
Iron ore price negotiations - Radical changes mooted

Thursday, 06 Aug, 2009

It is reported that Professor Dr Ross Garnaut recently said that the annual benchmark iron ore pricing system itself must change as there is too much emphasis on the annual talks and the market needs to take a bigger role.

Dr Garnaut while speaking after a Melbourne Institute forum suggested that the issues that have plagued this year's talks will forever change the system of iron ore negotiations. He said that "Humpty Dumpty's fallen off a wall and it's going to take a lot and maybe more than we can muster, to put it back together again."

He said that "Usually the way the format runs is that the Australian miners, BHP or Rio or Vale, which is the big Brazilian iron ore miner, will agree with BaoSteel, which is a big state owned mill and then all the other mills will just fall into line with the benchmark. This year however, the Chinese Iron and Steel association, which is sort of an industry body has decided to conduct negotiations on behalf of all the steel mills, so the format's changed somewhat."

Dr Garnaut said that the system of trading commodities needs improvement. He added that "So that there is not so much weight placed on those big annual negotiations where the stakes are so high that inevitable they become the source huge tension."

He argues that the Shanghai commodity market should be developed so the current practice of having tens of billions of dollars hanging on a single negotiation every year can be avoided.

He added that "The current spot market's not a particularly efficient market and we need better markets, including better forward markets. So it's worth people at the Chinese and Australian end and all other people involved in the resources trade putting a lot of thought into the development of those markets. Maybe the end point will be the development of a more efficient set of spot and forward markets based in Shanghai as the main single centre of the north East Asian resources trade."

(Sourced from www.abc.net.au)

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