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## AUTOMOTIVE

### Japanese car firms face rocky sales

Conditions have improved in China for Japanese vehicle producers, which saw their sales slump amid the Diaoyu Islands dispute in 2012, but the Japanese companies are still facing tough challenges in regaining market share. Honda Motor said its March sales in China dipped 2% year-on-year to about 60,000 vehicles, following a 31% surge in the first two months. The company attributed the decline to delays involving two upgraded models produced by its joint venture with Guangzhou Automobile Group, which itself reported a sales drop of 13% in March. The company aims to deliver 900,000 Honda vehicles in China this year, which would be up 19% from last year. Nissan Motor's sales accelerated 26% year-on-year in March, compared with 18% in the first two months. Sales were supported by the launch of an upgraded sport utility vehicle (SUV), the fastest-growing sector in China. The leading Japanese automaker, Toyota Motor Corp, said that sales in March jumped 19.1% year-on-year to 90,400 vehicles. First-quarter sales surged 23.4%. Toyota's sales have increased year-on-year for seven consecutive months. Toyota has set a sales target of 1.1 million vehicles, including its premium-branded Lexus, in China this year. That would represent growth of 19.9%. But generally, Toyota is losing ground to other foreign vehicle makers in China. Last year, Toyota didn't even make the top five in sales. According to the China Association of Automobile Manufacturers (CAAM), Japanese vehicle producers' combined market share increased to 13.4% in February from 11.9% a year earlier, the China Daily reports.

### Beijing mulls tax waiver and more subsidies for green cars

The central government is mulling further incentives to boost the use of new energy cars by waiving the purchase tax and extending a subsidy program, Vice Premier Ma Kai said in Shenzhen. "The development of new energy cars is an important issue for the country's energy safety, air pollution control and the car industry," Ma told delegates attending a conference. He said the government would consider the purchase tax exemption, while the subsidy program could be extended beyond next year. More subsidies for hybrid buses and providing them with fuel subsidies would be studied further, he said. The government would also accelerate the building of charging stations. The Ministry of Finance renewed the green car subsidy program in February with subsidies cut by 5%, less than the previously planned 10% cut. The subsidies will be cut by a further 10% next year instead of 20%. Other incentives, such as unifying insurance premium rates for new energy cars, the reduction of toll charges and imposing emission surcharges to spur investment in electric vehicle development, were under consideration, Ma said. Protectionism in the guise of promoting locally-produced cars would not be permitted. John Zeng, Director at consultancy LMC Automotive, said local protectionism was the major obstacle to promote the usage of new energy cars. Shenzhen-based BYD's approval in February to sell electric vehicles in Beijing and Shanghai could be seen as a sign to eliminate local protectionism, he said.

### Jaguar Land Rover: Five debuts in Beijing

British automaker Jaguar Land Rover launched five models at the 2014 Beijing International Automotive Exhibition from April 20 to 29, showing its emphasis on the Chinese market. The newly released models will be the Jaguar F-TYPE Coupe, Jaguar XF Sportbrake, Land Rover Discovery Vision concept, Range Rover Hybrid and Range Rover Sport Hybrid. The Jaguar brand also celebrated its 10<sup>th</sup> anniversary in China with its Brand Ambassador David Beckham attending a gala on April 19, the eve of the Beijing Auto Show. The Range Rover Hybrid and the Range Rover Sport Hybrid models deliver outstanding fuel economy by significantly lowering CO2 emissions by 26% to 169g/km. Jaguar Land Rover's sales in China have grown robustly in recent years. In 2013, it sold 95,237 units in China, a 30% increase over the previous year. China is now the largest market for the company. To meet rising demand, the automaker established a joint venture with China's Chery in November 2012. The 50-50 joint venture has an assembly plant in Changshu, Jiangsu province, scheduled to be operational in the fourth quarter of this year.

### China has most billionaires on Car Industry Rich List

China has 11 billionaires – the most – in the global auto industry, according to the report "Richest People From the Car Industry 2014" by the Hurun Research Institute. Wei Jianjun, Founder and Chairman of Great Wall, leads the Chinese billionaires on the list. Globally he is

ranked fifth with a fortune of USD7.6 billion. He also holds the title as the world's richest self-made car entrepreneur. He is followed by Lu Guanqiu and his family of Wanxiang Group, the biggest auto parts maker in China, with USD4.5 billion. Lu acquired Fisker Automobile earlier this year for USD25 million and bought the U.S. lithium battery producer A123 last year. Wang Chuanfu, Founder of new-energy carmaker BYD, ranks third among Chinese billionaires on the list with USD4 billion. Germany and the U.S. tie for second place with eight individuals. Japan, despite its strong auto industry, surprisingly does not feature in the world's auto billionaire club, whose average fortune is USD3.75 billion. The top three on the list, Susanne Klatten, Stefan Quant and Johanna Quantare, all come from Germany's BMW of which they own nearly half. Elon Musk, Founder and CEO of electric carmaking startup Tesla, is the fastest riser in the auto industry. His wealth surged 3.4 times to USD6.6 billion last year, putting him at No 7 on the list.

## Wealthy Chinese flock to Beijing Auto Show

China's desire for luxury cars remains undimmed by an economic slowdown and political austerity drive. In a lavish event off Tiananmen Square, ahead of the opening of the Beijing Auto Show on April 19, models dressed in haute-couture graced the unveiling of Rolls-Royce's Pinnacle Travel Phantom, the South China Morning Post reports. Mainland China is already Rolls-Royce's biggest market in terms of sales, representing 28% of the company's revenue. "If you compare to Rolls-Royce growth figures we saw here two or three years ago, big double-digit numbers, we see that growth is slowing down, but I am still optimistic about the Chinese market in the medium to long term," Rolls-Royce CEO Torsten Muller-Otvos said. Still, the austerity campaign has had some impact on the sales of super-luxury vehicles, said James Wu, Auto Expert at Ernst & Young. Bentley and Lamborghini reported fewer sales in China last year. However, Wu said the "more affordable" luxury cars have outpaced the growth rate of the auto industry as a whole, with three German companies at the helm: BMW, Daimler and Audi. The popular trio dominates the high-end Chinese market and enjoyed sales increases of 20% (BMW), 18% (Daimler) and 21% (Audi) last year. Audi, the sector leader, sold nearly 492,000 cars in China – its biggest market – and will this year surpass half a million, according to Audi Chairman Rupert Stadler. "In the past, our customers were very much associated with the government, we had a majority of senior management," said Dominique Boesch, President of Audi's Sales Division in China. "Now, over 90% of Audi customers are private ones, a third are women, and 70% are younger than 40 years old." Audi also plans to enter China's green car market with its plug-in hybrid. Two models in Audi's A-range, the A6 and A3, would be the first plug-in hybrid vehicles the German carmaker planned to put on China's roads. The cars would be locally produced with Audi's Chinese joint venture partner FAW Group.

Japan's Nissan has announced the introduction of a compact cross-over model exclusively for the Chinese market. China was the leading market for Land Rover and Jaguar last year, said Sales Operations Director Andy Goss. Carmakers were also eyeing China's green car market. China could become the largest electric car market within five years if the central government continued its incentives, including subsidies for buying green cars, and if there was a proliferation of charging stations, Andy Palmer, Nissan's Chief Planning Officer said at the Auto China show in Beijing. The Japanese carmaker this year introduced its Venucia electric car, a brand produced with its Chinese joint venture partner Dongfeng Motor. Palmer said Nissan was bullish about the Chinese market because of the growing urban population and concerns over pollution. Any technology is expensive in the beginning and this is one of the difficulties facing electric vehicle development, he said. Developing a charging station network was another difficulty that would need government support, he said.

A total of 1,134 car models are being displayed at the show, of which 79 are new-energy vehicles, according to the organizer. The BMW i3 all-electric car also attracted many visitors during a media preview. New-energy car sales for Chinese electric car maker BYD were robust in the first quarter. More than 1,000 units had been sold since BYD received approval to launch its electric cars in Shanghai in February. However, growth in manufacturing capacity was lagging behind the increase in demand, limiting sales growth, a representative said. BYD's joint venture with German carmaker Daimler is also ready to launch an electric car in China under the Denza brand in September.

Among those showcasing new cars at the Beijing car show, BMW unveiled its "Vision Future Luxury" concept car to gauge the opinion of Chinese customers. Ian Robertson, BMW's Board Member responsible for sales and marketing, said in Beijing there were a number of new technology elements in the car and the company would take into account the views of Chinese

customers. Other than the concept car, BMW displayed its i3 all-electric car at the show and will also introduce its i8 model to the Chinese market within months. Unveiling the Q50 Eau Rouge prototype car at the Beijing car show in its Asia debut, Infiniti, the luxury brand under Japan's Nissan, is targeting young-minded premium customers in China, said President Johan de Nysschen. Infiniti's China sales in the first quarter grew by 150%, and de Nysschen said he expected sales to continue to accelerate after the launch of the Q50, while the QX50 sport utility vehicle (SUV) would also be launched later this year.

### Volvo expects China to become its largest market in 2014

Volvo Car, the Swedish luxury carmaker owned by Zhejiang Geely, said it expects China to surpass the United States as its largest market this year. Volvo would probably outpace the estimated 20% growth in China's luxury-car sales this year and deliver at least 80,000 vehicles in the country, it said. The carmaker will also make the XC Classic, a Chinese variant of the XC90 that will cease production in Sweden this year, at its plant in Daqing. Globally, Volvo plans to sell 800,000 vehicles by 2020, up from 427,840 vehicles last year. First-quarter sales rose 9.5% from a year earlier to 108,170 vehicles, pushed by a 25% jump in China. The Swedish carmaker displayed a plug-in hybrid version of the long-wheelbase S60 at the Beijing Auto Show. The vehicle will go into production next year at the firm's plant in Chengdu, which started making the S60L late last year. Volvo is preparing to present a revamped XC90 sport utility vehicle (SUV), its first model engineered under Chinese ownership, this year. The car will feature a touch-screen display using Apple's CarPlay communications system.

### SUV the first model by new Dongfeng Renault venture

Local production by Renault will begin in the first half of 2016 at its joint venture with Dongfeng, with the first model to be an all-new SUV, Jacques Daniel, President of Dongfeng Renault said. The Sino-French joint venture Dongfeng Renault Automobile Co was established at the end of 2013. "The first product will not be any model that Renault produced before, it will be a Chinese car for sure, as more than 85% of the components will be made in China", Daniel added. The joint venture is confident about its future, he said, although it is only licensed to produce SUVs at the beginning although the JV would ask to obtain other licenses. Statistics from the China Association of Automobile Manufacturers (CAAM) show that 868,400 SUVs were sold in China in the first quarter of 2014, up 37% from a year ago. The overall passenger vehicle market increased just over 10%. The joint venture plant currently under construction has a designed production capacity of 150,000 units a year in the first phase, Daniel said. Renault announced that to improve efficiency, it will use a unified brand image, sales network and product positioning for both imported and locally-built models in China. "The imported car business has been integrated into Dongfeng Renault, which aims to maximize the benefit of the joint venture," said Hu Xindong, Vice President of Dongfeng Renault.

### FAW to sell electric vehicles in China's most polluted cities

FAW Group, China's third largest carmaker, hopes to sell several thousand electric vehicles by next year, especially in cities choked by smog, after launching models at last month's Beijing Auto Show. "We will first target cities that are under the greatest pressure to cut air pollution, particularly those that have set limits on new non-electric car licenses," Dai Dali, General Manager of the Changchun-based firm's new energy vehicle unit, told the South China Morning Post. They include Beijing, Tianjin, Shanghai, Hangzhou and Guangzhou, where buyers have to bid or join a lottery to obtain a car license. Shenzhen is also a prime target as it has one of the nation's biggest networks of recharging stations and policy backing for electric vehicles, while Chongqing and Chengdu's large market size is also attractive to FAW, Dai said. Philip Securities Analyst Zhang Jing said in a research note that the "no-queue" license plate policy for electric vehicles is equivalent to a large "invisible subsidy". FAW, a 60-year-old state-owned carmaker formerly known as First Automobile Works, spent about CNY100 million in 2010 to build a production base for electric vehicles with an annual output capacity of 20,000 cars. Since production started in 2011, it has made about 300 cars on a trial basis. They have been used as taxis and government vehicles, mainly in China's northeast where coal consumption is at its highest. Sales of new energy vehicles have been constrained by lagging construction of battery recharging infrastructure. To build its market presence, FAW is providing subsidies to some users to set up battery charging facilities where they live, the South China Morning Post reports.

C.C. Chan, President of the World Electric Vehicle Association, projected the share of all-

electric and plug-in hybrid vehicles in China would rise from 2% between now and 2020 to between 10% and 15% in the following decade. Until 2020, the key targets would be buses, taxis, logistics vehicles and small utility vehicles, while mass adoption of private electric cars was not expected until the following decade, he told the China International New Energy Vehicle forum last month.

### Scania competes to cut fuel consumption and boost safety

Swedish truck and bus manufacturer Scania, hopes that its newest truck will boost its growth in the Chinese market. The Scania Streamline is optimized for low fuel consumption and features a new low-drag look and full air deflector kits. The trucks will be available in China this year and will come standard with the Scania driver support system. Peter Sjoblom, Managing Director of Scania (China) Sales Co, said market opportunities arise from China's fast pace of urbanization. Featuring a 13L Euro4 engine with outstanding torque-to-power ratio, Streamline delivers maximum torque from 1,000 r/min. Add to this the new low-drag gearbox and the backward exhaust outlet and the total fuel saving potential is as high as 15% compared to the previous generation.

More than 2,000 truck drivers were invited to participate in Scania driver competitions in Shenzhen, Wuhan, Harbin, Wuxi and Xiamen this year. The contests are the world's largest truck driving and training events and it is the third time they will be held in China. Drivers will use the Scania Streamline to compete in the event, which starts in June. The final competition will take place in Xiamen in August. The winner will get a cash reward and join winners from other parts of the world for a visit to Scania's global headquarters in Sodertalje, 30 kilometers southwest of Stockholm. The international competition aims to minimize the environmental impact of truck driving by increasing road-safety awareness and improving fuel consumption. More than 85,000 truck drivers from 40 nations hope to compete this year. Scania entered the Chinese market in 2004. It has established a market strategy center, after-sales, technical service, training and component supply departments in Beijing, Shanghai, Guangzhou and Xiamen, as well as 25 service outlets and 25 dealerships across the country, the China Daily reports.

### Nanjing sees rush to buy cars amid rumors of quota

Nanjing has seen a rush to buy cars recently because of residents' fears that a policy limiting car sales similar to Beijing's and Hangzhou's is on the way. The provincial auto management department offices in Nanjing have recently seen about 1,500 people a day – twice the usual number – applying for license plates. On March 26, Hangzhou, in neighboring Zhejiang province, created a controversy when it restricted the issue of new car licenses overnight – one day after the local government refuted the news that a license plate quota policy would be imposed. Five other Chinese cities – Shanghai, Beijing, Guangzhou, Tianjin and Guiyang – also have license plate quotas. Of the six, Beijing and Guiyang issue plates via a lottery procedure, while Shanghai employs a bidding system. Guangzhou, Tianjin and Hangzhou use both systems. Residents of Xiamen, Fujian province, and Zhengzhou, Henan province, have also heard about the possible restrictions on the issuing of license plates. Local governments of the two cities have denied any such plans. A Hangzhou official said any quota imposed immediately in the province would be illegal, and those involved would be punished.

### Skoda stepping out of VW's shadow

Skoda Auto expects to move out of parent company Volkswagen's shadow and compete as an independent brand in the Chinese auto market, said Chairman Winfried Vahland. The Czech brand's global sales in the first quarter rose 25% year-on-year to a record 250,000 vehicles. "The growth indicates that we should be able to have a more independent position at Shanghai Volkswagen," said Vahland. He made the remarks as Skoda unveiled the new Octavia on April 20 at the Beijing auto show. "We need a more independent, more powerful image to boost our popularity in the Chinese market, and Shanghai Volkswagen agrees on that," said Vahland. He added that Skoda will have an independent sales company when its annual sales in China reaches 500,000 units, a target the brand expects to achieve in 2018. China is now Skoda's largest market worldwide. A total of 227,000 vehicles were sold across the country in 2013. "We now have a 1.7% market share, which indicates that we are on the right track. Many experts estimate that the Chinese auto market will grow by around 10%. I hope our growth will not be lower than that," Vahland said. "We are confident that the new Octavia will be popular in China now that it has helped drive up our sales in Europe by 42% in

the first quarter this year.” The Octavia is Skoda’s most popular model, the China Daily reports. More than 680,000 units have been sold in China since its entry into the market in 2007. Skoda will introduce the new Superb and the new Fabia into the Chinese market in 2015, and probably also a larger SUV than its Yeti to meet the Chinese customers’ growing demand for SUVs.

## GM China sales growth slips

General Motors Co saw sales growth in China slow in April to their lowest level in 14 months. GM and joint venture sales in China rose by an annual 6.3% last month to a record 278,263 units. The Buick, Chevrolet, Cadillac and Wuling marques reached new all-time highs. Still, the increase was down from 12.6% in the first quarter and 11.4% in 2013. GM’s sales increase in April is likely lower than the industry average, which was forecast to be 10% by the China Passenger Car Association (CPCA). Volkswagen regained the top spot in the country from GM last year. GM had been No 1 for eight years. Combined China sales at Volkswagen and its two joint ventures surged 16.2% in 2013 to 3.27 million units, outpacing GM’s 3.16 million. In the first quarter, GM was the top seller in China, with 881,000 units. The company announced aggressive investment and growth plans at the Beijing Auto Show in April to help fuel momentum. “China has been GM’s largest market since 2010 – last year accounting for about one-third of our global sales,” President Dan Ammann said. He noted that China is expected to remain the company’s largest market well into the future. Ammann said capital expenditure in China by GM and its joint ventures will be about USD12 billion between 2014 and 2017. Some of the investment will fund the launch of more than 60 new and upgraded vehicles coming to market through 2018, with the focus on meeting growing demand for luxury vehicles, SUVs, multipurpose vehicles and smaller passenger cars. The investment also includes opening five new manufacturing facilities by the end of 2015; four vehicle assembly plants and one powertrain plant. With additional facility expansion between 2014 and 2020, GM China’s manufacturing capacity will be on track to increase by 65%, the China Daily reports.

## Short news

- Shanghai became the second city in the country after Beijing to introduce the China V emission standard for new vehicles starting from April 30. Beijing was the first to put the standard into effect in March 2013. Vehicles failing to meet the strict new standard cannot be sold and registered in Shanghai after May 1. Vehicles under the new emission standard will cut nitrogen oxide emissions by 25% to 43% compared to the previous standard. Shanghai will also ban about 120,000 yellow-label, or heavily polluting vehicles, on and within the Outer Ring Road starting from July 1.
- China’s passenger car sales still managed to live up to expectations in March with an increase of 9% from a year earlier to 1.59 million units, the China Passenger Car Association (CPCA) said. March saw relatively few new product launches. Sales volume in the first quarter went up 9.5% year-on-year to 4.6 million units. More than 70,000 vehicles were ordered in one day in Hangzhou after the local government announced car purchase restrictions on March 25. Panic buying will add at least 500,000 vehicle sales this year, according to the CPCA. In April, more than 300 new models were unveiled at the Beijing auto show.
- Malaysia awarded a manufacturing license to a USD618 million venture that will assemble fuel-efficient SUVs for China’s Great Wall Motor Co. The license was the first issued under the country’s new auto policy unveiled in January. Privately-owned Go Automobile Manufacturing will invest USD618 million over the next four years to expand its factory in northern Kedah state. It will have a production capacity of 100,000 vehicles by 2018, with 60% of the output to be exported to Southeast Asian countries.
- Hyundai Motor has begun building a new-energy vehicle research and development (R&D) center in Yantai, Shandong province. The center will develop the three core components of new energy vehicles – motors, batteries and electric controls – and carry out overall car design. With a planned total investment of USD290 million, the center plans an annual turnover of USD100 million. Hyundai will also build a fourth China plant in Chongqing with a designed capacity of 300,000 vehicles per year.
- Lentuo International, a Beijing-based retailer of Volkswagen and Toyota cars, said it is in talks to buy dealers to expand its used-car business. The company, which has a venture with Osaka-based Itochu, is in discussions with three to four potential targets,

said Founder and Chairman Guo Hetong. Used cars are typically in higher demand in smaller cities, where incomes are lower, while consumers in the larger cities prefer newer vehicles, he said. Demand for used vehicles in China is surging as its car market matures. Sales of pre-owned passenger vehicles are expected to climb six-fold to 36 million units by 2023.

- Dongguan Robstep Robot displayed the newest models of its motorized scooters, a Chinese version of America's Segway, at the Canton Trade Fair. Robstep uses technology imported from Taiwan. The business generated about CNY80 million in revenue last year.
- Ford Motor Co unveiled its premium brand Lincoln for the first time in China at a media gathering in Beijing, marking the carmaker's entry into the luxury market, which has grown enormously during the past few years. "But we still see significant growth left in the luxury market," said John Lawler, Chairman and CEO of Ford Motor China. China's luxury market accounts for 6% of the global market and this is expected to reach 9% in 2020, surpassing the U.S., with annual sales estimated to reach 2.7 million vehicles. Lincoln is starting in China with eight dealers in seven cities.
- A record number of motorists bid in April's auction for Shanghai license plates. Of the 9,000 car plates, 8,200 were offered to private buyers, up 800 from last month, but the number of bidders surged more than 50% from March to 94,241. The percentage of successful bids dropped to a record low of 8.7%. The surge in demand was driven partly by owners of out-of-town registered National IV emission standard cars, which will now not be able to obtain a Shanghai car plate as the National V emission standard came into force. The average price of a car plate rose marginally to CNY74,113.
- In the first quarter of 2014, Mercedes-Benz sold 64,115 units, increasing its passenger car sales in China by 47% compared to the same period last year, a growth rate that ranks highest among German premium brands in China. The S-Class model has been particularly successful with a 26% increase in sales in the first quarter of 2014. The carmaker also launched the CLA sport sedan at the Beijing Auto Show. The C-Class Long Wheelbase also made its debut. With nearly a dozen new models to be introduced through 2015, a strong product offensive will continue to play a key role in Mercedes-Benz' China strategy.
- Tesla Motors hopes to launch a nationwide charging and service network for its electric vehicles by 2015, CEO Elon Musk said in Beijing. Tesla will build solar-powered charging stations in Beijing and Shanghai this year and will add more stations across the country in the coming years, Musk said during his first public appearance in China. "We will make a big investment in China to make sure every buyer has a great experience," he said. The company's S model, equipped with an 85-kilowatt-hour battery, will be priced at CNY734,000.
- Despite the governments austerity drive, there is still room for the market of super luxury vehicles to grow. Currently, super sports cars occupied only about 0.1% of the passenger car segment, while the figure is 1% to 2% in Western countries.
- More than half a year since it began accepting orders from China, American electric carmaker Tesla made its first deliveries, as nine buyers in Beijing and seven in Shanghai received the key to their Model S from Elon Musk, Founder and CEO of Tesla. But at the same time, 23 customers protested the lack of charging infrastructure outside Beijing and Shanghai. Musk said Tesla would invest heavily in developing its own supercharger network in the country that can run on solar power and is independent of the state grid. Tesla Spokesman Simon Sproule said the company would not ship to customers in other cities until June, owing to a lack of service centers and charging tools.
- Bosch expects to continue its double-digit growth in China over the coming years. Last year, the German company posted 18% growth in China to pull in a combined revenue of CNY41.2 billion, making the country its second-largest overseas market. The sales figure includes up to CNY32 billion generated by its automotive business in the OEM supply and aftermarket, which grew 28% last year. The firm will open a new plant in Shanghai this year to localize the production of its latest turbocharging system co-developed with Mahle.
- With a joint venture plant in Changshu, Jiangsu province, set to start operation in the fourth quarter of the year, Chery Jaguar Land Rover (JLR) is aiming to become the "No 1 player" in China's premium car market – in product quality and customer

experience, Chris Bryant, President of the joint venture said. The JV will also have an R&D center focusing on powertrain systems.

- The Chengdu Economic and Technological Development Zone (CEDZ) in Longquanyi district has become an important production base for FAW-Volkswagen, FAW Toyota, Volvo and Geely. The zone is home to 17 vehicle manufacturers and about 290 related companies that are producing catalytic converters, glass, electronic components and tires. Chengdu produced 723,000 vehicles in 2013, up 86.7% from a year earlier. The aim of the CEDZ is to manufacture 1 million vehicles annually by 2016 and 1.8 million by 2020.
- China's private carmaker BYD Co posted a slump in first-quarter net profit of nearly 90% to CNY12 million compared to a year earlier, while revenue amounted to CNY11.7 billion, a drop of 9% from a year earlier. BYD, listed in Hong Kong and Shenzhen, has struggled to develop its green cars. It received a government subsidy of CNY98.4 million in the first quarter but cash flow from operating activities was a negative CNY1.1 billion.
- Vehicle leasing in China remains a largely untapped sector that lags far behind mature markets. Naeem Aftab, General Manager of NetSol Technologies, a company that provides asset finance and leasing software, said statistics from the China Leasing Union show leases of all kinds totaled CNY1.55 trillion in 2012, but only a meager CNY25.7 billion was in the auto industry. Wang Yong, General Manager of Tonbright Finance Leasing Co, said leasing accounted for 46% of total new car deliveries in the U.S. but less than 5% in China. The China Association of Automobile Manufacturers (CAAM) estimates the market size could reach CNY525 billion by 2015.
- In April BMW Brilliance Automotive announced the start of ZINORO 1E rentals. The car is the first electric vehicle made by a premium car manufacturer in China and the only premium new energy vehicle available for rent. The ZINORO brand was developed by BMW Brilliance to create cars tailored for the Chinese market. The cost of renting a ZINORO 1E is CNY400 a day or CNY7,400 a month for rentals of three years, with license plate registration, insurance and a package of services included. The first ZINORO showroom opened in February in Beijing's Sanlitun SOHO.
- Statistics from the China Association of Automobiles Manufacturers (CAAM) show that in 2013, China produced 14,243 electric cars and sold 14,604 units, which analysts said was mainly driven by the central government's subsidy policy for new energy cars. China's new energy car market is booming and saw an 87.5% surge in sales this year to 60,000 units, including hybrid cars, according to the Association.
- BYD has rolled out the first two electric buses from its factory in California. The 12-meter long battery-powered vehicles were delivered to the Antelope Valley Transit Authority in Los Angeles County, where BYD has its U.S. headquarters in the city of Lancaster. "BYD is the harbinger of things to come," said California Governor Jerry Brown, who toured the BYD factory. BYD Motors, which employs 60 people at its plant, expected its payroll to reach 100 by the end of this year and grow to 200 next year, Chief Executive Stella Li said.
- Honda Motors plans to double the number of car models it sells in China to about 20 over the next two years to try to capture market share from rivals such as General Motors. Honda also plans to source more parts made in China to keep costs low. In comparison, General Motors sells 40 models in China, and last year sold more than four times the number of cars than Honda sold.
- Sports carmaker WM Saleen, which was founded by former racing driver Steven Saleen, secured tens of orders during the recent Beijing Auto Show. The company only manufactures a limited number of cars. The Super S7's buyers will be invited to Los Angeles for a super car training course on a real race track for one week. The Super S7 can accelerate from 0 to 100 km in 2.4 seconds, 0 to 200 km in 6.5 seconds and 0 to 300 km in 14.5 seconds. The car is tailor-made for each individual consumer, who has to wait 12 months for delivery.
- German auto components and electrical equipment firm Bosch concluded its 2013 fiscal year with a record sales revenue of CNY41.2 billion in China, a significant growth of 18% from the previous year. Bosch's automotive sector grew almost twice as fast as the market in China in 2013. Last year, Bosch opened a plant for automotive after-market products in Nanjing, a chassis plant in Chengdu and an automotive test and technology center in Donghai, Jiangsu province. This year, its joint venture Mahle Turbo Systems opened a plant in Shanghai to produce turbochargers for gasoline



engines and a plant for diesel systems in Qingdao. Bosch currently has 17 technical centers in China.

- Just two weeks after making its debut in China, the new Tesla Model S electric car is available to rent in Shanghai. Two top-end models, which have a local sales price of more than CNY1 million, can be hired at eHi Auto Services Co, which opened the country's first electric car rental outlet in the city last year. There are just two cars for rent at present, but the company said it intends to increase its Tesla fleet later this month.

## METALS

### China Gold cuts costs to offset lower prices

China Gold International Resources, the sole overseas listed arm of the nation's largest gold miner, China National Gold Group, will raise output, cut production costs and scout for acquisition opportunities amid lower gold prices. The Hong Kong and Toronto-listed state-owned company would lower costs by improving metals recovery ratios, material procurement cost and advanced production techniques, said Song Xin, who was promoted from Chief Executive to Chairman of China Gold in February. The gold recovery ratio of China Gold's main profit driver, the Changshan hao mine in Inner Mongolia, rose to 54% last year from 22% in 2007. Song said it was achieved through quality control of its crushing machines to ensure consistent ore rock size, increasing the penetration rate of chemical agents used to extract gold, good equipment maintenance to minimize down time, and staff training to improve productivity. The mine's cash production cost last year fell 14% to USD707 per ounce, while total cost declined 7% to USD866. Cost cutting is vital since the mine's ore grade is lower than some of its rivals and the gold price fell almost 30% last year, before rising 7.3% in this year's first quarter. China Gold's average selling price slid 15.5% last year to USD1,362 an ounce. The company plans to double the processing capacity to 60,000 tons of ore a day. China Gold projected its gold mine's output to rise from last year's 130,772 ounces to 208,000 ounces this year and 260,000 ounces next year. The company also aims to raise annual copper output from 12,847 tons last year to 22,698 tons this year and 79,896 tons by 2016.

Fujian-based Zijin Mining, China's largest gold producer, is also being hit by lower gold prices and a decline in the gold content of ore at its mainstay Zijinshan mine. High production costs meant Zijin's future profits were likely to be lackluster. "Beneath the Zijinshan gold belt is a layer of copper ore, which will be mined, and Zijin has other gold projects with five to six tons of annual output in the pipeline," said Helen Lau, Senior Analyst at UOB Kay Hian. "Zijin is expected to be able to maintain gold output at 33 to 34 tons in the next few years even as Zijinshan's output dries up in 2018. The concern is if metal prices stay flat, and if Zijin's production costs remain high given the nature of its new projects, its profit growth will likely be sluggish." Zijin's net profit is forecast to fall 5.6% to CNY2 billion this year, and a further 4.4% to CNY1.91 billion next year, before rising 20.8% in 2016 to CNY2.31 billion, according to the average forecast in a Thomson Reuters analyst survey.

### Minmetals to buy Peruvian copper mine

A group backed by China Minmetals Corp will buy Glencore Xstrata's key Peruvian copper mine for USD5.85 billion, in one of China's largest overseas mining acquisitions. China would gain control of one of the world's largest copper projects being built while allowing Glencore to cut debt. Glencore last year agreed to sell the Las Bambas project in return for its takeover of Xstrata to be approved by China's authorities. "The acquisition of Las Bambas is an important milestone for outbound Chinese investment in the global resources industry," Minmetals President Zhou Zhongshu said, adding that it will improve the company's mining portfolio and produce synergies with existing businesses. Melbourne-based MMG, the overseas unit of state-owned Minmetals, holds a 62.5% stake in the consortium buying Las Bambas while Guoxin International Investment Corp has 22.5% and CITIC Metal Co owns 15%. Las Bambas could produce over 2 million tons of copper concentrate in its first five years of operation, MMG said. The deal could propel MMG ahead of Jiangxi Copper Co as the biggest listed copper miner by volume in Asia, Barclays said. The transaction, set to close by the autumn, is subject to regulatory approvals in China and Peru and a vote by MMG shareholders. The acquisition increases MMG's copper resources by 2.7 times to 10.5 million tons and turns the firm into Asia's largest miner of the metal and into the big league of the top 15 copper mining companies. Barclays' analysts estimated the acquisition could result in an up to 300% increase in potential profit for MMG from 2016.

## Beijing becomes third import point for gold

China has begun allowing gold imports through Beijing as a third import point after Shenzhen and Shanghai. The People's Bank of China (PBOC) was believed to be adding to its gold reserves, the World Gold Council (WGC) said, as it looked to diversify from U.S. Treasuries. The central bank rarely reveals the numbers. Gold has traditionally been imported from Hong Kong into Shenzhen, where nearly 70% of China's gold jewelry business is located. Shanghai was opened up as a second port last year. Only banks are allowed to import gold into China. China imported nearly 1,160 tons of gold from Hong Kong last year, more than twice 2012's figure, as the drop in prices caused a spurt in demand. An analysis of trade figures from data provider Global Trade Information Services showed China imported at least a further 194 tons last year from centers other than Hong Kong, likely into Shanghai. China also produced about 428 tons domestically last year. The People's Bank of China (PBOC) last disclosed its gold reserves in 2009, when it announced its holdings had risen to 1,054 tons from 600 tons in 2003. Some estimate the size of the PBOC's gold reserves at 3,000 to 5,000 tons. The United States is the biggest holder, with more than 8,000 tons. Even a 1,000-ton increase from last-announced levels could prompt a jump in gold prices, which would make the PBOC very cautious about the timing of any announcement.

## Overcapacity brings losses in steel sector

Crude steel output increased 2.37% year-on-year in the first three months of this year to 202.7 million metric tons, the China Iron and Steel Association (CISA) said. That translates to a daily output of 2.25 million tons and an annualized 822 million tons for 2014. Severe overcapacity brought a CNY2.33 billion loss for major domestic steel companies in the period, compared with a CNY3.3 billion profit in the year-ago period, said Zhang Changfu, Vice Chairman of CISA. He cited high iron ore costs, rising spending on carbon emissions and falling prices for the result and said industry profitability is expected to improve, but still struggle, in the second quarter. The domestic price of unit steel products dropped 10.14%, or CNY368 a ton in the January-March period. The average price of export steel products was USD794 a ton, down USD63 year-on-year. Weak demand and increased output produced high steel inventories, which by end-March stood at 19.41 million tons, up 43.65% from the start of the year. Li Xinchuang, Director of the China Metallurgical Industry Planning and Research Institute, told China Daily that under those circumstances, no new steel capacity should be added for any reason. Still, fixed steel-sector investment during the first quarter was CNY89.3 billion, of which CNY71.6 billion came from the private sector. Some large companies, including Baosteel Group Corp and Tangshan Iron and Steel Group Co, plan to raise their non-steel business to 50% of their portfolio to survive.

## Iron ore financing under investigation

The China Banking Regulatory Commission (CBRC) has urged local authorities and banks to step up an investigation into iron ore financing deals in a bid to minimize default risks. Trade sources said Chinese banks started to tighten loan requirements for steel mills and trading firms seeking credit for iron ore imports, due to concerns over their inability to repay loans, particularly as growth in demand for metals has slowed. Iron ore inventories at main ports have hit record levels of more than 100 million tons since mid-February, putting banks on alert that any big collapse in prices might cause default risks. China's total iron ore port inventory reached 112.63 million metric tons on April 25, up 66% compared with the same period last year, according to data from the Shanghai-based industrial information provider Mysteel. A reasonable port inventory is about 65 million tons, which means a large number of ore traders have been stockpiling the material, waiting for prices to rise. Up to 36.07 million tons of it belong to traders who are facing possible tightening of credit regulations, according to Mysteel. It has been reported that the CBRC may raise credit collateral requirements from the current 15% to 30% in May. Yu Chen, Iron Ore Analyst with Mysteel, said that if that is the case, traders will be pushed to sell iron ore to increase their cash flow, which will lead to a round of price cuts. With high inventory and weak demand, the imported iron ore price declined 5.52%, or USD7.47 a ton, to USD127.95 a ton in the first quarter. Yu said that with the CBRC's new collateral requirements, the price of iron ore likely will fall below USD100 a ton in the near future.

## Gold bar demand dives

China's gold consumption in the first quarter of 2014 eased significantly from last year mainly because of reduced demand for gift-related gold bars, experts said. In the January-March period, gold consumption was 322.99 metric tons, rising 2.45 tons or 0.76% year-on-year. Gold jewelry purchases jumped 30.2% to 232.53 tons, while gold bar consumption slumped 43.56% to 67.95 tons, the China Gold Association (CGA) said. The drop in gold bar demand was a result of China's austerity campaign, according to Albert Cheng, Far East Managing Director of the World Gold Council (WGC). "On the whole, China's gold consumption in the first quarter maintained growth, which is very satisfactory, as 2013 was an unusual year for the gold markets in China and the world. China's gold demand rose very strongly last year, and demand this year will noticeably slow down," Cheng said. He added that China's demand for gold will maintain a growth rate of 20% to 25% in the next four years. In 2013, China became the world's largest gold producer, consumer and importer. Gold consumption surged 41.36%, while gold production went up 6.23% year-on-year, according to the Association. A report from the WGC said on April 15 that following the record level of Chinese demand in 2013, this year would likely see consolidation and succeeding years would see steady growth. The private sector demand for gold in China is set to increase from the current level of 1,132 tons per year to at least 1,350 tons by 2017, the report said. China however has little influence on the gold price. "The gold price will remain weak in the near future, while China's gold industry will be confronted by great challenges. Domestic enterprises must join hands to combat difficulties, including maintaining healthy competition, advancing technology for innovation and further reducing costs," said Song Xin, President of the China Gold Association. Last week, the Association, together with the CPM and Jingyi Gold Co, launched the Chinese version of the CPM Gold Yearbook 2014. In the first quarter of this year, China's gold production reached 96.50 tons, an increase of 7.33% from a year earlier, the China Daily reports.

## Chinese iron ore miners face cheaper imports

Surging global supplies of seaborne iron ore are expected to force some higher-cost Chinese miners to close, according to BHP Billiton. Low-cost output by miners in Brazil and Australia will displace marginal suppliers in China, Michiel Hovers, Vice President of iron ore marketing at BHP, told an industry conference. Vale, the world's biggest iron ore producer, plans to raise output by almost 50% by 2018, Claudio Alves, Director of Marketing and Sales, told the gathering in Singapore. The biggest producers, including Vale, BHP, Rio Tinto Group and Fortescue Metals Group, have invested billions of dollars to expand output, betting on sustained growth in demand from China, the biggest buyer. Iron ore fell into a bear market in March amid forecasts of a global glut. Fortescue wouldn't cut output even if prices extend declines as its costs are low, Zhuang Binjun, Business Development Manager, said. Ore with 62% content delivered to Tianjin has fallen 21% so far this year to USD106 a ton, according to data from The Steel Index. The benchmark fell to USD104.70 on March 10, the lowest level since 2012. While prices may be firmer over three months, there may be a drop below USD100 over six months, toward USD90, on the new supplies, Kamal Naqvi, global head of metals at Credit Suisse Group, told the conference. If prices drop to USD100, output in China may be hurt as domestic mines with high production costs are forced to cut output or close, according to the Bureau of Resources and Energy Economics, Australia's government forecaster. By comparison, Rio Tinto can be profitable above USD36 and BHP's break-even is USD38. Global seaborne supplies will increase 126 million tons to 1.38 billion tons this year, Morgan Stanley estimated in a May 5 report. That will increase the worldwide surplus to 79 million tons in 2014 from 1 million last year, the China Daily reports.

## Short news

- Chinese firms could have locked up as much as 1,000 tons of gold in financing deals, an industry report said, indicating a big slice of imports has been used to raise funds due to tight credit conditions, rather than to meet consumer demand. The financing-related buying means gold prices could come under pressure if imports were hit by a broader government crackdown on using commodities to raise finance. The country had up to USD160 billion of outstanding loans using commodities as collateral, about 31% of its short-term foreign exchange loans, said Goldman Sachs.
- Tangshan Iron and Steel Group Co (Tangsteel) signed a strategic cooperation framework agreement with Siemens on energy-saving and environmental protection cooperation. Wang Lanyu, President of Tangsteel, told China Daily that the company plans to increase its non-steel business from its current 20% of the whole business

structure to 50% within five years. Using Siemens' technology, Tangsteel will manufacture energy-saving and carbon-emission reduction equipment for steel mills. Tangsteel has an annual output of approximately 20 million metric tons.

- General Nice Development, China's largest privately-owned steel-smelting raw materials trader, has failed for the fourth time to meet its commitment to buy shares in iron ore miner IRC and may have to defer completing the deal given tight credit conditions. Jay Hambro, Chairman of Hong Kong-listed IRC, an iron ore miner in Russia's Far East serving northeast China, said General Nice has already completed 72% of the payment and is "fully committed" to completing the remaining HKD451.4 million share purchase.
- Chinalco Mining, the non-ferrous and non-aluminum metals unit of Chinalco, is seeking acquisition opportunities in Latin America for copper projects with long-term return rates of more than 10%. Chief Executive Peng Huaisheng said the region presented more development potential, especially Peru, where the company has been developing the Toromocho copper project since 2007. China imports about 70% of its raw copper ore needs.
- Hong Kong's Chinese Gold and Silver Exchange Society will start talks in the next two months with the Shanghai Gold Exchange for a potential alliance, President Haywood Cheung said. It would allow China's gold bourse to access the international market through Hong Kong.
- Baosteel Group Corp President He Wenbo said at a shareholders meeting that Baosteel will focus on its major steel business and accelerate its e-commerce and information technology units. The company was awarded the first online payment license for a company in China's industrial sector and entered the steel e-commerce business earlier than others. Easterpay had total online payments of CNY5 billion in the first quarter, up 360% year-on-year.

## MINERALS

### China's miners to step up push overseas

Chinese mining companies are planning to acquire more firms or forge joint ventures abroad to secure supplies of precious and industrial metals. China accounted for nearly 14% of all mining mergers and acquisitions activity by value last year, but the number of Chinese transactions slid to 21 from 34 and their value declined to USD5 billion from USD6 billion in 2012, according to a research report by PricewaterhouseCoopers (PwC). China's share of global mining deals may be bigger this year, said Ken Su, China mining and metals leader at PwC. China is the world's top producer of steel and also its leading importer of iron ore. The country is also the world's leading consumer of copper, and the top importer and consumer of gold. PwC global mining leader John Gravelle cited the Las Bambas copper mining project in Peru as an example of China's mining firms reaching out for major investments overseas. But the average deal size of Chinese investments in overseas mines will be smaller, because more private Chinese companies, which lack the financial muscle of state-owned enterprises (SOEs), are investing in mines abroad, Su said. China's demand for mining resources will grow 3% to 6% this year, Gravelle estimated. The China Metallurgical Industry Planning and Research Institute predicted China's total iron ore imports would rise 6.3% to 850 million tons this year, about half of which would come from Australia. Western Australia's iron ore exports to China rose 23.5% to 425 million tons last year, and China accounted for 76% of the state's iron ore exports, the Western Australian government said.

### China's plan for iron ore giants hits snag

China's bid to slash its dependence on foreign iron ore miners by creating its own mega producers risks running aground before it starts due to high costs and poor quality of ore. Instead, overseas suppliers may end up shipping more to their top market. For two decades, China has been trying to reduce its reliance on iron ore supplied by top producers Vale, Rio Tinto and BHP Billiton without much success because the price of the ore it produces is higher. The global miners are boosting output to capture more of the Chinese market through massive expansion to increase their dominance. BHP lifted its annual production target to 217 million tons, while Rio Tinto is close to mining 300 million tons a year and Brazil's Vale is targeting more than 360 million tons. To make its own iron ore mining more efficient, China, which buys more than two-thirds of the world's iron ore, was drafting a plan to create six to eight domestic

miners by 2025, each with an annual capacity of more than 30 million tons. A draft of the plan is expected to be submitted to the central government by the end of the year. Combined production would at best amount to only a third of total demand. While Chinese iron ore production continues to grow every year, the low quality of the ore is forcing miners to dig deeper and increasing costs even more. "The only way for the new integrated miners to compete against top miners is if they can slash their costs, but I do not expect this can happen," said a senior official at a medium-sized Chinese miner with an annual output of 2 million to 3 million tons. The average iron content of ore in China fell to 21.5% last year from 31.2% 10 years earlier, said Pan Guocheng, Chief Executive of privately-owned miner China Hanking. The average cost of Chinese miners is USD105 a ton, compared with USD60 to USD65 including delivery for Australian and Brazilian ores, the South China Morning Post reports. China's iron ore output rose 4% to 183.3 million tons in the first two months, slowing from 13.5% last year.

## China signs agreement to mine seabed for minerals

China can now search the international seabed for three valuable minerals after a new exploration contract was signed in Beijing by the China Ocean Mineral Resources Research and Development Association (COMRA) and the International Seabed Authority (ISA). Under the contract, China has exclusive right to explore an initial area of 3,000 square kilometers. Cobalt-rich ferro-manganese crusts contain rare metals such as cobalt, nickel and iron and are used in various industries such as engineering, electronics, infrastructure and batteries. The contract, the third signed between ISA and COMRA, makes China the only nation authorized to explore international seabeds for as many as three major types of minerals – polymetallic nodules, polymetallic sulfides and cobalt-rich ferromanganese crusts. Although a latecomer to deep-sea exploration, China won the right to search for polymetallic nodules in the northeastern Pacific Ocean in 2001, for polymetallic sulfide deposits in the southwestern Indian Ocean in 2011 and for cobalt-rich ferromanganese crusts in the western Pacific in 2014. With China's first contract to end in 2016, which means the country can begin commercially mining for polymetallic nodules in the northeastern Pacific, the country still faces technical hurdles in mining the ocean floor.

## Baosteel and Aurizon launch Aquila take-over bid

Baosteel Group Corp and Australian rail freight operator Aurizon Holdings have launched a bid for Aquila Resources in a deal that values the iron ore and coal miner at AUD1.4 billion. The bid could potentially open up a new iron ore export region in Australia for Asian steelmakers. Baosteel, which already owns 19.8% of Aquila, will hold 85% if the deal succeeds while Aurizon will own 15%. "This proposal represents an unprecedented opportunity to co-develop world-class rail and port infrastructure in Australia, utilizing Chinese and Australian capital, to deliver much needed Australian commodities to China," Aurizon Chief Executive Lance Hockridge said. Aquila advised its shareholders to take no action now and will form an independent board sub-committee to assess the offer. Aquila is among smaller miners in Australia trying to break the hold of Rio Tinto and BHP Billiton on the country's iron ore exports. It owns 50% in the West Pilbara Iron Ore Project. Through the take-over, Baosteel and Aurizon plan to develop western Pilbara's iron ore project and Eagle Downs hard coking coal project in Queensland. The partners are expected to start producing iron ore at the West Pilbara project in 2017-18. The project has more than two billion tons of resources. As designed, it would produce 30 million tons a year in its first stage, dwarfed by Rio Tinto and BHP Billiton, which together are expected to be producing about 620 million tons a year by 2017. But more importantly for Asia's steel producers, Baosteel and Aurizon plan to build a rail line and port at Anketell Point that would be open to other iron ore producers, unlike Rio Tinto's rail and ports, providing an outlet for resources that have been stranded with no transport routes up to now. The port had been designed to handle up to 300 million tons a year.

## Short news

- China's major rare earth producer Inner Mongolia Baotou Steel Rare-Earth Group said its net profit slumped 71.71% year-on-year to CNY69.38 million in the first quarter. Its revenue tumbled 52.76% from the same period of last year to CNY1.09 billion, according to the company's financial report for the January-March period. The World Trade Organization (WTO) said on March 26 that China's regulation on rare earth exports was inconsistent with the organization's rules, signaling the country may have to further open its rare earth supply. Chinese rare earth producers have suffered since

2011 from continuing price falls due to excessive exploitation.

- China has appealed to the World Trade Organization (WTO) over its ruling that the country violated global trade rules by limiting exports of rare earth minerals, the Ministry of Commerce (MOFCOM) said. "China will make the utmost efforts in the appeal process to guard its national interests," said Ministry Spokesman Shen Danyang. The WTO panel report said China's export duty, export quota and export quota administration and allocation measures imposed on rare earths, tungsten and molybdenum products were inconsistent with WTO rules.
- China has started releasing a monthly non-ferrous metals conditions index in a move to increase the nation's influence in setting global commodity prices. The index for March was 46.7, indicating worsening conditions. The index is jointly compiled and released by the China Non-ferrous Metals Industry Association, the National Bureau of Statistics (NBS) and the Economic Daily newspaper. Despite being the biggest producer and consumer of non-ferrous metals, China doesn't carry much weight in global pricing, said Jia Mingxing, Vice Chairman of the Association. According to Jia, 2,339 companies in the industry reported deficits for the first two months of the year, accounting for 26.9% of all companies in the industry. The profit for the whole industry for the first two months declined 9.3% year-on-year to CNY15.54 billion.
- China expects coal imports to be more or less the same this year as the 267 million tons in 2013, when they grew 14%. Chinese coal markets remain well-supplied even though domestic producers have seen profits slashed by low prices. Domestic output rose 0.9% to 535 million tons in the first two months of the year compared to the same period last year.
- Turkey and China are in talks on a USD10 billion to USD12 billion investment in the Afsin-Elbistan coalfield and power plant project in southern Turkey, said Turkish Energy Minister Taner Yildiz. Turkey is keen to make the most of its coal resources to reduce the country's imports of natural gas and signed a deal with Abu Dhabi National Energy on the project in January last year. However, Taqa said in August that it was delaying investment and Turkey subsequently began talks with other companies. The Afsin-Elbistan region holds up to 45% of Turkey's lignite reserves and the project includes the construction of a 8,000 megawatt (MW) coal-fired power plant.

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