法兰德斯中国商会 FCCC VCKK

FLANDERS-CHINA CHAMBER OF COMMERCE
VLAAMS-CHINESE KAMER VAN KOOPHANDEL

AUTOMOTIVE METALS & MINERALS NEWSLETTER | 2

MAY 2013

AUTOMOTIVE

Study “Automotive Industry in South China”

The study “The Automotive Industry in South China: Opportunities for Belgian Automotive Part Suppliers” has been published by the Consulate General of Belgium in Guangzhou. The Chinese automotive industry rebounded in the middle of 2012 with production and sales figures topping 19 million units, even with MOFCOM canceling incentives for this pillar industry, in favor of incentives for R&D and high-tech car part production. Manufacturers faced with overcapacity or stalling demand are starting to refocus on exporting to the ASEAN, the Middle East, India, and other developing markets. Last year, the Southern Chinese provinces of Guangdong and Guangxi together produced 17.2% of China’s domestic car production. Demand for high tech automotive parts is high, while low tech parts are faced with strong competition from low-tech, labor-intensive local players. Due to significant import taxes, most foreign car part manufacturers operating in China produce locally, with the exception of some Japanese brands that import directly from Japan. The production of high-tech car parts is one of the key industries to be developed in the coming years, together with New Energy Vehicles (NEVs). Many regional authorities are investing heavily in these fields, but consumer demand still lags behind. This has not prevented car makers to start catering to this market, such as Volkswagen with its China-tailored electric Lavida, SAIC with its Roewe brand and BYD with its hybrids and EVs. Guangdong is one of the major automobile manufacturing regions in China, with important new greenfield investments by Volkswagen and Peugeot-Citroën.

The 24-page study (PDF-format) is available by sending an e-mail to info@flanders-china.be.

Luxury car warranties better in mainland China than in HK

Buyers of luxury cars on the mainland seem to be getting a much better deal than those in Hong Kong. A Mercedes-Benz owner in Hong Kong gets just a two-year or 80,000-kilometer warranty – whichever comes first – on major components including the engine and gear box. Mainland buyers, however, get a three-year warranty with no cap on mileage. The terms for Mercedes owners in the United States and Canada are even more favorable. Buyers there receive warranties for four years or up to 80,000 km, according to dealers' websites. The Canadian warranties do not just cover major components but also wear-and-tear items such as brake pads and discs, for two years, while the U.S. warranties cover the same for one year. Warranties for Hong Kong buyers of BMWs are also the least favorable. A local BMW sales agent said buyers are given one year of warranty on major components. According to BMW sales agents in mainland China, buyers get two years and unlimited mileage. According to BMW websites in the U.S. and Canada, new cars there come with warranties of four years or 80,000 km. Zung Fu, the sole distributor of Mercedes-Benz in Hong Kong, said the warranty terms are decided by the carmaker according to the market environment. Its Chief Executive, Michael Lee, however, told the South China Morning Post that there is no free lunch, as car prices also vary between markets. The basic version of Mercedes' ML350 SUV, for example, sells for CNY899,000, excluding tax and insurance, on the mainland - compared with HKD699,000 in Hong Kong. The SUV is cheaper in the U.S. and Canada, at USD54,941 and CAD59,500 (HKD455,000) respectively. Wesley Wan, a Mercedes owner and President of the Hong Kong Automobile Association, said the small size of Hong Kong's car market means usually there is just one dealer for the whole city, resulting in lack of competition. “Hong Kong cannot be compared with vast markets like China and the U.S.,” Wan said.

Nissan says China sales to recover in three months

Nissan Motor expects sales in China to rebound within three months, as demand for Japanese-branded vehicles recovers, and despite the ongoing dispute over the Diaoyu islands. “We've seen growth in retail year-on-year in March and year-to-date," Andy Palmer, Executive Vice President of Nissan Motor said in late March. “When we are seeing retail growing, we can be pretty sure that within three months we will see wholesale coming back to a position better than the previous year.” Nissan sales in China, its largest market, fell 17% to

110,000 units last month and declined 5.3% in 2012, as anti-Japanese sentiment deterred consumers from buying cars made by companies including Toyota Motor. Nissan is more affected than other Japanese carmakers by a slump in China because it has the largest proportion of sales there among its peers, selling about one in four of its cars in the country. Chinese consumers have shunned Japanese products since tensions flared in September over disputed islets, known as Senkaku in Japanese and Diaoyu in Chinese. Nissan sales slumped by more than 30% in the fourth quarter of last year in China. Palmer is more bullish than Nissan Chief Executive Carlos Ghosn, who has warned the dispute may lead it to review its future investment plans in China.

Cancer-causing substances found in cars sold in China

Cancer-causing substances have been found in mass-market brands of cars sold in China. Four foreign brands, including General Motors' Chevrolet, and a Chinese make, were found with toxic materials in locally-produced or imported models, China Central Television (CCTV) reported. Polycyclic aromatic hydrocarbons (PAH), a highly poisonous compound which can damage human genes if breathed in or is in contact with the skin, was detected in steering wheel and headrest samples of five car models among around 40 by Center Testing International, a third-party laboratory officially recognized by the China National Accreditation Service for Conformity Assessment. The affected models were the Chang'an Yuexiang with 23.5 mg/kg PAH found in the surface materials of its steering wheel and headrest, the Mitsubishi Outland with 6.8 mg/ kg, Hyundai Santa Fe with 5.4 mg/kg, Shanghai GM Chevrolet Aveo with 7 mg/kg, and Chang'an Suzuki Alto SX4 with 6.4 mg/kg. Xiu Yu, who oversees an auto website in China and initiated the testing project, said he had received many reports about people feeling unwell and dizzy after driving, which was what prompted him to look into the in-vehicle contamination issue. Currently, China has no official limit for the amount of PAH in vehicle interiors while Europe and the U.S. have strict standards. The Chevrolet Aveos and Suzuki Alto SX4s sold in Germany were not found to have PAH in their steering wheels according to a test initiated by CCTV. China's only guideline for limiting harmful substances inside cars is optional, which means manufacturers are not obligated to ensure a clean environment inside the cabin, and consumers don't have the right to seek compensation for any related health problems. Sources of pollution can be materials such as leather, textiles, plastics and other parts processed with poisonous chemicals. Glue, paint and diluting agents can also be the source, the Shanghai Daily reports.

Only 20,000 new-energy vehicles sold in past two years

Despite strong government support for new-energy vehicles, fewer than 20,000 have been sold over the past two years, according the latest figures from China's Ministry of Science and Technology. A major cause for low sales is the nation's scarcity of electric charging facilities, say industry experts. In Beijing, a map of the capital's stations shows the city now has just 14 in operation, most of them in the suburbs outside the Fifth Ring Road. They mostly service electric buses, with just a few designed to accommodate privately-owned cars. At one station near the Third Ring Road, where construction began at the beginning of last year, work gradually slowed to a halt. Beijing Electric Power Co is the main builder of the city's electric vehicle charging stations. The company said it built 60 charging stations with 1,080 charging stalls by the end of 2012, but few are now operational. The Beijing municipal government calls for 256 stations and 42,000 charging stalls by the end of 2015. Some densely populated cities are now promoting pure electric and plug-in hybrids to ease increasing environmental pressures, but it was very difficult to get land for charging facilities in high-density cities. Building stations in residential communities also faces challenges. Moreover, standards for charging equipment and vehicles are not unified and different brands may have different specifications. Despite the difficulties, support for new-energy vehicles remains strong. The Beijing government recently drafted a new policy to support new-energy vehicles that exempts electric cars from the license plate lottery and offers a combined subsidy of up to CNY120,000 from the central and municipal governments, said Chen Guiru, Deputy Director of the Beijing New-Energy Vehicle Development Promotion Center. Detailed implementation measures for the new policy will be released this month. Similar incentives were adopted in Shanghai. 25 pilot cities for new-energy vehicles now have 27,400 such vehicles on the road, but 23,000 are used for public services including buses and taxis. The central government has set a goal of 500,000 new energy vehicles sold by 2015, the China Daily reports.

New fuel efficiency regulations introduced

Stringent new fuel efficiency regulations for passenger vehicles released in March by the Chinese government could put more pressure on indigenous carmakers, as they limit average fuel consumption for a carmaker's entire fleet instead of for each model. The new regulation takes effect this month. The goal is to reduce the average passenger vehicle fuel consumption in China to 6.9 liters per 100 km by 2015. Taking product planning and model cycles into consideration, the standard will be flexible in the transitional period to 2014, the Ministry of Industry and Information Technology (MIIT) said in an explanatory note. For this year, the limit is 6% above the 2015 goal, and in 2014, 3% above the final target. Each June, the Ministry will release a report on the average fleet fuel efficiency for the previous year. The first such report will come out this June. Reward and penalty policies will be formulated at a later date. According to statistics from the China Passenger Car Association (CPCA), fuel consumption in locally-produced passenger cars already reached the target of 6.9 liters per 100 km last year. Industry observers said the new policy will put added pressure on non-compliant domestic carmakers because they generally lag behind foreign counterparts in fuel-efficient technologies. Many domestic carmakers are now working on small-displacement, turbo-charged engines. One shortcut is buying advanced components from international manufacturers, but the costs would greatly increase, something they can ill afford. Some foreign brands are solely imports, and most of their lineup are vehicles with big engine displacements. Therefore, import-only carmakers will have to adjust their lineup and bring more cars with small engines to China. To promote sales of all-electric, plug-in hybrid and fuel battery vehicles, they will be weighted by a factor of five in the calculation. Additionally, hybrids and other energy-saving vehicles with fuel consumption below 2.8 liters every 100 km can carry a factor of three. By promoting new-energy vehicles, the government said that average fuel consumption of all passenger vehicles made in 2020 will be reduced to 5 liters per 100 km, the China Daily reports.

Zhongding Power to produce OPOC engines

Zhongding Power, one of China's largest auto parts makers, plans a USD200 million factory to build a radical new engine developed by the Detroit startup EcoMotors. The "opposed piston, opposed cylinder" (OPOC) engine's features include smaller size, lower cost, higher fuel efficiency and fewer emissions. The private Chinese firm, which plans to ramp up production in Xuancheng, Anhui province, in 2014, said it will supply engines to a range of customers for use in commercial and off-road vehicles, as well as stationary generator sets. The plant will have an annual capacity of 150,000 and will also supply engines to EcoMotors for sale to its own customers. OPOC is a unique engine designed by Peter Hofbauer, a former Volkswagen engineer who is Chairman of EcoMotors in Allen Park, Michigan, U.S. The basic OPOC design features two cylinders and four pistons. It has fewer parts than a conventional engine and produces more power for its size. Versions of the OPOC engine can run on diesel fuel, gasoline or compressed natural gas. The initial design to be produced by Zhongding is a diesel that will be built in different versions, from 180 to 240 horsepower, according to EcoMotors CEO Don Runkle. Zhongding also is discussing an option to build a second OPOC engine plant with similar capacity, Runkle said. If approved, the second plant might build smaller versions of the engine, producing 80 to 100 horsepower, he said. The smaller engines would be more suitable for passenger cars. EcoMotors, which was founded in 2008, has raised over USD66 million in venture funding.

Rolls-Royce looks beyond China for growth

As sales slow in China, Rolls-Royce is looking to Japan and new markets such as Vietnam and the Philippines to retain its momentum. The luxury carmaker also has no plans to build an SUV, despite pictures of a purported Rolls-Royce SUV doing the rounds. Rolls-Royce's plans to explore new markets this year come amid dwindling sales in China's super premium car segment, in which key players such as Bentley, Aston Martin, Maserati and Lamborghini all saw growth slow last year. While Rolls-Royce does not give out regional sales figures, the fact that the United States replaced China last year as the company's biggest market points to China's waning appeal to luxury carmakers. "Japan has the most high-net-worth individuals in Asia, and confidence there is on the up," said Paul Harris, Regional Director for the Asia-Pacific. While China will obviously remain an important market, Harris dismissed speculation that the company would build an SUV, a move that every carmaker is making in China because of the category's popularity. But Harris said the company was not a "me-too brand" and it did not need to go down roads because others were doing so.

Chinese carmakers still don't spend enough on R&D

It could take another decade before Chinese carmakers become a threat to their overseas rivals, as most spend just a fraction of what their Western and Japanese counterparts allocate to research and development (R&D). Brilliance Auto – one of the most profitable Chinese carmakers and a joint-venture partner with BMW – invested just CNY5 million to develop its own minibus last year. That may be six times the R&D outlay of the previous years, but it is still a meagre sum when compared with R&D spending by Mercedes-Benz or BMW, which spend an average of €2,879 and €2,164 per unit, respectively. Even at the more ambitious carmakers Geely and Great Wall, which spend over USD100 million a year to develop their own engines and car models, the sums are still far less than the billions of U.S. dollars their foreign counterparts spend every year. Sanford C. Bernstein said they lack the momentum and resources to develop their own brands and that many of the state-owned enterprises still rely heavily on their joint-venture partners. Engineers recruited by Bernstein to test and dismantle two cars made by Geely and Great Wall concluded that even though the two carmakers are catching up with international standards for body structure and safety, they nevertheless lag far behind on engines, transmissions, technology and refinement.

Vehicle sales break 2 million mark in first quarter

China's monthly passenger car sales in March surged 15% from a year earlier to 1.46 million units, a huge jump from a 4.7% sales drop in February when most showrooms nationwide were shut for the week-long Lunar New Year holiday. Many carmakers boosted their production capacity during the holiday to prepare to launch new models in March and April. The 15th Shanghai International Automobile Industry Exhibition was held from April 20 to 29. The sales boost in March helped drive the total figures for the first quarter of the year past the 2-million mark for the first time in history. In March, 2.09 million units of vehicles were sold, up 10.9% from a year earlier, while 2.04 million units were produced, a 10.7% annual rise. This strong upward trend pushed production of cars in the first quarter up 12.9% from a year earlier to 5.4 million units while deliveries expanded 13.2% to 5.43 million units, which "sets a good foundation for stabilizing the production and sales situation for the whole year," the Association said. Striking an "optimistic" note, the China Passenger Car Association (CPCA) in January targeted 7% growth in auto sales this year despite the relatively sluggish market. China's auto market grew 4.33% last year, slightly better than the 2.45% increase in 2011. The total sales of passenger cars, sport-utility vehicles, multi-purpose vehicles and minivans jumped 15% year-on-year to 1,459,095 units in March, the third-highest monthly growth in a year, the Association said. The strong performance in March boosted first-quarter domestic passenger vehicle sales to 4.21 million units, up 19.2% year-on-year. In 2010, China had 90 million vehicles on its roads, and the figure surged to more than 120 million by the end of last year. The number of cars is expected to be between 260 and 330 million in 2020, with 70% of the vehicles in cities. "General Motors expects the number of vehicles on China's roads to surpass that in the United States and Europe by the end of this decade," Gary Smyth, Executive Director of General Motors' global R&D laboratories, said. GM's sales increased 12.6% year-on-year to 290,538 units last month, the second-highest monthly sales total in the company's history in China. That helped its domestic sales in the first quarter grow to 816,373 units, up 9.6% from the same period last year. Ford Motor Co also posted record-high sales in March and in the first quarter. Ford's sales of 81,387 units represented a 65% surge year-on-year.

Continental Tires aims for Top 3

Germany's Continental Tires is aiming to become one of China's top three tire makers and suppliers over the next five to six years through an aggressive expansion of its retail network. Jay Dhillon, General Manager of Continental Tires China, said the company added a further 1,000 authorized franchised stores last year, giving it a total of 2,500. It also expanded its production capacity during the year, investing USD175 million in the second phase of its plant in Hefei, Anhui province. "We will open another 1,000 authorized stores in 2013 – three a day – as well as deepen our footprint into more second- and third-tier cities, and maintain that speed over the next three years," said Dhillon. "In 2012, Continental entered the second phase of our development in China, after establishing a stable foothold here. But we need to go much faster. We spent 80% of our marketing budget on opening shops and doubling our sales team in 2012," he added. In February, Continental opened its 12th BestDrive flagship store in China in Beijing. It plans to double the number of BestDrive stores this year and add 10 to 15 a year for the next three to five years. A recent report from consulting firm AlixPartners showed that China's automobile service sector will grow at about 30% year-on-year on average between 2009 and 2014, driven by an increasing and aging vehicle population. Although more than

90% of Continental's China business comes from tire replacement, the remainder is from the original equipment tire sector. Dhillon said he hoped for a more-balanced 65%-35% split. The company is also looking to long-term partnerships with rising local Chinese brands. “The future local production of Volvo and Jaguar Land Rover vehicles will definitely boost our OE business,” Dhillon added. Continental expanded its production capacity heavily in 2012, investing €134 million in the second phase of its plant in Hefei, which will soon have an annual production capacity of 8 million tires. The plant is designed to reach a capacity of 16 million. Italian tire maker Pirelli said recently it is planning a USD200 million investment to make China its largest global manufacturing base by 2014. In January, Michelin Group said it invested nearly USD1.5 billion to open its biggest factory overseas in Shenyang, Liaoning province, to help accelerate its business by two to three times in coming years. Statistics show that total tire production in China, the world's largest tire consumer, was expected to reach 483 million in 2012, a growth of between 5% and 7% on 2011, accounting for almost a third of global output, the China Daily reports.

Japanese car recall may affect sales recovery

Toyota, Honda, Nissan and Mazda recalled 32,572 vehicles in China due to defective airbags made by Takata, the world's second-largest supplier of airbags and seat belts. The recall could curb what had been reviving sales of Japanese vehicles in China. They had plummeted after a territorial dispute between the two countries over the Diaoyu islands triggered a boycott of Japanese goods last August. According to figures released by the China Association of Automobile Manufacturers, sales of Japanese vehicles rose 70% in March, compared with the previous month, despite a drop in year-on-year sales. The General Administration of Quality Supervision, Inspection and Quarantine (GAQSIQ) said the airbags might not inflate properly in an accident and were at risk of catching fire or injuring passengers due to a fault in a propellant. Toyota, Honda and Nissan said there were no reports of injuries or death, although Toyota said there were five reports of malfunctioning airbags. It is the second-largest recall for Toyota after it recalled 7.45 million vehicles in October over a faulty power-window switch.

Carat Security Group targeting Chinese buyers

Belgium's 135-year-old Carat Security Group, the world's leading commercial armored vehicle provider, has been looking for potential Chinese buyers at the Shanghai Auto Show. The group mainly provides refitted limousines and SUVs for heads of state as well as armored cars for cash transportation, vehicles with ballistic glass and other kinds of defense vehicles. “In many countries in the Middle East and Africa, we only have one customer – the King or the President,” said Benoit Ceulemans, Vice Chairman of Carat. He added that the emerging market of China is an important target of the company's future development. “Senior company executives and celebrities are our target clients [in China],” he said. Carat showcased two refitted Bentley cars at the Shanghai auto show. Carat has established relations with the world's top luxury automakers, including Rolls-Royce, Bentley, Mercedes-Benz and Jaguar Land Rover. Bentley sold a record high 2,235 units in China last year, almost one-fourth of its global sales, making China its second-largest market.

Financial reports reveal winners and losers

The winners and the losers in China's auto market came into clearer focus with the recent release of 2012 financial reports from domestic carmakers. Amid tepid demand, six of 10 major listed auto companies showed declines in net profit, including three state-backed manufacturers that suffered heavily. Dongfeng Motor Group, China's second-largest carmaker, reported a 13.2% drop in earnings to CNY9.1 billion, despite a 65% increase in government subsidies to CNY745 million. Xu Ping, Chairman of Dongfeng, blamed the sluggish performance on weak sales of its co-produced Nissan and Honda cars, amid nationwide boycotts of Japanese goods in September. The repercussions of the dispute over the Diaoyu islands also weighed heavily on the GAC Group, which reported a 73.5% plunge in profit to CNY1.1 billion because of its heavy business ties to Japanese partners Toyota and Nissan. FAW Car, which makes autos with Mazda, estimated it lost between CNY500 million and CNY800 million last year, compared to a profit of CNY217 million in 2011. The company explained that an intensifying price war in the auto market squeezed profit margins and said its “strategic investment” in its own Red Flag and Bestrun brands increased overall costs. Privately-owned domestic carmakers did quite well. Great Wall, which specializes in sports utility vehicles (SUVs), said it made CNY5.7 billion last year, up 66% from a year earlier. It cited 90% sales growth for its Haval SUV series. Geely reported a 32% increase in profit to

CNY204 million. Deliveries rose 15% to 483,000 units, including more than 100,000 units exported, up 157% from a year earlier, making Geely China's second-biggest car exporter in 2012, the Shanghai Daily reports.

Hybrid and electric models steal the show in Shanghai

Hybrid and electric models were in the spotlight at the 15th Shanghai International Automobile Industry Exhibition. Among the more than 1,300 vehicles on display, 91 were new energy models, including 56 from international firms, making it the first time in the show's history that foreign models outnumbered domestic ones for green exhibits. Wang Xia, Chairman of the Automobile Industry Committee at the China Council for the Promotion of International Trade (CCPIT), said figures show that new energy cars are no longer only an eco-friendly concept touted by Chinese carmakers, but rather a substantial business opportunity recognized by market players from all over the world amid increasing environmental awareness. Volkswagen presented a global model of its hybrid SUV CrossBlue Coupe and China's GAC unveiled the deep hybrid SUV Trumpchi GA5. Among luxury green cars making their China debut were Mercedes-Benz' SLS AMG Electric Drive and Lexus' hybrid LF-CC concept car. Porsche made the new Panamera S E-Hybrid the centerpiece of its show appearance. The auto show had on display many green accomplishments achieved jointly by Chinese and foreign carmakers, including the e-Lavida, the purely electric sedan developed by Volkswagen and its Chinese partner SAIC, a "twin-engined" concept car by Toyota equipped with its Chinese-developed hybrid powertrain, and the latest high-voltage safety technology for electric vehicles by Denza, the first new energy joint-venture brand in China, co-owned by China's BYD and Daimler. A pure electric concept car exhibited at GAC Toyota's booth offered a preview of their still to be launched co-owned brand.

Cars from Qoros Auto Co made their China debut at the Shanghai auto show. The premieres included Qoros' first production vehicle – the Qoros 3 Sedan – along with the Qoros 3 cross hybrid and the Qoros 3 estate concept models. The company is based in Changshu, Jiangsu province. It plans to start production of the Qoros 3 sedan at an initial capacity of 150,000 units, which could later rise to 450,000 vehicles a year. The model will go on sale in China and Europe in the second half of the year. The company said it plans to roll out a new model every six to 12 months to build its lineup. Four leading state-owned carmakers said at least one or two Chinese brands of cars would make it to the international stage in the next decade. However, a lack of scale and a shortage of local talent remained major hurdles for their development. Speaking at a conference on the eve of the Shanghai Auto Fair, the heads of Changan Automobile, Beijing Automotive, Dongfeng Motor and Guangzhou Automobile agreed increasing exports and their own brands' production capacity were two of their main tasks in the next seven years. While exports still make up just a fraction of total sales for Chinese carmakers, Beijing Auto Chairman Xu Heyi said he expected car exports from China to exceed imports this year. China Automobile Manufacturers Association (CAMA) figures show 6.48 million Chinese-brand cars were sold last year – a year-on-year rise of 6.1%, which was below the 7.17% for the overall passenger car market. Domestic brands' market share edged down 0.38 percentage point to 41.85%. Excluding domestic brands co-developed by Chinese carmakers and their foreign partners, the market share of brands developed by Chinese manufacturers was much lower, at 28%, Changan Auto said. Chairman Xu Liuping said he believed it would rise to 35% or 40% in the next 10 years. Albert Lam, Chairman of U.S.-based electric carmaker Detroit Electric, said that to build true global brands, Chinese carmakers should work harder on innovation and care less about sales.

Toyota Motor is giving its Vios and Yaris models a major makeover for China to better move into the no-frills entry-level segment of the market. Versions of the Vios and Yaris have done relatively well in the United States, Europe and Japan, "but we have not made sufficient progress with the car in China", Hiroji Onishi, Director of Toyota's China operations, told reporters during the Shanghai auto show. He added that it could take Toyota at least a year to win back business lost following the Diaoyu dispute, leveraging the new no-frills models. The re-designs, with the new sedan version replacing the existing Vios and a hatchback replacing today's Yaris, are a recognition by Toyota that it misread the Chinese market. The Japanese firm will keep the existing model names for the new cars that should be in showrooms by the end of the year. The new cars are critical to Toyota's China strategy as they are planned as high-volume models to regain momentum in the market and restore branding. Last year, Toyota's China sales fell nearly 5% to 840,000 cars. Toyota Motor showcased 52 models – its largest fleet on display ever in China's annual car show. Among the models were two China-specific world premieres: the Yundong Shuangqing II, a hybrid concept car, and the FT-HT Yuejia, a six-seater targeted at young families, to be released in September. Mazda Motor

China Director Noriaki Yamada said the company will start localizing three models – the CX-5, CX-7 and Atenza – from June to boost sales. The engine of the China version of Atenza will be raised to 2,500 cc from 2,000 cc, and a crossover version will also be added to the CX-7 line. Mazda, which is partnered with Chinese firm Changan Automobile, was the last Japanese carmaker to go local in China. But the company now plans to introduce 10 models by 2015, by when it hopes to double sales to 400,000 units. Mazda sold 187,087 cars in China last year – a drop of 13% from 2011. Sales fell 21% in this year's first quarter, less than the 33% drop in the previous quarter.

General Motors will add four new plants in the next three years in China to bring its production capacity to five million vehicles a year, Bob Socia, head of GM China, said at the Shanghai auto show. The planned manufacturing capacity comes after GM added two plants last year, boosting its capacity by 20%. The company and its joint venture partners will spend USD11 billion in capital expenditure in China by 2016. The four new factories will bring to 17 the number of assembly plants owned by GM and its joint venture partners, and increase production by another 30%. Socia said GM's plants are running near maximum capacity. When GM plant capacity increases to five million in 2015, the company will export about 300,000 vehicles, Socia said, up from over 100,000 GM expects to export this year. He added that there is a chance that GM will export vehicles to the United States from China, but he did not reveal any plans. The Shanghai Auto show closed on April 29.

Shanghai car plate prices show first drop in 10 months

Car plate prices in Shanghai declined for the first time in ten months at the April 20 auction after the city government hiked the quota and unveiled cooling down measures. The average successful bid for a Shanghai car plate fell to CNY84,100, down CNY7,798 from March, according to the Shanghai International Commodity Auction Co. The lowest price fell CNY6,900 to CNY83,900. The government increased the supply of car plates by 2,000 to 11,000 last month given the potential increase in demand around the Shanghai auto show and the May Day holiday travel period. The number of bidders rose to 26,174 – the highest so far this year – as motorists speculated that the government's latest moves would rein in soaring plate prices. Dubbed "the most expensive metal plate on earth," Shanghai car plate prices have surged 32.5% in the first three months this year – more than for the whole of last year – and exceeded the CNY90,000 benchmark in March. In order to tame the prices, the city government set a price ceiling at the auction of CNY83,600. Higher bids were rejected by the online auction system in the first round. The government will evaluate the results of the April trial and further optimize the auction process, city officials said. The policy of reserving new car plates for new cars also took effect and in a bid to control plate prices in the second-hand car market as well, the government has banned the resale of used cars with Shanghai license plates within one year after the first transfer, the Shanghai Daily reports.

China Auto Rental and Hertz join forces

China Auto Rental Holdings, the largest player in China's booming vehicle leasing market, has signed an alliance with Hertz Global Holdings, which will acquire a 20% stake in the Beijing-based company as well a seat on its board, and in exchange, China Auto will take over Hertz's car rental operations in China, under an initial five-year license. China Auto Rental's 200% annual growth rate from 2009 to 2012 was six times higher than the market over the same period. China Auto has the country's largest network, with 700 locations in 66 cities, and a 50,000-strong vehicle fleet, which is more than four times the size of its nearest rival. The company aimed to expand the fleet to 100,000 units in 2015. According to international consulting firm Roland Berger Strategy Consultants, China's car-leasing market is expected to grow from USD2.5 billion in 2010 to USD6.1 billion in 2015. Statistics show that since 2005, the value of China's car rental market has grown by about 30% annually. Lu Zhengyao, China Auto's Chairman and CEO, said the alliance with Hertz would "reinforce China Auto Rental's leading position in the sector". Hertz entered the Chinese market in 2002, but largely suspended its rental business in 2006, after it ended a cooperation with Chinese partner China National Automotive Anhua (Tianjin) International Trade Co.

GM pulls Chevrolet 'ching-ching, chop choy' ad

GM has withdrawn an ad for its Chevrolet SUV that included offensive lyrics calling China "the land of Fu Manchu", where people say "ching-ching, chop choy". The carmaker said it had received complaints about the "offensive content". The TV spot for the Trax, which had been running in Canada and was posted to Chevrolet's European website, disappeared from Canadian television screens about a week ago, and was replaced with a new edit of the ad without lyrics. China is a key market for GM, where it sold more than 2.8 million vehicles last year and where it has 55,000 employees. “As the goal of advertising is to engage an audience and draw their attention to a featured product and it is never our intention to offend the audience, we made a decision to edit the advertisement”, GM Canada Communications Director Faye Roberts said. The ad would be removed from all Chevrolet sites worldwide. The retro-styled advertisement, titled “After Midnight”, featured the song Booty Swing by Austrian “electro-swing” musician Parov Stelar. The incident comes at a sensitive time for Chevrolet, which is rolling out the Trax around the world this year after its launch at the 2012 Paris Motor Show. It is Chevrolet's first compact SUV. GM has applied for patents for the Trax in China, but there were no plans to launch the Trax there. It will also not be sold in the U.S., where it would have competed with existing mid-sized GM models.

Chengdu racing ahead to build auto city

By producing more than 410,000 vehicles last year, Chengdu’s auto industry grew 30%, more than four times the national average for passenger vehicles. The capital city of Sichuan province is now the nation’s third-largest automobile market and the biggest in the western region. About two million vehicles are now on the road in the city. Revenue from Chengdu’s auto industry hit CNY71.6 billion last year, an increase of 51.6% over 2011, said Zheng Xueyu, Director of the Auto Industry Office for the Chengdu Economy and Information Committee. “The target for the city’s auto industry in 2013 is to produce 600,000 units with carmakers generating revenues of CNY105 billion,” Zheng said in a recent interview with China Daily. It would be a dramatic increase from 2011 when 150,000 vehicles and revenues of CNY55 billion were produced. “The added value from the industry was CNY29.6 billion last year, an increase of 42% at a time when the national auto market had slower growth,” Zheng said. The industry’s prosperity is fueling a boom in Chengdu’s overall manufacturing sector, helping stimulate the iron and steel, machinery, electronics, glass, petrochemicals and related service industries. “Every 1% growth of the auto industry boosts upstream and downstream industries by 17%,” Zheng said. Chengdu has always been a major market in western China, but it almost entirely lacked an auto industry. The CEDZ, some 13.6 kilometers east of the city, is now the core of Chengdu’s auto industry. When the local government set up a promotion commission for the automotive industry in 2008, the only significant production was 40,000 units of the Volkswagen Jetta. In 2011, Volvo Group announced it would build its first China plant in Chengdu. In 2012, parts supplier Robert Bosch laid the foundation for its second chassis plant in the country. Early last year, FAW-Volkswagen’s 540,000-unit Chengdu facility was completed, helping bring auto production capacity in the city to 1 million annually, two years before the original target date. Chengdu is now an important production base for FAW-Volkswagen, FAW Toyota, Volvo and Geely. It has 275 related enterprises, 19 of them making finished cars, Zheng said.

Short news

- The willingness of Shanghai residents to buy a car dropped by 12.4% in the first quarter due to the surging price of a Shanghai car plate, according to a survey by the Shanghai University of Finance and Economics. The “willingness to buy a car” declined to 69 points in the first quarter, compared with 81.4 in the previous quarter. The figure was also the lowest since 2012, the report said. A score above 100 means consumers are confident about buying. In March, the average successful bid for a Shanghai car plate soared to nearly CNY92,000, almost three times as expensive as the cheapest car on the market.
- China kept fuel prices unchanged in the first review under its new pricing mechanism because changes in global crude rates were not enough to justify any change. The National Development and Reform Commission (NDRC) unveiled a new fuel pricing mechanism that cuts the price adjustment cycle from 22 working days to 10 and removes minimum thresholds when crude prices change. The moves will lead to more market-driven prices which will improve profit margins for Sinopec and PetroChina. Prices will not be adjusted if the resulting fuel price changes are less than CNY50 per ton under the new mechanism.
- General Motors outsold Volkswagen in China for the first time in three quarters, helped by growth in demand for Buick vehicles. VW reported first-quarter sales in China climbed 21% to about 770,000 vehicles, 5.7% fewer than the deliveries reported by

GM. Ford Motor saw the fastest growth among major foreign automakers, seeing its deliveries surging 54% to more than 186,000 vehicles. That indicates Ford outsold Toyota in China for the first time, based on quarterly company figures stretching back to 2011. Toyota, Nissan and Honda all saw declines in the quarter.

- More than 100 senior managers at First Automobile Works Group (FAW) have been questioned, and some have been detained, by Communist Party investigators looking into CNY10 billion of missing company assets.
- EcoMotors International, the fuel-efficient engine maker backed by billionaires Bill Gates and Vinod Khosla, chose China as the location for its first factory, which will be built with support from Anhui Zhongding Holding Group Co. Zhongding will invest more than USD200 million to build the plant in Anhui province. EcoMotors expects the plant to produce 150,000 engines a year starting in 2014, representing USD1 billion of potential revenue, CEO Don Runkle said.
- BMW has unveiled a new brand in China in a bid to tap the nation's fledgling electric car market. The first product carrying the nameplate of Zinoro, or Zhinuo in Chinese, is an all-electric vehicle that will make its debut in November this year at the Guangzhou auto show and hit the market in the first quarter of next year. The car is "specially made in China for China", said Friedrich Eichiner, Member of the Management Board of BMW. Zinoro-branded cars will be made at the BMW-Brilliance Auto joint venture in Shenyang. BMW is the first and so far only foreign luxury carmaker to launch such a joint venture-owned brand in China.
- Ford Motor has raised its stake in Jiangling Motors (JMC) to 31.5% and is looking to increase it to as much as 32% over the next year, the limit currently allowed by the securities regulator. After the latest purchase Ford's stake is worth about USD705 million. During the first three months of this year, Jiangling, which makes JMC light trucks, SUVs, and Ford's Transit van, sold 56,420 vehicles, up 7.1% from a year earlier, outperforming a 2.5% gain in China's overall commercial vehicle sales.
- Dongfeng Motor Corp plans to spend CNY15.65 billion in research and development (R&D) on its own passenger vehicle unit from 2013 to 2020. The company based in the central city of Wuhan aims to double annual sales of its own-brand passenger vehicles to 1 million units by 2016, of which sales jumped by 27.29% last year to 515,200 units. Under the umbrella brand of its own passenger car unit Dongfeng, it has three subordinate nameplates, Fengshen, Fengxing and Fengdu. The company will launch at least two to three new passenger vehicle models annually in the years to 2020.
- Swedish luxury carmaker Volvo Car Corp plans to start local production in China in the last half the year in Chengdu. In the first quarter, Volvo's sales in China totaled 13,780 vehicles, up 26.6% from a year earlier. The strong performance made China the company's fastest-growing market worldwide in the first quarter and the second-largest in sales. The company plans to bring six new or upgraded models to China this year including the all-new V40 launched shortly before the Shanghai auto show. The V40 retails between CNY239,900 and CNY325,900. Volvo plans to add about 20 new dealer outlets in China in addition to the current network of some 124 dealerships.
- French auto parts maker Valeo will open four new plants and hire more workers in China as it plans to double sales in the country between 2011 and 2015. China has grown from 6% of Valeo's total sales in 2008 to 10% last year. Sales doubled from 2007 to 2011. It predicts the growth will continue when it opens four new plants this year, up from 22 factories it now has in the country. The company now employs 12,000 people in China and plans to hire 1,500 more managers and engineers this year to bring the total number of employees to 15,000 by 2015 in the country, more than that in France.
- German automotive supplier Brose expects a 50% surge in Asia sales by 2015 as it adds capacity to meet demand. Sales in China may reach €817 million this year after increasing about 20% to €760 million last year, Brose Chief Executive Officer Jurgen Otto said. Brose also plans to expand its Asian headquarters in Shanghai with a new 20,000 square-meter complex that is under construction.
- Faurecia, the world's sixth-biggest auto parts supplier, aims to double its sales in China by 2016 after they surged 25% to €1.5 billion in 2012. Last year's jump in sales was a sharp improvement from the 8% growth in 2011, the French manufacturer said. China now accounts for 80% of the group's business in Asia. The company plans to add 20 plants nationwide to bring the total number to 55 by 2016. It will also employ

1,200 engineers in China by then, twice the number now. Its research center in Shanghai is the major incubator for emission control technology for the group.

- French tire maker Michelin, which sees a “pick-up” in demand in the Chinese market, plans to raise investments. “We saw the trend of a pick-up at the end of the last quarter (of 2012) and this was confirmed in the first quarter, which was encouraging,” Philippe Verneuil, President of Michelin China said. He said the sales volume of Michelin tires rose by a “double-digit” rate last year in China. In January, Michelin unveiled a USD1.5 billion tire plant in Shenyang, Liaoning province, its largest investment project in China.
- Daimler Trucks and Buses (China) hopes to raise the number of dealerships in China to above 50 by the end of this year from 41 now to reduce direct sales channels and step up collaboration with local dealers, Robert Veit, President and Chief Executive, said. Last year, Daimler’s truck sales in China grew 6.5% from a year ago to 19,000, against a 32% drop in the overall heavy duty truck market in China. China became the third largest global market for Mercedes-Benz imported trucks.
- China is banning the use of military license plates on luxury cars in an attempt to crack down on the widespread abuse of privileges granted to drivers of military vehicles. The Defense Ministry said a range of luxury cars, including models from Jaguar, Mercedes-Benz, BMW, Porsche, Land Rover and Audi, would be banned from using military plates. Regardless of marque, all vehicles with an engine capacity above 3 liters or costing more than CNY450,000 will be barred from carrying military plates.
- Chery Automobile Co demonstrated its innovative prowess with three all-new concept models based on its latest core technologies – the Alpha7, Beta5 and the @Ant – developed on the iAuto technology platform. The Alpha7, the first model utilizing the iAuto technologies, will be put into commercial production during the second half of this year. The Beta5, a compact SUV, will hit the market at the end of this year or the beginning of next year, according to the company. The one-seat @Ant represents Chery’s exploration of the future market for individualized urban transportation systems. Chery announced that it will focus on the Chery brand and give up three other marques – Riich, Rely and Karry. The company also unveiled a new logo.

METALS

Iron ore miners count on continued Chinese demand

Global iron ore producers said they will continue to invest because China’s urbanization and industrialization will continue to support iron ore demand. Fortescue Metals Group (FMG) will invest USD10 billion to expand its iron ore production capacity to meet the growing demand mainly from China, said the company’s CEO Neville Power during the Boao Forum for Asia Annual Conference in Hainan province. He said FMG will have 155 million metric tons of production capacity by the end of 2013 and up to 90% of the output will supply the Chinese market. By then, the company’s iron ore supply will account for about 20% of China’s total iron ore imports. Sam Walsh, CEO of the world’s third-largest miner Rio Tinto, shared similar views with Power. During the China Development Forum, Walsh told China Daily that China’s “enormous” economic base will create significant demand and Rio Tinto will continue to invest in China. At present, a third of Rio Tinto’s revenue is from the Chinese market. China is expected to produce 746 million tons of crude steel in 2013, 30 million tons more than last year, which will result in new iron ore demand of 50 million tons, according to figures from the National Development and Reform Commission (NDRC). The Dalian Commodity Exchange, one of the three major commodity exchanges in the country, is preparing to launch iron ore futures, hoping it can give Chinese steel companies a bigger say in iron ore prices in the international market. FMG’s iron ore business has been highly dependent on the Chinese market since it exported the first cargo of iron ore to China in 2008. So far, it has supplied more than 200 million metric tons of iron ore in total to China. In 2012, the company supplied iron ore to 52 Chinese steel mills with a closer cooperation relationship. Valin Group Co in Hunan province, one of China’s large steel companies, has become a major shareholder of FMG, the China Daily reports.

China to close 7.81 tons of steel making capacity

China plans to close 7.81 million tons of outdated annual steel making capacity this year, the Ministry of Industry and Information Technology (MIIT) said, as the government continues to consolidate an industry that's struggling with overcapacity and slowing demand. The combined crude steel capacity in China, the world's largest producer, is believed to have exceeded 900 million tons per year, according to industry estimates. Crude steel output rose 3.1% to 717 million tons last year. The growth rate was sharply lower from that in 2010 and 2011 as the economy slowed. In February, the Ministry estimated that China's steel output may total 750 million tons this year. The Ministry also said that China will shut down 14.05 million tons of coking coal capacity and 1.73 million tons of ferroalloy capacity this year. Meanwhile, there are also plans to close down 273,000 tons of aluminum, 665,000 tons of copper smelting, and 879,000 tons of lead smelting capacity this year.

China clears Glencore's takeover of Xstrata

China's antitrust authorities removed the last obstacle to Glencore's USD30 billion takeover of miner Xstrata after the commodities trader agreed to sell a USD5.2 billion mining project to ease its grip on copper. Xstrata's Las Bambas mine in Peru had been set to be sold to secure the approval of China's Ministry of Commerce (MOFCOM), but Glencore also agreed eight-year commitments covering the supply of copper, zinc and lead to China. Glencore and Xstrata combined account for roughly 7% of global copper supply. Glencore will have to find a buyer for Las Bambas – a major mine expected to produce an annual 400,000 metric tons of copper for at least four years from 2015 – by the end of August 2014 or sell alternative assets. Glencore agreed to supply a minimum of 900,000 tons of copper to Chinese clients a year for eight years from 2013. The price for at least 200,000 tons will be priced in accordance with the benchmark level. It also agreed to supply zinc and lead concentrate on "fair and reasonable" terms.

Short news

- Baoshan Iron and Steel Co (Baosteel), China's largest listed steel maker, has shown its resilience amid the economic slowdown, posting a CNY10.39 billion net profit in the 2012 fiscal year, a year-on-year rise of 41.1%. Baosteel generated CNY191.5 billion in revenue, down 14% year-on-year. The fall is mainly due to the divestment of stainless steel and special steel assets, as well as the closure of its Luojing factory.
- Baoshan Iron and Steel (Baosteel) is in talks with Russian steel and coking coal producer Mechel to buy a 25% stake valued at up to USD1.25 billion in Mechel's mining division. The entire unit may be valued at USD5 billion, with a blocking stake worth USD1.25 billion. Mechel has had to cut investment and put non-core assets on the market to service the USD9.1 billion debt it amassed while expanding operations before the 2008 financial crisis sent steel and coal prices tumbling. The company had said it might sell up to a 25% stake in Mechel Mining to a strategic partner.
- China's crude steel output reached 191.89 million tons in the first three months of this year, an increase of 9.1% from a year earlier, according to the National Bureau of Statistics (NBS).

MINERALS

Fortescue weighs IPO for ore venture

Fortescue Metals, the third-largest iron ore miner in Australia, is considering a listing of its joint venture with China's Baosteel in either Hong Kong or Shanghai. Chief Executive Neville Power said in a media briefing at the Boao Forum that the group was studying the feasibility of an initial public offering (IPO) of FMG Iron Bridge, an iron ore project it jointly develops with Baosteel in Western Australia. In selecting the listing destination, Power said, the group would take into account "the capacity of fund-raising" in the market. He said the funds raised would be used on the project's development, without disclosing further details. In December, Fortescue said the Iron Bridge project was estimated to have about 5.2 billion tons of resources. Currently, the group owns 88% of the project, while Baosteel owns the remaining 12%. Fortescue, a smaller rival of Australian iron ore giants Rio Tinto and BHP Billiton, is heavily reliant on exports to China. Last year, 60% of the 100 million tons of iron ore it produced were sold to China, and this year it expects to raise output to 155 million tons, about two-thirds of which will be exported to China. Urbanization in China is a key driver for the demand for steel and Power expects a roughly 3% to 4% growth in demand for steel in China this year. Strong car sales and housing demand would also support the country's steel market in the long term, he added. The price of iron ore has been falling since last year as the market cooled quickly due to an oversupply of steel around the world. Goldman Sachs said in a report in April that it had lowered its forecast for iron ore prices by 3% to USD139 per ton for this year. The downward trend would continue in the next two years, dropping to USD115 next year and USD80 the year after. Power said he expected the iron ore price to fluctuate between USD120 and USD130 per ton for the foreseeable future, and added that now was a good time to introduce Fortescue's advanced experience in supply-chain management to those Chinese steel manufacturers that were trying to upgrade equipment and raise production efficiency, the South China Morning Post reports.

Clive Palmer attacks Citic Pacific auditor swap

Australian tycoon Clive Palmer, who is in a court dispute with Citic Pacific over iron ore royalty liabilities, has said the conglomerate's recent decision to swap external auditors for the first time in more than 25 years raises questions about its transparency. Hong Kong-listed Citic Pacific, the steel-to-property flagship of Beijing-backed conglomerate Citic Group, said that its board has proposed to its shareholders that KPMG be appointed as its auditor, replacing PricewaterhouseCoopers (PwC), to “enhance the efficiency of the audit process”. Palmer's firm Mineralogy signed an agreement in 2006 to sell Citic Pacific the right to mine up to 6 billion tons of iron ore in the state of Western Australia. “Why sack the auditor”, Palmer asked in a statement. “Is it because the auditors required them to list their debt to us as a current liability in the [annual report]?” A Citic Pacific Spokesman refused to comment on the matter. On March 26, Palmer said Citic Pacific was trying to avoid royalty payments because it was in financial difficulty. Citic Pacific's 2012 annual report books a HKD1.52 billion provision on its mining rights under current liabilities – items payable within a year. Citic Pacific said on March 22 the provision was made on a potential liability related to a royalty payment. According to the 2006 agreement, if either of two subsidiaries of Citic Pacific failed to produce at least 6 million tons of processed iron ore by March this year, each would have to pay royalties on the raw ore required to produce 6 million tons of processed ore. Citic's iron ore project in Australia has been delayed by three years, hence its failure to produce iron ore. On March 18, Mineralogy launched a lawsuit against Citic Pacific, seeking royalties of around HKD1.58 billion. It is unclear whether Citic Pacific's change of auditor is related to Beijing's stipulation that central government-administered state firms should change auditors at least once every five years. Hong Kong-registered Citic Pacific is 57.5%-owned by Citic Group, the South China Morning Post reports.

An Australian judge has expressed reluctance to let Clive Palmer cancel a AUD215 million mining right transfer agreement signed seven years ago with Citic Pacific over Citic's failure to pay royalties. Citic Pacific has already spent AUD7.1 billion on infrastructure on the site in Western Australia owned by Palmer, and expects to start shipping processed ore next month, three years later than planned, after construction delays. According to the agreement made in 2006, Sino Iron agreed to pay Mineralogy a royalty quarterly on raw ore “taken” by Sino Iron, made up of a payment of AUD0.30 per ton of ore taken, and an additional royalty based on a formula using the volume of processed ore produced and its market price. Citic Pacific agreed to start paying royalties on extracted ore after it was crushed and weighed. Palmer claims that the royalty is due when the ore is removed from the ground. Citic Pacific's lawyer said the firm will pay the royalty if it is found liable.

China Polymetallic tries its luck in Myanmar

China Polymetallic Mining, the biggest lead and zinc resource holder in Yunnan province, is exploring opportunities to acquire resources in neighboring Myanmar. Earlier this year, the miner sent a geologist and other staff to scout out investment prospects recommended by Myanmar government officials eager to see foreign investment in the country's largely untapped mineral wealth. The chances of acquiring mining assets in Myanmar are much higher and the operating costs are lower compared to China, Chief Financial Officer Li Tao told the South China Morning Post. Competition for mining assets in China was keen, he added, which meant prices were often bid up despite the fact that many of them were higher-risk early exploration projects. Foreign firms were expected to be allowed to have wholly-owned projects in Myanmar, and they would enjoy five-year corporate tax holidays, Li said. The terms are part of Myanmar's new mining law that is expected to be passed this year to boost investment. Li said careful due diligence was important as there were legal, political and security risks to consider. China Polymetallic might avoid the less stable northern region and focus on the east, he added. Li estimated the acquisition process to take at least a year before a deal could be sealed. Under an internal guideline, any asset acquired by China Polymetallic should have an estimated internal rate of return of at least 25%. The firm bought three mines in Yunnan last year and has been designated by the provincial government as a consolidator of its mining sector. It posted a net profit of CNY177 million for last year, compared with a loss of CNY244.3 million in 2011, as it ramped up output at its mainstay Shizishan mine that began production in mid-2011. The mine's lead output is targeted to rise to 38,500 tons next year from 20,300 tons last year, while zinc output will increase to 28,700 tons from 16,500 tons. About 75% of lead consumed in China is used in battery manufacturing, while zinc is mostly used to coat steel to prevent corrosion. The company budgeted CNY319 million this year to expand or develop its six mines, four of which are expected to come on stream by June 2015.

Coal miners cut costs as profits slump

China Shenhua Energy has asked its coal mining units to cut their production costs for each ton of coal by 5% in the face of tough market conditions, Vice President Zhai Guiwu said on the sidelines of the Coaltrans conference in Beijing. Sales this year are expected to be flat from last year's 464.6 million tons. Smaller rival Yanzhou Coal Mining is also expecting flatter production costs this year at its main production base in Shandong. Its total sales target is 89.9 million tons, 4.6% lower than last year. Qu Jianwu, Director of the Taiyuan Coal Trading Center, said among 90 of the nation's largest coal miners, 22.3% saw a lower profit last year while another 21.1% posted losses. Weaker industrial output and ample hydro-power supply meant power station coal consumption grew only 0.6% last year to 2.9 billion tons, while consumption of coal used to smelt steel rose 1.7% to 550 million tons, he said. In the first two months of 2013, coal-fired power output grew just 1% year-on-year, against 23.9% growth in hydro-power, according to the National Bureau of Statistics (NBS).

Iron ore importers to join domestic trading platform

China will refuse to grant new licenses to iron ore importers unless they participate in a domestic trading platform. China, which buys around two-thirds of the world’s one-billion-ton plus sea-borne iron ore, has been attempting to regain the upper hand in pricing the steel making raw material since grudgingly accepting an industry-wide shift to spot pricing after four decades of a yearly-set price mechanism ended in 2010. Under new rules, traders and steel mills seeking a new license to import will now have to trade at least 500,000 tons of iron ore on the platform set up by the China Beijing International Mining Exchange (CBMX). Only Chinese firms are eligible for import licenses. China’s first physical iron ore trading platform competes with the globalORE platform in Singapore, but the new rules, in a country with tens of thousands of iron ore traders, could give CBMX more business and boost liquidity. Global miners BHP, Vale and Rio Tinto and Chinese steelmakers including Baoshan Iron and Steel are members of both platforms. China has long suspected that iron ore pricing is manipulated by some miners and traders and wanted a platform that it deems more transparent, although miners may be wary of Beijing gaining control if more business flows to the exchange. CBMX launched the physical trading platform, together with its own iron ore pricing index, on May 8 last year. Steel mills applying for a license are also required to have an annual output of more than one million tons of crude steel and steel making facilities that meet state environmental requirements. Importers already holding a license would not be affected by the new regulations.

China exports more rare earths

Global demand for rare earth metals from China climbed in the first quarter due to falling prices despite domestic producers and processors reporting losses. Rare earth exports rose 55% in March from February to 1,718 metric tons. The export volume in the first three months grew 47.3% to 3,916 tons. But in the same period, the export value dropped 71% to USD91.9 million. Deputy Secretary General of the China Rare Earths Industry Association Chen Zhanheng said the growth in the export volume stems from a price decline in 2011, stimulating overseas buyers who had used up their reserves. Chen Jiazuo, Analyst from the China Nonferrous Metals Information Network, said it only took two years for the industry to deteriorate from its peak, yet current prices are still higher than the lowest point in the past 10 years. Only half of the export quota in 2012 was used due to the price surge in 2011, which deterred buyers. The value of exports in 2012 fell 66.1% year-on-year to USD906 million. In the first quarter, BaotouSteel Rare-Earth (Group) Hi-Tech, the country’s largest rare earth producer, reported revenue of CNY2.29 billion, down 35.7% from a year ago. Its net profit fell 79.7% to CNY245 million. Its first quarter report said prices for its main products have dropped more than 50%. Last year, net profit dropped 56% to CNY1.51 billion year-on-year, while revenue fell 19% to CNY9.24 billion as a result of low demand in the rare earth market and a price drop. Baotou Steel resumed production on February 23 after a four month halt due to the price slump. Another producer, Rising Nonferrous Metals Co, saw a first quarter loss of CNY29 million due to a drop in operating revenue and gross profit. In March, China Minmetals Rare Earth Co announced a 47% drop in revenue, from CNY7.6 billion in 2011, with net profit falling 74% in 2011. The Chinese government will accelerate the formation of large rare earth groups and continue to crack down on unauthorized exploration and mining, Vice Minister of Industry and Information Technology Su Bo said at a conference held by the Association of China Rare Earth Industry. The country has about 23% of the world's rare earth reserves but supplies more than 90% of global demand, according a government white book last year.

Short news

- Anonymous Analytics has accused Chinese coal-mining equipment maker International Mining Machinery (IMM) of committing fraud by claiming a customer base Anonymous Analytics describes as bogus. IMM was delisted in Hong Kong in June last year after it was acquired for USD1.4 billion by Joy Global. Most of IMM's biggest customers appear to be shell entities set up to transact with it on paper, or related parties owned by IMM employees, Anonymous Analytics alleged.
- En+ Group is to start a feasibility study for a project in Siberia it is jointly developing with Shenhua Group to produce millions of tons of coal for delivery to China. The two companies will invest USD2 billion on coal mining, build basic transport infrastructure, develop or improve port facilities in the Far East region and handle the transport and sale of coal. Rusal, the world's largest aluminum producer and a subsidiary of En+, also signed a memorandum with Aluminum Corp of China to jointly work on technology innovation, mining resources development and investment.
- Chinese companies attempted USD107 billion worth of mining takeovers over the past five years, with about USD45 billion, or 42% by value, of deals ending in failure.
- African Minerals, the Sierra Leone iron ore producer that got a USD1.5 billion investment from a Chinese steel mill last year, may seek debt funding from China for a mine expansion scheduled for 2016. African Minerals began shipments from the Tonkolili mine in November 2011 and said it expects to reach its targeted production rate of 20 million metric tons annually this quarter.
- A Puda Coal investor sued a unit of Citic Group Corp, claiming it conspired with Puda's Chairman to transfer control of the company's most important asset to insiders, leaving Puda an empty shell company without operations or revenue. After transferring the company, Shanxi Puda Coal Group Co, Puda sold shares to investors who lost hundreds of millions of dollars when this became public, the investor, Thomas Tarsavage, said in a complaint filed in Manhattan Federal Court.

FOUNDING MEMBERS

STRUCTURAL PARTNERS

Your banner at the FCCC website or newsletter
Companies interested in posting a banner/an advertisement on the FCCC website, FCCC weekly newsletter or bi-weekly sectoral newsletters are kindly invited to contact the FCCC at: info@flanders-china.be

Organisation and founding members FCCC
President: Mr. Bert De Graeve, C.E.O., NV BEKAERT SA
Vice-President: Mr. Stefaan Vanhooren, President Agfa Graphics, Member of the Executive Committee of the Agfa Gevaert Group, NV THE AGFA-GEVAERT GROUP SA
Secretary and Treasurer: Mr. Dirk Mampaey, Senior General Manager Corporate Services, NV KBC Bank SA
Executive Director: Ms. Gwenn Sonck
Members of the Board of Directors and Founding Members:
Mr. Bert De Graeve, C.E.O., NV BEKAERT SA
Mr. Jozef De Mey, Chairman of the Board, NV AGEAS SA
Mrs. Elisabeth Schraepen, Public Affairs Manager, Belgium and Luxembourg, NV AB INBEV SA
Mr. JP Tanghe, Senior Vice President, NV BARCO SA
Mr. Kris Verheye, Vice President Corporate Division, NV BELGACOM SA
Mr. Johan Verstraete, Vice-President Marketing, Sales & Services Weaving Solutions, NV PICANOL SA
Mr. Luc Maton, General Manager Asia Region, NV AHLERS SA
Mr. Marc Stordiau, Member of the Board of Directors, NV DEME SA
Mr. Stephan Csoma, Senior Vice-President Government Affairs, NV UMICORE SA
Mr. Dirk Mampaey, Senior General Manager Corporate Services, NV KBC Bank SA

Membership rates for 2013:
- Large enterprises: €975
- SMEs: €385

Contact:
Flanders-China Chamber of Commerce
Voldersstraat 5, B-9000 Gent
Tel.: +32 9 264 84 86/82 – Fax: +32 9 264 69 93
E-mail: info@flanders-china.be
Website: www.flanders-china.be

Share your story:
To send your input for publication in a future newsletter mail to: info@flanders-china.be

This newsletter is realized with the support of the Federal Government of Belgium, the Flemish Government, the Walloon Government and the Government of the Brussels-Capital Region.

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 .