Mega Minerals Long-term Iron Ore Offtake Contracts - Dragon Steel

Category: Templates

Model: TM-OFK-DRAGON-2025

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1. Introduction

This document serves as a comprehensive template for the long-term offtake agreement between Mega Minerals and Dragon Steel concerning the supply of iron ore. It delineates detailed contractual clauses, including pricing mechanisms referencing index prices, freight adjustments, foreign exchange terms, volume commitments, quality specifications, delay penalties, and provisions for environmental taxes such as carbon levies. Additionally, the

document integrates clauses on contractual flexibility including price re-openers and optional carbon tax pass-throughs, providing a robust legal framework suitable for evaluating supply agreements and for RAG-based retrieval applications.

2. Contract Overview

This section describes the fundamental structure of the offtake agreement, including the key contractual roles, scope, duration, and intended purpose.

- **Contract ID:** MIL-OFK-DRAGON-2025
- **Parties:** Mega Minerals (Supplier) and Dragon Steel (Buyer)
- **Term:** January 1, 2025 – December 31, 2034 (10 years)
- **Scope:** Supply of high-grade iron ore concentrate, compliant with specified quality parameters
- **Primary Objectives:** Secure fixed volumes, optimize pricing mechanisms, ensure environmental compliance

The agreement incorporates clauses that stipulate the contractual obligations, pricing formulas linked to market indexes, and provisions for price revision or adjustments prompted by external factors such as carbon taxes or freight rate fluctuations.

3. Pricing Formulas and Indexation

3.1. Base Price Calculation

The base price per tonne of iron ore is determined via a reference index, typically the Platts IODEX 62% Fe index, adjusted for contractual premiums, freight costs, and foreign exchange rates.

```
Base Price (USD/tonne) = Index Price (Platts IODEX 62% Fe) + P
```

3.2. Index Reference

- **Index Used:** `Platts IODEX 62% Fe, published monthly`
- **Frequency of Reference:** Monthly, effective on the first trading day

3.3. Price Adjustment Example

For example, if the IODEX index is USD 150 per tonne in January, and the agreed premium is USD 5 per tonne, the initial freight and FX adjustments are calculated subsequently to derive the final price.

3.4. Reconciliation & Final Price

Component	Description	Formula / Reference
Index Price	Monthly published IODEX 62% Fe	USD 150 / tonne
Premium	Contractually agreed premium	USD 5 / tonne
Freight Adjustment	Variable, based on freight index	See Section 6
FX Adjustment	Conversion rate adjustment	See Section 7

4. Volume Commitments and Laycan Windows

4.1. Minimum and Maximum Volume

The contract specifies annual minimum and maximum purchase volumes:

- Minimum Annual Quantity: 1,000,000 tonnes
- Maximum Annual Quantity: 1,200,000 tonnes

4.2. Delivery Window (Laycan)

The shipping delivery window (laycan) is specified as:

- **Start Date:** 15th of each month
- **End Date:** 25th of each month

This window ensures flexible yet predictable scheduling for both parties, with penalties applicable for delays or early deliveries outside the agreed window.

4.3. Volume Adjustments & Notifications

Volume adjustments may be made based on market conditions, with a minimum notice period of 30 days prior to shipment. This allows contractual flexibility while ensuring supply commitments are manageable.

5. Quality Specifications

Parameter	Specification	Notes
Fe Content	≥ 62%	Minimum required impurity level
Moisture Content	≤ 8%	Maximum allowable moisture
SiO_2 (Silica)	≤ 4.5%	Impurity limit
Al_2O_3 (Alumina)	≤ 1.5%	Impurity limit
P (Phosphorus)	≤ 0.05%	Quality threshold for steelmaking suitability

Samples are to be tested at accredited laboratories, with test reports submitted to both parties prior to each shipment.

6. Freight and Cost Adjustment Clauses

6.1. Freight Index Reference

The freight cost per tonne is adjusted quarterly based on published indices such as the Baltic Shipping Index (BSI).

6.2. Freight Adjustment Formula

```
Final Freight Cost = Base Freight Rate + (Freight Index Adjustr
```

6.3. Example

If the base freight rate is USD 10 per tonne, and the current BSI indicates a 5% increase, the adjusted freight per tonne becomes USD 10.50.

Component	Details
Base Freight Rate	USD 10 / tonne
Freight Index Change	+ USD 0.50 / tonne (based on index)
Total Freight	USD 10.50 / tonne

7. Foreign Exchange and Currency Terms

7.1. FX Reference Rate

The contract specifies a reference foreign exchange rate, typically the USD/EUR or USD/CNY spot rate published by authoritative sources such as Reuters or Bloomberg, effective on the date of invoicing.

7.2. FX Adjustment Formula

```
Adjusted Price = Base Price × FX Rate Adjustment Factor
```

7.3. Example

If the contract reference rate is 6.5 CNY per USD, and the current spot rate is 6.8, then the price adjustment accounts for this difference to reflect currency fluctuations.

Component	Details
Reference FX Rate	6.5 CNY / USD

Current FX Rate	6.8 CNY / USD
Adjustment Effect	Price per tonne increases accordingly

8. Demurrage Rules and Shipping Delays

8.1. Demurrage Rate

The parties agree to a demurrage charge of USD 25,000 per day for containers or bulk vessels exceeding the laycan window, subject to an initial free period of 3 days.

8.2. Delay Penalties

- Late deliveries due to Mega Minerals' fault incur penalties of USD 10,000 per day.
- Delays caused by force majeure are excused, with notification to be provided within 24 hours.

8.3. Resolution Procedures

Dispute resolution mechanisms include escalation to arbitration within 30 days of delay notice, with the goal of minimizing supply disruptions.

9. Carbon Tax Pass-through and Price Re-openers

9.1. Carbon Tax Pass-through

Optional clause allowing Mercury Minerals to pass through actual carbon taxes levied on steelmaking emissions. The clause is activated if applicable thresholds are met.

> **Example:** If the EU CBAM imposes a carbon cost of EUR 50 per tonne of steel, equivalent for the supplied iron ore, the pass-through clause

> permits adjustment of the sale price accordingly.

9.2. Price Re-openers

- **Trigger Conditions:** Significant changes in external markets, regulatory frameworks, or carbon pricing schemes
- **Notice Period:** 60 days prior written notice
- **Adjustment Mechanism:** Negotiated based on prevailing indices, input costs, or environmental levies

9.3. Example Clause

```
"Should the applicable carbon tax increase by more than 20% ove
```

10. Additional Contract Clauses

10.1. Force Majeure

Defines circumstances such as natural disasters, strikes, or geopolitical events that suspend performance obligations temporarily, with procedures for notification and mitigation.

10.2. Confidentiality

Parties agree to maintain confidentiality of contractual terms, technical data, and proprietary information, with exceptions for legal disclosures.

10.3. Termination & Renewal

Conditions for early termination, renewal notices, and contractual extensions are explicitly outlined, typically with 6-month notice periods.

10.4. Dispute Resolution

Arbitration governed by ICC rules at a neutral location, with jurisdiction and governing law specified.

11. Internal ESG and Policy Frameworks

Mega Minerals' internal ESG policies are designed to reduce Scope 1, 2, and 3 emissions, aligning with global sustainability standards.

11.1. Scope 3 Emissions Policy

External Scope 3 emissions primarily result from the transportation and indirect supply chain activities. The company commits to transparent reporting once thresholds are exceeded.

11.2. Thresholds & Reporting

- Scope 3 emissions exceeding 2,000,000 tonnes CO2e annually trigger additional external reporting requirements.

11.3. Certification and Audits

Third-party audits validate compliance with sustainability commitments, providing data for stakeholder disclosures.

12. Sustainability and Climate Reports

Mega Minerals publishes annual sustainability reports detailing decarbonization initiatives, carbon intensity metrics, and supply chain emissions reductions.

12.1. Decarbonization Pathways

- Implementation of renewable energy at mining sites
- Innovative ore processing techniques reducing energy consumption
- Partnering with logistics providers committed to low