
Iron ore price negotiations - Heading towards greater transparency - BHPB

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According to Mr Marius Kloppers CEO of BHP Billiton, iron ore pricing is heading towards greater transparency.

Mr Kloppers told journalists in Johannesburg that steel pricing dynamics had changed towards shorter contracts.

In the Seventies, many products, including oil, copper, aluminium and nickel, were sold on a benchmark-pricing basis. But over time the processing step downstream, for example oil refining, steel making, tended to become a cost-plus business in which the raw materials, plus the conversion margin basically set the price.

He told Mining Weekly Online that steel had traditionally been sold on annual contracts to, for example car companies, which were locked in for a year at a time.

Particularly with the rapid growth of the steel market in China, the steel pricing dynamics had, however changed towards shorter term contracts.

This change had come about because steel producers who were locked into raw material prices for a year at a time, during periods of price volatility as experienced in the last 18 months were placed at a distinct disadvantage to rivals.

He said that "We think that it is actually the steel market evolution that is going to drive the way in which the steel raw materials are priced, because basically people want to hedge themselves internally. We have been very vocal, saying that this is a good thing, because we like pricing systems that are transparent, where the market discovers the price and where the customer and the supplier does not have to waste energy and often goodwill, in establishing that price."

Mr Kloppers said that "That's certainly the case for most of our products and we think that's the way that the iron-ore business is heading."

(Sourced from Creamer Media Reporter)

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