Vale launches arbitration against BSGR over lost Guinea funds

By Silvia Antonioli

LONDON May 6 (Reuters) - Brazilian mining group Vale has started legal proceedings against its partner in Guinea, BSG Resources (BSGR), seeking to recoup at least part of the $1.1 billion it allegedly has lost, having been stripped of mining rights in the country, two sources familiar with the matter said.

The Guinean government canceled mining rights held by VBG, a joint venture between BSGR and Vale, over the Zogota and Simandou iron ore deposits last month, after a government panel charged with reviewing the West African nation's mining deals said in a report it had found BSGR obtained the rights through "corruption" in 2008.

BSGR teamed up with Vale to develop the mines in 2010. Guinea's president said last week Vale had nothing to do with the alleged corruption.

"Vale filed a notice of claim commencing an arbitration in the London Court of International Arbitration on Monday of last week. The details of Vale's claim, and a clearer statement of damages, will be set out in pleadings that will be filed in a few months," said one source close to the matter.

"Vale indicated it had suffered damages tied to the license revocation of about $1.1 billion, but it remains to be seen exactly how it will compute its claim against BSGR," added the source, who said he had seen the notice of claim.

Vale declined to comment. It had previously said it was actively considering its legal rights and options.

BSGR, the mining arm of a business empire belonging to Israeli billionaire Beny Steinmetz, has repeatedly denied any wrongdoing. It has said it would seek international arbitration against Guinea. On Tuesday, it declined to comment on whether it had received notice of Vale's claim.

Guinea plans to start a new auction to reissue the permits for VBG's half of Simandou, one of the world's largest iron ore deposits. The other half has been licensed to Anglo-Australian giant mining company Rio Tinto <RIO. L>.

Vale will be allowed to enter the tender process, although appetite for risk has dropped sharply in the mining sector in the last few years and the outlook for iron ore is much gloomier than before. (Additional reporting by David Rhode in New York and Jeb Blount in Rio de Janeiro; editing by Cynthia Osterman)