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# UPDATE 1-Brazil's Vale says Guinea halts railway upgrade

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\* Miner Vale says gov't seeks revision of project

\* Guinea says agreement scrapped, seeks competitive bid (Rewrites with Vale response, adds Vale quote, RIO dateline)

(Reuters) - Brazilian mining giant Vale (VALE5.SA) said on Wednesday that Guinea has halted a railroad upgrade project there, days after the country's president said the contract was canceled.

Vale, which holds an interest in the giant Simandou iron ore deposit in Guinea's south, had offered to pay \$1 billion to rebuild a 640 kilometer (398 mile) railway line connecting the interior city of Kankan to the coastal capital Conakry.

The project's cancellation could sour relations between Guinea and Vale, the world's largest iron ore producer, which is betting heavily on the African nation for iron output growth.

"The government of Guinea is asking for a revision of technical specifications to continue the revitalization of the railroad, and decided to paralyze activities until the new parameters have been defined," Vale said in a statement.

Guinea President Alpha Conde, who was elected in November, said over the weekend the agreement with Vale had been accepted out of respect for former Brazilian President Luiz Inacio Lula da Silva but would now be open to competitive bidding.

A mines ministry official confirmed the cancellation of the agreement but declined to provide further detail on what it signifies for Vale's operations in the country.

"We can't say anything about the cancellation of the Kankan-to-Conakry railway project because the president has already said it all," ministry official Guillaume Curtis said.

"But what I can tell you is that we are going to review all of these joint ventures that were signed at the expense of the Guinean state," he said.

Vale signed a \$2.5 billion joint venture agreement with BSGR, a company run by Israeli billionaire diamond trader Beny Steinmetz, giving it a 51 percent stake in two blocks of the Simandou deposit -- the rights to which are still contested by Australian miner Rio Tinto (RIO.AX).

Rio officials are in talks over the contested blocks.

Guinea's government is also in the process of finalising a new mining code, which Conde

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has said aims to give the state an interest of at least 33 percent in all of the country's mining projects -- up from an average 15 percent now. (Reporting by Saliou Samb and Brian Ellsworth; Writing by Richard Valdmanis; Editing by Anthony Barker)

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