China Seeks To Set Global Iron Ore Price

Elaine Kurtenbach, AP Business Writer

SHANGHAI (AP) — China, the world's biggest steel producer, is pushing to replace the benchmark arrangement long used by the industry to price iron ore imports with one giving it a bigger say.

China sought price cuts from miners of up to 40 percent this year following two years of increases totaling more than 100 percent. It boycotted this year's agreement between major suppliers and Japanese and Korean steel mills on a 33 percent cut, instead purchasing a large share of its iron ore on the spot market.

Having ramped up its imports of the key material used to make steel, China expects to be in a stronger bargaining position next year as the industry curbs surging production amid a major restructuring, industry officials say.

The country's investments in iron ore and coal mining overseas likewise will give it more say, Shan Shenghua, head of the government-affiliated China Iron & Steel Association, told a conference Friday in the eastern city of Qingdao.

"China will not blindly follow other countries and regions in determining prices for iron ore," the financial magazine Caijing and other reports cited Shan as saying. "Next year, there obviously will be an oversupply of iron ore, so there should be one price for China," he said.

Shan also argued for switching to setting benchmarks on a calendar year basis from the current system, which follows the April 1-March 31 Japanese fiscal year.

Prices should be set on a six-month or one-year basis, and China's iron ore imports should be more strictly controlled, Caijing and other reports cited Shan as saying.

Traditionally, China has bought iron ore from India on the spot market, while imports from major miners BHP Billiton, Rio Tinto and Vale SA of Brazil were subject to the benchmark.

Chinese steel mills, which Shan says may account for 60 percent of total iron ore trade in coming years, began chafing at that system several years ago. But the battle for more say has been bruising.

The failure to reach a pricing agreement this year led both sides to trade more through the spot market, where prices were nearly 80 percent higher than this year's benchmark until they began falling back in the past few months.

A surge in demand thanks to a construction boom fed by China's 4 trillion yuan ($586 billion) economic stimulus program prompted mills to run up inventories of iron ore as they boosted output. In September imports hit a record 64.5 million tons, rising 65 percent over a year earlier.

China's annual steel production capacity of 660 million tons far surpasses its demand for about 500 million tons, and another 58 million tons of capacity is under construction.

The government recently announced plans to curb that expansion and close down inefficient, heavily polluting steel mills.

"Now that the government is moving to curb steel output, how much iron ore do you expect them to buy?" said Zhu Liming, an industry analyst at Shanghai Securities.

"Even if the three top miners want to raise the contract price, I don't think companies will care about it because they will just go to the spot market," he said.

The surge in spot market prices, fueled by speculation, was unlikely to persist, he said.

China's industry association forecasts that total crude steel production for the year will exceed 500 million tons.

The surge in steel exports, meanwhile, has added to friction with the United States and other key trading partners.

Meanwhile, the glut in supplies of many categories of steel has prompted steel makers to begin slashing prices, sapping their profit margins.

Associated Press researcher Ji Chen contributed to this report.

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