

Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit [www.djreprints.com](http://www.djreprints.com)

See a sample reprint in PDF format.

Order a reprint of this article now

**THE WALL STREET JOURNAL**

WSJ.com

ASIA BUSINESS | NOVEMBER 1, 2011

## China Push Splinters Iron-Ore Pricing

By CHUIN-WEI YAP

BEIJING—Plunging iron-ore prices are adding to pressures that are splintering the global system for pricing the key steelmaking ingredient.

Steelmakers in China—the world's biggest buyers of seaborne iron ore—are pushing for new pricing methods offered by miners that would bring prices for the mineral closer to those on the spot market. China-delivery import prices fell 16% last week to \$130 a metric ton from the week before and are down 30% since the beginning of September, according to industry publication Metal Bulletin. That price is the lowest since July 2010, amid worries about a sluggish global economy and potentially declining appetite from China.



Bloomberg News

**WHEELS OF STEEL:** A worker walks past rolls of steel at Baosteel Group facilities in Shanghai in April. The company is renegotiating ore prices.

Currently, the world's major steel buyers strike quarterly deals with the biggest iron-ore miners to set prices on a quarterly basis. Under the current price, steelmakers are paying \$164 a ton for a blend of iron-ore types.

A shift to more-flexible market pricing could help steelmakers enjoy the current plunge but could also give them greater exposure down the road to fluctuating commodity prices.

Ma Guoqiang, general manager for Baosteel Group Corp.'s listed unit, said at an earnings briefing Monday that the bellwether steelmaker has joined other Chinese mills in renegotiating ore prices from Brazilian mining giant [Vale SA](#) amid the market rout, though he didn't specify if this meant moving to an entirely spot basis. Several Chinese steelmakers

said earlier this month that some miners had already offered quarterly rates based on current rather than preceding quarters, to allow buyers to benefit more from falling prices.

China's state-backed steel industry lobby also signaled on Monday that it may push for even more concessions favoring its big-buyer status. "The buying-and-selling method right now is still rather messy," China Iron and Steel Association vice chairman Zhang Changfu told reporters.

The association has been discussing "a transparent, open system" with the miners, he said, characterizing the dialogue as informal conversations. "What new pricing method there may be, I just can't say, as everybody is still discussing it," he said.

Chinese steelmakers have seen their pricing clout enhanced by concerns that they may consume less. Mr. Zhang said Monday that some Chinese steelmakers may have delayed iron ore shipments,



contributing to the current price slump, as global economic conditions worsened. But he added that such moves would have been "within contract terms."

"Iron ore spot prices are likely to keep falling, as mills don't dare to buy any more ore," he said.

China has long argued that, as the world's largest buyer of iron ore, it should have more say in determining prices. When spot prices fell below long-term contract rates after the global financial crisis in 2008, China started a vocal public campaign to overhaul the previous 30-year-old benchmark system that set prices on an annual basis. Steel makers and miners in March 2010 began pricing iron ore on a quarterly basis.

However, the spot market hasn't always favored Chinese ore buyers. Under more stable economic growth conditions, spot prices have usually been more expensive than term contracts. In mid-2009, the spot market turned against Chinese steelmakers as they campaigned

for a deep contract discount, rising sharply after a deep fall.

While Mr. Zhang emphasized that the association's goal is "not low prices or high prices but fair and reasonable prices," the intensity of China's complaints about the ore pricing system have largely tracked the rise and fall of spot iron ore market.

Miners haven't strongly resisted moving to spot pricing. Vale, the No. 1 iron-ore miner by output, said last week it is willing to make the move, while [BHP Billiton](#) has long advocated spot pricing.

[Rio Tinto](#) chief executive officer [Tom Albanese](#) said last week the Anglo-Australian miner continues to move toward a portfolio sales approach, with a range of pricing periods linked to quoted spot indexes.

But once the industry shifts to spot pricing, miners may be reluctant to let it switch back. "We can't work with a system whereby if iron ore prices fall they want spot prices and if they go up they want fixed contract prices," Vale's executive strategies director, Jose Carlos Martins, said last week.

Steel futures on the Shanghai Futures Exchange rose 4% last week, and settled 0.4% higher Monday amid news of widespread output cuts among Chinese steelmakers.

—Yajun Zhang, Robb M. Stewart and Diana Kinch contributed to this article.

Copyright 2011 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our Subscriber Agreement and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit [www.djreprints.com](http://www.djreprints.com)