

Mining Giant Rio Tinto Cuts 14,000 Jobs. Brazil Operations Affected

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Rio Tinto, the world's third-largest mining company is eliminating 14.000 jobs and cutting investment drastically as part of plans to reduce debt by US\$ 10 billion by the end of next year.

Rio Tinto, which is listed in the UK and Australia, currently employs 97.000 people worldwide. It said it was responding to "the unprecedented rapidity and severity of the global economic downturn".

In Brazil, Rio Tinto confirmed this morning, December 12, that starting on December 22 and until January 20, 90% of its work force will go on compulsory vacations in its mining facilities in Corumbá, in the Brazilian state of Mato Grosso do Sul.

Two other mining companies in Corumbá took identical measures in recent days: MMX has stopped all activities and Vale put 313 workers on vacation. They all give the same reason: the global crisis which dried up foreign steel customers.

For the moment there no plan to fire employees at Rio Tinto.

"These actions are consistent with those from other iron ore operations of Rio Tinto in Australia and in Canada, where the global cooling is also being felt," says a note by the company, stressing that expansion plans will be kept, but reviewed continually according to market demands, the iron ore price and changes in the project cost.

In the past few months, Rio Tinto has been fending off a takeover approach from rival BHP Billiton, which finally abandoned its offer in November.

Rio Tinto said that closing one of its London offices would not necessarily lead to job cuts. Less than 2% of its workforce is based in the UK.

It said that the job cuts would comprise 8.500 contractors and 5.500 employees.

As a global miner, Rio Tinto is very sensitive to commodities prices and exchange rates. It benefited from soaring metals prices in the first half of the year, but has since suffered as they have fallen back.

Rio Tinto is expected to cut spending to US 4.5 billion next year, from the company's current guidance of 9 billion, and to 5.3 billion in 2010. The huge corporation had forecasted capital spending of US\$ 8.7 billion next year and US\$ 7.8 billion in 2010.

The cuts mean Rio Tinto will spend US\$ 1.1 billion less on Australian iron-ore projects next year than the company previously forecast and US\$ 900 million less in 2010. Canadian and Brazilian iron-ore expansions will be slashed, as will spending on commodities including aluminum, coal, diamonds and molybdenum.

Following the plunge in demand for metals and sliding prices Rio Tinto needs to cut its US\$ 42.1 billion debt. The company paid US\$ 38.1 billion to buy Canadian aluminum maker Alcan Inc. last year.

However there is some concern that cutting back on spending on exploration will hit growth prospects.

"We think it is prudent for Rio Tinto to reduce its capital spending and thereby provide a cushion to cash flow if commodity prices deteriorate further," according to Craig Campbell from JP Morgan.

The debts are "manageable" considering savings and undrawn debt facilities of US\$ 6.8 billion, added Campbell. Rio Tinto isn't in danger of breaching its debt covenants as the ratio of debt to earnings before interest, tax, depreciation and amortization will remain less than a 4.5-to-1 limit, he underlined.

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