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Vale to cut investments next year

By Samantha Pearson in São Paulo

Vale will slash investments by $1.2bn next year to the lowest level since 2010 as the world's second-biggest miner by volume struggles to adjust to the end of the recent China-led commodities boom.

The Brazilian company said on Monday that it would spend $16.3bn in 2013 on new and existing projects, as well as research and development, down from $17.5bn this year. Vale had planned to invest as much as $21.4bn this year.

Vale also said it saw its record investment of $18bn in 2011 as the "peak expected for the foreseeable future", echoing recent comments by company executives that the period of "exuberance" in commodity markets has come to an end.

The price of iron ore, which accounts for about 90 per cent of Vale's profits, slumped to a three-year low in September as growth slows in China and crisis-hit steelmakers across Europe and the US curtail purchases.

Vale has also shifted its strategy since Murilo Ferreira took over as chief executive from Roger Agnelli in May last year, cutting costs, selling non-core assets and focusing on projects closer to home such as its vast Carajás mine in the Amazon.

"The prospects of a moderate expansion of the global demand for minerals and metals over the medium-term do require a stricter discipline in capital allocation and a stronger focus on maximising efficiency and minimising costs," Vale said.

"Our priority has shifted from the marginal volume to the capital efficient volume, a move that has deep implications for the way we manage capital," said the company, which still ranks as the world's biggest producer of iron ore.

Vale said its iron ore output would fall to 306m tons in 2013 from an estimated 312m tons this year, while coal production is set to drop 25 per cent to 12.4m tons. Nickel production is expected to decline 13 per cent to 260,000 tons, while copper and phosphate rock output will increase 7 per cent and 6 per cent respectively.

Under its 2013 budget, Vale plans to spend $10.1bn, or 62 per cent, on new projects, $5.1bn on maintaining existing operations, and $1.1bn on research and development.

It is the smallest investment plan for Vale since 2010, when the Rio de Janeiro-based company spent $12.7bn.

As part of its retrenchment, Vale dropped its vast Simandou iron ore development in Guinea from its investment plan after officially putting the controversial project under review in October.

Vale agreed to pay $2.5bn for the concession in April 2010, but its plans were thrown into disarray after the surprise end of military rule in the African country.

Vale has also looked to dispose of non-core assets already in production, such as its Colombian thermal coal operations, which it sold to a mining company controlled by Goldman Sachs for $407m in May, and $1bn worth of oil and gas stakes.