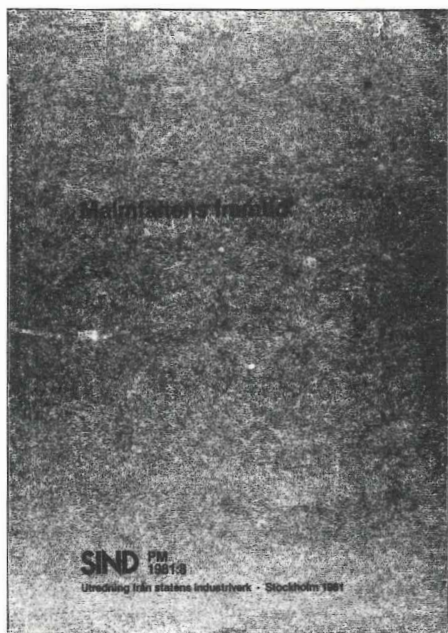


To run away from it all

In June 1981, the National Swedish Industrial Board presented a study called »The future of the Lappland iron ore fields» (SIND PM 1981:8). We here publish the summary and the conclusions from the report in full. The assumptions on which the analyses are based are also from the report but have been abbreviated by the Raw Materials Group. Comments on this report, which has been called the death sentence of Lappland, will follow in the next issue.



The full report, in Swedish, can be ordered from Liber Förlag, Förlagsorder, S-162 89 Stockholm, Sweden.

Summary and conclusions

”Iron ore mining in Norrbotten is today fighting great difficulties, difficulties that could be expected to last for a long time. The European iron ore market will not, due to the problems of the steel industry develop in any expansive way in the foreseeable future. On the contrary, the opposite seems more likely. At the same time the possibilities of LKAB to improve its relative cost situation in an obvious and lasting way seems very limited, except for the railway transportation costs.

These facts should be contrasted with the strengths of the company, mainly its proximity to the markets and a highly developed pelletizing technique. To be able to profit from these advantages and keep its present market share and production levels LKAB has to keep increasing the productivity per employee. In our cost estimates we have assumed that the future increase in productivity will be 3 percent yearly – historically a relatively low figure.

Such an increase in productivity could be reached by higher production or a reduced labour force or a combination of both. In light of the market and competition situation described, a production level essentially higher than the 1980 level of 25 million tonnes is hardly probable in the long term. This means that the main part of the increase in productivity must take place at the sacrifice of employment.

In Alternative B estimated average production is assumed to be not less than 25 million tonnes yearly and new main transportation levels will be opened in both LKAB's Kiruna and Malmberget mines. This will give a decrease in employment for LKAB and the local contractors working within LKAB of almost 3 000 jobs by the year 2000, which means roughly half the number of jobs existing today.

In Alternative A where the market situation is assumed to deteriorate and

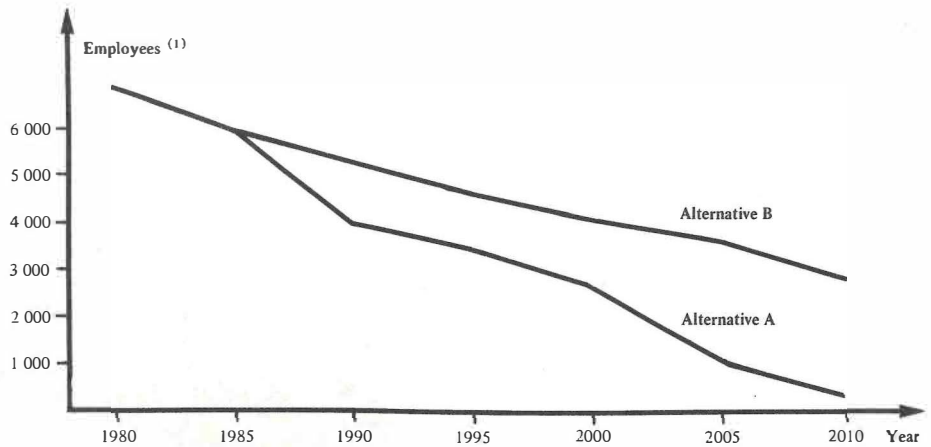
where no new main transportation levels will be opened, the loss of jobs in the two cities will be slightly more than 4 000 by the turn of the century. In both cases the indirect effects on employment among subcontractors and in private and public services must be added. These could be expected, very roughly, to be of the same order of magnitude.

Regardless of the alternatives it is necessary, but not surely sufficient, to make full use of available production capacity if the activities of LKAB should pay off in the business sense. In alternative A there is probably a need for state support for production in a longer perspective and such a need could not be ruled out definitely in Alternative B. The higher level of production in alternative B however gives better prerequisites to run the business without state support. The need for support is also closely related to what happens with transportation costs, the possibilities for a reduction of the interest costs and an arrangement for replenishment of LKAB's own capital. Financing of the necessary investments, regardless of alternatives is of major importance to the company.

Our estimates indicate a considerable decrease in employment even if production could be kept at a high level and the new transportation levels are constructed. At the same time it should be stressed that the decrease would be spread over a long period of time, and to a large degree should be possible to solve within the framework of normal retirement.

Never the less the fact remains that a large number of new jobs must be created if the Northern region shall be able to survive at its present level of population. The problem with a diminished labour force within the iron ore industry takes on a special character because it takes place in a region which is both heavily dependent on this industry and which even today has a very difficult situation in the labour market.

The Shut Down of the Lapland Mines –
Decrease of Number of Employees till 2010



(1) Including local contractors permanently working within LKAB

Source: SIND PM 1981:8

Considering this, the conclusion is that the employment problems in the region must mainly be solved outside LKAB, indeed, outside the whole mineral industry. Not even a favourable development for both the iron ore industry and all other mineral industries of interest in the region seems to change this conclusion to any appreciable degree.”

Common assumptions

Each of the alternatives starts from different assumptions, particularly concerning new main transportation levels. Some assumptions, however are the same in both assumptions:

Market

- The European steel production will in the foreseeable future, probably be characterized by stagnation or, at best, a minor expansion. Steel production based on iron ore with a high phosphorus content will continue to decrease.
- The present large pelletizing capacity at the steelworks in Europe and their joint ventures in pelletizing schemes seems to reduce the possibilities for LKAB to market more pellets in the next few years. In the long run however, the market for pellets should gradually improve.
- The shipping market will be dominated by low prices also in the future.

Production, investments

- The present high costs for mining and land transportation weakens LKAB's market position. This situation is believed to remain unchanged even if freight rates by the Swedish State Railways are reduced.
- Production per employee is supposed to increase by 3 percent on a yearly average.
- The open pit operations in Svappavaara mine can continue at least to the turn of the century.
 - The planned apatite works will be erected in Malmberget and start production in 1985.

- The Viscaria copper find (a copper ore body close to the Kiruna mine) will be exploited.

Specific assumptions

Alternative A

Market

The special difficulties to market ore with a high phosphorus content will be accentuated, especially during the first half the 1980's.

Production

The production level will remain at 20 million tons yearly or slightly below this figure up to 1995 and thereafter start to decrease. The mining operations will be stopped in the year 2005 in both Malmberget and Kiruna.

Investments

No new main transportation levels will be built. Total investment necessary in LKAB (including reinvestments) 1981-1990 is estimated at 1 500 million SEK.

Alternative B

Market

The market possibilities will improve or at least not deteriorate during the next few years.

Production

It will be possible to maintain the production level of 1980 and increase it slightly to at least 25 million tons yearly up to the year 2005.

Investments

New main transportation levels will be constructed in both the Kiruna and Malmberget mines, this creates physical opportunities for a continuation of the iron ore mining into the 21st century. Total investment necessary (including reinvestments) 1981-1990 is approximately 2 800 million SEK...

Comments

The economic results, from a strictly commercial point of view in both alternatives will, in all probability, make state subsidies necessary to cover the losses in the 1980s.

LKAB cannot, with a high degree of certainty, finance the necessary investment on its own. With present levels of depreciation and interest the problem of financing investment will remain at least throughout the 1980s.

Concerning Alternative A it must be noted that a planned gradual close down of activities in the mines could be negatively understood by ore buyers. The effect could be that buyers will disappear much earlier than they would have done during normal conditions.

In Alternative B the problems of financing investment and to cover capital costs remain. However it might be possible to continue operations without state support to cover economic losses, at least after 1985 and to show a positive result in the 1990s.”