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# AUTOMOTIVE METALS & MINERALS NEWSLETTER | 3 APRIL 2014

## AUTOMOTIVE

### Chinese carmaker Qoros creates buzz in Geneva

Chinese carmaker Qoros Automotive showed its second production car – the Qoros 3 Hatch – at a prime stand between Maserati and Rolls-Royce at the Geneva International Motor Show in March. Led by former Volkswagen Executive Volker Steinwascher, Qoros aims to compete against Europe's premium brands not only in China but also on their home turf. At the moment, it is focusing on marketing and dealership openings as it brings a new car to market. Sales Director Stefano Valenti said the market response has been positive in China, where the car went on sale late last year, but added that it was too early to give numbers. Qoros also tested the Czech market last year, selling fewer than 100 vehicles, as the first step in a plan to expand in Europe. “Our real priority this year is quality,” said Valenti. A Qoros vehicle received a high rating in a crash test by the German car club Adac, giving it credibility, said IHS Automotive Analyst Tim Urquhart. Still, Qoros “faces enormous challenges in terms of gaining meaningful traction and share in the European market”, he added. IHS forecasts sales of 30,000 in Europe and 100,000 in China by 2017. The brand, founded seven years ago by Chinese carmaker Chery and Israeli investment firm Israel Corp, built its own factory in Shanghai. It has big ambitions: the factory's annual capacity is 150,000 vehicles a year and can be ramped up to 300,000. The Hatch is based on the same modular platform as its first car, the Sedan. However, the Hatch features new C-pillars, roof, rear-side panels, and tailgate, plus a new rear roof to maintain an exceptional torsional rigidity. The Hatch will be built in the Qoros' plant in Changshu, Jiangsu province, on the same production line as the Sedan. Monthly sales of the sedan are expected to reach 1,000 units soon and whole-year sales will possibly hit 150,000 units. Qoros has around 20 dealer outlets, with another 40 under construction.

### Permitted foreign stake in automotive joint ventures could be increased

A fierce debate is raging among auto industry insiders over a measure proposed by the Ministry of Commerce (MOFCOM) last year that would allow foreign partners in a joint venture to hold more than a 50% stake. The Ministry announced in November that industries like automotive and steel will be further opened to foreign investors, hinting that it may lift limitations on foreign share holdings in automotive joint ventures in the near future. The cap on foreign holdings was put in place two decades ago, when the Automotive Industry Development Policy prohibited foreign companies from holding more than half of a joint venture with a Chinese company. Now that China has emerged as the world's largest auto market by sales, more and more foreign automakers are eyeing its potential and seeking a greater piece of the pie. The limitations were set as a protective measure for the nation's fledgling domestic automotive industry, which at the time was represented by mostly state-owned manufacturers. Now more private capital is flowing into the market and independent domestic automakers are becoming bigger and stronger. Miao Wei, Minister of Industry and Information Technology, said that the 50% limit for foreign partners cannot be lifted at present, but he admitted the possibility existed for a flexible share structure in the near future. He urged domestic automakers to grow stronger as fast as possible before the limit is raised.

Executives of four major state-owned automakers – FAW, Dongfeng, Chang'an and GAC – expressed their objection to the change. “The measure is still effective to date to help local manufacturers grow both bigger and stronger. The automotive industry is our economic pillar, different from other ordinary manufacturing industries,” said Wu Shaoming, Deputy General Manager of the FAW Group. “We should not rely too much on foreign companies to support our national industry. We should learn from the lessons of Brazil and Russia,” said Liao Zhenbo, Director of the Strategy Planning Department of Dongfeng Motor Corp. However, some privately-owned automakers support a lifting of the cap. Zhejiang Geely Holding Group Chairman Li Shufu said the current stock limitation only helps state-owned companies monopolize the market with “too many joint venture products”, the China Daily reports. Domestic state-owned firms are more keen to invest in profitable ventures with foreign partners than to develop their own brands, because they are unable to gain recognition from consumers, supporters of raising the limit say. “Foreign carmakers are always ready for a relaxation in the investment limit, but local players are not,” said Gordon Xie, Partner with Deloitte, who advises the car industry.

## Passenger car sales up 11.3% in first two months

Passenger vehicle sales increased 18% year-on-year in February to 1,312,200 units, exceeding industry expectations, according to the China Association of Automobile Manufacturers (CAAM). Sales in the first two months were up 11.3% to 3,159,000. In February, commercial vehicle sales increased 17% to 284,200 units, taking total vehicle sales in the world's largest market up 17.8% to 1,596,400 units. Combined vehicle sales in the first two months increased 10.7% to 3,752,900. In February, Chinese vehicle brands continued to see their market share decline, losing 4.6 percentage points from a year earlier. Their combined sales increased merely 5.4%, accounting for about 38.4% of total passenger vehicle sales. In the first two months, the sales of Chinese-brand vehicles dipped just 1% from a year earlier. The market share dropped 4.8 percentage points on an annual basis. However, German, Japanese and U.S. automakers' sales in China all saw more than 20% year-on-year growth in the first two months, according to the industry association. General Motors Co and its joint ventures sold 257,770 vehicles in China during February, setting a new record for the month. Sales increased 20% from 215,070 vehicles sold in the same month last year. During the first two months sales totaled 605,831 units, an increase of 15.2% from the year-earlier period and also a new record. Ford Motor Co's sales surged 67.4% in February to 73,040, making the U.S. company's market performance in the first two months grow 59.2% to 167,506. Japanese automaker Nissan Motor Co's sales in February reached 71,900, a 55.6% increase from last year, while Toyota Motor reported a year-on-year increase of 43.1% to 51,900 vehicles. Mercedes-Benz saw its sales surge 73.6% to 17,596, a record high in February. Rival Audi delivered 32,358 vehicles in its largest market in February, up only 6.9% from last year, the China Daily reports.

## Record auto recalls in 2013

Despite some bumps in the road, China's sweeping new auto warranty and consumer protection laws that took effect last year are having an impact, according to industry data and experts. The latest statistics from the General Administration of Quality Supervision, Inspection and Quarantine (GAQSIQ) show automakers made a record 134 recalls of 5.3 million vehicles in 2013, an increase of 65.8% from 2012. Foreign brands again led the way in the number of recalls, but seven domestic carmakers did recall a combined 450,000 vehicles, an increase of 36% over 2012. Experts said that the increasing number of recalls is the result of a regulation governing defective vehicles that took effect on January 1 last year. “The recall regulation has led to increasing transparency in product quality,” said Qiu Baochang, Director of the Beijing-headquartered Huijia Law Firm. “For example, the 24th item of the regulation says companies that conceal defects can be fined up to 10% of the value of all vehicles in an eventual recall. This means that a company could pay up to hundreds of million yuan for a violation,” Qiu said. A separate new regulation to protect auto consumer rights that took effect last October mandates that dealers repair or replace defective vehicles during the warranty period and carries heavy penalties for violations. In cases of proven fraud, dealers could be required to refund the price of the car and give a new vehicle entirely free to the victim. But who should pay for expert appraisals that cost tens of thousand yuan was not clearly stipulated. A revised consumer rights protection law that took effect on March 15 mandates that dealers bear the cost of appraisals.

## BYD and Geely record strong profit growth

BYD's net profit soared 579% last year to CNY553.09 million following the improved performance of its car, phone components and battery businesses. Turnover rose 12.1% to CNY49.77 billion. The company last year sold 470,000 vehicles, 14.38% more than in 2012, on stronger demand in mid-tier cities. Revenue from car sales grew 9.62% to CNY27.02 billion. Meanwhile, stronger-than-expected sales saw Geely Automobile's profit grow 31% last year. The carmaker said this year would be challenging amid rising competition. Net profit jumped to CNY2.7 billion, beating market estimates of about CNY2.6 billion. Revenue rose 17% to CNY28.7 billion, higher than the company expected, bolstered by improvements in its product mix and better margins, Geely said in a statement to the Hong Kong stock exchange. Despite a lack of new products, Geely managed decent growth in car sales of 14%, with 549,468 units sold. The carmaker, which owns Swedish brand Volvo, has set a sales target of 580,000 vehicles for this year, representing slower growth of 5.6% and below the 8% to 10% growth rate forecast for the industry by the China Association of Automobile Manufacturers (CAAM). Analysts said Geely's sales target revealed its conservative view for this year amid uncertainty over its export markets.

## President Xi Jinping and King Philippe visit Volvo Ghent

Chinese President Xi Jinping and first lady Peng Liyuan joined King Philippe and Queen Mathilde for a visit to the Volvo Car Group facilities in Ghent. During their visit to the plant, the two couples were treated to a show of the Volvo product range: from the first-ever Volvo car, the V4 “Jakob”, to current models and technologies like a Volvo plug-in hybrid and models produced in Ghent including one with a pedestrian airbag. Joining them for the visit were Hakan Samuelsson, President and CEO of Volvo Cars, and Li Shufu, Volvo Cars' Board Chairman. Michael Ning, Vice President of Volvo Cars China, who also was present, said a red Volvo car model was presented as a gift to both leaders. President Xi witnessed the marking of Volvo's 5.5 millionth car in Ghent, and also the 300,000th car by Volvo for the China market. “Steady growth in the Chinese market is a major part of Volvo Cars' successful transformation plan, and the company has made tremendous progress in China in recent years,” Samuelsson added.

Volvo Cars, owned by Geely, posted strong profit in 2013 of USD149.7 million after a loss in the year’s first half, thanks to soaring China sales and cost cutting. “Apart from a good sales performance in the second half of the year, our focus on cost has been an essential factor in returning to profitability,” CEO Samuelsson said in a statement. He also said he expected continued growth in 2014. “The coming year will also be a year of growth, with a good 5% increase in sales, characterized by a continued strong performance in China,” he said. Sales in China grew by 45.6% in 2013 compared with a year earlier to 61,146 cars. In the United States, so far Volvo Cars’ strongest market, sales fell 10.1% to 61,233. The company’s market share in Europe grew slightly from 1.87% in 2012 to 1.9% in 2013. “Market circumstances in Europe are expected to remain challenging, but Volvo Cars aims to retain its market share in the region,” the company said.

## Price war affects profitability of car dealers

With inventories rising amid an intense price war, auto dealers in China are having a tough time making a profit, according to a report by British consulting firm Deloitte. Dealer margins are hurt by their heavy reliance on new vehicle sales, a challenge compounded by rising operational, labor and financing costs, said the report based on surveys and in-depth interviews with dealers. The report said one cause for dealers’ problems is the low percentage of revenues from parts and after-sales services. Deloitte said the average profit margin at Chinese auto dealers was less than 2% of revenues in the first half of 2013, well below the industry benchmark of 3%. “While auto sales will be buoyed by sustained economic growth, the structure of the auto market is not mature, compared with the Western world,” said Winhon Chow, Managing Partner at Deloitte China. There is a long way to go for the profit structure to tilt toward parts and services, according to the report. After years of high expansion, the auto dealership sector now faces an era of modest growth, according to Deloitte. New challenges include the high risk of cash liquidity problems and piling-up inventory. One of the emerging trends in the industry is expansion of sales networks into second and third-tier cities, partly due to government purchase restrictions in mature first-tier cities and partly because of pent-up consumer demand in smaller cities, the China Daily reports.

## Strong BMW sales lift Brilliance China profit 47%

Brilliance China Automotive posted a 46.6% growth in profit last year on the back of strong car sales of its joint venture with BMW, but the contribution from the venture rose at a slower pace on higher costs for capacity expansion. The net profit of the Chinese carmaker rose to CNY3.37 billion from CNY2.3 billion in 2012, in line with the market consensus. Revenue edged up 3.2% to CNY6.1 billion, boosted mainly by sales of minibuses and vehicle components, while cost of sales also went up by 3.8% to CNY5.4 billion, according to a statement filed with the Hong Kong stock exchange. The strong profit was driven by contributions from BMW Brilliance, the 50-50 joint venture with German carmaker BMW. Profit from the venture rose 47.7% to CNY3.4 billion, with car sales up by 28.5% to 206,729 units. The venture launched the latest BMW 5-series model and the 3-series model in the second half of last year. However, the venture's contribution grew at a slower pace after posting a 60% rise in the first half as a result of increased costs to expand capacity in the fourth quarter, analysts said. Yao Wei, Analyst with Bocom International, said that the company's move to expand the production capacity of its Dadong and Tiexi plants, in Shenyang, Liaoning province, would help maintain strong sales growth this year and next. Car sales this year could increase by 28.4% to 265,400 units, and 306,300 units next year. Wu Xiaoan, Chairman of Brilliance China, said the BMW joint venture continued with its expansion which allows for production of 400,000 vehicles a year. The company is aiming for 30% growth in BMW sales this year and plans to launch two new car models, Wu said. Lisa Ng, Senior Vice President, said capital expenditure at BMW Brilliance was CNY10 billion, which would mainly be spent expanding the Tiexi plant.

## Short news

- Sales of electric cars are hampered by the limited number of charging points for private vehicles and the fact that it is often not possible to install charging points in residential communities due to the high voltage required. About 40% of 300 residents who test drove electric cars last year returned home empty-handed because they couldn't install a charging point at home, according to Electric Beiijng, an semi-official organization aimed at promoting electric cars. State Grid said it would set up a total of 6,000 charging facilities in Shanghai within two years, and promised to build 1,000 similar facilities in Beijing for private car owners, unlike most of the current ones that are available only to taxis and buses.
- Chinese car sales rose 13.9% last year to 21.98 million vehicles, according to the China Association of Automobile Manufacturers (CAAM). Of the top ten car brands in terms of sales, eight were joint-venture brands – Shanghai General Motors, FAW-Volkswagen, Shanghai Volkswagen, Dongfeng-Nissan and Beijing Hyundai among others.
- The number of bidders for Shanghai car plates leapt more than 35% in March from February, but priced remained stable. The March auction attracted 61,853 private buyers – up 35.2% from 45,758 in February and a six-year high for the second consecutive month. However, the number of plates on offer remained at 8,000. The surge in demand pushed the average price for a private car license up CNY515 – 0.7% – on February to CNY73,872, while the lowest winning bid was up CNY600 to CNY73,800, said the Shanghai International Commodity Auction Co.
- Infiniti sold 2,365 units in China in January, surging 161% year-on-year and setting a new monthly sales record. Its February sales reached 1,586 units, still up 218% from the same period of last year despite the Chinese New Year period. January sales of the popular sporty G series rose 131% year-on-year, and those of the well-received QX50 SUV increased 162%. The two models drove Inifiniti's February sales as well, according to the company. In 2014, the brand will introduce six models to the Chinese market.
- Shanghai General Motors will recall more than 24,000 cars imported in China over an air bag defect. The recall covers 24,021 Buick Enclave sport-utility vehicles (SUVs) from the model years of 2008 to 2013 and made between August 15, 2008 and September 21, 2012.
- A growing number of electric car owners are applying for private charging facilities at their homes. Shanghai Power Co said it has received 140 applications for home-based charging points, but has so far given the go-ahead for only 30. Sometimes the local network and conditions at the site are not appropriate for the installation. Moreover, even if an application is approved by the power supplier, the property manager might still block it, citing safety concerns. Private chargers cost from a few thousand to more than CNY50,000. Shanghai has 24 power stations and about 2,000 charging spots.
- Hangzhou's government has started restricting the number of new car plates at the end of March in a bid to reduce congestion and combat air pollution. No plates will be issued until April 26 when car buyers can take their chances in a lottery system to get a plate for free or bid for a plate with a starting price of CNY10,000. The city will issue a total of 80,000 plates over the 12 months from May with 64,000 available in the lottery and the rest to be bid for. It was expected that the average price for a car plate would be around CNY15,000.
- Dongfeng Motor Group and joint venture partner PSA Peugeot Citroen signed a global strategic partnership agreement. The deal was sealed three days after the French carmaker announced a €3 billion capital increase, in which Dongfeng's purchase of a 14% stake in its partner of 22 years will put the Chinese automaker along with the French government and the Peugeot family as PSA's biggest shareholders. The partners will set up a new joint venture to export cars made by their jointly-owned Dongfeng Peugeot Citroen Automobile Co, as well as other PSA cars, to other Asian

markets. The two partners will also set up a new research and development center.

- Volkswagen signed joint declarations with its Chinese partners at a ceremony attended by Chinese President Xi Jinping and German Chancellor Angela Merkel. Volkswagen will partner with SAIC Motor Corp and First Automotive Works (FAW) Group to develop and begin production of new-energy vehicles from 2016. The projects are part of €18.2 billion in investment for new plants and products that Volkswagen and its partners are making between 2014 and 2018. It will be the largest-ever investment in China's automotive industry. Agreement was also reached on expanding production capacity at the FAW-Volkswagen joint venture.
- General Motors Co will pull the Opel from China next year as part of a plan to focus the brand on the European market. Opel, which has been in China since 1993, failed to expand beyond a low-volume, niche player in the country, accounting for less than 1% of GM's sales in the market last year. Opel's 22 Chinese dealers sold 4,365 vehicles in 2013. “This is a long overdue decision,” Karl-Thomas Neumann, Opel's CEO, said in a statement.
- Production of vehicles by Chery Jaguar Land Rover is set to start in the fourth quarter of the year as construction of a plant in Changshu, Jiangsu province, is underway as scheduled. The 50-50 joint venture Chery Jaguar Land Rover Automotive Co is capitalized at CNY10.9 billion. It has an annual production capacity of 130,000 units. A research and development facility will also be established in Shanghai. Jaguar Land Rover's sold 95,237 units in China in 2013, a 30% increase over the previous year.

## METALS

### U.S. accuses China of subsidizing hi-tech steel exports

The United States has accused China of unfairly subsidizing exports of hi-tech steel. The U.S. Department of Commerce estimated that the subsidy rate on imported grain-oriented electrical steel from Baoshan Iron & Steel Co and other Chinese exporters was 49.15%. General Manager He Wenbo said sales of the steel category accounted for 11% of total sales. Annual output of the speciality steel would reach 300,000 tons. According to the website of Baosteel's rival, the Wuhan Iron and Steel Group produced 400,000 tons of the speciality metal in 2012. In January, the United States complained to the World Trade Organization (WTO) that China used tariffs to effectively block imports of U.S. steel despite a WTO ruling in the United States' favor. The steel is used in the cores of high-efficiency transformers, electric motors and generators. In 2013, imports of grain-oriented electrical steel from China were valued at an estimated USD5.4 million. The complaint was lodged by AK Steel and Allegheny Technologies. The U.S. Commerce Department and the International Trade Commission (ITC) have yet to issue final rulings in the case.

### Steel sector fights pollution and blind investment

China’s steel sector is burdened by massive overcapacity, razor-thin profit margins, even for the best performing operators, and a mountain of bad debt. The steel sector is also one of the single biggest contributors to air pollution that now regularly plagues Beijing and other Chinese cities. It therefore represents a prime battleground both in Beijing's new “war on pollution” and the long-running war on blind investment. When the central government says it is targeting fixed-asset investment (FAI) growth of 17.5% this year, the slowest rate in 12 years, it cuts to the very heart of what has been the core driver of China's steel expansion story. “You can basically say that Chinese steel output has reached a peak,” said Zhang Wuzong, Chairman of private steelmaker Shandong Shiheng Special Steel. But the official forecast is for the country's steel production still to grow this year, albeit at a slower rate of around 3% compared with 7.5% last year. However, even the China Iron and Steel Association (CISA) is now starting to warn that national output will peak around 850 million tons. The country is estimated to have some 300 million tons of surplus capacity – perhaps more – almost twice the output of the European Union last year. Zhang Qingwei, Governor of Hebei province, home to 250 million tons of Chinese steel capacity and seven of the 10 most polluted cities, has threatened to sack any official responsible for even a ton of extra steel capacity this year. Hebei has agreed to cut production capacity by 15 million tons this year and by 86 million tons by 2020. The war will only intensify after Premier Li Keqiang's warning that the smog in Beijing is “nature's red-light warning against inefficient and blind development”, the South China Morning Post reports.

## Hong Kong Ex to launch metal trading platform

Hong Kong Exchanges and Clearing (HKEx) plans to introduce the Hong Kong version of the London Metal Exchange (LME) platform this year to launch the local commodities market. “HKEx is expected to face a lot of challenges in promoting this new market as many local brokers and investors do not have sufficient knowledge about metal trading. The bourse will need to provide a lot of education and promotion in the following months before the launch,” warned Christopher Cheung, Legislator for the financial services sector. The bourse has not yet announced what products will be traded on the platform, but HKEx Chief Executive Charles Li said they would be settled by cash and all local futures brokers could trade on it with no need to apply for membership of the LME. It will also negotiate with exchanges on the mainland for possible cross-selling of each other's products. HKEx reported a disappointing 11% profit rise last year, partly as a result of the costs related to the LME acquisition. Jeffrey Chan, Chairman of the Hong Kong Securities Association, said it was a wise move that HKEx now planned to allow all 180 futures brokers in Hong Kong to trade on the LME instead of requiring them to apply for membership. However, Hong Kong investors are not very enthusiastic about commodities trading. HKEx already has gold futures trading but turnover is nil.

## MMG sets 10% floor for return on acquisitions

MMG, the overseas non-ferrous metals mining unit of state-owned China Minmetals, will consider as acquisition targets only assets and projects with at least a 10% return, even though it enjoys low financing costs thanks to its parent firm’s connections. Andrew Michelmore, Chief Executive of Hong Kong-listed MMG, said the company is mainly looking for copper and zinc mining projects that are either in production or at an advanced stage of construction. The firm mines for zinc, copper, lead, silver and gold in Australia and copper in Laos and the Democratic Republic of Congo. “We need to add shareholder value, which means we need something that gives us a return greater than our average cost of capital,” he told the South China Morning Post. MMG would likely not acquire any project smaller than the Kinsevere copper project in Congo, which it bought for USD1.36 billion in early 2012, he said. Michelmore confirmed MMG has been in talks to buy into Switzerland-based commodities trading major Glencore Xstrata’s Las Bambas copper mining project in Peru, but no binding agreement has been reached. It has formed a consortium together with Guoxin International Investment Corp and CITIC Metal Co to bid for the stake in the Las Bambas project. The sale of one of Glencore Xstrata’s major copper projects by September 30 is a condition for China’s Ministry of Commerce (MOFCOM) to approve Glencore’s merger with Xstrata, which was subject to antitrust approval by the central government. Beijing is concerned the merger would increase Glencore and Xstrata’s control over the supply of copper and hurt the interests of Chinese customers. The country has to import copper to meet some 70% of its demand, of which just over 40% is from the electricity sector. China Minmetals Vice President Li Fuli said the company is already the largest Chinese copper resource holder, controlling close to 10 million tons, of which the biggest project is in Peru. Since 2004, China Minmetals has been seeking overseas resources like copper, aluminum, iron ore, lead and zinc, for which China has to import about 70% of its demand.

## Gold trading to open up to foreigners in Shanghai

The Shanghai Gold Exchange is set to launch a gold trading platform in the city's free trade zone (FTZ) open to foreign investors. Rules on the gold exchange's international board are being reviewed by the People’s Bank of China (PBOC) and the State Administration of Foreign Exchange (SAFE), and an imminent approval is expected, according to exchange officials. The platform, likely to get under way in the second half of this year, will mark a major breakthrough in the development of the FTZ. The trading platform and the warehouse will be run separately from the existing trading system in Shanghai's downtown Huangpu district, and the products will be denominated in yuan, part of Beijing's efforts to internationalize the currency. Spot and forward gold trading will be conducted on the international board and a large turnover is expected. Domestic individual investors would not be allowed access initially. China became the world's largest gold consumer last year, overtaking India, after large falls in global prices prompted bargain hunting across the country. Domestic gold consumption reached 1,176.4 tons last year, up 41.4% from 2012. The country produced 428.1 tons of gold last year, remaining the top gold producer for a seventh consecutive year.

## Chalco returns a profit, mainly due to asset disposal

Aluminum Corp of China (Chalco) posted a net profit of CNY975.2 million for last year, reversing an CNY8.2 billion loss the previous year, mainly due to asset disposals, including a stake in a bauxite project in Guinea. The firm also cautioned that smelters in the central and eastern regions of China might be squeezed out of the market by more competitive plants in western areas. Smelters would continue to cut output amid low aluminum prices, which favors smelters in the west with lower energy costs. The operating loss of its alumina operation narrowed by 52% to CNY1.8 billion and that of its aluminum operation shrank 9.5% to CNY27.9 billion. Inventory write-down fell to CNY1.38 billion from CNY1.4 billion in 2012. Chalco said it aimed to turn around its loss-making units this year by “phasing out, restructuring, transferring and digesting” them, without giving details. Output of aluminum fell 9% last year to 3.84 million tons, while that of alumina grew 2% to 12.1 million tons and that of bauxite rose 14.4% to 16.2 million tons.

## MCC turns back on Afghanistan mine deal

Chinese state-owned MCC has been renegotiating a huge copper contract with the Afghan government to reduce its exposure to the country in a move that threatens Kabul's plans to use revenue generated by its mineral resources to bankroll development. MCC has a USD3 billion deal to mine and process copper south of Kabul. With copper prices falling and the Chinese economy slowing, and security in Afghanistan deteriorating, the company has yet to begin production on the site and, according to mining industry and other sources, no longer wants to abide by the terms of the contract it signed in 2007. The company wanted to renege on building a railway, power plant and processing factory, as stipulated in its deal to mine at Mes Aynak, site of one of the world's biggest copper deposits, the sources said. MCC also wanted to renege on paying the remainder of a bonus worth USD808 million to the Kabul government, having already paid USD133 million, one source close to the Afghan Ministry of Mines said. It also wanted to cut the royalty payments, currently set at 19.5%, about double the worldwide average. Mining industry executives and sources close to the Afghan government said that MCC was in a position to dictate terms, having secured a 30-year lease on the mine, which contains 5.5 million tons of high-grade copper ore. “The Chinese have the mine, they can hold it for as long as they want," said Javed Noorani of think tank Integrity Watch Afghanistan. “As long as it is not viable, or the security situation is not favorable, they see no point in doing anything there.” MCC said it would not proceed with the processing plant because it could not source phosphate locally. Phosphate is essential to the refining process. Instead, MCC said it wanted to recruit locals to build roads so the ore could be trucked overland to China for processing. As MCC seeks to shelve much of the Mes Aynak deal, it also threatens a USD10.8 billion deal with an India-backed consortium to mine iron ore in the central highlands of Bamiyan province, the South China Morning Post reports.

## VAMA launches lightweight automotive steel

Valin ArcelorMittal Automotive Steel Co (VAMA), a 51-49 joint venture between Valin Steel Co in Hunan and ArcelorMittal, debuted its lightweight automotive project “S-in motion” in China – a series of solutions to optimize the body weight of cars, while ensuring continued high-safety standards and increased levels of energy efficiency. With rapid growth in China's automotive market, demand for automotive steel – particularly high-end products – continues to rise. However, domestic manufacturers can only supply steel with strength up to 1000 MPa, and China's automakers are dependent upon imported very-high-strength steel above 1000 MPa, as well as Usibor steel. In recent years, China imported 1.5 million to 2 million tons of automotive steel annually. VAMA aims to replace the imported products demanded by the local market. “We are very confident in our ability to turn VAMA into a premier automotive steel manufacturer in China," said Sanjay Sharma, CEO of VAMA. Through involvement in the early stages of automotive design, VAMA hopes to be able to offer product customization. The company plans to adopt ArcelorMittal's most advanced third-generation automotive steel production standards. The “S-in motion” project integrates more than 60 diverse solutions, including press hardened steel and advanced high strength steel. “S-in motion” also includes body-in-white, door and chassis solutions based on cutting-edge laser welded blank and hot stamping technology so as to minimize vehicle weight and reduce energy consumption. “S-in motion” reduces the weight of 43 auto parts in a typical C-class vehicle to achieve a total weight reduction of about 19% compared to conventional technology and cut down carbon emissions by 14% in the entire life-cycle of a vehicle, the China Daily reports.

## China ditches target in new steel consolidation plan

Policymakers have again promised to make it easier for steel mills to merge and consolidate, but they appear to have ditched a long-standing target to bring 60% of the sector under the control of its 10 biggest enterprises by 2015. A new industry consolidation plan published by the Ministry of Industry and Information Technology (MIIT) said authorities would continue to simplify approval procedures and make it easier for firms in sectors like steel, cement and aluminum to finance acquisitions. But the plan did not include the target, last mentioned in official documents in January last year, to put 60% of the country's steel production capacity in the hands of its top 10 mills by 2015, up from about 40%. The target was part of a state strategy to help state-owned steel firms become more competitive by encouraging them to swallow smaller rivals, and led to a series of high-profile mergers in the sector, but the approach has been heavily criticized within the industry, with big firms increasingly reluctant to take on more unprofitable capacity. The focus on size rather than efficiency encouraged smaller private players, backed by local governments, to expand quickly to avoid being taken over by bigger rivals, worsening the supply glut and further eroding sector profit margins.

## Short news

- Many Chinese steel companies are having trouble obtaining financing as the China Banking Regulatory Commission (CBRC) said strict credit guidelines would be imposed on mills that were big polluters and users of energy. “Mills may be charged higher interest rates on loans,” said Hu Shunliang, Investor Affairs Representative with Maanshan Iron & Steel. About 40% of the iron ore at China's ports was subject to financing deals, Mysteel Research estimated.
- Shanghai Bailian Group started publishing a new price index for non-ferrous metals, aiming to create a benchmark in the domestic spot market. The SMEI index is based on spot prices quoted from the Shanghai Metal Exchange electronic platform and also collected from leading producers and traders. The index reflects prices for copper, aluminum, lead, zinc, tin and nickel. It will be published at 11 a.m. every day on the website of the Shanghai Metal Exchange at smechina.com.cn.
- Shanghai’s hot-rolled coil (HRC) steel futures closed little changed on their debut, offering investors another steel-related contract to trade in China. Baoshan Iron and Steel Co’s President Dai Zhihao said the futures will allow the company to better hedge against price risks. The Shanghai bourse introduced steel rebar and wire rod futures in 2009. Shanghai’s rebar is now the world’s most liquid steel futures but restrictions on foreign investment have limited its global reach.

# MINERALS

## Shanxi province, China’s coal hub, eyes restructuring

The coal hub of North China's Shanxi province is striving to restructure its economic growth model amid declining coal prices and increasing ecological costs, senior officials said. “The past year was the most difficult year for us. Pressure from the price decline was as bad as in financial crisis-hit 2009,” provincial Party Secretary Yuan Chunqing said. Shanxi is China's energy base, with coal reserves and output both accounting for one-fourth of the nation's total. Coal output in 2013 reached 960 million tons, of which more than 64%, or 620 million tons, was transported and consumed outside the province. Shanxi also was China's second-largest power supplier. Yuan noted that coal and coal-related industries, such as coke and smelting, accounted for about 80% of the province's industrial added value. Coal price declines since mid-2011 reduced Shanxi's revenue by CNY200 billion. “The golden decade of the coal industry is gone and probably will not come back,” said Zhu Xiaoming, Director of the province's State-owned Assets Supervision and Administration Commission (SASAC). “The only way out is restructuring and modernizing the coal industry,” he added. “Coal remains the fundamental industry for the province in terms of China's energy portfolio,” Vice Premier Ma Kai said. “But the solution is not to expand mining capacity, which will further drive down coal prices, but in extending the industrial chains, such as coal-electricity integration and coal coking business, as well as enhancing efficiency through promoting clean technology.” Liu Jianzhong, Chairman of the Shanxi Coal Transportation and Sales Group Co, said that the restructuring of the coal industry means greater business opportunities in coal-electricity integration as well as the utilization of waste, such as fly ash, a residue of coal combustion.

## Mongolian Mining predicts lower coking coal prices

Mongolian Mining, Mongolia's largest miner of coking coal sold primarily to China, expects the steel smelting ingredient's price to remain weak this year due to oversupply, although it has gained market share from rivals by expanding processing and logistics operations. “I don't expect prices to fall below current levels, but I don't see meaningful price gain either, until demand and supply equilibrium is restored,” Chief Executive Battsengel Gotov told a press conference. Mongolian Mining's average selling price of its mainstay product, hard coking coal, fell 15% last year to USD92.10 a ton from USD108.40 in 2012, owing to an estimated excess supply of over 30 million tons. The excess is expected to fall to between 10 million and 15 million tons this year, helped partly by higher steel output in Europe and the United States, Gotov said. Mongolian Mining posted a net loss of USD58.1 million for last year, from USD2.5 million in 2012 as finance costs almost doubled to USD95.1 million. Revenue fell 7.8% to USD437.3 million as the 15% fall in the average selling price offset a 26% jump in the hard coking coal sales volume to 4.3 million tons. The firm aims to sell six million tons this year. Although China's coking coal imports jumped 41% last year to 75.4 million tons as low-cost imports replaced domestic products, Mongolia's share of the Chinese market fell to 20.4% from 35.7% while that of Australia surged to 40% from 26.2%. Land-locked Mongolia's competitiveness is expected to be constrained until a government-built railway is completed next year or later.

## Recent slump in iron ore prices “normal”, Baosteel executive says

The recent slump in iron ore prices was “normal” and marked a return to its intrinsic value after years of inflation, said He Wenbo, General Manager of Baosteel. Iron ore prices fell the most in more than four years in early March to USD104.70 a ton, the lowest level since October 2012 and down from a recent peak of USD142.80. Analysts said the recent slump of iron ore prices was not mainly due to weak demand from China, the world's biggest iron ore consumer, but instead had been caused by the unwinding of trade financing deals using iron ore as collateral, which dragged prices into a bear market. He Wenbo said the falling price might help boost profitability at Baosteel, which made CNY10.2 billion last year. The Shanghai-based company relies on iron ore imports from Australia and Brazil. The firm planned to keep steel production unchanged at 47 million tons this year, He said, adding that it had no plans for mergers or acquisitions until after 2015. A new, world-class plant in Zhanjiang, Guangdong province, with nine million tons of annual capacity, would begin production in 2016, he said. Baosteel had also been cutting six million tons of steel production capacity located in Shanghai to cut environmental costs and better suit urban development needs. He cautioned against drastically cutting so-called excess capacity, saying China’s demand for steel was tipped to rise for some years. “The demand for steel may continue to rise until 2018 or 2020, and then may stay at the peak level for several years before falling,” he said.

## Shanxi to turn coal into clean energy

Energy officials in Shanxi province are considering creating a coal chemical base to turn the fossil fuel into clean energy. “As air quality keeps deteriorating in most regions of China, Shanxi must advance the establishment of the coal chemical modernization base in the province's northern area. The move will increase the province's supply of coal-transformed gas and oil to the rest of the country rather than just coal or coal-generated power. Meanwhile, the base will make full use of lean coal, which used to be waste. All in all, the move will play a very significant part in easing air pollution through providing clean energy to North China,” Zhu Xiaoming, Director of Shanxi’s State-owned Assets Supervision and Administration Commission, said. The coal-rich province has long been a major energy supplier to neighboring regions including Beijing, Tianjin and Hebei province. Coal output and reserves accounted for about a quarter of the country's total. “We may not change China's coal-dominated energy structure in the short term but we can make the energy cleaner and more efficient,” said Li Jinping, Chairman of the board of Lu'an Group in Shanxi province. Zhu added the base for coal chemical modernization in the province's north will expand output from coal to gas, oil, hydrocarbons and other processed products. Conditions are said to be perfect for setting up the base. The province's north has a coal reserve of 95 billion tons, making it a leading coal base in China. The reserve centers on lean coal, an ideal material for coal gasification. The output of lean coal can exceed 200 million tons per year by the end of 2015, officials say. Large areas of unoccupied land and massive water supplies, crucial to coal processing, are also available. Once established, each year the base will produce 30 billion cubic meters of coal gas, 6 million tons of coal-liquefied oil, 1.2 million tons of coal-converted olefin and 1 million tons of coal-converted ethylene glycol. The base will be established once it is approved by the central government.

## China to establish large iron ore mining groups

China plans to establish a large mining conglomerate focusing on iron ore extraction and smelting operations led by Liaoning-based Ansteel Group, the China Metallurgical Mining Enterprise Association said in a statement. “Ansteel Group will acquire a number of mining enterprises to complete the integration work over the coming years and eventually possess an annual iron ore production capacity of 200 million metric tons in 2025,” said Shao Anlin, Deputy General Manager of Ansteel Group. In the meantime, up to eight large mining groups will also be integrated and established throughout China. Each individual group's production capacity of iron ore will exceed 30 million metric tons a year after a decade. China is the world's fourth-largest iron ore producer with more than 70 billion metric tons of resources, but the nation's dependence on foreign iron ore rose to 70% last year. The country's domestic steel industry has spent more than CNY2 trillion on paying high prices for iron ore from the global market over the past 10 years. To optimize the resources of domestic companies, the Ministry of Industry and Information Technology (MIIT) is working with related government departments and industry associations to draft a plan to restructure China's iron ore sector between 2016 and 2025. China's iron ore imports amounted to 820 million metric tons in 2013, up 10.2% from a year earlier, while China produced 1.4 billion metric tons of iron ore in the same year. “With profound changes in the world market, it is time for China to strengthen its competitive power to secure its iron ore supplies and stabilize its price in the world market,” said Zhao Zhihua, Analyst at the mineral resource department of CITIC Metal Co in Beijing.

## Zhaojin Mining Industry cuts spending after sharp profit drop

Zhaojin Mining Industry has cut spending on capacity expansion this year and turned more cautious on acquisitions, after it posted a worse-than-expected 61.8% net profit drop for last year to CNY734.1 million. The Zhaoyuan-based firm, Shandong province's largest gold miner, has budgeted CNY1.9 billion for capital expenditure this year, compared with CNY3.3 billion spent last year. Chairman Weng Zhanbin said most of the scale-back was from spending on a smelting facilities upgrade, which has been cut to CNY200 million from CNY1.5 billion. “This is because we have completed our major upgrade projects,” Weng said, adding the company also planned to reduce mine construction expenditure to CNY985 million from CNY1.31 billion. Scaling back investment was part of the firm's efforts to raise efficiency as it sought to shift its expansion focus from chasing after scale and speed to quality, Weng said. The average price on the Shanghai Gold Exchange fell 16.8% last year, which more than offset a 12.1% rise in output from Zhaojin’s own mines. It plans to raise output of its mines by 10.3% this year to 536,300 ounces. Total gold output, including smelting of gold ore sourced from third parties, rose 4.2% and is targeted to rise 2.5% this year to 950,500 ounces. It aims to keep the rise in production cost within 10% this year, after it rose 10% to USD672.40 an ounce.

## Short news

- Mongolian coal miner SouthGobi Resources is seeking additional financing to avoid a default on USD250 million in debt, hurt by low prices and weaker-than-expected demand from Chinese buyers. Based on forecasts for this year, SouthGobi will not have enough cash flow to meet obligations including interest payments on debentures held by China Investment Corp (CIC), the Vancouver-based company said. SouthGobi, controlled by a Rio Tinto unit, operates the Ovoot Tolgoi coking-coal mine, which lies about 40 kilometers from Mongolia's border with China.
- The World Trade Organization (WTO) released a report, saying China's export restrictions on rare earths, molybdenum and tungsten are incompatible with WTO rules. China’s Ministry of Commerce (MOFCOM) said it regretted the ruling. The panel report said China proved that the production of rare earths, tungsten and molybdenum could damage the environment and the health of animals and plants, but that it did not provide proof that the duty served a protective purpose or made a substantive contribution to protection. China can appeal to the appellate body within 60 days of the report's distribution.
- China’s first rare earth products exchange opened in the Inner Mongolia Autonomous Region after a three-month trial. The Baotou Rare Earth Products Exchange is expected to regulate the country’s rare earth market, improve the way prices are

formed and promote development of the industry, said Jia Yinsong of the Ministry of Industry and Information Technology (MIIT). The exchange will introduce price bidding, listed trading and real-time trading online, with more than 10 trading items including cerium oxide, praseodymium-neodymium oxide and europium oxide.

- Chinalco Mining has shut down operations at its Toromocho copper mine in Peru after the country's environmental regulator found that it was contaminating two lakes high in the Andes in the district of Morococha, 150 kilometers east of Lima. A video on the regulator's web site showed yellowish water running down a hillside into a blue lake. Toromocho began operations in December following an investment of USD4.8 billion in the mine.

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