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Mitsui invests $1bn in Vale's Mozambique coal projects

Andrew England in Johannesburg and Samantha Pearson in São Paulo

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Mitsui has agreed to invest almost $1bn in Vale's coal projects in Mozambique in a sign of Japan's burgeoning interest in Africa's natural resources.

The Japanese commodities trading company said it would pay $450m for a 15 per cent stake in the Brazilian group's Moatize mine, and invest a further $188m to fund the asset's expansion. Mitsui also agreed to pay $313m for a 50 per cent stake in Vale's subsidiary that has been promoting the multibillion dollar Nacala rail and port project.

Mozambique is one of the world's poorest nations but has the potential to transform itself into one of the world's top exporters of liquefied natural gas following vast offshore finds. The southern African nation also has significant coal deposits.

In January, Shinzo Abe, Japan's prime minister, led a visit to Africa to support "Japanese companies' investments to secure important natural resources". It was the first such visit by a Japanese prime minister to sub-Saharan Africa in eight years, and was seen as a trip to counterweight the increased role of Chinese companies in African natural resources.

Mitsui said the deal with Vale would "provide the diversification of our supply sources and enhancement of our coal business revenue base".

"Mitsui regards Mozambique as a corporate priority region because of its potential growth as one of Africa's leading resource-production nations," Mitsui said.

The Moatize basin in Mozambique's northwest Tete province has been described by miners as one of the world's major untapped coal reserves, and particularly rich in coking coal, which is used in steel production.

But companies operating in the area are battling infrastructure constraints as they have been depending on one colonial-era, multi-use single-track railway line to ferry coal to the Beira port. They have also been hurt by the sharp drop in coal prices, while the reserves of coking coal have not been as rich as initially thought.

In July Rio Tinto sold its coal assets in Mozambique for $50m, three

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Brent Crude	49.24	-0.57%
WTI Crude	45.61	-0.72%
RBOB Gasoline	1.40	-0.25%
Natural Gas	2.69	-0.74%
Heating Oil	1.58	-0.80%

Data delayed by at least 15 minutes

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years after paying $3.7bn for the mines.

Vale, which produced 3.8m tones of coal from its Moatize mine last year, is planning to resolve the infrastructure problem by building the 900km “Nacala corridor” railway and a deepwater port at Nacala. The cost of the project is estimated at around $4.4bn and Japanese banks were already involved in funding the infrastructure, Mitsui said.

Vale has previously said it hopes exports on the Nacala line will be able to commence next year.

Vale said Mitsui’s investment in its Mozambique projects were “essential for the continuity of our investment in Mozambique . . . as it provides the funding for the completion of the Moatize project and the [Nacala Logistic Corridor]”.

Roger Downey, head of Vale’s fertilisers and coal division, said Mitsui’s investment would relieve pressure on the Brazilian group’s cash flow. He said Vale’s projects in Africa alone are costing $8.4bn, of which the company still needs to fund another $3.3bn.

Like other miners, Vale has been forced to cut back spending on assets beyond its core iron ore business as the price of the steelmaking ingredient has halved this year. The group has looked to sell stakes in its logistics units and only last week Vale announced it was considering a $14bn spin-off of part of its base metals division.

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