

SE COMPANIES

HD Rio and Vale step up fight for Guinean trove; **MINING**

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News analysis

Lawsuit puts focus on miners' struggle in the global **iron ore** market, writes Tom Burgis

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Rio Tinto's lawsuit claiming Vale cheated it out of **billions** of dollars adds to the conflicting accounts of the battle over a trove of minerals in a remote corner of Africa - and shines a light on a struggle between the two biggest companies in the global **iron ore** market.

Rio's claim, which the Anglo-Australian group filed in New York on Wednesday, alleges that Vale of Brazil conspired with Beny Steinmetz and the **mining** arm of the Israeli tycoon's family conglomerate, BSG Resources, to "steal" part of its rights to the Simandou **iron-ore** deposit in Guinea.

Rio was granted rights to prospect Simandou in 1997 and over the next 11 years spent what it says was hundreds of **millions** of dollars on exploration. In August 2008, according to the lawsuit, Rio entered talks with Vale about selling an interest in Simandou. Rio says it allowed Vale access to "highly confidential and proprietary information" regarding the project - information which, Rio claims, Vale "improperly divulged" to BSGR as part of a joint effort to snatch a piece of Simandou illicitly.

Rio says it told Vale that BSGR was trying to "misappropriate" Simandou. In December 2008, rights to the northern half of the deposit were granted to BSGR, after what an inquiry by the current Guinean government concluded last month was a bribery scheme involving the wife of the veteran dictator, Lansana Conté. Less than 18 months later, Vale announced a deal to buy a 51 per cent **stake** in BSGR's Guinean assets for \$2.5bn.

A representative for BSGR and Mr Steinmetz, who deny the corruption allegations, on Wednesday called the lawsuit "baseless and bizarre" and maintained that Rio lost its rights as it failed to bring Simandou into production.

BSGR offers a different version of events in a statement published last year. After the Guernsey-registered group acquired rights to the northern half of Simandou, it says it held talks with three potential investors - the Libyan Investment Authority and two **Chinese** groups, **Chinalco** and Baosteel - before striking its deal with Vale.

BSGR says it was approached by Vale in 2010 and that "intense" talks followed. It says Roger Agnelli, Vale's chief executive at the time, "admitted to BSGR that his group . . . was very familiar with the Simandou asset since it had made an offer to Rio Tinto several years earlier to **purchase** the Simandou project from them for \$4bn". BSGR adds Mr Agnelli made this disclosure only after it signed its deal with Vale and that, until then, it had been "surprised by the detailed knowledge of the Vale due diligence team regarding the asset's geology and data".

Vale yesterday declined to comment on BSGR's account and says it is studying Rio's filing. It has said it conducted "extensive" due diligence before its deal with BSGR and received "representations that BSGR

had obtained its **mining** rights lawfully and without any corrupt or improper promises or payments". Vale paid \$500m of the \$2.5bn fee to BSGR upfront but has not paid the balance. Guinea cancelled the Vale-BSGR joint venture's rights last month, in the wake of the corruption inquiry, and plans to put them out to tender.

Vale and BSGR have said they are weighing legal action in response to the cancellation of their rights. Rio, which retains the southern half of Simandou, signalled last year that it might be interested in seeking to reclaim its lost rights if they became available. But Vale is not out of the hunt: the Guinean inquiry recommended that only BSGR be barred from bidding, after concluding that it was "likely" that Vale had not taken part in corruption.

Rio claims the alleged conspiracy to capture the northern half of Simandou cost it **billions** of dollars and is seeking damages. But the ultimate prize is larger still.

"This is a battle to the death for control of Simandou, with the clear understanding that the **firm** that controls it also has a dominant position in the **iron** industry for a generation to come," says a person close to the Guinean government.

Rio and Vale hold the two most important deposits of **iron ore**, in Australia and Brazil respectively.

A rush of production from Guinea could depress **ore** prices, adding to the strategic importance of controlling Simandou for the rivals. Des Kilalea, **mining** analyst at RBC Capital Markets, says: "They want to have their flags in it."

See Lex

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