, Gabon and Nigeria are all potential hot spots for the growing trade.

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China imports around 80m tonnes of iron ore a month, more than two thirds of which comes from Australia and Brazil. At present, China sources some 8% of its iron ore from Africa.

Seaborne iron ore exports are forecast to grow around 10% to 1.3bn tonnes this year, with volumes growing around 100m tonnes this year and next - over 900m tonnes of this ore will be bought by China.

However, with China currently enduring its slowest growth in a quarter of a decade, prices have fallen. Last year prices averaged around $135 per tonne. They are currently at $95 per tonne, up from a low of $90, having fallen below $100 since 19th May.

Nevertheless, the first four months of the year saw China import 305m tonnes, up 21% on last year. Chinese steel demand grew about 7-8% last year as its cities continue to grow, even as the economy as a whole increases at a reduced rate.

The Export-Import Bank of China esti- mates that by 2025, China will have injected some $1 trillion into Africa, as the resource hungry country seeks to ensure sustained supplied.

South Africa is forecast to export 56m tonnes this year, up 1.8% from last year. Min- ing output as a whole declined in the country by 4.7% year on year in March with the ongo- ing platinum strike a factor.

China is South Africa's biggest trade part- ner - in 2013 bilateral trade was worth over $65bn or one quarter of all Sino-African trade.

In general, African iron ore has the ad- vantages of high-grade deposits - particu- larly when compared with ore from China. Additionally, Chinese pollution targets favour the imported, higher grade ore. It is also avail- able at lower marginal cost than elsewhere (particularly compared to Australia but also to Brazil).

Investment is hampered to some extent by the high costs of building the requisite infrastructure (very long rail connections and deep sea ports) and the distance between the continent and key markets (US, Eurozone and China/Asia).

The business cases pits high capital expenditure (capex) against low operating costs. Once these African projects are over the hump, in terms of commissioning, and as- suming there is sufficient demand (likely since present prices can fall 33% before miners start to really suffer), these projects will reshape the iron ore market in the continent's favour.

Prices are still well above the $20 per tonne cost of production and may actually favour African producers, as margins elsewhere fall.

Meanwhile, Africa's share of global min- ing investment remained constant in 2013, compared with 2012, at 14% (rising $4bn to $110bn, across 26 projects).

Mega investment deal signed

At the end of May, Guinea signed an invest- ment with Simandou stakeholders Rio Tinto, **Chinalco** and the International Finance Cor- poration.

State Minister of Mines and Geology of the Republic of Guinea, Kerfalla Yansané says: "Simandou is one of the largest and best qual- ity **iron ore** deposits in the world. It has the potential to provide the global market with highly competitive **ore** for more than 40 years. This estimated $20bn project, aiming to de- velop blocks 3 and 4 of Simandou along with the infrastructure, will boost Guinea's whole economy and spur our Southern Growth Corridor through **mining**, agriculture, for- estry, livestock and trade. It's about unlock- ing our huge potential, supporting our efforts to tackle poverty through jobs creation and economic diversification, and getting more attractive to foreign direct investment".

Rio says the concession "will enable the development of the largest mine and infra- structure project ever undertaken in Africa. This will include the progressive develop- ment of a 100m tonne per annum mine, a 650-kilometre trans-Guinean railway and a new deep-water port".

It is forecast **operations** will commence in five years' time and create 45,000 jobs. The necessary railway and deep-water, multiuser port in the Forécariah prefecture needed to export the **ore** will account for about two thirds of the cost. This new deal sees Guinea double its ownership share from 7.5% to 15%, without cost, and allows the state to **purchase** a further 20% **stake** over the next 20 years. In return, Rio will enjoy an eight-year income tax break followed by a 30% rate, with a 3.5% royalty on exports.

A separate infrastructure **company**, funded by investors, will own the railway and port for 30 years, after which point it will become government property. This infrastructure, it is hoped, will aid other sectors such as agri- culture and forestry to flourish.

The agreement also precludes **iron ore** exports via Liberia, using ArcelorMittal's rail- way. Sable **Mining** does have a right to export via Liberia and is expected to start exporting 5m tonnes a year from 2015.

As reported in last month's African Busi- ness, the government of Guinea revoked Vale and BSGR's rights to the northern part of Simandou on the basis of allegations of cor- ruption that are robustly denied by the two companies. Rio forecasts **iron ore** output will reach 290m tonnes this year, rising to 350m tonnes in 2017 - before the addition of Simandou's 100m tonnes a year.

The Congo-Cameroon-Gabon region is the other hot spot for the development of Africa **iron ore**. Sundance Resources's Mbalam- Nabeba project on the Cameroon/Congo border will require a 510km railway and deep port, for which an infrastructure agreement was signed in June.

In 2012, Exxaro Resources (part owner of Kumba **Iron Ore**'s Sishen mine) acquired African **Iron** Limited, with **iron ore** assets in the Republic of Congo for $349m.

According to Glencore, cuts to capex have been focused on new projects that are (rightly in their view) seen as high risk and impossi- ble to forecast - what capex there is, is being used to enhance existing **operations**. The **company** sees **iron ore** prices declining 26% between now and 2017. In additional to capex reductions, companies are instituting cost- cutting measures to preserve margins.

The biggest threat at the moment to the **iron ore** trade is a sustained fall in **Chinese** growth, and excessive supply entering the market. However, prices have some space to fall before new **operations** become uneconom- ic. The outlook post-2020 for **iron ore** demand is very good - by which time the continent's producers should be set to capitalise on their new role at the centre of the **iron ore** trade.

*In other ferrous metals news, Pan Afri- can Minerals $1bn Tambao manganese mine in Burkina Faso has been approved. It could be the largest manganese mine in the world when complete. It starts production in July and should be ramped up over the next three years to 3m tonnes p.a.

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