Vale Grabs $2.5b deal in Guinea - Liberia To Benefit

Vale, a Brazilian mining firm has scored a big victory in an intensifying global battle to control new sources of iron ore, when the miner bought a mining concession in Guinea for $2.5bn.

The world's biggest iron ore company yesterday acquired a 51 per cent stake in Beny Steinmetz Group Resources Guinea, a subsidiary of a company controlled by Beny Steinmetz, the Israeli diamond-trading billionaire.

The subsidiary owns one half of the license to Simandou, which is considered the world's richest undeveloped deposit of iron ore. It is located in a remote corner of Guinea, and civil wars in the region have hindered development.

Vale's deal with Mr Steinmetz appears to have boxed out Rio Tinto, the mining company that controls the other half of Simandou. Rio has claimed it has rights over the entire concession. In March Rio agreed a joint venture with Chinalco, the state-owned Chinese mining company, to develop Simandou.

The partnership appeared Rio's best chance to retake a leading role in Simandou at a time when iron ore prices are soaring, drawing attention to undeveloped deposits in West Africa and Brazil.

Guinea granted the Simandou concession to Rio in the late 1990s, but in 2008 it sold one half of the concession to BSGR. Guinea's mines minister last year claimed Rio had taken too long to develop the deposit. Rio declined to comment yesterday.

The deal is a coup for Mr. Steinmetz, whose company was paid $500m yesterday in the first installment of Vale's $2.5bn purchase. BSGR spent "in excess of $150m" on exploration work at Simandou, said a representative for BSGR.

After BSGR gained control of Simandou's blocks one and two in 2008, many analysts in London questioned the capability of his company - centered on diamonds - to execute an iron ore project requiring vast infrastructural support. Vale now provides that support.

The Rio de Janeiro-based company signed an agreement with the governments of Guinea and Liberia to build a new rail export line through Liberia to a new port. Simandou is nearest to the Liberian coast.

In return for these rights Vale agreed with Guinea's government to rebuild the defunct trans-Guinea railway. It will be used for passenger transport and light commercial use, not for iron ore exports.

Vale now takes management control of blocks one and two of Simandou as well as Zogota, a separate deposit in the south-east of Guinea. It owns the rights to take and sell all the iron ore that the deposit produces.

The venture aims eventually to produce 50m tonnes per year of iron ore. Rio still controls blocks three and four of Simandou. It has not yet finalised a proposed joint venture with Chinalco.