

November 13 | News breaks. We analyze. You invest. Get Barron's Take.

Disney's Happy Ending

Growth returns to the entertainment giant despite lingering troubles at its ... [More ▶](#)

BARRON'S

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

[See a sample reprint in PDF format.](#)[Order a reprint of this article now](#)**THE WALL STREET JOURNAL.**

WSJ.com

BUSINESS | NOVEMBER 16, 2009

China Starts New Iron-Ore Talks

By [CHUIN-WEI YAP](#) and [JOHN KOLODZIEJSKI](#)

China is entering a new round of talks with its major iron-ore suppliers, with signs that acrimony between the parties has eased and indications favoring a higher contract price for next year.

Talks toward a 2009 contract collapsed earlier this year, producing several tense months punctuated by China's detention of [Rio Tinto's](#) chief iron-ore negotiator and three other employees on accusations they stole commercial secrets.

Concluding a contract this year would put the relationship between giant miners and their most important customer on a more normal footing. It would also mean more predictability by locking in prices for China's steel mills.

The China Iron and Steel Association is leading the talks for the buyers. In comments widely interpreted as tolerance for a price increase, association Vice Chairman Luo Bingsheng has said there may be some room for an upside even though that is "small and difficult."

The market for iron ore favors miners such as Anglo-Australian companies [Rio Tinto](#) and [BHP Billiton](#), as well as Brazil's [Vale SA](#). The big three account for 70% of seaborne iron-ore trade.

China's steel production continues to rise, having posted the second-highest monthly output on record in October.

The surge has boosted iron-ore spot prices. Up steadily since September, they have topped \$100 a metric ton. That's nearly 70% higher than where they were in late 2008, when the failed talks on a 2009 contract got under way.

"I think the dynamics look positive," Sam Walsh, Rio Tinto's iron-ore chief, said at an investor briefing in London recently.

Fundamentals aside, the China Iron and Steel Association faces intense pressure to deliver a deal for 2010. Last year's talks failed as the association insisted on securing a deeper price cut than miners were willing to accommodate, even after other Asian buyers agreed to higher rates. That left Chinese mills to fend for themselves in what has become an expensive spot market.

"They need to [deliver], otherwise they'll have no face," said a senior official with a leading Chinese steel trading company. The official wants the association to take a more conciliatory approach now.

Negotiations typically start early in the fourth quarter, with a target of reaching a deal by March 31. For next year, however, China is seeking a Jan. 1 start.

Miners are looking to increase prices by about a third, according to a report Friday by Alexander Hacking of Citi Investment Research & Analysis. Strong output in China combined with tighter supplies, including falling inventories at China's ports, lend support for higher prices than miners collected this year, he wrote.

But China has signaled that such a position is too aggressive. Calls for a 30%-35% price increase are "not

reasonable," association Secretary-General Shan Shanghua said at an industry conference in Qingdao, China, last month.

"The price is probably going to rise a bit. It should be around 10% to 20%, which would be more reasonable," said Yu Liangui, a steel analyst with the Shanghai-based Mysteel consulting firm. "A 30% increase would be seen as too high, since the economic situation is still volatile."

The Australian dollar is a wild card. The currency has strengthened against the U.S. dollar, in which iron ore is priced, which makes sales less profitable for Rio Tinto and BHP. Further appreciation of the Australian dollar could lead them to take a harder line in negotiations, said Zhu Mingyuan, an analyst with International United Futures.

Another is the China Iron and Steel Association's demand for a China-specific price. Traditionally, deals struck between China and Vale, the biggest exporter, set a benchmark for other Asian and European buyers. While some analysts believe buyers elsewhere would balk if China uses its clout to secure a lower price than they can secure, Rio's Mr. Walsh didn't rule out an alternative approach.

"In Japan, they are very keen to continue benchmark negotiations. Korea, Taiwan and Europe also see a great reliance placed on it," he said. "It's a situation that's evolving. Any number of scenarios could relate to the outcome in 2010, one scenario being a different mechanism in China."

Write to Chuin-Wei Yap at Chuin-Wei.Yap@dowjones.com and John Kolodziejski at John.Kolodziejski@dowjones.com

Copyright 2009 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