

# Transnet contracts worry Glencore

Glencore CEO Ivan Glasenberg on Tuesday, 3 March, warned of unintended consequences for Eskom's coal supply stemming from the take-or-pay contracts Transnet is signing with coal exporters.



"The government has got to be a little concerned on these take-or-pay (contracts). If Eskom needs more tonnage and everyone is locked into the take-or-pays to Richards Bay, it's going to be hard to divert tonnage into the Eskom market," the CEO said.

Transnet services 36 coal customers on the coal line, which has a capacity of 77-million tonnes and links the Richards Bay harbour to the coalfields in Mpumalanga. Last year 68-million tonnes were hauled.

It is busy with a R37bn project on the line to expand capacity to 81-million tonnes by June 2018 and it wanted secure, long-term contracts to pay for the expansion, said Transnet Freight Rail's spokesman Sandile Simelane. Transnet is "near conclusion with the entire industry", he said.

Glencore, however, is yet to sign such an agreement.

"That's why we are discussing this with the government and the railways to decide the effect this could have on us in the future," Mr Glasenberg said, adding that Glencore had had a similar experience in Australia where a \$15 a tonne penalty for not utilising its rail allocation ruled out supplying "a better outlet for the coal on the local market".

Glencore sold its exported South African thermal coal for 68 a tonne last year, an 11% cut on the previous year's figure, while its sale to Eskom fell 12% to 23 a tonne. It sold about 23million tonnes into each market.

The founder of Economists.co.za, Mike Schussler, said there needed to be more co-ordination between government departments and state entities to avoid conflicts of interest.

The head of Pan-African Capital, Iraj Abedian, said there was a misconception in the market that only companies large

enough to have export contracts were able to supply Eskom with coal. "The real issue, however, is the conditions and changes to contracts Eskom has introduced - all of those have created this obstacle to coal supplies.

"This really has not been thought through and it was based on unrealistic assumptions that the empowerment guys would flourish and become giants. But Eskom didn't apply their minds to the short-term supply consequences," Dr Abedian said.

*Source: Business Day*

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