

'Very tight conditions' boost iron ore prices

World's largest producer charges Asian steel makers 65 per cent more, but Rio Tinto wants larger increase to cover shipping

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SAO PAULO, BRAZIL -- Brazilian mining company Vale announced a deal yesterday that will raise iron ore prices 65 per cent for six major Asian clients amid booming global demand for the raw ingredient used to make steel.

Companhia Vale do Rio Doce, the world's biggest iron ore producer and owner of Canadian nickel giant Vale Inco Ltd., reached an agreement on the price with South Korean steel maker Posco and with Japan's Kobe Steel, JFE Steel Corp., Nippon Steel, Nisshin Steel and Sumitomo Metals.

It was the first price agreement between a major ore producer and big steel makers, a move that typically sets the benchmark price for the industry.

Vale, formerly known as CVRD, said in a statement that prices for iron ore produced at its Southern System mines would rise 65 per cent. The price for high-quality ore from the company's Carajas mine in Brazil's Amazon will increase about 71 per cent. "The magnitude of the price increase for 2008 reflects the continuity of very tight conditions still prevailing in the global iron ore market," Vale said.

The deals have been hailed as positive for the world's three major iron ore miners – Vale, Rio Tinto PLC and BHP Billiton Ltd. – and even for the steel producers. Many had feared the steel makers could have been forced to agree on an even higher price increase given the strong demand for ore.

Demand for steel has soared, pushing up prices for iron ore. Canadian metals giant Teck Cominco Ltd., a major zinc, coal and copper producer based in Vancouver, said recently it has been looking to expand in the iron ore business, but nobody is willing to sell in the current hot period.

Investors appear confident that higher costs of raw materials from iron ore to coking coal will be passed on to consumers, based on expectations of strong steel demand, analysts said.

With an earlier-than-expected settlement in prices, other key producers such as BHP Billiton and Chinese steel mills led by Baosteel Corp. are expected to announce deals in line with the new price within days, analysts said.

Rio Tinto, the world's second-largest iron-ore producer, is seeking bigger price increases from Asian steel makers than its rival.

Rio wants to receive a “freight premium” to reflect the lower cost for customers in China, Japan and South Korea of shipping ore from ports in Australia rather than Brazil, it said yesterday in a statement distributed by the Regulatory News Service.

This “could mark the end of the ‘one price fits all’ settlements of the last few decades,” Michael Rawlinson, head of mining, resources and energy at Liberum Capital Ltd. in London, wrote in a report.

A full recovery by Rio of the freight premium to China would mean a “massive” 154 per cent boost in ore prices, he said.