

# Rio Tinto to raise prices

Mining titan plans iron-ore increases, aiming at spot levels

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WEST ANGELAS, Australia -- In a move that could boost its profit but raise costs for its largest customers, mining titan Rio Tinto PLC plans to charge steelmakers higher market prices for some crucial raw materials, despite long-term price contracts.

The move marks an effort by the mining company to capture higher spot-market prices for iron ore, a key steelmaking ingredient. It illustrates the clout mining companies have amassed during the four-year boom in commodities.

Rio Tinto's move would affect 10% of the iron ore it supplies to long-term customers. Those customers, who currently pay about \$75 to \$85 a metric ton, could pay the same prices as on the open spot market, where iron ore is fetching about \$180 to \$190 a metric ton due to rising demand.

Doing so, would significantly raise the profit of Rio Tinto, which is trying to fend off a hostile bid from rival BHP Billiton Ltd. Rio's move could also squeeze steelmakers, which have seen profits hurt by high energy and raw material costs.

It is unclear how steelmakers may respond. Corus, which is owned by India's Tata Group, couldn't immediately comment. ArcelorMittal, the world's largest steelmaker by output, couldn't immediately be reached.

Many steelmakers have been successful in passing on higher costs to customers like car and appliances makers, but those industries are feeling cost pressure. Global auto makers, in particular, have in part cited rising material costs for pinched profits and, in some cases, losses.

Rio's move could accelerate efforts by steelmakers to secure their own private reserves of iron ore to make them less dependent on mining companies. ArcelorMittal already has about 40% of its own iron-ore supplies. Most vulnerable are steelmakers in Asia and China, which depend on Australian iron ore to make steel. U.S. steelmakers enjoy better access to domestic iron-ore supplies.

Rio Tinto is exercising a little-known clause in its iron-ore contracts that allows the company to supply just 90% of the contracted iron ore at a fixed, negotiated price. The other 10%, at the discretion of Rio Tinto, could be priced according to the spot market.

"We are being more aggressive now," said Sam Walsh, chief executive officer of Rio Tinto's iron-ore division.

It isn't clear whether the other miners will follow Rio Tinto's interpretation of long-term contracts. Carole Cable, spokeswoman for BHP, said the company hasn't notified customers on long term contracts that they would be expected to pay spot prices for some of their shipments. Officials at Brazil's Companhia Vale do Rio Doce, known as Vale, couldn't be reached.

Steelmakers have been bracing for a price rise and said they would pass those higher costs onto customers. John Armstrong, a spokesman for U.S. Steel, said the company doesn't comment on suppliers and contracts. "One of the benefits that U.S. Steel has is that domestically we have our own iron ore," he said.

The move comes as Rio, BHP and Vale, the world's three largest exporters of iron ore, and steelmakers are currently negotiating long-term contracts, which are set to expire in June. Some Chinese steelmakers that are leading some of the contract negotiations with the miners say that the miners want a 75% increase -- an unprecedented amount if it sticks.

Mr. Walsh declined to specify how much Rio wanted from the long-term talks but said that a 75% increase would still not make up the difference between spot and benchmark prices. "So even that doesn't cover the \$120 spread."