
Iron ore price negotiations - China remains in limbo

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Rio Tinto said that China may use a new pricing mechanism for contracts in 2010 after annual talks broke down this year with the top importing nation.

Mr Sam Walsh CEO of Rio's iron ore unit at an investor briefing in Sydney said that "We are hearing varied messages out of China, we have not yet commenced any negotiations there. Any number of scenarios could relate to an outcome in 2010, with one scenario being a different pricing mechanism in China to the rest of the world."

Mr Walsh said that "We have not established contract prices for this year, neither has BHP Billiton nor Vale. The provisional pricing with China clearly will be the starting point in terms of the negotiations for next year."

Mr Walsh warned any efforts by Chinese mills to seek an unfair benchmark price would make negotiations tough. He said that "Certainly if there is any tinge of unfairness in relation to what is being structured, it would make benchmark negotiations very difficult."

Mr Walsh said that he is waiting to hear directly from China's biggest steel company, Baosteel and from the China Iron and Steel Association on what they were seeking.

Mr Alex Passmore head of metals and mining research at Patersons Securities in Perth said that "Given we haven't settled a price for this year, the talks are still in limbo. It's a tough choice, which the industry is grappling with at the moment. The restructuring talks will continue."

China this year demanded a bigger price cut for iron ore than the 33% offered to Japanese and Korean mills by Rio and BHP Billiton. The China Iron & Steel Association last month flagged it will seek to set prices separately from the rest of the world as imports and cash prices surged. Tension between China and Rio soared after Chinese authorities arrested four of Rio Tinto's iron ore executives including Australian Mr Stern Hu for allegedly stealing commercial secrets and bribery.

(Sourced from Bloomberg)

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