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AUTOMOTIVE

Mercedes-Benz launches smart fortwo ed in China

The pure electric smart fortwo ed was launched for sales in China at the Auto Guangzhou show in November. With its introduction, Mercedes-Benz became the first European manufacturer to import an electric vehicle to China. To ensure safer and quicker charging, the smart ed will be charged through a “wallbox” specially designed by KEBA, the global charging partner for smart ed. Mercedes-Benz has chosen two reliable partners for the wallbox, Beijing

Huashang Sanyou and EVBuy in Shanghai. The smart ed only consumes 14.5 kW/h per hundred kilometers, costing about CNY7. Maintenance costs are also much lower than those for a conventional car. A smart ed only cost CNY500 per 10,000 km of driving. The car is priced at CNY235,000, and the wallbox at CNY8,800. After only four years on sale in China, the smart has been a big success. China now ranks third in smart's global business.

Renault-Dongfeng JV receives approval

Chinese authorities have approved the long-awaited USD1.3 billion joint venture between French carmaker Renault and Dongfeng Motor. Each partner will have a 50% share in the new company, Dongfeng said. The government approved the deal and the production of 150,000 multiple-purpose vehicles (MPVs) and engines per year. The approval marks the culmination of almost a decade of negotiations and comes as Dongfeng is separately engaged with Renault's French rival Peugeot over a potential global alliance. Dongfeng and Renault will invest CNY7.8 billion in a dormant company, Sanjiang Renault, that the French company established in 1993 with the China Sanjiang Space Industry Group. Sanjiang Renault's manufacturing plans never took off, leaving Renault as one of the few major multinational car companies without a factory in China. Dongfeng's investment in Sanjiang Renault, which will be renamed Dongfeng Renault Automotive Company, was approved earlier by the State-owned Assets Supervision and Administration Commission (SASAC). It will be based in Wuhan. Dongfeng has an existing joint venture with Nissan, Renault's global partner, in Guangdong province. Dongfeng Nissan is one of the best performing Sino-Japanese automotive joint ventures in China, having outpaced rivals Honda and Toyota over recent years. Dongfeng is also involved in automotive joint ventures with Honda, Kia and Peugeot. According to Synergistics, a Beijing-based consultancy, vehicles produced by Dongfeng's existing JVs account for 17% of the China market, giving it the second largest share behind Shanghai Auto. SAIC commands a market share of more than 20% through its joint ventures with GM and VW. The Renault-Dongfeng joint venture agreement was signed on December 16. The deal allows Renault to fully tap demand in China, something it has been unable to do until now because of the lack of a strong local partner, mainly relying on imports from South Korea.

Geely and BNP Paribas set up auto financing JV

China's privately-owned Geely Automobile Holdings has entered into an agreement with the personal finance subsidiary of France's biggest lender, BNP Paribas, to form an auto financing venture, providing services to Chinese car buyers. Registered capital for the venture will reach CNY900 million, of which 80% is coming from Geely Automobile. Statistics show that in November, Geely's total sales jumped 11% from a year earlier to 57,000 vehicles, making the Hangzhou-based company the 10th largest Chinese automaker by sales. In the first 11 months, Geely sold 488,700 vehicles, up 15% year-on-year. Geely saw its exports surge in November by 51% over last year. As BNP Paribas Personal Finance is offering a range of personal financing services in about 20 countries and regions, CEO Thierry Laborde said participation in China's auto financing sector "represents a big step in our commitment to the financial market in China". This partnership is another milestone in the holding group's development plan in the Asia-Pacific and in China in particular, following an announcement in July to enter a 50-50 equity joint venture with Bank of Beijing in the insurance sector. According to the People's Bank of China (PBOC), by the end of 2012, 16 auto financing companies had been established in China. Also that year, the automobile financing sector grew by 30% year-on-year to CNY392 billion. Analysts also said that in the next decade, the penetration rate of auto financing should rise from 16% in 2012 to 30% or higher, as the Chinese government further liberalizes the personal credit system and more players join the sector with new financing companies, the China Daily reports.

Tesla launches Model S without Chinese brand name

Tesla Motors has started offering its popular Model S sedans in China, but the U.S. premium electric carmaker has yet to give its brand a Chinese name due to a long-running trademark dispute. Tesla recently opened its first flagship store in downtown Beijing and this week launched a Chinese-language website to take orders from Chinese car buyers. "Te Si La," the Chinese name best known among Chinese consumers, has been registered by a local businessman who has been refusing to give up the trademark. Some suggest that Tesla could use an alternative Chinese-language name, "Te Su Le," which means "happiness in boosting speed." Legal experts familiar with trademark disputes in China said it might be difficult for

Tesla to resolve the trademark issue unless it buys the businessman out or uses another name. China has rules that protect globally renowned brands, but that might not apply in the case of relatively new companies such as Tesla, the Shanghai Daily reports.

Volvo: Fate rests in China, not Europe

China will play a pivotal role in Volvo Car Corp's global revival plan, Alain Visser, Volvo's Senior Vice President, told the China Daily. Volvo has set a goal to almost double its annual sales worldwide to 800,000 units by 2020. Its sales for 2013 were projected to be about 420,000. “If you would like to sort the 420,000 by country, you will immediately see No 1 in growth is China and No 2 is the United States,” said Visser. “So for us, the growth and the focus are going to be on those two markets where we believe we have the biggest potential,” said Visser. He made the remarks during a news conference in Beijing on December 13 following the launch of the carmaker's new S60L, its first locally built model. Made at its new Chengdu plant, Volvo's first model produced outside Europe is more than simply a new product, said Visser. Calling the S60L a landmark in his speech at the launch ceremony, Visser said it is a sign of how important the Chinese market is to Volvo. Volvo sold 5,995 cars in China in November, a nearly 70% rise year-on-year, bringing the total figure in the first 11 months to 54,461, a 44.7% increase from the same period last year. “For me, one of the most underestimated elements in the auto industry is that the results of an automaker are the sum of the results of the dealers,” Visser said. Local media have reported that Volvo plans to increase the number of its dealers in China to 170 in 2014 and to 220 in the following year. Now with a larger portfolio of models and growing dealer network, Visser expects even stronger growth in the Chinese market. As brand loyalty is lower in China compared to developed markets, this would help boost Volvo sales according to Visser. “Many customers are changing brands, which is a good thing for us. Because if we want to grow, we need to win customers from other brands,” he said. The S60L made in Chengdu will also be exported to countries including the U.S. Volvo also has a new auto production facility in Daqing in Heilongjiang province, an engine plant in Zhangjiakou, Hebei province, and an R&D center in Shanghai, the China Daily reports.

Michelin finds improvement in driver habits, maintenance

A recent survey by French tire maker Michelin found that seven out of 10 drivers surveyed in eight major cities have an adequate performance in the environmental operation of their cars. It found young drivers score better, but they tend to neglect both safety and environmental protection after owning a car for more than three years. Michelin organized the survey on what it calls “environmenality” and developed evaluation methods in partnership with the Society of Automotive Engineers of China. The 45-day survey of 1,000 drivers was conducted at shops in the TyrePlus Auto Service Network using face-to-face interviews and field checks of auto conditions in Beijing, Shanghai, Guangzhou, Dalian, Chengdu, Qingdao, Wuhan and Xiamen. Each driver's level of environmental performance was rated based on maintenance, driving habits and the environmental performance of their car. The survey also found that 80% of drivers interviewed replaced their engine oil on schedule, but only 25% paid attention to the tire pressure, dynamic balance, oil passages and thermostat. Michelin also made a survey of the environmental behavior of Chinese car owners in 2012 that found drivers had a low level of recognition for “green” tires such as its low-rolling resistance tires. But last year's survey found 56.6% of cars in medium and high-end markets were equipped with green tires, and the number in first-tier cities was still higher. Some 60% of cars less than three years old made at joint ventures in China had original green tires while the ratio for domestic brands was only 30%. But when the time came for replacements, the ratio of all car owners choosing green tires increased to about 50%, the China Daily reports.

Anqing to become major vehicle parts hub

The port city of Anqing in Anhui province plans to establish China's largest auto parts production base in its Economic & Technological Development Zone. There are now more than 10 large-scale auto parts manufacturers in the area, including Anqing TP Goetze Piston Ring Co, a global piston ring maker, and Anqing TP Goetze Liner Co, Asia's largest cylinder manufacturer, said Wang Yaowu, Deputy Director of the zone's Administrative Committee. He added that the zone, which was set up in August 1992, has three pillar industries: ships and machinery equipment manufacturing, pharmaceutical and new materials. However, the zone, with a special industrial region and five industrial parks, also has all the requirements needed to attract companies in the auto parts sector, Wang said. He added that Anqing, which has a population of 6.3 million and some 1.6 million industrial workers, can provide enough skilled employees to meet the demand of large companies in the area. Anqing port is one of the top 10 ports in the Yangtze River area and Anhui province's No 1 port, with the largest waterway transport capacity.

Wanxiang bids for Fisker

Wanxiang, China’s largest car-parts company, made a surprise bid for Fisker Automotive just days before the bankrupt maker of the Karma plug-in hybrid sports car was to be sold to a Hong Kong tycoon. Fisker creditors asked the U.S. Bankruptcy Court in Wilmington, Delaware, to scrap Fisker's agreed sale to a company affiliated with Richard Li and instead hold an open auction at which Wanxiang America plans to bid. Wanxiang plans to restart Fisker's production and eventually move the manufacturing from Finland to Michigan. Fisker filed for bankruptcy in November after being hobbled by production glitches and recalls. Li planned to buy the company after he paid about USD30 million for Fisker's loan from the U.S. government. He planned to bid the USD168 million owed on that loan to acquire Fisker's assets, leaving other creditors such as suppliers with next to nothing. The new suitor, Wanxiang, estimated it could sell more than 1,000 Karma hybrids in the first 18 months in the U.S. and 500 in Europe. The company said in its presentation it could lower production costs, without elaborating. Fisker sold the Karma for more than USD100,000. Fisker Automotive asked a U.S. federal judge to approve its proposed sale to Richard Li rather than to Wanxiang. The court will determine the future of the defunct carmaker on January 10. The creditors' committee has called the Wanxiang bid proposal the best option.

Toyota and Honda post record sales

Toyota and Honda drew a record number of Chinese buyers to their brands last year as they recovered from anti-Japanese boycotts that hurt sales in 2012, but failed to narrow the gap with U.S. and European rivals. Toyota’s two joint ventures in China sold a combined 917,500 vehicles in 2013, an increase of 9.2% over the year before. The company had suffered its first sales decline in China in 2012. Yet in China’s fast-growing market, Toyota’s nearly 10% growth rate still left it a loser in relative terms. It was overtaken by Ford as the country’s fifth-largest foreign automaker after the U.S. group’s sales surged 49% to 935,813 units, also a company record. Toyota also lagged well behind Volkswagen and General Motors, which fought a close battle for top spot with sales of more than 3 million units each. Sales data through November suggest that VW narrowly won. Honda’s rebound in 2013 was stronger than Toyota’s, with its Chinese sales increasing 26% to 756,882 units. The launch of an updated version of its popular Accord sedan in China also gave the company a late-year lift: sales in December jumped 60% compared with a year earlier, Honda said. Toyota, Honda and Nissan’s combined market share has fallen from one-quarter in 2008 to as low as 15% in the middle of last year. Of the three big Japanese brands, however, Nissan has invested the most in China and – not coincidentally – enjoyed the fastest sales growth, increasing its market share at the expense of its two rivals. Sales by Nissan Motor rose by 17% to 1.27 million, higher than the company's target of 1.25 million. Honda has set a sales target of 900,000 vehicles for 2014, nearly 19% higher than in 2013. Toyota Chief Executive Officer Akio Toyoda said earlier that the company will try to offset the impact of relations between the countries on its sales in China, where it aims to sell 1.1 million vehicles in 2014.

Short news

- Volkswagen has unveiled its new “People First” strategy for the Chinese market, renewing the company's focus on serving people in an innovative and responsible way. “Our China strategy is based on three strong pillars: customers, employees and society,” said Jochem Heizmann, President and CEO of Volkswagen China. With 30 years of experience, Volkswagen is the automaker most closely associated with the Chinese market, since the first Volkswagen Santana model was assembled in Shanghai in 1983. By 2018, Volkswagen plans to nearly double its range of locally manufactured models in China to more than 35, including about 15 new-energy models.
- Two auto parts exhibitions were held concurrently with the Guangzhou Auto show in November last year. Statistics show that China's auto parts industry accounts for 35% of the country's entire automotive industry. The proportion is 60% to 70% in developed economies, leading analysts to speculate that there is great potential for growth in the

market. At present, there are nearly 500 foreign auto parts companies with operations in China. The world's top 20 parts enterprises have entered the market through wholly-owned companies or joint ventures.

- 28 Chinese cities and city clusters have been designated to promote the use of new-energy vehicles. Government subsidies will be given to users and manufacturers from 2013 to 2015. By the end of 2012, there were 27,800 new-energy vehicles in 25 cities and 80% of them were buses. The big cities on the list must have at least 10,000 new-energy vehicles in service by 2015, while smaller cities need at least 5,000. Owners of pure electric passenger vehicles are eligible for subsidies of CNY35,000 to CNY60,000. The subsidy for plug-in hybrids will be CNY35,000.
- The explosive growth of the car market in China is also giving life to a new industry: used cars. Chinese started buying new cars in huge numbers about four years ago, about the average length of time analysts say drivers will stick with a vehicle before trading it in for a fresh model. The second-hand market is already taking off, with sales growth last year outpacing that for new vehicles. By volume it is still dwarfed by new cars, which outsold used vehicles three to one. In 2012, used car sales rose 11% to 4.8 million vehicles, while new car sales rose 7% to 15.5 million.
- Authorities in Beijing announced that the city will further reduce the number of new car plates available to buyers and encourage the use of new-energy vehicles. From 2014 through 2017, the number of new cars available to registered drivers in the capital, which is currently handled through the city's monthly plate lottery, will be reduced from 240,000 a year to 150,000. The number of applicants in the November lottery was more than 1.74 million. The new policy will ensure that the capital will add only 600,000 new cars in the next four years, including 430,000 gasoline vehicles and 170,000 new-energy vehicles.
- Matthew Tsien, 53, former Vice President of Planning and Program Management for GM China, succeeded Bob Socia as GM China President on January 1. Tsien is a Chinese-American who has worked for GM for 37 years. He has served as Executive Vice President of the SAIC-GM-Wuling joint venture and helped negotiate GM’s early joint ventures with SAIC.
- The number of private cars in China has jumped 13 times in 10 years. There are now 85.07 million private cars in the country compared to 6 million in 2003, Xinhua news agency said in early December. More than 14 million were added each year in the past two years. Private cars now account for 82.8% of all vehicles in China, with Beijing having the most of any city at 5 million. There are currently more than 275 million drivers in the country, 2.6 times the number in 2003.
- China Central Television (CCTV) has accused foreign carmakers of charging customers more for repair costs than in other markets, singling out Audi, Subaru and Jaguar Land Rover. It also said that many foreign carmakers' dealers were reluctant to repair parts, often insisting on more expensive replacements. The program said it was based on interviews with customers and workers at service workshops designated by foreign carmakers.
- Ford hosted the global debut of its all-new Mustang in Shanghai on December 5. The U.S. company earlier announced that it plans to bring 15 all-new models to China to enrich its product portfolio by 2015, including the premium brand of Lincoln limousines. The Mustang will go on sale in China in 2015. Ford’s total sales in China in the first 11 months of 2013 surged 51% from a year earlier to 840,975 units owing to strong November sales, which grew 47% year-on-year.
- Shanghai’s transportation authority set a unified 72,600 ceiling for the monthly car plate auction in 2014 in an effort to tame prices. Bidders for car plates cannot place prices above the ceiling during the first-round of bids, which are often used as a gauge for second-round bids by participants. The new upper limit was set according to the lowest ceiling imposed last year. A total of about 100,000 car plates will be made available for sales this year, the same level as last year.
- China announced that it stopped levying anti-dumping and anti-subsidy duties on certain types of cars imported from the United States when the measures expired on December 15. On December 14, 2011, China had started levying punitive duties on sedans and sport-utility vehicles (SUVs) with engines of 2.5 liters and above imported from the U.S. The Ministry of Commerce (MOFCOM) said the duties would be terminated because it had not received any applications for a renewal of the anti-dumping investigation. During the first 10 months of last year, 908,000 imported

vehicles were sold in China, up 9.6% from a year earlier.

- Shanghai's car plate prices rebounded slightly at 2013's last auction before a rigid price ceiling mechanism comes into force this month. The average price of a Shanghai license plate rose to CNY76,093, up CNY376 from November. The number of bidders increased 3.7% to 39,625. The city government has announced a unified CNY72,600 ceiling for car plate auctions throughout 2014.
- A new measure by Tianjin city to restrict the number of new car license plates created a buying spree by residents eager to purchase cars in the five hours between the announcement and the time the measure took effect. Car buyers will now have to take part in a lottery or bid at auction to win a license plate. A salesperson at an Audi dealership in Tianjin said the policy increased the store's sales volume tenfold between 7 pm and midnight on December 15. Cars with Tianjin car plates will also be banned from the road for one day a week according to the last digit of their number plate, from March 1 to January 10, 2015.
- BYD Auto has launched a new plug-in hybrid in Beijing, called Qin. It is a dual-mode model designed to run 70 kilometers on a single charge under all-electric mode, said Hou Yan, General Manager of BYD's sales unit.
- Chinese automakers should set their eyes on emerging markets other than BRIC countries to find feasible opportunities in their globalization ambitions, said the Boston Consulting Group (BCG). The company's recently released report said rising automotive markets other than the BRIC "offer the last great growth opportunity" in a world where established markets are stagnating and key market shares have already been claimed in BRIC countries. BCG predicted that 88 countries it calls "beyond-BRIC markets" will generate 6% annual growth in sales by 2020, four times as fast as the established "Triad Markets" it defines as the United States and Canada, Europe and Japan, and Australia and New Zealand.
- The first two fully electric and emission-free buses made by BYD have been put into service in London. In Shenzhen 220 BYD e-buses have been in service since January 2011, traveling more than 20 million km, each carrying up to 120 passengers during rush hours with full air-conditioning in use. BYD said the bus uses about 130 kWh per 100 km in urban conditions. The e-bus battery takes four to five hours to charge from a totally exhausted state. The Dutch island of Schiermonnikoog has already converted its entire bus fleet to pure electric BYD e-buses and a fleet of 35 of the buses has been ordered for Amsterdam's Schiphol Airport.
- China National Heavy-Duty Truck Group Co, China's leading heavy-duty truck maker, recently launched a multiple-brand strategy to diversify its product portfolio as part of its ongoing expansion into international markets. "Developing multiple brands is crucial to sharpening our competitive edge in different market segments," said Ma Chunji, Chairman of the Shandong-based company, also known as Sinotruk. "Multiple brands enable us to target various market needs, providing consumers with products that have diverse features and prices," he said at the company's 2014 business and trade conference in December.
- Shanghai General Motors recalled nearly 1.5 million vehicles in one of the largest such vehicle recalls in China in 2013. A faulty fuel pump bracket may crack and pose a safety risk, the company said, adding that the problem lay in the supplier's manufacturing process. Up to 1.2 million Buick Excelle made between January 17, 2006 and December 2, 2011 and 243,297 Chevrolet Sail made between April 9, 2009 and October 8, 2011 are affected by the recall. The two models involved are among General Motors's best-sellers in China. Ford Motor Co's joint venture with Chongqing Changan Automobile Co will also recall 80,857 of its Kuga cars over a steering part from February 21. The component might break apart when the car is involved in a collision of "considerable intensity," posing safety dangers.
- Ford Motor Co and its local partners in China sold a total of 94,838 vehicles on a wholesale basis in December, up 35% from a year earlier, compared with a 47% increase in November and a 55% jump in October. In 2013, sales by the U.S. automaker totaled 935,813 vehicles on a wholesale basis, up 49% from 2012, helped by the Ford Focus, the best selling model in China last year.
- China's passenger car market accelerated in 2013 by posting a double-digit growth in sales after slowing for two years, the China Passenger Car Association (CPCA) said. The sales of sedans, sport utility vehicles (SUVs), multi-purpose vehicles (MPVs) and minivans jumped 17% to 17.2 million units.

METALS

Hebei cuts iron and steel making capacity

Hebei province eliminated 4.56 million metric tons of iron making capacity and 6.8 million tons of steel making capacity in three cities in late November, marking the start of the province's campaign to cut excess production capacity. Ten blast furnaces and 16 basic oxygen furnaces were dismantled in Tangshan, Handan and Chengde. With the demolition of the facilities, about 2.76 million tons of coal can be saved, and sulfur dioxide emissions will be cut by 9,800 tons. The Chinese government has set a target to cut 80 million tons of steel production within five years. Hebei – the largest steel production area in the country and one of the most polluted provinces – will cut 60 million tons of steel capacity by the end of 2017. Hebei's steel production capacity is 200 million tons annually, and the province has topped the chart in China for 12 consecutive years. Hebei plans to cut another 26 million tons of capacity by 2020 in addition to the 60-million-ton reduction by 2017. In 2012, Hebei's steel output was 10.48 million tons, accounting for about half of the country's crude steel output. The National Development and Reform Commission (NDRC) will work together with government departments to reduce steel oversupply, optimize the industrial structure, upgrade steel products, reduce substandard capacity, and build a more market-based system, Li Zhongjuan, an official from the NDRC said. Zhu Jimin, Executive Vice Chairman of the China Iron and Steel Association (CISA), said the Association will work with government departments to set up a steel oversupply alert system and to promote steel production upgrades. It will also provide advice for steel firms planning to expand abroad, and will help companies to produce greener products.

Moody’s forecast slow steel demand growth

According to Moody's Investors Service’s report “2014 Outlook – Asian Steel and Coal, Oversupply and Weak Prices Drive Negative Outlooks”, demand for steel will increase a modest 2% to 3% in 2014 as the Chinese government tolerates slower gross domestic product (GDP) growth and shifts economic growth drivers to domestic consumption from infrastructure spending. “The Chinese government's push to cut inefficient steel capacity will be credit positive for most large steel producers in the region. However, uncertainties remain as to the timing and the scale of the capacity cuts,” said the report. The severe overcapacity problem has been the biggest obstacle for China's steel industry, which has affected steelmakers' profits in the past few years. The China Iron and Steel Association (CISA) predicts that the steel industry's profits in 2014 will reach CNY21 billion, 12 times as much as the industry's profits in 2012. Xu Xiangchun, Information Director of industrial information consultancy Mysteel, said the dramatic profit growth is caused by the extremely low base in 2012. China's steel industry earned a total profit of CNY1.58 billion in 2012, a 98.22% year-on-year drop, caused by rising iron ore prices and a weak market. China is expected to use 715 million tons of steel this year, which represents a 3.2% year-on-year growth, the South China Morning Post reports.

First 2014 quotas for non-ferrous metals announced

The Ministry of Commerce (MOFCOM) announced the first round of 2014 export quotas for non-ferrous metals, including rare earth, and a list of enterprises eligible for export. The first round of export quotas assigned for tungsten, antimony, silver, indium, molybdenum and tin account for 70% of the quota set for all of 2014. A total of 13,314 tons are allocated for light rare earths and another 1,796 tons for medium and heavy rare earth metals, slightly down from last year’s first export quota at 15,501 tons. Twenty-eight rare earth production and circulation enterprises will share the quota, including the country’s top rare earth producer Inner Mongolia Baotou Steel Rare-Earth (Group) Hi-Tech Co. The Ministry said some companies were excluded from the allocation because of problems in their mines or environmental protection practices.

States Reserves Bureau may buy copper and nickel

China’s State Reserves Bureau is working on plans to buy about 300,000 tons of copper and up to 150,000 tons of nickel in 2014 to take advantage of weak international prices. The potential purchases would be equivalent to two-thirds of copper stocks and half of nickel stocks in the London Metal Exchange's registered warehouses, which would push up prices. Details of the plans have not been finalized, after the state body made inquiries about global supply and premiums of the two metals. The Bureau was likely to import the metals through mostly state-owned firms and the plans were unlikely to be announced, sources said. China usually does not announce import figures for strategic stockpiling and the quantity of state stocks and an official at the Bureau refused to comment on the plans. The state stockpiler was stepping up purchases to build copper and nickel stocks after the Bureau's new leadership, in place since the start of last year, had assessed stocks of the metals to be too low. The stockpiler had not bought large amounts of copper last year as it expected prices to fall, the South China Morning Post reports.

Aluminum overcapacity deepens

Even as one-fifth of the nation's electrolytic aluminum capacity lies idle, producers are adding new facilities – a combination that will mean a glut of the metal in 2014 and falling prices, industry experts said. “China is facing severe overcapacity in the electrolytic aluminum sector, with a low utilization rate,” said Wen Xianjun, Deputy Chairman of the China Non-ferrous Metal Industry Association. The capacity utilization rate is about 78% to 80% according to the Association. Wen said that it is sometimes necessary to use administrative measures to limit new capacity. At the moment, only Henan province has plans to cut capacity, while Xinjiang is rapidly adding capacity, according to Wan Ling, Manager of China Non-ferrous Metals at commodity data firm CRU International. “Because of falling coal prices and electricity subsidies from local governments, the production cost for electrolytic aluminum is declining and capacity is still increasing. Many plants in Xinjiang and Gansu have been put into operation since September,” she said. Xinjiang has 3 million metric tons of capacity, and producers plan to take the total to 10 million tons. Wan estimated that China will have 2 million tons of new capacity this year. “The new capacity far outstrips the reductions,” she said. As China is adding capacity, international mining giants are shutting down plants because of rising costs and weak markets. In 2013, UC Rusal, the world's largest aluminum producer, shut 720,000 tons of capacity, which reduced its output by 320,000 tons. It is expected to eliminate another 300,000 tons of capacity in 2014, the China Daily reports. China began curbing overcapacity in the primary aluminum industry in 2002, but its efforts went nowhere, as more than 80 percent of the current facilities were built since the capacity-cutting campaign began. Chinese aluminum capacity is likely to continue to grow by 2 million to 3 million metric tons annually in the next few years. China's national output of the light metal has risen by 3.36 million tons annualized since the first quarter of this year, while output in the rest of the world has contracted by 1.06 million tons over the same period.

Hebei Iron & Steel Chairman investigated for corruption

Hebei Iron and Steel Chairman Wang Yifang has resigned, reportedly because of an investigation into corruption. He has been replaced as Chairman by Yu Yong, the 50-year-old former Managing Director. An article in the People's Daily said Wang was accused of links to “stolen mine assets”. In the first three quarters of last year, Hebei Iron and Steel's net profit plunged 68.2% to CNY116.92 million, due to oversupply and low steel prices. The foreign investments of the group will also come under increased scrutiny. The most recent foreign forays made on Wang's watch include July's purchase by Hebei Iron and Steel of a 35% stake in South African-listed Palabora Mining, where the Chinese firm was part of a consortium that acquired 74.5% of South Africa's biggest copper-mining firm for USD476 million; a CAD194 million deal in April 2012 with Canada's Alderon Iron Ore for a stake in mining assets; and a May 2011 agreement with Australia's Richmond Mining worth USD170 million to develop the Buena Vista Iron Ore Mine in the U.S. state of Nevada. The allegations of wrongdoing could also trigger calls from shareholders in partner and invested companies to distance themselves from Hebei Iron and Steel. Hugo Williamson, Managing Director of Risk Resolution Group, a British consultancy, said such allegations could result in extra scrutiny of a wide range of relationships that foreign firms had with Chinese state-owned enterprises (SOEs). Deals with companies in Canada in particular were likely to be examined by domestic investigation agencies if allegations of bribery were involved, Williamson said. Hebei Iron and Steel did not reply to repeated requests for a response to questions from the South China Morning Post.

Tangsteel receives loan facility from Deutsche Bank and Duferco

Deutsche Bank together with Duferco arranged an USD800 million structured prepayment term loan facility for Tangsteel in Tangshan, an industrial city in Hebei province. It is the largest structured commodity trade financing facility ever completed for a Chinese company. “This round of financing is meant to support Tangsteel's export of high-end cold rolled steel products," said Frank Wu, regional head of structured commodity trade finance, Asia-Pacific, for global transaction banking at Deutsche Bank. In March, Tangsteel acquired a 10% stake in Switzerland's Duferco International Trade Holding, the world's biggest steel trader, to deepen its cooperation in the international market. At that time, the two companies signed a steel products structural payment agreement worth USD1.2 billion, which gave Tangsteel a relatively more stable channel to sell its products abroad in the face of a gloomy domestic market. "This global strategy is the key to Tangsteel's development," said Yu Yong, President of Tangsteel and also newly named President of Hebei Iron and Steel Group (HBIS), Tangsteel's parent company. Over the past year, Duferco's steel trade volume was more than 16 million metric tons, equal to the total output of HBIS. Through its distribution channels, steel products can be sold to 28,000 end customers in European, North American and South American markets. By cooperating with Duferco, Tangsteel's exports during the first 11 months of last year increased by 96% year-on-year to 2.79 million tons, the China Daily reports.

Smelters face consumption-based power tariffs

The central government has stepped up its efforts to tackle overcapacity in the aluminum smelting industry and reduce pollution by imposing tiered electricity tariffs based on the previous year's consumption. The move is expected to affect a large number of smelters as the bar for exemption from the policy is set fairly high. It is also in line with the new leadership's policies to shift the main driver of economic growth away from fixed-asset investments to consumption and services, combat chronic air pollution and cut industrial overcapacity. From January 1, aluminum smelters whose power consumption last year exceeded 13,700 kilowatt-hours (kWh) per ton, would be subject to a power bill surcharge of CNY0.02 per kWh, the National Development and Reform Commission (NDRC) said. Those exceeding 13,800 kWh will have to pay CNY0.08 per kWh more. Smelters using more than 13,700 kWh per ton are also banned from entering into direct supply deals with power generators. These deals offer cheaper power to smelters as they bypass the local grid operators, which otherwise enjoy monopoly status. By contrast, those consuming less than 13,350 kWh per ton will be given "preferential support" to enter into such deals. According to data from the China Non-ferrous Metals Industry Association, the average power consumption of the aluminum smelting industry was 13,844 kWh last year. This represents an average annual decline of 0.9% from 2007 as new and efficient plants are added and obsolete ones are shut.

Short news

- China will relocate some steel factories and encourage more companies to invest in overseas projects, Li Zhongjuan, Inspector of Industrial Planning for the National Development and Reform Commission (NDRC), said. Outdated capacity will face punitively high rates for electricity and water, Li added. Moreover, a database will be established to provide early warnings of steel-making overcapacity. In a guideline published in mid-October, six provinces, including Hebei and Shandong, were targeted for the industrial restructuring of the steel sector.
- The growth rate of China's steel demand will decline from 6.3% in 2013 to 3.2% in 2014 in the wake of the country's economic transformation and the government's efforts to improve the environment. The nation's steel consumption this year is estimated at about 715 million metric tons, which represents a 3.2% year-on-year growth rate, Li Xinchuang, Dean of the China Metallurgical Industry Planning and Research Institute, said. China will import 850 million metric tons of iron ore in 2014.
- Chinese metals and mining companies are constrained by uncertain long-term growth prospects because of a lack of supply discipline and slowing demand growth, Fitch Ratings said. The credit agency said in a report that the outlook for the metals and mining sectors was negative. "As China shifts from an investment-driven economy towards a more consumer-led one, long-term demand growth for metals is expected to slow," it said.
- The mainland's net gold imports from Hong Kong fell 42% to below 100 tons in November, reflecting a drop in demand from jewelers and retail investors after strong purchases in recent months. Net flows into the mainland, excluding imports by Hong Kong from the mainland, slipped to 76.39 tons from 131.19 tons in October, data from Hong Kong's Census and Statistics Department showed. Total mainland imports from Hong Kong stood at 107.36 tons, down from 147.92 tons.

MINERALS

Yanzhou Coal gains green light to acquire all of Australia unit

Australia has ruled that China's state-owned Yanzhou Coal Mining does not need to cut its stake in local unit Yancoal Australia to below 70% and instead can move to 100% ownership. “Significant challenges” had emerged in the coal industry since the ownership conditions were imposed in 2009 as part of a takeover, Australian Treasurer Joe Hockey said. “The government has no in-principle objection to 100% foreign ownership of Australian companies where it is not contrary to the national interest and is open to any such proposals from Yanzhou in the future”, he said. Yanzhou Coal, China's fourth-largest producer, won approval from the Australian regulator in 2009 for its purchase of Felix Resources for AUD3.3 billion on condition it listed the assets in Australia and reduced its stake to less than 70%. The conditions also provided Yanzhou, which owns 78% of Yancoal, with the ability to seek the Treasurer's approval to adapt these conditions, Hockey said. The coal industry was experiencing “slowing demand, declining coal prices, and a number of mine closures”, he added. Last year, Yanzhou Coal bought Gloucester Coal and merged it with Yancoal. The combined entity kept Gloucester Coal's listing and trades in Sydney with a market value of AUD651 million. After the Gloucester Coal deal, Yanzhou Coal was given a deadline of December 31 to reduce its Yancoal stake.

Short news

- China’s largest aluminum producer Chinalco has dropped out of the race for Glencore Xstrata’s USD5.9 billion Las Bambas copper mine in Peru, leaving Minmetals Group (MMG) as the front-runner. It was expected that China’s National Development and Reform Commission (NDRC) wouldn’t allow for two competing bids. Chinalco is already present in Peru with its Toromocho copper mine, but MMG was seen as having more experience of integrating large Western businesses, sources said.
- Chinese companies are on the hunt to buy overseas coal mines as Beijing’s switch to cleaner fuels stokes demand for higher-quality coal produced in countries such as Australia. These include Australian and Mozambique coal operations of Rio Tinto, and Linc Energy, which is selling its New Emerald Coal business. But they are not rushing to buy as they expect coal mine prices to drop further in the coming months. As part of new cleaner-energy policies, China will push the use of better-quality coal. Private Chinese company China Kingho Energy has offered a hefty 110% premium in a AUD66 million bid for Australian coal explorer Carabella Resources.
- Iron ore exports to China from Australia’s Port Hedland, which handles about a fifth of the global seaborne market, rose 38% in November from the same month last year in another sign of solid Chinese demand. Shipments to China amounted to 22.3 million tons, compared with 16.2 million a year earlier.
- An explosion on December 13 killed 21 workers at the Baiyanggou coal mine in Xinjiang. 34 miners were working underground at the time of the explosion, 12 workers managed to escape but 22 were trapped by the blast. Only one of the trapped miners survived the explosion.
- Liang Jingli, Chairman of state-owned Guangxi Liuzhou Iron and Steel (Group), is under investigation for “severe violation of discipline”, by the government of the Guangxi Zhuang Autonomous Region, the firm's Shanghai-listed subsidiary, Liuzhou Iron and Steel, said on December 3.
- Rare earth producers nationwide are being encouraged by the government's economic authorities to consolidate into six groups: the North Rare Earth Group; China Minmetals Corp; Aluminum Corp of China; Ganzhou Rare Earth Group Co; China National Nonferrous Metals Industry Guangzhou Corp; and Xiamen Tungsten Co. The six groups are mainly based in major manufacturing areas in Baotou in the Inner Mongolia autonomous region, Ganzhou in Jiangxi province, Guangdong province and Fujian province.
- The number of deaths related to mining in China declined by 24% in 2013, the government said. China has the world’s deadliest coal mines, and authorities have made it a priority to improve safety by enforcing rules. The central government said there were 589 mining accidents last year, leaving 1,049 people dead or missing.
- Minority shareholders of China Resources Power Holdings (CRP) have accused its Directors of lying about the extent of its control over a coal joint venture, which was

the center of an alleged breach of fiduciary duties by Directors, the Hong Kong High Court heard.

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Contact:
Flanders-China Chamber of Commerce
Lammerstraat 18, B-9000 Gent
Tel.: +32 9 266 14 60/61 – Fax: +32 9 266 14 41
E-mail: info@flanders-china.be

Website: www.flanders-china.be

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The FCCC Newsletters are edited by Michel Lens, who is based in Beijing and can be contacted by e-mail michel.jc.lens@gmail.com . Disclaimer: the views expressed in this newsletter are not necessarily those of the FCCC or its Board of Directors.