

# Mega mining merger talk won't go away

Vale reportedly  
ups offer for  
Xstrata — stands  
at \$89 billion

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The Sudbury Star

The rumours are getting louder concerning the parent companies of Greater Sudbury's two nickel companies. The Reuters news agency reported Thursday a high-level

source in Brazil confirmed a report in Sao Paulo newspaper O Estado de S. Paulo that Vale has upped its purchase offer for Xstrata PLC from 40 to 47 pounds a share — or more than \$89 billion.

John Fera, president of Local 6500 of the United Steelwork-

ers of America, which represents more than 3,200 production and maintenance workers at Vale Inco's Greater Sudbury operations, said he will believe there's a deal only when he sees it.

"If it happens, it happens," he said. "We will be just as pre-

pared as if Inco bought Falconbridge a couple of years ago. We will make sure our members are taken care of and we don't get a bad outcome down the road."

Rick Grylls, president of Mine Mill Local 598, which represents more than 1,000

production and maintenance workers at Xstrata Nickel's Greater Sudbury operations, said it seems like a deal is starting to come together.

"From the middle of December to now, somebody is doing some talking," he said Sunday.

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## MERGER: price could go as high as \$90 billion

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Grylls declined to speculate on what could happen locally if Vale does purchase Xstrata.

"If the merger comes ... we will have to deal with it as workers," he said.

On Friday, Mine Mill Local 598/CAW issued a news release highlighting the union's announcement from October 2005 that "it is the union's obligation to negotiate the best collective agreement, no matter who owns us."

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In the news release, the union stressed "we still stand by this and know synergies will bring great financial gain for shareholders. We continue to believe the employees should also benefit for the best of both collective agreements."

Nickel analyst Terry Ortsian, of TSO & Associates in Montreal, said it will be the banks that decide if a deal goes ahead due to the billions of dollars required.

"I would say the financial obligations will make the decision in this case," he said Sunday. "It will be up to the banks to decide how much money they loan and carry (in debt) ... I think it's going to be a huge price."

Another source close to the negotiations said Vale Chief Executive Roger Agnelli and the company's financial director, Fabio Barbosa, were still engaged in takeover talks in London with Xstrata's management team.

Vale, the world's largest iron ore producer, has secured loans of an estimated \$50 billion from a pool of about eight banks — including Santander, HSBC, BNP Paribas, Lehman Brothers, Credit Suisse, Citigroup, Calyon and Royal Bank of Scotland, a source close to the financing told Reuters LPC.

Analysts say although Vale executives and Xstrata's management may agree in principle on an informal offer price in the coming days, several other details would have to be agreed upon before a formal offer could be put together.

A London-based investment fund that holds a stake in Glencore, one of Xstrata's controlling shareholders, told Reuters the new offer put an agreement on a deal closer but

said the mix of cash and shares Vale might offer, or whether Glencore would retain rights to trade nickel of the combined company, remained unresolved.

For Glencore, it would put the value of the deal totally in shares of the new company to be formed. (Glencore) thinks an accord with Vale makes a lot of sense and a lot of synergy. They want as much a stake as possible in shares," a portfolio administrator of the fund said.

In late January, Vale confirmed it was in talks that could lead to the purchase of Swiss mining company Xstrata PLC. The rumoured price — which could go as high as \$90 billion US — was reported in Valor Economico and O Estado de S. Paulo, two major Brazilian newspapers.

Late last year, the two companies' nickel divisions — Vale Inco and Xstrata Nickel — were busy holding discussions on "synergies" concerning their respective operations in the Greater Sudbury mining camp.

Greater Sudbury Mayor John Rodriguez said in an interview last month he is not surprised such a blockbuster deal is brewing.

"The president of the company (Vale Inco's Murilo Ferreira) has said to me and anybody who would listen, he wants Vale to be No. 1," said the mayor. "This is not a surprise. He said it many times."

With some Vale Inco and Xstrata Nickel operations virtually "side by side" in communities like Levack, "it would make sense for them" to combine operations in Greater Sudbury, Rodriguez said.

The mayor did express a concern about the implications for local mining sector workers from having one mining operation.

"It's something we would want to be very informed about and keep an eye out for. Certainly, mill closures would not be in our best interests — rationalizing in terms of operations or possible reduction of workforces."

Conversely, the Greater Sudbury area could end up with a stronger identity through being home to a larger nickel and copper producer, Rodriguez said.

Cynthia MacKenzie, chairwoman of the Greater Sudbury Chamber of Commerce board, raised the same job-loss concern.

"The only concern we would have is that if they brought in this one level of operation, what does it mean to the labour force?" she said in a January interview.

With files from Reuters