

# Concern grows over local steel shortage

PHUSADEE ARUNMAS

Concern is mounting about a possible steel shortage as demand rises in anticipation of work starting on government megaprojects. As well, global demand would be pushed up by reconstruction following the earthquake in China and the cyclone in Burma.

The Commerce Ministry has asked manufacturers, distributors and importers for weekly reports on their stocks and has dispatched officials to inspect stocks to prevent hoarding.

The ministry's Department of Internal Trade plans talks with industry executives later this week or early next week to discuss ways of ensuring adequate steel supplies, said Yanyong Phuangrath, the

department's director-general.

An industry source said there were signs of price speculation by traders who believe the department will approve increases in steel prices. A Commerce Ministry source said that officials had tentatively approved higher prices for steel bar and sheets.

Last week, local contractors threatened to boycott government projects unless authorities acted within 30 days to deal with skyrocketing material prices.

The source said steel bar prices would increase by eight or nine baht per kilogramme from 28 baht, or to at least 36,000 baht per tonne. The new price for steel sheet would be 39-40 baht per kg, up from 30-31 baht currently.

"Steel manufacturers have been asking

to raise prices since the end of April, but the ministry asked them instead to help hold the prices for a while and they agreed, but now the price of raw materials have risen markedly, partially on expected higher demand from China to rehabilitate [buildings] damaged by the earthquake," the source said.

Vikrom Vajarakupta, executive director of the Iron and Steel Institute of Thailand, said world prices remained relatively high, with hot-rolled steel at US\$900 to \$1,000 per tonne compared with about \$600 at the end of last year.

He predicted prices would ease later this year on ebbing demand in a slowing world economy. He estimated Thailand's steel demand at 13 million tonnes this year, a rise of 3-5% from last year.



agreement from two other major shipbuilders, **Universal Shipbuilding** and **IHI Marine United**, for a similar-sized price rises. Meanwhile, **Toyota's** president **Katsuaki Watanabe** has publicly confirmed that the carmaker is close to an agreement with steelmakers on price increases, though he did not say by how much they would be. According to a report in the Japanese media during the weekend, Toyota has agreed to a rise in the "upper Yen 20,000/t range" with Nippon. The steelmaker declined to comment. The increase, the second in two years, will push the price of automobile steel beyond the Yen 100,000/t mark for the first time. The report also claimed that Toyota is expected to also reach a final deal of a hike around 30% on auto steel products with **Kobe Steel** as early as this week.

#### Wire and bar hikes

Kobe will likely raise steel wire and bar prices by Yen 30,000-35,000/t to Yen 140,000-145,000/t on average. The hikes will reportedly be applied retroactively, starting from products shipped in April. Toyota and Nissan have said that the higher prices mean that they will be forced to hike car prices, despite sluggish demand in their key markets of Japan and the US. The developments in Japan also indicate that steel companies are beginning to succeed in pushing the higher cost of raw materials and other inputs on to their customers.

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## Panzhuhua starts group listing process

China's **Panzhuhua Steel Group** has formally started its group's listing plan through its Shanghai-listed subsidiary **Panzhuhua New Steel & Vanadium**. Currently, Panzhuhua Steel Group owns 83% of **Chengdu Steel**, 85% of **Panzhuhua Steel Limited** and 25% of **Chongqing Titanium Industry**. Panzhuhua Steel Limited in turn holds 48% of Panzhuhua New Steel & Vanadium while **Changcheng Special Steel** is 32% owned by Panzhuhua Steel Limited and 17% of Panzhuhua Group. Changcheng Special Steel owns 53% of the listed **Changcheng Special Steel Co Ltd**. Panzhuhua New Steel & Vanadium says it will issue 749m of shares to its parent Panzhuhua Steel Limited, Panzhuhua Steel Group, Chengdu Steel and Changcheng Special Steel, acquiring their assets worth Yuan 7.19bn (\$103m). The plan includes Panzhuhua New Steel & Vanadium absorbing Chongqing Titanium Industry and the listed Changcheng Special Steel Co Ltd. Both of those companies' legal entity will then be removed. As a result of the changes, Panzhuhua New Steel & Vanadium's assets' value will increase to Yuan 49.2bn from Yuan 22.8bn, sales revenue to Yuan 37.5bn from 21.2bn, net profit to Yuan 1.69bn from Yuan 995m, the company said. The valuation of the targeted assets does not include any adjustments after the earthquake which struck Sichuan province, southwest China last week.

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## General Steel Holdings reports 361% higher profit

China's **General Steel Holdings (GSI)** has reported a 361% increase in its net profit to \$2.2m in Q1, compared with the corresponding quarter last year. The New York-listed company attributed the increase to its major acquisition of the 3mt/y **Longmen Steel** joint venture in Shaanxi province last June,



## Higher prices help lift Interpipe's net profit by 18%

Ukraine's **Interpipe** recorded a \$256m net profit for 2007, up 18% year-on-year, thanks partly to firm prices for its rail wheels and pipes. Demand was "very strong" last year, particularly for pipe from the gas and oil sectors in Middle East, North Africa and parts of the CIS, the company said. Sales revenue increased 24.3% to \$1.8bn while Ebitda rose almost 17% to \$438m. Production grew 2.4% to 1.47mt. Interpipe said separately it has secured a \$531m financing package for a 1.3mty electric arc furnace at its **Nizhnedneprovsky Tube Rolling Plant (NTRP)**, to replace its four operating open-hearth furnaces. The package is comprised of a \$344m export credit facility and a \$187m pre-export credit facility. Interpipe said the outlay is part of an \$800m investment plan for its three mills, the majority of which is earmarked for seamless-producing NTRP (*CRU Steel News 26 February 2007*).

### General News

## USW calls for Esmark to withdraw from sale plans

The United Steelworkers union (USW) has demanded that **Esmark** withdraw from its Memorandum of Understanding (MoU) with **Essar Steel** over the eventual sale of the Chicago-based steelmaker and distributor. The USW claimed in a letter last week that Esmark entered the sale agreement with Essar without being notified and giving the union the opportunity to come up with an alternative proposal. This is in violation of the union's bargaining capacity agreement with the company, the USW said. The USW also indicated in its letter that it believed Essar was complicit in the breach. Esmark announced that it had entered into an agreement with Essar for its eventual sale, which would include the Wheeling-Pittsburgh (WP) plant, for a total of \$1.1bn. The unions associated with WP have been calling for another strategic investor for the plant, after Essar announced plans to shut down some rolling mills earlier this year (*CRU Steel News 1 May 2008*). USW also warned that it would take "whatever action necessary" to protect its rights against the current transaction. "We used our contractual protections to prevent CSN from taking over Wheeling Pitt, which opened the door for Esmark to acquire the company. You would think they would have learned something from that transaction." Esmark must pay Essar a \$20.5m break fee, plus other costs, if it does not go through with the sale to the Indian group, USW said.

## Japanese steel users begin to accept major price hikes

**Mitsubishi Heavy Industries** is believed to be close to agreement with **Nippon Steel** to pay substantially higher prices for ship plate in the current fiscal year, which began 1 April. Although the shipbuilder declined to reveal details, *CRU Steel News* understands that the likely rise will be around Yen 30,000/t (\$288/t), roughly 40% on current levels. The increase will be phased in by way of a Yen 20,000/t rise in H1's prices, followed by a Yen 10,000/t hike for H2 prices. Nippon has reportedly obtained basic

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## Rasselstein growth bucks market trend

"Despite significant price increases, tinplate from Germany will remain in demand worldwide." This is the confident forecast of Dr Ulrich Roeske, CEO of Rasselstein GmbH, Germany's only tinplate producer.

The Andernach-based company, a subsidiary of ThyssenKrupp Steel AG, Duisburg, is gearing up to deal with stiffening global competition. Over €160M of capital investment in state-of-the-art facilities in recent years has turned Rasselstein into the world's biggest tinplate producer with a capacity of 1.5Mtpy. Rasselstein is the biggest single customer of ThyssenKrupp Steel AG, taking around 10% of its hot band production.

Rasselstein's main sales region for tinplate, the raw material for food, beverage, aerosol and other cans, is the enlarged area of Europe. Bucking the trend on this generally stagnating market, Rasselstein has increased both its market share and its absolute level of shipments. The almost 250-year-old company is a vital part of the local economy at its site in Rhineland-Palatinate. The latest investment by the ThyssenKrupp Group is seen as a commitment to the tinplate business in Germany.

The international tinplate market is a niche market, accounting for roughly 1% of total world steel consumption. Steel is resisting competition from other packaging materials thanks above all to its ecological advantages, a key factor alongside safety, cost and production-related benefits.

Whereas Rasselstein can rely on innovation as an important competitive advantage over other materials and other tinplate manufacturers, cost is becoming a serious concern. "Never before have we experienced such a simultaneous explosion in the costs of almost all our input materials," says Roeske. "With ore prices set to go up by 65% in 2008 and prices for alloying elements, coal, energy, scrap and transportation also rising, we face drastic increases in our starting material costs." One particular cost factor is the price of the tin used to coat the strip, currently at an all-time high of over \$20,000/t.

"The increases in our own tinplate manufacturing costs come on top of the raw material costs," says Roeske, pointing to already announced further price increases for hot band. These costs will have to be charged on to the market, he says.

## ArcelorMittal | one of its Cze

ArcelorMittal has lost a court case against the Czech Republic in which it sought a 14% stake in Nová Hut. The company has to pay €500,000 costs.

The option to buy the company passed to ArcelorMittal (which is a majority owner) from a Czech firm but a court later ruled that the stake should go to the company PPP while over Petrole. The has been going on since 1990s.

ArcelorMittal Oost (Nová Hut) is the biggest plant in the Czech Republic.

A second arbitration ruling that in 2005 the government excluded the Steel from a public tender for the steel mill Vitek is ongoing.

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## CORPORATE NEWS

# Xstrata in talks to acquire Macarthur Coal

*Deal would extend mining giant's reach in Australian market*

BY REBECCA THURLOW

SYDNEY — Switzerland-based mining giant Xstrata PLC is in takeover talks with Macarthur Coal Ltd. after approaching the Australian company about a possible bid, a person familiar with the situation said.

Macarthur Coal, which has a stock-market value of about A\$3.7 billion (US\$3.46 billion), said last month that it had received an approach from an unnamed third party about a potential transaction, making it the latest target in a flurry of mergers and acquisitions in the Australian mining sector.

Surging prices for the pulverized

coal injection coal, or PCI coal, that Macarthur Coal produces, driven by demand from Chinese steel mills, have made the miner a more attractive target, despite production and infrastructure problems.

If a bid is made by Xstrata, analysts and traders said potential rivals for the company could be Anglo American PLC of the U.K. and Brazil-based Cia. Vale do Rio Doce, which was in failed merger talks with Xstrata earlier this year.

The person said the talks between Xstrata and Macarthur Coal are continuing, with the two companies yet to agree on price, although a range has been discussed.

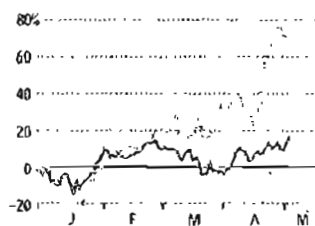
An Xstrata spokeswoman declined to comment. Macarthur Coal Chief Executive Nicole Hollows wasn't available for comment.

Macarthur Coal shares surged 5% Friday to A\$17.75, up 85 Australian cents on the Australian Stock Ex-

## YEAR-TO-DATE PERFORMANCE

### Mining companies

— Macarthur Coal: up 81%  
 ~ Xstrata: up 18%



Note: In local currency  
 Source: Thomson Reuters Datastream

change, while Xstrata, which has a market value of about £38.6 billion (US\$76.17 billion), climbed 3.9%, or 159 pence, to £41.91 in London trading.

Winning control of Macarthur

would extend Xstrata's coal position in Australia and give it access to Macarthur Coal's allocated export tonnage at the Dalrymple Bay Coal Terminal in Queensland state.

"Xstrata is in coking coal and thermal coal in Australia, and PCI would be a complementary product," said an analyst from an institutional brokerage firm.

"And Xstrata probably thinks they can get a better price for the product over the cycle than perhaps Macarthur can themselves. Xstrata has got the full suite of coking coals and thermal coals and can blend and mix and match as it pleases," the analyst said.

Prices for PCI coal, used in steel-making, haven't been set in annual negotiations, but many analysts believe a tripling of prices such as that seen for coking coal is possible.

When it disclosed the approach April 21, Macarthur Coal said the dis-

cussions were incomplete and conditional, and no formal proposal had been received. It said it understood

**Macarthur is the latest mining target in a flurry of M&As in Australia's sector.**

the third party also had approached shareholders.

The biggest shareholder in Macarthur is company founder and former CEO Ken Talbot. Local newspapers have reported that he and other major shareholders are looking to sell their stakes.

J.P. Morgan Chase & Co. is advising Macarthur Coal, and Rothschild is advising Xstrata.

# Steel costs delay projects

## Shipyards, builders come under pressure; seeking alternatives

BY ROBERT GUY MATTHEWS

Relentless increases in the price of steel are halting or slowing major construction projects worldwide and investments in shipbuilding and oil-and-gas exploration, setting the stage for a potential backlash against steelmakers.

In Turkey, a construction association was expected to begin a 15-day strike in eight cities Thurs-

### Cold shoulder

Chinese steel group seeks boycott of Rio Tinto iron-ore sales

day to press steelmakers to cut their prices, which have more than doubled locally since late last year.

In New Delhi, an ambitious bridge project has been put on hold because of steel-related cost overruns, and contractors are postponing or reining in construction of housing for the poor, prompting the Indian government to freeze steel prices for the next three months.

Venezuela, aiming to control prices, renationalized its largest steelmaker and is limiting exports, while Iran is slashing its import tax to keep steel prices down. In Brazil, electronic producers say steel prices have jumped 25%, retail prices up by 4% to 6%. OI executives in the U.S., meanwhile, say costly steel is threatening their energy exploration efforts.

Globally, steel prices are up 40% to 50% since December, and industry executives say they haven't hit their peak. Wednesday, ArcelorMittal, the world's largest steelmaker by volume, boosted prices by €120 (\$186), or 20%, a metric ton in Europe, citing increases in its own costs—from iron ore to energy and

transportation.

"We have not yet seen that prices have peaked, what we have seen is the costs increasing every month," said ArcelorMittal Chief Executive Lakshmi Mittal on a conference call with reporters.

Iron-ore prices have risen 71% this year. Two other crucial steel-making ingredients, coking coal and scrap steel, have doubled in price. The run-ups are part of a broader surge in raw-materials prices amid tight supplies and soaring global demand, fueled in part by the rapid industrialization of China, India and other developing nations.

The world's voracious appetite for steel shows little sign of easing. In Turkey, a new shipyard, once completed, will need 100,000 tons of steel a year. And demand in the U.S. is rising, despite a sluggish economy.

While still in a position of pricing power, steelmakers are concerned that over time, their high prices will affect sales. "There will be impact on demand, and that is not a good development for the steel industry," said Aditya Mittal, chief financial officer of ArcelorMittal, on a separate conference call.

As a result, steelmakers are taking steps to cut their costs. To shield themselves from higher raw-material prices, more of them are acquiring their own iron-ore and coal mines or deposits, as well as producers of scrap steel. Nippon Steel Corp. and other Japanese steelmakers announced this month that they would accelerate cost-cutting efforts, which could include layoffs and developing cheaper steel substitutes.

The industry is also consolidating, which should allow producers to become more efficient and gain economies of scale that could ultimately result in more pricing stability and fewer, larger players. In recent months, India's Tata Steel Ltd. and Essar Steel Holdings Ltd. have made major acquisitions, as have

Russia's Evraz Group SA and Sweden's SSAB Svenskt Stål AB. Even so, the world's top-five steelmakers still account for just 18% of the world's steel supplies.

Some steelmakers also are experimenting with ways to make their products less expensive, in an effort to keep customers from switching to less-expensive substitutes like aluminum or high-strength plastics. Finnish stainless-steel maker Outokumpu Oyj, which makes steel for appliances, has come up with a way to reduce the nickel content of its stainless steel to make it cheaper.

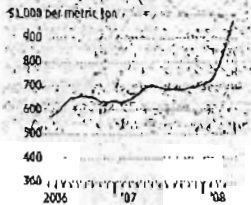
But until such changes take hold, steel prices will likely continue to increase. "I think steel prices will continue to increase and then will stabilize at the end of the year," said Jim Forbes, of the Global Metals team for PriceWaterhouseCoopers.

Builders recently warned officials in Turkey, which rests in an earthquake zone, that rising steel prices have prompted some contractors to use cheaper, inferior-grade steel, threatening the quality of their buildings.

China used to be a huge exporter of steel but as its own needs grew, it pulled back, sending a shock wave through the industry. In April 2007, China exported an annualized 96 million tons of steel but by February of this year, that annualized rate has dropped to about 38 million tons. "We believe this annualized 50 million withdrawal from

### Red-hot steel

Global carbon-steel products composite prices, monthly.



Note: Composite prices are a weighted average of the low transaction values for all carbon-steel products in the flat & long categories classified in the EN, A52 and North America.

Source: MEPS International

world markets has created a steel shortage particularly in emerging markets," says HSBC metals analyst Daniel Kang.

Some nations, meanwhile, are hoarding steel by erecting export barriers. Last week, India imposed a 15% duty on exported steel. Countries that don't make enough of the metal are slashing import taxes in an effort to attract more. Last month, Iran announced it was lowering its import tax on rebar steel, used in new buildings and roads, to 9% from 20%.

The impact of high steel prices is rippling through industries from shipbuilding to energy exploration. Shipbuilders, who buy vast quantities of high-end plate steel are getting hammered, and analysts say steel-supply problems are slowing the pace of construction, especially at smaller shipyards like South Korea's Daewoo Shipbuilding & Marine Engineering Co.

In April, an executive of Royal Dutch Shell PLC told a U.S. House committee that steel, which is needed to make drilling equipment and pipelines, and other raw-material costs were hampering efforts to find new energy sources. These costs "are a major challenge for oil and gas companies and are contributing to the delays and postponements of many projects," according to Cambridge Energy Research Associates, a leading energy-research company.

Cellphone users could eventually feel the pinch. Eric Steinmann, development manager at wireless carrier NTCB Inc., which operates under the Clear Talk brand, says steel costs for each of the about 100 cellphone-tower poles his company builds annually doubled to about \$30,000 last year.

Last month, ArcelorMittal took the unusual step of telling all its North American contract customers that they would have to pay a \$250 surcharge on top of their already negotiated prices. Its customers, including U.S. auto makers, balked but they have few other options. Robert Griggs, owner of Missouri-based Trinity Products Inc., a maker of steel pipes, tubes and rebar for bridges, said he tells his customers he can only guarantee prices for two weeks. Last year, it took six months for steel prices to rise \$100 a ton, he said. Now, prices are moving that much in a month.

Shifting to lower cost materials isn't an easy option for steel buyers, either. It takes years to retrofit auto and appliance stamping and dye machines, currently engineered for steel products. Also the cost of alternatives, such as aluminum and certain plastics, is increasing.

# Heard in Asia

By Gordon Fairclough

## Coal producers could feel a chill if Beijing tries to ease price rises

**S**hanghai  
IT WOULD SEEM a good time to invest in China's coal producers. Coal prices have jumped this year as the demands of China's voracious economy have outstripped miners' ability to supply the stuff.

But, some analysts say, the Chinese government's worries about soaring inflation could start eating into coal-mining profits soon, if Beijing moves to ease coal-price increases even as miners contend with rising costs.

Last week, HSBC mining analyst Sarah Mak, for example, downgraded

shares of China Shenhua Energy, the listed arm of the country's largest coal producer by output, to "underweight" from "overweight." Ms. Mak expects the share price of China Shenhua to decline more than 30% over the next year.

Monday, China Shenhua's Hong Kong-listed shares closed at HK\$37.70 (US\$4.84).

Ms. Mak's 12-month target is HK\$24.50, or 35% lower. China Shenhua also has shares traded in Shanghai, where they closed Monday at 46.64 yuan (US\$6.65)—compared with her target of 29.40 yuan.

Ms. Mak says one of the biggest risks facing China Shenhua and other coal miners is that the government, which lifted price controls on coal in 2002, will move directly or indirectly to stabilize prices.

Measures could include allowing larger numbers of smaller mines—many closed because they were deemed unsafe—to reopen in order to boost supplies and altering the tax regime for coal companies. Local authorities in China's coal-mining areas report that mines are already being put back into operation. Other energy sectors, such as oil and power generation, have seen a reimposition of price caps and windfall-profit taxes.

Not all analysts are taking a bearish view. Ha Si, a Beijing-based coal analyst at Cinda Securities, says that, barring a sharp slowdown in the Chinese economy or a marked drop in oil prices, demand will keep prices

up and ensure a "good, short-term" outlook for publicly traded coal companies.

Thomas Wrigglesworth, a metals-and-mining analyst at Citigroup in Hong Kong, says that while a reinstatement of government price caps on coal remains "a risk," he doesn't think it is likely. Instead, the government is encouraging more coal production and looking at other ways to ease the pain for electricity companies, which use coal to produce power.

"The government doesn't want to get involved in setting prices" in the coal industry, where the rate of contract sales

price increases has been relatively restrained anyway, Mr. Wrigglesworth says. But he says the government could decide to raise taxes on the industry, such as a "sustainable development tax" now being levied to offset the pollution costs of coal.

In February, Mr. Wrigglesworth downgraded China Shenhua to "sell"

from "hold." He contended that investors were "putting too much weight" on the potential benefits of the company's acquiring assets from its parent, state-owned Shenhua Group, which owns more than 70% of China Shenhua. That pushed up the share price, so the company is trading at a substantial premium to rivals.

Unusual February weather of snow and ice, which blanketed parts of China used to mild winters, contributed to serious disruptions in the supply of coal to power stations. Inventories at the stations were low before the storms, as the operators had run down inventories in the hope that they would be allowed to raise power prices.

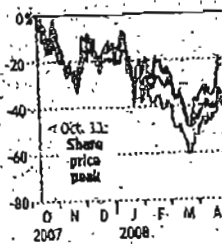
Spot coal prices leapt by about 50%. And government industrial planners ordered many inactive coal mines—which had been closed in the previous year for safety violations and other reasons—to restart production. HSBC says that coal inventories at electricity generators have returned to normal levels.

Ms. Mak, the HSBC analyst, is

Please turn to next page

### SHARE PERFORMANCE\* SINCE OCT. 11 Coal stocks

- Yanzhou Coal Mining, down 22%
- China Shenhua Energy, down 35%
- China Coal Energy, down 40%



\* In Hong Kong trading  
Source: Thomson Datastream

TUESDAY, APRIL 29, 2008 THE WALL STREET JOURNAL

## China's coal stocks may feel chill

Continued from previous page  
forecasting that spot coal prices will fall about 20% in coming months, resulting in a 25% spot-price increase for all of 2008 from last year. She is predicting 5% annual price increases in both 2009 and 2010.

Yanzhou Coal Mining, shares of which trade in Hong Kong and the mainland, stands to benefit relatively more from this year's surge in spot prices, as the company has more exposure to spot coal prices than its main listed competitors, China Shenhua and China Coal Energy. Those companies are selling most of their coal this year under supply contracts negotiated in 2007, before the spot price jumped. Some contracts allow for flexibility in pricing when spot prices jump.

Ms. Mak started coverage of Yanzhou last week with an "overweight" rating. But Mr. Wrigglesworth of Citigroup downgraded Yanzhou shares to sell from hold in mid-February, saying that any benefits from higher spot prices would be offset by rising costs and production constraints.

Yanzhou's mines tend to be older than those of its rivals and further along in their life spans. Finding new supplies or adopting more sophisticated mining techniques to recover remaining coal in its aging mines could prove expensive, Mr.

Wrigglesworth says.

The other big listed coal miner, China Coal Energy, is rated "neutral" by Ms. Mak, while Mr. Wrigglesworth upgraded it to "buy" this month, when the company said it expected an increase in the proportion of its contract sales that will be adjusted to reflect higher spot prices.

Ms. Mak and Mr. Wrigglesworth agree that rising production costs threaten to erode profits at China's coal miners. As companies look to expand production by opening mines in more remote parts of China, their profit margins could suffer.

Li Dagang, an analyst at Essence Securities in Shanghai, says he believes the government is more likely to subsidize power producers than to take steps to push down coal prices. Among the coal stocks, Mr. Li prefers China Shenhua and Yanzhou.

Wu Jian, a manager in the investor-relations department of China Coal, said the government "hasn't intervened to control prices in recent years," and he predicted that current caps on electricity rates wouldn't depress coal prices. He said he didn't expect China Coal to lower prices.

An investor-relations official at Yanzhou said the company, too, has no plans to reduce the prices power producers pay for its coal.

—Bai Lin  
contributed to this article.

## Supply shortfalls buffer slowdown for mining firms

By Robert Guy Matthews

The world's largest mining companies have been hamstrung by several recent unrelated events, including huge power disruptions, floods, equipment shortages and strikes that have constrained supply and signaled continued price escalation.

Prices for aluminum, coal, platinum and other minerals are flirting with 10-year highs. While sustained strength in metal prices has been largely attributed to demand in China and other developing countries, the recent flare-up has more to do with unforeseen constraints in supply.

In many ways, the tight supply situation is shielding mining giants in the short term from the impact of the weakening economies in the U.S. and other developed countries. But it also threatens long-term profit if revenue falls too low.

"Markets remain very strong and the prices of many of our products are at record highs, bearing out our view that the U.S. slowdown will have little effect on global metal and mineral supply and demand balances," according to Tom Albanese, chief executive officer of Rio Tinto, which along with BHP Billiton expect rising profit in the second half of 2008.

Moreover, avenues for ramping up production are narrowing, portending high prices for years to come. In an effort to stem its growing pollution problem, China is shutting down some of its power plants that turn iron ore into steel or bauxite into aluminum. In mineral-rich southern and South Africa, mandatory power outages are interrupting huge mining operations. State power supplier, Eskom, has said it won't be able to provide full power to key commodity producers of aluminum, manganese, platinum and gold for at least the next several years.

In the short term, this is good for mining companies, says Shamim Mansoor, mining analyst for HSBC. But in the long term, investment in future growth is being squeezed out because of power uncertainty. "It may be good for the commodity price now," she says, "but companies in the future are not going to want to invest when they are not guaranteed that they will get the power that they need."

Both BHP and Rio have suspended or ended entirely projects that they planned to bring online to increase supply.

Last month, BHP said that because of power-supply problems in Africa, it was shutting down most operations at an aluminum smelter, Bayside, while reducing operations at two other of its smelters nearby. In total, BHP said that it was likely to lose 120,000 tons of production annually, about 10% of its regular output. In these tight commodity times, a 10% reduction does make a difference.

Additionally BHP said that the company's manganese operation, Samancor, is operating at 90% of peak power. And its coal operations have also been affected. "We understand that the power reductions are likely to last for a number of years," said a BHP spokesman.

Cyclones and power outages in Western Australia caused some lost production of iron ore. The coal fields in Australia's Queensland were flooded so severely that many mining companies in the area couldn't produce and ship coal for weeks.

## Baoshan Iron & Steel Co.

Baoshan Iron & Steel Co. said first-quarter net profit rose 16% from a year earlier, boosted by higher steel-product prices and lower financing costs. The company—the listed unit of Shanghai Baosteel Group Corp., China's biggest steel producer by output—said its net profit in the quarter was 4.26 billion yuan (\$607.7 million), up from 3.68 billion yuan. Revenue rose 9.4% to 47.03 billion yuan from 42.98 billion yuan.

### Nippon Steel Corp.

Nippon Steel Corp. said its annual net-profit grew 1.1% due to proceeds from asset sales, but it expects soaring costs for key raw materials such as iron ore and coking coal to weigh on earnings this fiscal year. Japan's leading steelmaker by output and sales said net profit for the year to March 31 was 354.99 billion yen (\$3.4 billion) compared with 351.18 billion yen a year earlier. A special profit of 41.4 billion yen from land-asset sales helped offset higher raw-material costs. Annual sales rose 12% to 4.827 trillion yen from 4.302 trillion yen. For the current fiscal year, Nippon Steel forecast a 41% decline in net profit to 210 billion yen and a 36% fall in operating profit to 350 billion yen. It expects 5.4 trillion yen in sales, up 12%.

**STEEL****Costs rise at Nippon Steel amid rally in commodities**

**N**IPPON STEEL Corp. said the cost of making its steel products will increase by about 30,000 yen (\$290) a metric ton this fiscal year, suggesting the company will raise its prices sharply.

Passing the full increase through to customers would increase the average price of the company's steel products

by 38%, from 80,000 yen a ton in the fiscal year ended in March. A spokesman wouldn't say how big an increase the company will seek.

The rising cost of raw materials and shipping has pushed up production costs.

*-Kazuhiro Shimamura*

## LEADING THE NEWS

# Coal contracts squeeze Japanese firms

*Manufacturers agree to more than double how much they pay*

By **KENNETH MAXWELL**  
AND **HIROYUKI KACHEI**

**TOKYO**—As raw-material suppliers continue to flex their pricing muscles, Japanese steel and power companies agreed to pay two to three times more for the coal they need to make their core products.

With coal demand bulging and supply tight, not only will the new deals squeeze profits at steel and electricity producers, but they are also likely to pressure manufacturers to find new ways to cut costs.

Rising material prices could also fuel inflationary pressure as the Japanese government struggles to find ways to fire up sluggish growth in the world's second-biggest economy, observers said.

Japan's three biggest steelmak-

ers—Nippon Steel Corp., JFE Holdings Inc.'s JFE Steel unit and Sumitomo Metal Industries Ltd.—agreed to accept Australian miner BHP Billiton Ltd.'s offer to supply coking coal at \$300 a ton for fiscal 2008, up from \$94 a ton.

Separately, influential power producer Chubu Electric Power Co. agreed to pay Swiss mining firm Xstrata PLC \$125 a metric ton for ton supply of Australian thermal coal this fiscal year, according to people familiar with the situation. That is more than double the \$55 a ton Chubu paid the previous year.

The price Chubu pays is widely used as a benchmark for Japan's utilities and will likely affect price talks between other miners and utilities. A Chubu spokeswoman declined to comment.

"The price hikes mean less profits for businesses, meaning another negative impact for the Japanese economy," said Seiji Shiraishi, chief economist at RSCB Securities in Tokyo. "It also strengthens momentum for inflationary pressure on fin-

ished goods."

The new contracts underscore how the mineral and mining sector is making the most of its pricing power. While steelmakers race to meet growing demand from rapidly industrializing countries such as China and India, supply has been constrained by a temporary ban on Chinese coal exports and by bad weather and infrastructure bottlenecks to Australia.

Coupled with increases of more than 65% in iron-ore prices already slated for this year, the higher coking-coal price will drag on steelmakers' profitability.

A spokesman for Nippon Steel said it estimates the Japanese steel sector will have to shoulder an additional three trillion yen (\$28 billion) this fiscal year from price increases in coal, iron ore and other materials. Nippon Steel last month scrapped its forecast for record earnings for the fiscal year ended March, predicting instead its first decline in net profit in five years.

As they pondered how steel com-

panies may pass costs on, key steel consumers were cautious. A spokeswoman for Toyota Motor Corp., Japan's biggest auto maker by sales, said that it doesn't comment on negotiations with suppliers and that higher steel prices wouldn't automatically mean higher car prices.

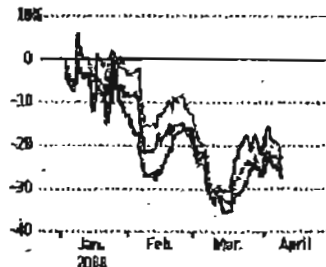
Toyota President Katsuaki Watanabe said last month that "we're currently in very tough negotiations with our steel supplies.... We're trying hard to offset this pressure from raw materials through improved efficiency." But the company has also said it may have to find other ways besides cost cutting to compensate for higher input prices.

Meanwhile, a spokeswoman for auto maker Nissan Motor Co. said it had no comment on the higher coal prices for steelmakers. But in a hint at one possible cost-absorption strategy, she said that in other cases where costs had changed rapidly, such as the strengthening yen, Nissan had offset the effects by shifting manufacturing and purchasing to other regions.

## Japanese steel stocks

Year-to-date performance:

— JFE Holdings, down 21%  
— Sumitomo Metal Ind., down 23%  
— Nippon Steel, down 28%



Source: Thomson DataStream

The auto industry is far from alone in feeling the heat from rising steel costs. On Wednesday, midsize Tokyo-based building company Obayashi Corp. cut its prediction for group net profit prediction for the fiscal year 20%, citing an industry slowdown exacerbated by higher prices for construction materials.

—*Mari Iwata, Jay Alabaster and Takashi Mochizuki in Tokyo and Alex Wilson in Melbourne contributed to this article.*

## FOODNEWS

### news briefs

#### Pineapple scheme delay

DOLE Philippines Inc (Dolefil) has halted its pineapple plantation expansion project in General Santos City, pending the resolution of the alleged row involving the land covered by the company's lease contract, reports SunStar General Santos. Dolefil had started to plant pineapples in the villages of Sinawal and San Jose, but was stopped by its vice president and managing director, Kevin Davis. In a statement, Davis said that Dolefil is still interested in the expansion programme, but have decided to put the project on hold out of respect for the ongoing investigation by the city council, adding that Dolefil will not insist on expanding in areas where "we feel our investments are not welcome."

#### Carrefour Thai tuna deal

CENCAR CO, the Thai division of retail giant Carrefour, is to sign a Memorandum of Understanding (MoU) with the country's ministry of commerce to increase sales of Thai products through Carrefour by 20-30% within a year. According to Info-fish, the export promotion unit of the ministry will help Thai tuna packers in improving quality to meet Carrefour's standards. Other products included in the programme are pet food and Thai rice. CenCar will export Thai canned tuna, canned fruit and instant noodles to 52 Carrefour outlets in Belgium this year.

#### Baby milk withdrawn

NESTLE has withdrawn 250 shipments of baby milk powder from South Africa, Botswana and Zambia, due to defects in the mixture. The problem batch of Lactogen 1, produced in South Africa, had been found to contain overly high amounts of zinc, copper and iron. "A technical fault in the equipment resulted in a wrong proportion of the mix," a Nestlé spokeswoman told AFP. "The problem is resolved and the product has been recalled. Boxes which are still in the factories and warehouses have been blocked."

# High raw material price will be reflected in canned offers

BY MARIA IU

**THE pineapple situation in Thailand remains in tight supply, with prices going nowhere else but up, according to sources in the Far East.**

According to a source based in the region, fruit supply has been poor thus far this year, with raw material prices going up to THB6.50-7.00/kg at the end of February. However, the past week has seen a slight recovery in supply, with prices adjusted accordingly to around THB5.50-5.70/kg, although, this is still considered on the high side. "The thing to watch out for now is how long this THB5.50-5.70/kg price will stay," remarked one packer. "Pricing and costing are very sensitive and fragile right now."

Furthermore, the Far Eastern source also pointed out that very

strong demand is keeping the supply situation tight. "EU and Russian markets are very active and purchased a lot of slices during the last couple of weeks, which created competition in buying fruits while the supply is still limited," he noted.

The surge in uptake from these two very big markets effectively means that A2.5 standard slice product is now completely sold out in Thailand, he added. This is not just due to raw material supply, it seems:

"The problem is that the tinplate for this particular can size is short in Thailand due to unexpected large demand by all packers during the last six months."

Adding in this is very much the same story throughout the whole of last year: the rising cost of production for packers, namely fuel and tinplate, and also the continuous appreciation of the Thai baht against

the dollar: the exchange rate is currently at THB31.50 to US\$1.00, and may surpass the THB31.00-mark in the near future, the Far Eastern source predicted.

On 3 March, the Thai central bank lifted its overseas capital control of 30% – a policy that, in part, aimed to maintain the competitiveness of Thai exports by restraining the value of the currency, through curbing the amount of foreign money going into the country. The removal of this measure could lead to further strengthening of the baht.

#### Smaller crops

In addition, the source thought that crop sizes also needed to be revised downwards: one big contributing factor is that the yield has been lower, caused by lower use of chemicals and fertilisers as growers struggled with the rising costs, as well as a shortage of workers.

In light of these issues, packers seem to have little choice but to raise the price for their end products, as FOODNEWS' sources explained. The Far Eastern source quoted A10 product, in pieces, at US\$17.00/carton 6x A10, FOB, while the packer thought it was more similar to US\$13.00-14.00/carton the same product and shipment terms.

## Quota may supplant tuna agreement

THE Philippines and Indonesia have been in talks to renew their bilateral fishing agreement, according to the local press, amid reports that Indonesia is no longer allowing tuna caught in its waters to be transported to the Philippines.

Bayani Fredeluces, executive director of the Soeksargen Federation of Fishing and Allied Industries, told SunStar General Santos that the federation had not yet received official notification that Indonesia is banning the transport of tuna caught in its waters. He added that Indonesia is still not capable of adequately processing tuna products on its own, due to a lack of facilities.

Further negotiations regarding the bilateral agreement have been scheduled for May, when the two parties are expected to make a decision: Indonesia's stance regarding the transport issue should be clearer then.

Tuna processors from General Santos City have been sourcing sig-

nificant volume of tuna from international waters, particularly in Indonesia.

The five-year bilateral agreement signed between the two countries ended in December 2005, and was extended until the end of 2006. Under the agreement, Philippine tuna fleets were allowed to "catch tuna and tuna-like species within the Indonesian Exclusive Economic Zone." It provided licences to the Philippines for 75 catcher vessels, 150 fish carriers, 20 long liners, 300 light boats and 10 single purse seiners, allowing them access to the Pacific and Indian Ocean areas of the Indonesian EEZ.

According to Marfenio Tan, one of the Philippines' largest tuna producers, the Indonesian government may also consider a quota system as a replacement of the bilateral agreement, where 70% of the fish caught in Indonesian waters will remain in the country while the rest will be allowed to be transported to the Philippines.

## Parmalat recovery

PARMALAT Group has announced a significant increase in profits for 2007.

Net sales revenues reached €3.86 billion, up 6% from 2006: including Italy at €1.15 billion (+13%), other parts of Europe at €152.2 million (+15%), North America at €1.40 billion (+1%), Africa at €354.1 million (+3%), Australia at €446.7 million (+7%), and Central and South America at €366.1 million (+9%).

Net profit grew 245% to €674.4 million compared with €195.4 million in 2006.