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# AUTOMOTIVE METALS & MINERALS NEWSLETTER | 14 SEPTEMBER 2012

## AUTOMOTIVE

### Hong Kong may put brakes on electric taxis

The Hong Kong government is seeking to tighten the standard of electric vehicles imported into the city after an accident sparked a fire in a BYD electric car in May, killing three people in Shenzhen. BYD has been advised to improve the protective material around the battery, known as the battery wrap or casing. Electronics experts said the safety standard of car batteries was now fairly high, but it was the protection around them that determined how severe the damage would be in the case of impact. At present, Hong Kong refers to standards set by the European Union, United States and China in assessing the safety standards of imported electric cars, but none of these standards provided a very clear benchmark on battery protection. The Hong Kong government has set up an expert team comprising officials from the Transport Department, Electrical and Mechanical Services Department, Environmental Protection Department and independent experts, to review whether the city should tighten or devise its own standards for electric vehicles. University of Hong Kong Professor Chan Ching-chuen – dubbed the “father of electric vehicles” because of his long-term research – said overseas examples should be studied. Hong Kong's taxi industry is eager to find a replacement for the LPG taxi, given the escalating fuel prices. BYD's e6 – which has the longest range among the world's electric cars – met standard tests in China, and received four out of five stars in the United States test. “The electric vehicle is still very much in its infancy and the safety standards are far from perfect,” Chan said, adding that Japanese electric cars were designed to high standards so that the thousands of small power units within a battery were cut on impact, minimizing the risk of explosion. Five electric car models are available in Hong Kong – Nissan's Leaf, Mitsubishi's i-MiEV, Renault's Fluence, Tesla's Roadster and a small-capacity MyCar by EU Auto.

### License plate prices drop in Shanghai

Shanghai's car license plate prices dropped the first time in seven months in the June auction after the government eased quotas and introduced a new rule on car plate resale to curb speculation. The average winning bid for a Shanghai car plate fell to a three-month low of CNY58,227 in June, down CNY6,140 from its record in May. The city made 9,500 car plates available for sale in June. According to a new rule effective since July 21, the required holding period of a new car plate before resale is extended to three years from the current one year to deter scalpers. Speculators are no longer hoarding car plates because the increased risks of price fluctuation under the new rule. The Shanghai Traffic Administration is studying new measures to better regulate the auction, such as including second-hand car plate trading into the event and only allowing people who have bought a car to take part. The organizers are plugging loopholes in the bidding system allowing proxy agencies to predict the lowest successful bidding price, which gives them an unfair advantage compared to individual bidders. “Our bid success rate is stable at around 90% and the upward limit of our proposed offerings is still CNY200 above the lowest winning price,” one proxy agent said, adding that he charged a CNY700 service fee. Shanghai has more than 1.7 million private cars, and the number would surpass 3.3 million if steps, such as a plate auction, were not taken, local authorities have said. Car plate prices surpassed the CNY60,000 benchmark again in August even though the number of bidders was the lowest this year. The average price for a car plate climbed to CNY62,559, CNY4,288 more than in July, said Shanghai Commodity International Co, which organized the auction. The lowest successful bid rose to CNY62,100, up CNY4,400 on a monthly basis. The city auctioned 9,500 car plates in August, the same as in July and June. Only 21,425 people participated in the auction, a 19.2% decrease from July.

### 2012 car sales may still reach target

China's auto sales growth may pick up in the second half of this year when the country’s economy is likely to snap out of its downturn. If China’s economic situation improves with higher growth rates in the remaining months of the year, the auto industry will be able to achieve its annual sales target of 20 million units, up 8% from last year, the China Association of Automobile Manufacturers (CAAM) said. The Association maintained its growth forecast, given in January, after cumulative sales this year rose 2.9% to 9.6 million units by June, recovering from a 3.4% drop in the first quarter. “With China’s domestic demand rising and efforts to keep the economy on a stable upward track strengthened, the car market is now coming out of a trough,” Shi Jianhua, Deputy Secretary General of the Association said in July.

Deliveries of passenger cars are expected to jump 11% to 16.1 million units this year, compared with a 7.1% increase in the first six months, the CAAM said. But Pan Jiancheng, Deputy Director of the China Economic Monitoring and Analysis Center under the National Bureau of Statistics (NBS), said that not much can be expected from car sales growth after a ninefold increase within 10 years, with annual sales hitting 18 million units in 2010. “Such geometric growth is not sustainable,” Pan insisted.

## Bankrupt car companies to lose production certificates

According to a notice on the Ministry of Industry and Information Technology’s website, manufacturers of automobiles and motorcycles that have gone bankrupt will have their production certificate repealed and for those companies that have “failed to maintain normal operations” — that is producing and selling only a few or even zero vehicles in the past two years — the Ministry will give them two years to fix their business, otherwise it will suspend their certificates. Previously, the certificate used to be a once-and-for-all offer, so that even when some auto companies struggled or failed to make a living, they didn’t really die because they still owned their certificates and the affiliated product licenses. To prevent overcapacity in the auto sector, the Chinese government has been cautious in approving new automakers and about letting existing manufacturers add new plants, therefore, some little-known, ailing companies, known as “shells”, could make a fortune by selling their production certificates and product licenses. Mei Songlin, Vice President and Managing Director of the China operations of consultancy JD Power, said that the long-awaited policy will have a big impact by eliminating ailing companies. “It is a clear signal that the government has decided to reduce the number of automakers in China and increase industry consolidation,” Mei said. China now has more than 1,300 companies that manufacture all kinds of vehicles, among which there are 171 automobile companies, 120 motorcycle companies, more than 900 special-purpose vehicle makers and 135 low-speed truck and tricycle makers, the China Daily reported. “Some of the more than 1,300 companies have suspended production or been close to halting for years”, according to the Ministry of Industry and Information Technology (MIIT). A list from the China Association of Automobile Manufacturers (CAAM) of the production and sales performance of 71 domestic companies showed that 11 companies produced no vehicles in the first half this year, but according to industry insiders the number is far higher.

## Youngman to buy stake in Viseon

China’s privately owned automaker Youngman Automobile Group Co has obtained Zhejiang provincial government approval to buy a major stake in Germany’s Viseon Bus, after its failed bid for Saab. The local government has allowed Youngman to invest €10 million in Viseon, a German maker of city buses, coaches and airport shuttle buses. The Jinhua-based car and bus maker will use €1 million to buy a 74.9% stake from Viseon’s two shareholders, JR Bus Consult & Production, which owns a 61% stake, and BartConsult Kereskedelmi, which owns 39% of the German automaker. Once the acquisition is completed, Youngman will provide an additional €1 million to the original shareholders and will invest another €3 million in Viseon, as well as provide a €5 million loan to support the company. Youngman will finance the acquisition with its working capital. Viseon reported a net loss of €2.26 million in 2011, with total sales revenue of €31.07 million. As of December 31, Viseon had a net assets deficit of €3.83 million. Youngman, the largest bus maker in China, has obtained licenses from German commercial vehicle brand Neoplan to produce Neoplan buses and coaches for the Asian market. It has an about 80% market share of China’s bus segment, with more than 4,800 buses sold in 2011. Viseon also makes Neoplan branded vehicles after it took over the bus factory in Pilsting, Germany, in 2009, which was started by Neoplan more than 30 years ago. In October, Youngman’s subsidiary Zhejiang Youngman Lotus Automobile Co and Pang Da Automobile Trade Co agreed to launch a joint USD140 million takeover of Saab and its UK dealer network, which would have given Youngman a 60% stake in the Swedish company and Pang Da the remaining stock. However, the bid was stopped by General Motors Co, which had preferential shares in the Swedish company and technology ties with Saab. GM was worried that Saab’s technology would greatly boost the Chinese automaker’s competitiveness in its largest market.

## After-sales not keeping pace with sales

Car companies are not expanding their after-sales services quickly enough, according to a new survey. The satisfaction rate of car buyers after their purchases dipped for the first time in seven years, albeit by just one point, to 832, on a scale of 1,000 points compared with the previous year. Geely Automobiles and Great Wall Motors were among the few that climbed in terms of customer satisfaction this year. At the top of the customer satisfaction list were Sino-Japanese joint ventures Guangqi Honda, Dongfeng Honda and Guangzhou Automotive-Toyota. The study, conducted annually by car consultancy J.D. Power, polled 14,657 new car owners earlier this year who bought their vehicles between February 2010 and May 2011. Justin Min, Senior Analyst at the firm, blamed robust growth in car sales for declining customer satisfaction. “Some car brands – the U.S. ones, for example – have expanded too quickly in the past two years, while their number of dealerships, or the scope of their after-sales service, has not been able to catch up,” Min said. The total capacity of dealerships in China grew 14% last year from 2010. However, the consultancy found each after-sales agent shouldered a 10% increase in the volume of clients during the same period, posing greater strain on manpower and efficiency. As growth in new car sales continued to slow, Min said, carmakers should boost their after-sales services because that was not only the new momentum for growth, but also crucial in retaining customers, the South China Morning Post reported.

## Electric car design exonerated for explosion

The blast and deaths following the collision of a BYD e6 electric car with a Nissan GTR sports car in Shenzhen in late May were not directly linked to the electric vehicle's design, according to investigators. The report by a 13-member investigation team said that 25% of the 96 battery units in the taxi burned in the accident but didn’t explode. “The car’s battery system was appropriate in terms of installation and layout, insulation and the design of the high-voltage electricity system,” Wu Zhixin, Deputy Director of the China Automotive Technology and Research Center and head of the investigation team, told reporters. But he also added that the incident had dealt a major blow to China's electric car industry. Shenzhen has the biggest program to promote electric cars in China. Some 300 electric taxis and 200 electric buses are on the road in the city of 10 million people. Shenzhen had planned to have 3,000 electric taxis and 1,000 electric buses running by the end of 2015. 15,000 electric vehicles are in operation in China. Daiwa Securities Car Sector Analyst Jeff Chung said the investigators' findings would not have much impact on BYD's sales and profit since only a small share of the company's revenues were from electric cars. BYD has sold around 1,000 electric cars since the e6 was launched in October, compared with 448,500 combustion-engine cars it sold last year. The central government announced in April a target to raise annual output and sales of all-electric and hybrid electric vehicles to 500,000 units by 2015, rising to 5 million by 2020, Xinhua reported.

## Guangzhou introduces car quotas

Guangzhou introduced a monthly quota on car registrations of 10,000 units on July 1, only three hours after it was publicly announced. The move took many dealers and would-be buyers by surprise leading to panic buying. The government says the policy is necessary to ease traffic congestion and curb pollution. Similar policies have already been implemented by Beijing, Guiyang and Shanghai. Analysts expected the cap to be applied also in Hangzhou, Shenzhen, Chengdu and Chongqing. Car dealers in Guangzhou will be allowed to sell only about half of the 226,000 units they sold last year. Nanjing said it would not implement a quota. The decision comes despite a recent study that showed traffic congestion in Nanjing during peak hours was more serious than in Guangzhou. New car sales have grown at 19% annually for the past five years in Guangzhou, outpacing the construction of new roads and parking spaces. Traffic problems were so bad that, according to the Guangzhou government, the average driving speed on 27% of the city's major roads was just 20 km/h. About 600 owners of second-hand car dealerships in Guangzhou protested in front of the city government headquarters against the new vehicle-registration quota system, saying it had effectively put them out of business. “It is unreasonable to limit the sales of used cars, as it has no impact on the overall volume of Guangzhou's cars,” one car dealer said. Another owner of a second-hand car dealership said she expected that at least 40,000 people would be out of a job in Guangzhou due to the policy, and that about 1,500 second-hand dealers would be forced to close or relocate.

No car registrations were processed for cars sold in July, as implementation policies were worked out. Guangzhou decided to generate half of its monthly quota of 10,000 new car plates through a lottery and the other 50% via an auction. New car owners can choose to join the lottery or the auction. 88% of the quota will be allocated for individuals while 12% will go to corporations. Lottery draws will be held on the 26th of each month. The city government pledged to use the auction revenue to improve public transport. Guangzhou saw an annual growth of 19% in the number of vehicles registered in the last five years. A total of 5,640 applicants were awarded plates in the city's first ever car license plate lottery nearly two months after it introduced the policy to ease traffic jams and cut pollution. Among 64,866 people who applied for the lottery and auction, 58,405 passed an assessment to vie for 10,907 plates, which means that one out of six people will be lucky enough to win a plate. Among the 5,640 winners, 4,800 were individuals, 654 were office applicants and the remaining 186 were registered for plates for energy-saving or new-energy vehicles.

## Car sales still going strong despite economic slowdown

China's passenger car sales growth may climb to 20% in 2014 from an expected 10% this year due to government policy initiatives, rising purchasing power and continued urbanization, said a report by BBVA Research. China's auto market is not close to saturation despite a sharp 46% fall in sales growth in 2009 to 2.5% in 2011. Though China's vehicle penetration rate grew five-folds between 2003 and 2011 to 56 cars per 1,000 people, it was still below the global average of 125 cars per 1,000 people in 2009. BBVA predicted China's car ownership rate will more than double to 113 cars per 1,000 people in the next three years. Total sales of cars, sports utility vehicles, multipurpose vehicles and minivans reached 7,009,117 units in the first six months in China, boosted by strong monthly sales of 1,148,873 units in June alone, which saw 12.4% growth from a year earlier, the China Passenger Car Association (CPCA) said. "Despite signs of slowing economic growth in China, demand for General Motors products rose in all key segments in the first half of the year," said Kevin Wale, President and Managing Director of the General Motors China Group. The U.S. car maker reported a new record market performance for the first half in its biggest country market, as its sales in China from January to June rose 11.3% from last year's previous record for the period to 1,417,047 units. Japanese automaker Mazda Motor Corp said that its sales of 103,991 units in the first half in China gained only 1% from the previous year, while German luxury vehicle brand Audi reported sales of 193,871 cars in its largest market during the same period, a rise of 37.8%.

Despite a slowdown in growth in the first half this year, China's auto market is expected to maintain stable growth of 8% to 12% annually over the next four years, according to a recent report by consulting firm AlixPartners. But not all competitors will gain from the growth, as increasingly fierce competition, overcapacity and resulting low vehicle prices will lead to a more polarized market where the strong get stronger and the weak weaker, the report said, noting that local automakers in particular are facing more pressure. Every 1,000 people in China had just 53 passenger cars by the end of last year. The number in South Korea is more than 200 and in Japan it's nearly 500, the report said. "The underlying fundamentals for China's auto industry are still intact," said Ivo Naumann, Managing Director of AlixPartners. The study found that the average utilization of capacity among automakers in China has dropped to 67.3% today from 85% in 2010. A factory utilization rate of between 75% to 80% is considered the "break-even zone" for automakers. The survey showed that 16 out of 30 local automakers in the study failed to reach the threshold, while just one of the 19 joint ventures was below it. The result is continued price discounting, especially by those with the most unused capacity, said the survey.

China's passenger vehicle sales continued to recover in August, with the third-highest year-on-year growth in 20 months, making analysts raise their forecasts for full year sales in 2012. Total sales increased 11.2% over last year to 1,158,921 units in August, according to figures from the China Passenger Car Association (CPCA). In the first eight months of the year, 9,205,675 passenger vehicles were sold in China, an increase of 6.4% year-on-year. CPCA Secretary General Rao Da said that he expected the sales momentum to continue in September, helped by the recently launched policy of free tolls on highways during the approaching week-long National Day holiday, which should help attract more consumers to showrooms before October. "That will greatly ease the impact of expected fuel price hikes in September," said Rao. He added that although the commercial vehicle sector will remain at its current negative growth of 5% from a year earlier, he expected total automobile sales in 2012 to hit 19.3 million units from last year's 18.5 million units. General Motors recorded a 7.3% annual sales rise for August in China to 220,996 units, while rival Ford Motor Co recorded monthly sales in China in August of 48,631 units, representing a year-on-year growth of 39%. JD Power and Associates said 67% of dealers reported that they achieved their sales target in the first half, but almost half reported a drop in profits, hurt by high vehicle inventories and falling vehicles sales prices.

## Skoda aims to more than double its China sales

Volkswagen Group’s Czech unit Skoda aims to more than double its China sales over the next five years to 500,000 units, Skoda Chairman Winfried Vahland said. China, Skoda’s biggest single market in the world, will then account for 40% of the brand’s global sales, up from a quarter last year. Commemorative versions of the locally-produced Skoda Fabia subcompact, Octavia compact and Superb mid-sized sedan were launched to mark the fifth anniversary of Skoda's entry in the Chinese market. “The Chinese market is critical to Skoda’s 2018 strategy,” Vahland added. Skoda plans to produce the Yeti SUV and the Rapid sedan in China next year. The company contributed one-fifth of Shanghai Volkswagen’s 1.1 million units in sales last year. In the first half of this year, Skoda sales in China climbed by 7.5% year-on-year to 106,325 units. The joint venture now has four operational plants in Shanghai and Nanjing, which have a combined production capacity of more than a million units a year. It is also building new factories in Jiangsu and Zhejiang provinces and the Xinjiang Uygur autonomous region. Vahland said Skoda will begin importing cars into China in early 2013. “It will test the Chinese market for future models to be locally produced. Our major focus is on local production,” he said.

## Weichai Power to acquire 25% of Kion Group

Weichai Power Co intends to pay €738 million for a stake in German forklift truck maker Kion Group and its hydraulics subsidiary, the largest direct investment by a Chinese company in Germany so far. Weichai Power, which is headquartered in Weifang, Shandong province, and is part of the Shandong Heavy Industry Group, will acquire a 25% stake in Kion Group, the world’s second-largest forklift maker, for €467 million, and a 70% controlling stake in Kion’s subsidiary Linde Hydraulics for €271 million, from KKR & Co and Goldman Sachs Group. The company acquired 130-year-old French diesel engine and gearbox maker Moteurs Baudouin in 2008, and purchased a 75% stake in Italy’s Ferretti Group, one of the top builders of luxury yachts in the world, in January. Analysts said that hydraulics control systems are a bottleneck technology for China’s booming equipment manufacturing industry, the largest in the world, which relies heavily on imports, especially in the high-end sector. China’s hydraulics control systems imports totaled CNY30 billion in 2011, and are increasing this year. The investment in Kion Group will be a shortcut for Weichai Power to master world-leading high-end hydraulics technology and apply it to many industries such as engineering and agricultural machinery, yachts, aviation and aerospace, said analysts. Kion Group is the world’s second-largest and Europe’s biggest forklift truck maker, with a global market share of 15%. It has 12 forklift manufacturing facilities around the world, and its sales network extends to more than 100 countries. In 2011, Kion reported annual revenue of €4.37 billion, with a worldwide forklift capacity of 1.12 million units.

## China's vehicle exports on the rise

According to the China Association of Automobile Manufacturers (CAAM), China exported 487,900 vehicles in the first half, a 28% year-on-year increase. The Association predicted that total exports could surpass 1 million units in a year for the first time in 2012, showing an year-on-year increase of 27.48%. The annual export revenue is expected to reach a record USD17.47 billion this year, surging by 59.37% over last year. In 2011, China’s automobile exports rose 49.99% year-on-year to 850,000 units. The total export revenue for the first time passed USD10 billion to reach USD10.96 billion, a 56.82% year-on-year increase. China’s five leading automakers — led by Chery Automobile, Zhejiang Geely Holding Group and Great Wall Motors Co — contributed 74.4% of the total exports. Chinese passenger vehicle brands sold 3.15 million units in the first half of the year, a 0.16% year-on-year decrease. Their total market share of 41.39% was a 3 percentage point decline from last year, and compares with more than 50% of market share in 2010. Their passenger car market share withered to less than 30%. The difficulties in the domestic market have pushed them to find new markets overseas. Chery, which has maintained its leadership in China’s passenger vehicle export for nine years, said it exported 92,494 units in the first half of the year, a 28.8% year-on-year increase. Since the first Chery car was sent overseas in 2001, the company’s total exports have exceeded 700,000 units. It aims to export 200,000 vehicles in 2012. Geely, which made its name internationally by taking over Swedish luxury car brand Volvo in 2010, is speeding up the overseas expansion of its own brands. In the first half, the Zhejiang automaker’s exports surged by 210% from last year, supported by exports of more than 10,000 units in June. It hoped to double its 2011 export figure to more than 80,000 units this year. Great Wall reported an export volume of 47,719 units in the first half, increasing 40% year-on-year. The Hebei automaker has set a goal of tripling its exports to more than 300,000 vehicles by 2015, from this year’s 100,000 units goal. Until then, exports are expected to account for 20% of Great Wall’s sales. Dongfeng Motor, China’s third-largest automaker, recently announced plans to increase its overseas sales from 68,000 units in 2011 to 300,000 by 2016.

## Wanxiang to take control of A123 Systems

Wanxiang Group Corp, China's largest automotive parts supplier is poised to take control of U.S. battery maker A123 Systems, which received a USD249 million green-technology grant from the Obama administration in 2009. It plans to invest up to USD450 million in A123 Systems, taking an 80% stake. A123 reported a second-quarter loss of USD82.9 million compared with a loss of USD55.4 million a year earlier. The two companies have signed a non-binding memorandum of understanding (MOU) and expect to conclude an agreement in the near term. David Vieau, Chief Executive of A123, said Wanxiang had a record of investing in U.S. companies without changing management or diverting resources to its Chinese operations. Nevertheless, two Republican Senators, John Thune of South Dakota and Charles Grassley of Iowa, sent a letter to U.S. Secretary of Energy Dr Steven Chu about concerns that American tax dollars would benefit A123's new Chinese investor. The Department said its grants to A123 were restricted to supporting U.S. manufacturing jobs. David Vieau said the Chinese investment would help preserve about 900 jobs at the Livonia plant and provide new international business opportunities for A123.

## Toyota hopes to raise sales, despite a recent drop

Japanese carmaker Toyota plans to raise annual sales in China to 1.8 million vehicles by 2015, Vice President Atsushi Niimi said. The carmaker’s target this year is to sell 1 million cars in the country. Toyota’s August sales in China declined 15.1% from a year ago to about 75,300 vehicles, but maintained an upward trend in the previous months of the year. It sold about 596,100 vehicles in China from January to August, an increase of 13.4% year-on-year. Sales in China by Toyota Motor and its two local joint-venture partners fell 15.1% in August from a year earlier to about 75,300 vehicles. The year-on-year decline last month followed a 5% drop in July. The last time sales fell for two consecutive months for Toyota was a two-month period ended January 31 this year. In December 2011, overall Toyota vehicle sales in China slid 9.6%, followed by a 26.2% decline in January. Toyota plans to build its first transmissions plant in China, investing about USD285 million in its newly-founded Toyota Motor (Changshu) Auto Parts Co (TMCAP) to make continuously variable transmissions (CVTs) used on gasoline-engine vehicles with small displacement. The company is expected to create 850 jobs and is slated to start production in September 2014 with an initial capacity of 240,000 units each year. The company is also building up its Toyota Motor Engineering & Manufacturing (China) Co in Changshu, Jiangsu province.

## SAIC to build MG3 sedans in England

SAIC Motor Corp, China’s largest automaker by sales, has confirmed its plan to build MG3 small-sized sedans in England, as part of the company’s CNY45 billion global investment. Based in Longbridge of Birmingham, MG Motor UK, SAIC Motor’s subsidiary in England, will be the center of European manufacturing for the MG3 Supermini, which is the company’s second locally produced model there after the MG6. The production of the MG3 is slated to begin next year. SAIC has set up an European design and technical center at its Birmingham site and will inject more capital to develop new models. SAIC also announced in June that it “exclusively acquired” light bus technologies from British commercial van maker LDV Group which it noted “had not been transferred to any other domestic company. Dongfeng Motor Corp however said its new van uses technologies from LDV, formerly Leyland DAF Vans. The claim is disputed by SAIC, in a rare spat over intellectual property rights (IPRs) between domestic companies. The company also plans to introduce its first pure electric car, the Roewe E50, this November and expects 1,000 of them to be sold within a year. China expects production and sales of electrical vehicles to reach 500,000 units in 2015, and five million by 2020. In June, the Ministry of Finance said that the central government will allocate CNY1 to CNY2 billion annually to support the development and production of greener vehicles.

## Dongfang to build new plant, start Fengshen exports

Dongfeng Motor Co, a joint venture between Japan’s Nissan Motor Co, planned to open a fourth plant in Dalian to boost sales to 2 million units, investing up to CNY5 billion in the

Liaoning province factory. In 2011, Nissan sold 1.247 million vehicles in China, a surge of 21.9% from a year earlier. Set to open in 2014, the new Dalian plant will add an annual capacity of 150,000 units, which may rise to 300,000 units in the future. Dongfeng Motor Co also signed an agreement to deliver 1,000 Venucia-branded electric vehicles by 2014 to a pilot program by the Dalian government to promote alternative energy cars. Venucia presented its first electric concept vehicle at the 2012 Beijing Motor Show in April. Dongfeng also began to export its independently developed Fengshen S30 on August 16, marking a milestone in its overseas expansion strategy. The first batch of 4,000 S30s for export were built at the Dongfeng Passenger Car Co in Wuhan, Hubei province. The shipment destined for Venezuela is the largest in the company's history. Dongfeng has also made long preparations to enter the Russian market. The company sold 32,253 cars in China in the first seven months of the year, a year-on-year growth of 104.5% in a period when the combined sales by domestic brands dropped 5.5%. Dongfeng Motor Corp signed a memorandum of understanding (MOU) to acquire Fujian Motor Industry Group Co as it moves to set up a southeastern production base, and produce passenger vehicles under its wholly-owned brand. Dongfeng currently operates joint ventures with Honda, Nissan, Kia, PSA Peugeot Citroen and Yulon Motor Co from Taiwan, and also makes cars under its own brand Fengshen and trucks carrying both foreign marques and its own nameplates.

## Short news

- Vehicles for commercial use account for more than half of Beijing's air pollution, and standards to better regulate their emission of fine particles will be adjusted by July next year. The quality of diesel would also be improved over the next year. Vehicles that run on diesel, including coaches and trucks, account for 16% of all vehicles on the capital's roads.
- China's supercar market will grow at between 20% and 30% annually over the next five to 10 years, according to Lamborghini General Manager in the Asia-Pacific Christian Mastro. The Italian sports car maker expects this year's sales in China to roughly keep pace with last year's 342 units, which accounted for a fifth of its total global sales. In the first six months, Lamborghini has delivered more than 120 super sports cars to Chinese consumers. Although China's car market growth is slowing for the first time in two years, the sale of luxury brands still increased by 30% and the super luxury brands enjoyed a more than 60% surge.
- Passenger cars will be exempt from road tolls on highways during major holidays, the central government announced. Drivers have been complaining that busy toll gates were responsible for major traffic jams during peak travel periods. Officials at the Ministry of Transport said travelers will save a total of CNY10 billion a year after the exemption. Over the past decade, the length of China's highways has expanded to 4.11 million kilometers from 1.77 million, with expressways accounting for 84,900 km, the second-longest in the world. CNY3.65 trillion was invested in China's tollways, with CNY2.32 trillion yet to be paid off.
- Isuzu Motors and Jiangling Motors Corp will form ventures to produce light commercial vehicles and engines in Jiangxi province as the demand for pickup trucks increases in China. Isuzu expects to begin production in early 2014. The Tokyo-based truck maker expects to build and sell about 100,000 vehicles a year. In the year ending in March 2013, Isuzu is targeting to boost its global deliveries of light commercial vehicles by 32% to 393,400 units, while it expects worldwide shipments of commercial vehicles to increase by 11%. Jiangling Motors, in which Ford owns a 30% stake, will also pay as much as CNY270 million to purchase Shanxi province-based Taiyuan Changan Heavy Truck Co from China Changan Automobile and China South Industries Group Corp.
- Chery Auto, China's largest domestic auto manufacturer and exporter, said it would recall more than 18,000 vehicles from markets in Brazil, Uruguay, Chile, Argentina and Singapore, as gaskets or exhaust systems installed in these vehicles contained small amounts of asbestos, which violated rules in these countries. As small amounts of the substance are used in the engines, it will not threaten the health of drivers or passengers, but harm maintenance personnel, experts said. Chery recently started operation of its Dalian plant. The first model to roll off the production line is the Chery Eastar. Most of the production will be shipped overseas.
- Mercedes-Benz may sell its E-Class sedans under the Beijing brand owned by its local partner BAIC Group to qualify for the government procurement market now limited to domestic brands. The move would not involve any technology transfer, but is

just the first step in a wider plan that could see Mercedes-Benz transfer its old E-Class platform to BAIC. The key issue under discussion centers around profit sharing, as Mercedes-Benz is currently reclaiming 15% of the profit from every Beijing brand E-Class sold. More than 400 vehicles of different domestic brands are eligible for government purchase this year.

- Volkswagen plans to nearly double its production capacity in China to 4 million vehicles by 2018. With two local joint ventures, Volkswagen sold nearly 2.3 million vehicles in China last year, its largest sales region for three consecutive years. The company said earlier that it plans to raise annual output in the country to 3 million units in 2013 or 2014. Volkswagen and its joint ventures are now building new plants in Yizheng, Ningbo and Foshan, and also broke ground on a new auto factory in Xinjiang.
- Domestic carmaker Great Wall Motors will build a new 50,000-unit plant in Russia to increase its annual production capacity in the country to more than 70,000 vehicles. Last year Great Wall exported more than 20,000 vehicles to Russia, its largest overseas market with about a quarter of the automaker's deliveries abroad.
- General Motors' European unit Opel aims to boost its sales in China. "Last year we sold around 5,000 cars (in China). We want to improve that step by step to ten, twenty or thirty thousand," Opel CEO Karl-Friedrich Stracke said. Opel now sells three imported models in China, the Antara SUV, the Zafira station wagon and the Astra A+ sedan. Separately, General Motors and its joint ventures in China reported their best August sales ever after delivering 220,996 vehicles last month, up 7.3% over a year earlier and 10.8% over the previous month. The strong August numbers pushed the carmaker's January-to-August tally in the country to a new record high of nearly 1.84 million vehicles, an increase of 11.2% from the same period last year.
- The 6 millionth car made by Shanghai GM recently rolled off the production line at the Sino-U.S. joint venture established 15 years ago, just nine months after the company made its 5 millionth vehicle. The joint venture is expanding its output in Shanghai, Yantai and Shenyang and adding a new facility in Wuhan. It said its annual production capacity will reach 2 million units by 2015. This year it aims to achieve a 5% year-on-year growth to 1.3 million units in sales.
- On August 31, Volkswagen laid the foundation stone for a new transmission plant in Tianjin that will produce its latest dual-clutch transmissions in late 2014. The project's CNY1.84 billion first phase is designed to produce 450,000 gearboxes annually.
- Mercedes-Benz said that its sales in the first seven months increased 10% to 119,980 units in China, keeping strong market momentum. The automaker delivered 14,760 vehicles under the Mercedes-Benz, Smart and Maybach brands in July, a 2% increase over last year. Its locally produced core model, the C-Class, showed a strong monthly growth of 134% in July, bringing the year-to-date growth rate to 26% for the seven-month period. The locally produced E-Class also recorded a steady 17% year-on-year growth in the first seven months.
- People in Jinan can now register for a vehicle number plate online in the first such service in China. The service includes registration of number plates, application and reissue of a driving license, and appointments for regular inspections.
- Cash-strapped local governments in China have begun auctioning off fleets of officials' luxury cars as part of efforts to bolster revenues. Many local governments' revenues from tax and land sales have been declining. While government car auctions have been held before in China, such sales have increased in recent months. About one in every five Audis in China is owned by the central or local governments. Official cars cost China about CNY100 billion annually.
- Citroen expects annual sales of its DS brand to hit 200,000 units in China in a few years when it has four locally made models, which would be a huge expansion, as DS sold only 110,000 cars last year globally and Citroen has almost no brand appeal in China. Citroen will start to assemble a DS5 cross-over next year at its parent PSA Peugeot Citroen's joint venture with Chang'an Motor Corp in Shenzhen. The joint venture is the only manufacturing site for the DS outside France. China's premium car market is now dominated by three German premium brands — Audi, BMW and Mercedes-Benz.
- National Electric Vehicle Sweden (NEVS) announced on August 31 that it finalized the acquisition of the main assets of Saab Automobile, including the intellectual property

rights for the Saab 9-3, IP rights for the Phoenix platform, tools, the manufacturing plant, and test and laboratory facilities. NEVS is wholly owned by Hong Kong-based National Modern Energy Holdings, whose founder and principal owner is Kai Johan Jiang, an ethnic Chinese citizen of Sweden. The new owner of Saab plans to introduce its first electric vehicle in about 18 months based on Saab 9-3 technologies and a new electric power train.

- More than 5.12 million vehicles were officially registered in Beijing by the end of last month, up nearly 50% from 3.5 million at the end of 2008. The actual number of cars on Beijing roads is much higher, however, as many vehicles are registered outside the capital, such as in Hebei province.
- China Auto Rental Holdings, the country's top car-rental provider, received USD200 million from the U.S.-based private equity firm Warburg Pincus. The amount, the largest equity financing seen to date in China's car-rental industry, follows the company's aborted attempt at holding an initial public offering (IPO) in the Unite States earlier this year.
- Ford Motor Co has received approval from the National Development and Reform Commission (NDRC) to split its venture in China with Mazda Motor Corp. The NDRC approved an application for Ford to have a separate venture with Chang'an Automobile Co instead of the current three-way ownership structure with Mazda, Ford Chief Executive Officer Alan Mulally told reporters in Chongqing. The separation would restore Ford's ability to have an equal say as its Chinese partner for the first time since 2006, when the U.S. company transferred a 15% stake to then-affiliate Mazda.
- Warrior, a domestic tire brand, has returned to the local market after a two-year absence. The Shanghai Huayi Group, its affiliated company Double Coin Holdings and French tire maker Michelin launched the new Warrior tires in Shanghai, which are made at a new CNY3.2 billion plant at the Anhui Industrial Park. Three series of Warrior passenger car tires with 26 specifications will be supplied to the local market. Huayi had to give up the rights to the traditional Chinese brand in 2001 when it set up a joint venture with Michelin, which controlled 70% of the JV.
- Zonda Bus Group, the first Chinese coach maker to mass produce pure electric buses, plans to raise more than CNY10 billion through stake sales over the next five years. It plans an annual output of 20,000 buses and grabbing a 20% market share. The company is expected to launch a CNY2 billion project to produce 5,000 units annually in Jiangsu province within three years. By the end of July, Zonda had received orders worth CNY160 million for its electric vehicles.
- Visitors to the 1st Pudong International Automotive Exhibition were dismayed at the lack of new car models. Wang Xia, Director of the Auto Committee at the China Council for the Promotion of International Trade (CCPIT), said the first fair was organized in a very short time. Auto manufacturing is expected to be a pillar industry in the Pudong New Area by 2015. Carmakers in Pudong produced 700,000 automobiles last year and car sales hit CNY30 billion. The five-day show, held at the Shanghai New International Expo Center, attracted more than 60 carmakers from around the world.
- The Beijing Municipal Government is to study the introduction of congestion charges, although many problems need to be solved before they can be implemented, including determining the areas of the city where they would be charged. Beijing's transport blueprint also calls for more subway lines and better public transport.
- Daimler plans a €135 million joint venture engine plant in China to fend off competition from an alliance Volkswagen is forming with Scania and MAN. The factory in Beijing will be part of Daimler's truck making partnership with China's Beiqi Foton Motor Co and have the capacity to make as many as 45,000 engines a year for the Auman commercial-vehicle brand. Construction is scheduled to start in the first half of next year and be completed in 2014.
- The number of motor vehicles in China in June topped 233 million, including 114 million automobiles and 103 million motorcycles, according to the Ministry of Public Security. The number increased by 3.67% from last year or 8.26 million. Eight provinces have more than 10 million motor vehicles each, while Shandong and Guangdong have more than 20 million. Automobiles in five cities — Beijing, Chengdu, Tianjin, Shenzhen and Shanghai — have topped 2 million.
- FAW Car Co, the listed arm of FAW Group, reported a loss of CNY61 million in the first half compared with a net profit of CNY80 million in the same period last year. Its first

half sales fell 35.5% year-on-year to about 90,000 units. The company makes cars under its own marque Besturn as well as the Japanese brand Mazda.

- Domestic carmaker Chery said it will shed two brands — Rely and Riich — and only keep its namesake brand for passenger cars. Chery created the Rely and Riich brands in 2009 to make high-end products. The costly multi-brand strategy failed to upgrade the company's image while sales of Rely and Riich models remained stagnant. The company will still produce minivans and pickups under the Karry brand.
- BYD Co forecast a steep profit fall of between 75% to 95% for the first three quarters. The company reported a 94% decline in net profit to CNY16 million in the first half this year. Its automobile unit saw sales decrease by 9% to nearly 200,000 units in the first six months, but sales revenue increased 12% to CNY10.7 billion due to its improved, higher-priced product lineup. Vehicle deliveries fell this year as the popularity of its F3 model waned amid increased competition from foreign carmakers, including Volkswagen. Net income for the nine months to the end of September is forecast to fall by 95% to CNY17.6 million.
- FAW Group Corp designated top Audi Executive Zhang Xiaojun as Sales Director for its Redflag brand. Production of Redflag sedans was suspended in 1981 due to sluggish sales, high costs and low fuel efficiency. In the 1990s, several new models based on technologies from Audi and Chrysler were launched but sales remained lackluster. On July 15, an all-new Red-flag H7 large sedan rolled off the assembly line at FAW's headquarters in Changchun. The H7 is expected to go on sale in October for government customers and next year to private buyers. FAW plans to invest CNY10.5 billion in R&D on the Redflag brand, providing new products such as SUVs and limousines.
- Dutch company Spyker is suing General Motors for USD3 billion on behalf of its subsidiary Saab Automobile, accusing the U.S. automaker of deliberately driving Saab into bankruptcy by interfering with a planned deal with Chinese investor Youngman. "This lawsuit seeks redress for the unlawful actions GM took to avoid competition with Saab Automobile in the Chinese market," Spyker said in a statement, referring to a complaint filed in a U.S. district court.
- According to a survey of more than 1,000 dealerships by the China Automobile Dealership Association, up to 10 car brands — including five domestic ones — had inventory-to-sales ratios surpassing the "danger-level" benchmark of 2.5 at the end of June. In some extreme cases, the ratio shot to up to 8. A survey by Beijing-based market research firm Lansion in July showed nearly 70% of dealerships are dissatisfied with their business performance this year. Only 13.9% said they were confident of meeting sales targets set by automakers.
- Chinese truck manufacturer Sinotruck broke ground on its new plant in Urumqi, Xinjiang, in August. A total of CNY1.2 billion will be invested in the plant, which is expected to produce 80,000 units each year and reach an annual output value of CNY15 billion after three phrases of construction. The plant will produce heavy, mid-sized, light and special trucks, which will be exported to Russia and Central Asian countries.
- Volkswagen's luxury brand Audi topped the J.D. Power & Associates satisfaction survey for a third year, followed by the Chinese joint ventures of Nissan Motor and Hyundai Motor. The difference in the scores received by domestic and foreign brands widened further, according to the report, which polled 13,769 new vehicle owners in 43 Chinese cities.
- Shanghai has no plans to charge motorists a "road congestion fee," the Shanghai Transport and Port Bureau said after Beijing announced such an initiative. Beijing is considering to charge drivers to use the roads during peak hours. Meanwhile, there are no signs that the price of Shanghai car plates would be coming down in the near future. The lowest price of a city plate reached CNY62,100 at August's auction, CNY4,400 more than in July. The city government said it collected about CNY6.7 billion from plate auctions in 2009 and 2010 and about CNY5.45 billion had been spent on improving public transport.
- Brilliance China Automotive will consider declaring a dividend next year after it completes most of its investment projects. The Shenyang-headquartered carmaker – which has a 50-50 joint venture with Germany's BMW – declared no interim dividend this year despite reporting a 41.6% rise in net profit to CNY1.33 billion. But JP Morgan analysts warned that the company might have to book up to CNY600 million of start-

up losses in next year's financial statements for a new electric car model expected to enter production in late 2013. Brilliance said sales of BMWs in China jumped 46.9% year on year to 80,792 in the first six months – nearly double the luxury car market's average growth of 25%.

- Dutch car manufacturer Spyker and Chinese partner Zhejiang Youngman Automobile Group plan to launch a new upmarket model that would be a cross between a Spyker sports car and the now-defunct Saab. The new car would use the platform and technology developed for Saab. The new model would go into production in China and Europe, but not for another two or more years, Spyker Chief Executive Victor Muller said.
- Shanghai will gradually limit and finally eliminate use of heavily polluting vehicles starting next month to reduce air contaminants. The vehicles, mostly older models that do not meet national emission requirements, are easily identifiable by a yellow sticker on the window. There are 230,000 such vehicles registered in Shanghai, about 12% of total vehicles with local plates, but they contribute more than half of all vehicle emissions. The city is expected to get rid of 200,000 high-pollution vehicles by the end of 2015. Private car owners will be offered subsidies from CNY3,000 to CNY32,000.
- A record 1.05 million people in Beijing competed for 19,926 registration certificates qualifying them to buy cars through the lottery system. One in every 53 applicants will get the registrations, 80% fewer than in January last year, when Beijing introduced the lottery system to cap new car ownership at 240,000 a year. Applicants who have failed to win in the past two months are automatically re-entered, increasing the number of participants.
- Geely Motors reported a 9% year-on-year increase in profits to CNY1.02 billion in the first half, making it one of the few domestic automakers to report a profit in the period. Geely sold 222,000 vehicles from January to June, 4% more than in the first half last year. It exported 40,000 vehicles in the period, a remarkable rise of 199%, which partly off-set the impact from its 0.3 percentage point decrease in market share.
- Car parts and tire maker Continental opened the CNY120 million second phase of its Jiading plant in Shanghai for products such as door control units. Continental also said it will build a new factory in Wuhu, Anhui province, for its interior division. The plant requires initial spending of €33 million for land and buildings.

## METALS

### Chinese banks sue 20 steel trading companies

Chinese banks recently sued 20 steel trading companies in Shanghai that failed to repay loans, and market watchers said more credit defaults by steel traders may emerge. Among the cases, China Minsheng Banking Corp sued Shanghai Huijin Steel Group Co, China Everbright Bank sued Shanghai Qiaoshou Steel Trading, and the Bank of Hangzhou filed a lawsuit against Shanghai Tianzhan Steel Co. All of the trading companies had joint guarantees for the loans, but it did not protect the lenders as the steel industry has been hit by plunging profits since last year, Shanghai Securities News reported. China Minsheng has agreed to lower lending rates by 2 percentage points for the steel traders. Medium-sized traders with financing difficulties have downsized their operations, waiting for opportunities, while the small players have to exit. A liquidity crisis has erupted in the industry. Some firms have also been accused of misusing the loans meant for the steel trade on investment in properties and shares. Tight liquidity has forced some traders to sell inventory to raise cash, thus exacerbating the pace of decline in steel product prices, which have already been pressured by industry overcapacity, high inventory levels and weak demand. China's crude steel output may fall 0.7% this year, the first decline in 31 years, due to weak demand, according to a report by Xue Heping, Senior Industry Analyst at Steelinfo consultancy. Other analysts – including Mysteel Chief Analyst Xu Xiangchun – predicted a 2% increase in output for the year on the back of higher demand from Beijing's fast-tracking of infrastructure projects. China's steel output has grown 11.4% to 24.9% annually between 2001 and 2010, except for a dip to 2.4% in 2008. Growth slowed to 7.3% last year. A decline in steel output has great implications for suppliers of raw materials used in steel smelting, such as iron ore and coking coal, much of which is imported from nations like Australia, Brazil and Mongolia. Declines in new-home construction and home appliance production, slower growth in car making and shipbuilding, and a sharp decline in the production of railway cars have all played a part in stalling steel demand growth.

## China looking for more non-ferrous metal resources abroad

China will accelerate the overseas exploration of non-ferrous metals to meet growing domestic demand, said Shang Fushan, Vice Chairman of the China Nonferrous Metals Industry Association. China had overseas mining rights for 80 million metric tons of copper, 30 million tons of lead and zinc, and 6 million tons of nickel by the end of last year. These mining rights represent an annual production capacity of 200,000 tons of copper, 35,000 tons of nickel and 900,000 tons of lead and zinc. Domestic proven reserves are far from enough to meet the increasing demand, Shang said. In 2011, China's overall output of six major non-ferrous metals — copper, lead, zinc, nickel, stannum and stibium — was 8.25 million tons, up 18% year-on-year. The growth rate was almost double the average annual growth rate of the output of the six non-ferrous metals during the 11th Five Year Plan (2006-10). At present, the recycling of waste materials, also known as tailings, has huge potential in China, especially red mud, barren rocks and mine tailings. According to an investigation conducted by the Association, the total amount of tailings from non-ferrous metals mining between 1949 and 2011 reached 3.8 billion tons. These tailings contain 1.45 million tons of copper, 730,000 tons of stannum, 200,000 tons of wolfram and 3.2 million tons of lead and zinc, which have the potential to be used in many ways, the China Daily reported.

## CISA urges steel production cuts

The China Iron and Steel Association (CISA) has urged small mills to curb production to ease oversupply in an industry that's struggling to remain profitable. Crude steel output rose 1.8% to 357 million tons in the first half of this year. Output by the Association's members fell 0.1% while that by non-members, mostly small local mills, rose 12.9%. "Some mills are engaging in loss-making production to maintain market share," said CISA Vice Chairman Zhang Changfu. Major steel companies posted a combined profit of CNY2.39 billion in the first half, down 96% from a year earlier. One of China's biggest steel makers, Baosteel Group, will reduce about 30% of its steelmaking capacity in Shanghai over the next five years. Xu Lejiang, Baosteel's Chairman, said the company will move 5.8 million tons of iron production capacity and 6.6 million tons of steel output capacity to plants in Guangdong province and Xinjiang by 2017. Its annual output in Shanghai totals about 22.25 million tons. Xinjiang Bayi Iron & Steel, a subsidiary of Baosteel Group, reported a profit decline of 51% to CNY190.24 million in the first half of the year as a result of falling demand as the country's economy slows. Sales revenues posted a slight increase of 0.83% to CNY14.14 billion in the first half.

China's crude steel output fell to a six-month low in August as falling prices forced mills to cut production. Output dropped 1.7% from a year earlier to 58.7 million tons, the lowest since February, the National Bureau of Statistics (NBS) said. Demand this month may improve from August and July but oversupply will persist amid the economic slowdown and high output, which will keep prices weak, BOC International Analyst Le Yukun said. The Ministry of Industry and Information Technology (MIIT) predicts steel demand in China will peak at between 770 million tons and 820 million tons a year between 2015 and 2020, as a maturing economy requires less infrastructure to be built and more scrap steel is recycled, reducing the need for newly produced steel. Last year China consumed 617 million tons. The peaking of steel demand will be particularly bad news for the country's relatively high-cost mines. Roughly half the domestic output is extracted by small-scale producers with production costs of USD80 to USD180 a ton. The China Iron and Steel Association (CISA) said the profits of large and medium-sized Chinese steel companies decreased by 95.8% year-on-year in the first half of the year. The industry reported a total profit of CNY2.39 billion for that period. The total loss of steel companies that ended the first half of the year in the red was CNY14.25 billion.

China's steel prices fell to their lowest level since October 2009, according to Wang Guoqing, Deputy Director of the Lange Steel Information Research Center, an industrial consultancy based in Beijing. China's steel inventories were 14.87 million tons on August 24, 380,900 tons less than the previous week, which represented the fastest drop in several weeks. However, crude steel output is still increasing. According to CISA, its member companies had a daily output of 1.63 million tons in early August, an increase of 1.24% compared with late July.

## Short news

- Gold imports by the Chinese mainland from Hong Kong dropped for a second month in June as an economic slowdown curbed spending. The mainland bought 67.97 tons, including scrap and coins, down from 75.64 tons in May, according to export data by the Census and Statistics Department of the Hong Kong government. The mainland imported a record 103.64 tons in April. Gold demand in China, the second-biggest consumer after India last year, might expand 13% to 870 tons this year, the World Gold Council (WGC) said, trimming its previous forecast for consumption to reach as much as 1,000 tons. Jewelery demand may expand 7.7% to 550 tons, about half the rate of last year's 13% growth. Demand for bars and coins might gain 24% to 320 tons, below the 38% climb last year.

- Zijin Mining Group Co, China’s top gold producer by output, said a subsidiary has bought more than 50% of Australia-listed Norton Gold Fields, in the first successful example of a Chinese company taking over a large gold mine that is in production. Jinyu International Mining Co, the fully owned subsidiary of Zijin Group, made a AUD180.3 million cash takeover offer in May for the Australian gold mine. Zijin owned 16.98% of Norton before the offer.
- Chu Kong Petroleum and Natural Gas Steel Pipe, one of China's largest steel pipe producers, plans to spend more than CNY400 million to build a steel plate production line by the end of next year. The move into upstream raw material production could boost its gross profit margin by 6 percentage points from 15% last year. The company, based in Panyu, Guangdong, plans to build facilities at its production base in Lianyungang, Jiangsu, that will be capable of producing 2 million tons of steel plates from billets annually. Chu Kong plans to double its annual production capacity to 3 million tons by the end of next year, from 1.45 million tons at the end of last year.
- Hebei Iron & Steel Group, China's largest steel producer, has been given the go-ahead to invest in Canadian iron ore developer Alderon Iron Ore Corp. Hebei Steel said in April that it would invest about USD195 million for nearly 20% in Alderon and a 25% interest in Alderon's principal asset known as the Kami project, located in Canada's Labrador Trough.
- China Molybdenum has received approval from the China Securities Regulatory Commission (CSRC) to list up to 542 million A shares on the Shanghai Stock Exchange. It could raise the equivalent of HKD1.59 billion from the Shanghai listing.
- Gold miner Zhaojin Mining Industry will subscribe to 100 million shares in Norseman Gold at AUD0.04 per share as part of a 625 million share placement announced by the Australian miner. Norseman Gold, listed on AIM in London and the Australian Securities Exchange, is a gold producer focused on Western Australia. The transaction is pending the approval of the Foreign Investment Review Board of Australia and relevant Chinese authorities.
- United Company Rusal, Russia’s biggest aluminum producer, is seeking Chinese partners to set up joint venture factories in Siberia. A memorandum of understanding (MOU) was signed with the China Nonferrous Metals Industry Association. Siberia has one of the world’s biggest bauxite mines while the price of electricity, which is essential to turn bauxite into alumina, is cheap. Producing a ton of alumina costs around USD1,600 in Siberia, compared with USD2,250 in Henan province.
- Nickel pig iron producers in China, the biggest user, have suspended almost 50% of capacity as prices have fallen below costs. The utilization rate was about 51% at the end of August, based on surveys of about 90 producers, which account for more than 80% of the nation’s capacity, said Celia Wang, Senior Market Analyst at Shanghai Tsingshan Mining Investment Co, a unit of Tsingshan Holding Group, China’s largest privately-owned stainless-steel producer. The biggest production cut since 2008 may support nickel prices in London. New additions of stainless-steel capacity in China have drained nickel pig iron inventories and prompted users to seek imports of refined nickel.
- The world’s largest gold miner Barrick Gold is in talks to sell a majority stake in its African unit to China National Gold Group. Canadian miner Barrick is grappling with falling profits, soaring costs and the fallout from what some investors see as mistakes, including the takeover of African copper miner Equinox Minerals last year. African Barrick Gold (ABG) is one of Africa’s largest gold miners, operating mainly in Tanzania. “Discussions are at an early stage, and there can be no certainty that these discussions will result in the acquisition of all or part of Barrick’s holding in ABG,” Barrick Gold said. An offer for more than 30% of African Barrick would trigger a full takeover offer under UK takeover rules.
- Hong Kong Exchanges and Clearing clinched its takeover of the London Metal Exchange (LME) after LME shareholders approved the GBP1.39 billion cash offer with 64 out of 67 shareholders who attended approving the sale. The LME is owned by 70

shareholders, mainly investment banks and metal traders. LME Chief Executive Martin Abbott said the deal would secure the LME's position "as the world's foremost metals trading venue". The price HKEx is paying is rather steep, representing 180 times LME's profit last year. It is the first overseas acquisition for HKEx and its first contracts in commodities.

- China may revive the value-added tax (VAT) rebate scheme for domestically produced high-end steel used for export. Selected steel producers will get a full rebate of the 17% VAT when selling certain types of steel for export-only products at prices exclusive of VAT. The scheme was first introduced in 1998 to encourage the greater use of domestic steel products so that it can replace imported materials; but it was suspended in 2005. Steel products involved represent less than 5% of China's total steel capacity, and most steel producers are unlikely to benefit as only a few top players are producing such high-end steel.
- China overtook South Africa as the largest ferro-chrome producer this year, according to Merafe Resources, which has a joint venture with Xstrata. China accounted for 33% of the 4.8 million metric tons produced in the first half, while South Africa produced 32%, Johannesburg-based Merafe said, citing data compiled by Heinz H Pariser Alloy Metals & Steel Market Research. South Africa's market share fell as Eskom Holdings SOC, supplier of about 95% of the country's power, took back electricity allocated to ferro-chrome producers in return for payments to prevent a repeat of rolling blackouts in 2008. South Africa shipped about 2.1 million tons of chrome ore to Chinese ferro-chrome production plants in the first half. China is the world's largest producer of stainless steel made with ferro-chrome.
- Former Guangzhou Party Secretary Zhang Guangning has been appointed Chief Executive, Chairman and Party Secretary of Angang Steel, based in Liaoning province. Zhang had a long career in the steel industry. He started as a steel worker at Guangzhou Iron and Steel Enterprises in 1971. He held various senior positions at the company, eventually becoming Party Secretary in 1994. Two years later, he was named Guangzhou's Deputy Mayor.
- Aluminum Corporation of China (Chalco) agreed to buy 35.3% of Ningxia Electric Power for CNY2.02 billion to boost energy efficiency. Chalco will buy 23.4% from Bank of China Group Investment for CNY1.35 billion and 11.9% from China Zhongtou Trust for CNY675 million.
- China may end up with 1 million metric tons of copper in its inventory as a result of both high rates of production and import of the metal, according to a note from Deutsche Bank. From 550,000 to 575,000 tons of copper is probably held in bonded warehouses in China.
- Aluminum Corp of China, the world's third-largest smelter of aluminum, plunged into a CNY3.25 billion net loss in the first six months of this year from a CNY413 million net profit a year earlier due to weak demand and higher costs. The firm, known as Chalco, said finance costs soared 50.9% to CNY2.25 billion.
- Jiangsu Shagang Group replaced Huawei as China's biggest privately-owned company by revenue. Huawei and Suning Appliance Co were second and third in the All-China Federation of Industry & Commerce's "Top 500 Chinese Mainland Private Enterprises" listing.
- Baoshan Iron and Steel Co, China's biggest publicly traded steelmaker, posted a four-fold increase in second-quarter profit after selling two unprofitable units. Nine-month profit may rise more than 50%, it said. Net income surged to CNY8.39 billion in the quarter ended on June 30 from CNY2 billion a year earlier. The Shanghai-based company supplies half of China's automobile steel. "We aren't optimistic about the outlook for the third quarter as Baoshan has been cutting prices drastically," Sarah Wang, Analyst with Masterlink Securities Corp in Shanghai, said before the earnings release. Operating profit at Baosteel shrank an annual 60% to CNY2.72 billion in the first half. First-half profit rose 89% year-on-year to CNY9.61 billion.
- China Zhongwang Holdings, Asia's largest maker of extruded aluminum products, said demand is increasing as carmakers use more of the lightweight metal in place of steel. Jaguar Land Rover plans to start selling its first all-aluminum Range Rover sport utility vehicle next month, reducing the car's weight by 39%, while Daimler's Mercedes is using the metal for its €93,534 SL model. China's industrial aluminum extrusion market will expand at least 12% this year to 4 million metric tons.

## MINERALS

### Rare earth exports drop 40% in first half

Rampant smuggling and weak demand have led to a large decrease in the amount of rare earths exported from China through legal channels. In the first half of the year, such exports decreased 42.7% year-on-year, falling to 4,908 metric tons, according to China Customs. If the trend continues, fewer than 10,000 tons of rare earths will be legally exported from China this year, far less than the 31,130 tons that can be exported under a quota set by the Ministry of Commerce (MOFCOM). A white paper on the rare earths industry published by the Chinese government said China had an estimated 18.59 million tons, or 23% of the world's rare earth resources, compared to the United States Geological Survey's (USGS) estimate of 36 million tons, or 36% of the global total. The U.S., EU and Japan complained to the World Trade Organization (WTO) in March, alleging Beijing restricted free trade by imposing export quotas on rare earths, but Beijing said it did not interfere in the price setting and restrictions were needed to protect the environment. The paper said average prices of rare earths only rose by 2.5 times between 2000 and 2010, compared to 4.4 times for gold, 4.1 times for copper and 4.8 times for iron ore. Analysts said the trade dispute would take years to resolve and by then large-scale overseas mines would be re-opened or built to address global tight supply. China cut export quotas from 65,609 tons in 2005 to 30,184 tons last year. It also imposed a moratorium on issuing new mining licenses between 2009 and 2015, as it drives consolidation of the fragmented sector, remedies wasteful mining practices and tightens implementation of environmental protection rules.

“China's restrictions on rare earths and other products are a violation of China's WTO commitments and continue to significantly distort global markets, creating a disadvantage for our companies,” said EU Trade Commissioner Karel De Gucht in June. China is spending billions of yuan buying domestically mined rare earths to build up its national strategic reserves, Shi Yaoqiang, an official in the Rare Earth Division of the Ministry of Industry and Information Technology (MIIT), told China Daily. The country started the purchasing program last year, mainly targeting heavy rare earths, without disclosing details such as the amount and the price. Baogang Group, the parent of Baotou Steel Rare Earth Hi-Tech Co, China’s largest rare earth producer by output, said the plan involves the purchase of around CNY6 billion worth of rare earths. The WTO has decided to investigate China’s export quotas and tariffs on rare earths, tungsten and molybdenum following complaints by the United States, the European Union and Japan that the curbs break global commerce rules.

The Ministry of Commerce (MOFCOM) has set the second round of export quota for this year at 9,770 tons, which was granted to 24 companies, including Sinosteel, China Minmetals and the Baotou Iron and Steel Group. This brought this year’s total quota to 30,996 tons. The Ministry typically issues two tranches of quota each year. China began cutting the export quota from 2009. Exporters left about 40% of last year’s quota untapped, and exports dropped 36.7% in the first seven months of this year. However, there are also reports that smuggling of rare earths is rampant and may even surpass official export figures. The smuggled amount was 1.2 times China’s official export volume in 2011, Xinhua News Agency reported, citing Ma Rongzhang, Secretary General of the Association of China Rare Earth Industry. Liu Yinan, Vice Chairman of the China Chamber of Commerce of Metals, Minerals & Chemicals Importers & Exporters, called for imports of rare earths to be increased. Chen Zhanheng, Deputy Secretary General of the China Rare Earth Industry Association, said the limited quota for domestic manufacturing, coupled with growing demand, has led to a shortage. Last year the country imported about 5,000 tons. China may soon become a net importer of heavy rare earths, according to Commerzbank. Such a shift, from supplier to consumer, would lead to huge price increases, the bank added. China also plans to shut down about one-fifth of its rare earths production capacity under new rules to consolidate the industry. Mixed-type rare earths mines, mostly located in North China, will have to have a minimum annual production capacity of 20,000 metric tons a year and smelting companies will have to ensure an annual output of at least 2,000 tons. Up to one-third of the 23 mines and about half of the 99 smelting companies will fail to meet the new rules, said Jia Yinsong, Director of the MIIT’s Rare Earths Bureau. He estimated that about 20% of the country’s rare earths capacity will be eliminated.

### Hanlong's takeover of Sundance approved

Hanlong Mining said China's National Development and Reform Commission (NDRC) has approved its long-delayed USD1.3 billion takeover bid for Australian iron ore developer Sundance Resources. Hanlong, which already owns 17% of Sundance, wants the company for its USD4.7 billion Mbalam iron ore project on the border of the republics of Congo and

Cameroon in western Africa. The region is seen as a major new source of iron ore that could cut China’s dependence on Australia and Brazil. Hanlong now needs finance from China Development Bank (CDB) to complete the deal that was agreed a year ago, when the iron ore price outlook was far more positive. Australia’s Foreign Investment Review Board approved Hanlong’s bid for Sundance in June. The deal’s lengthy delays pointed to China’s reluctance to make big bets on risky resources projects offshore amid uncertainty over economic growth at home.

## Illegal rare earth operations discovered in Guangdong

Operations that were illegally storing and processing up to 1,000 tons of rare earths valued at several hundred million yuan were discovered in August in Lianping county, Heyuan, Guangdong province. The Longchuan county government also busted nine outlets illegally mining, processing or trading rare earths in Heyuan city, and seized more than 100 tons of fully or partly processed rare earth products. Cases of illegal rare earth mining were also discovered in the cities of Shaoguan and Meizhou earlier this year. The government approved rare earth mining of 2,000 tons of oxides a year in Guangdong, but actual mining exceeded 40,000 tons due to illegal mining, Shen Shaomei, an official with the provincial Department of Land and Resources, was quoted as saying by China Land and Resources News last year. Shen said strong overseas demand was causing the illegal mining. In February, the Rare Earth Bureau of the provincial government required all localities to enhance the supervision of rare earth mining, and the Guangdong Rare Earth Industry Group was founded. China is the world’s largest producer of rare earths, providing more than 90% of supplies with only 23% of global reserves, according to the country’s first white paper on the rare earth industry released in June.

## Imports of power station coal expected to drop

China’s imports of power-station coal may slow amid higher-than-average stockpiles at energy suppliers, increased hydro-electric production and stagnating electricity demand, according to a market report from Standard Chartered. Serene Lim, Standard Chartered Analyst in Singapore, said China’s demand for thermal coal is weaker than last year. The bank has forecast an average third-quarter price of USD95 a metric ton for coal at the Australian port of Newcastle, and USD88 at South Africa’s Richards Bay terminal. China’s coal imports, including power-generation and steelmaking grades, climbed 65% in June from a year earlier, according to the General Administration of Customs (GAC).

## Chalco drops bid for SouthGobi

Aluminum Corp of China (Chalco) dropped its CAD925 million bid for coal producer SouthGobi Resources as it was unlikely to win regulatory approval within an acceptable time frame, Vancouver-based Turquoise Hill Resources, formerly known as Ivanhoe Mines and SouthGobi’s largest shareholder, said. Chalco’s plans to acquire a stake in SouthGobi have been hindered by the Mongolian government, which passed a law in May restricting foreign state-owned companies from controlling key assets. Chalco's take-over would have been the biggest-ever Chinese investment in Mongolia. SouthGobi's mines have been idle since the end of June due to uncertainties over mining licenses and a flagging global coal market, while the price of its shares has plummeted 60% since Chalco’s April offer. Chalco’s failure to close the deal with SouthGobi highlights the political risks involved in investing in Mongolia.

## China Polymetallic Mining to declare first dividend

Chengdu-based China Polymetallic Mining, the biggest lead and zinc resource holder in Yunnan province, might declare its first dividend since listing a year earlier if it does not make any more acquisitions for the rest of the year. The miner completed three acquisitions in the first half of this year. Yunnan has China's second-largest lead and zinc reserves and the third-largest silver reserves. China Polymetallic has one lead-zinc-silver mine in production and daily ore-mining capacity is expected to rise to 2,000 tons by year-end, from 1,211 tons on June 30. Ore output from a second mine for the same metals is due to be expanded from 100 tons a day to 600 tons by year-end, and output of a third mine will be expanded from around 25 tons to 200 tons by next year's second quarter. A tungsten-tin mine is due to come on stream with a daily mining capacity of 500 tons by the end of March next year. The company has two other lead-zinc-silver mines under exploration due to start production next year and in

2014. All its projects are in Yunnan. The company posted a net profit of CNY45.3 million for the first half, compared to a loss of CNY245.4 million a year earlier. Its only operating mine started selling processed ore in November last year.

## Short news

- Calvin Zhu, former Vice President of Hanlong Mining pleaded guilty in an Australian court to three charges of insider trading. He admitted making AUD1.3 million trading in shares while working for three different employers, including Hanlong, after acquiring inside information about proposed takeovers. They included details related to Australian iron ore explorer Sundance Resources and uranium explorer Bannerman, which were both targets of Hanlong.
- Huaneng Power International, the listed unit of China's biggest power producer, China Huaneng Group, forecast higher power demand and lower coal prices in the year's second half, after posting an 87.7% year-on-year jump in net profit in the first six months to CNY2.12 billion. Revenue rose 4.9% to CNY67.18 billion, as a 1.46% year-on-year fall in power output due to the economic slowdown was more than offset by a 6.5% rise in the average power selling price that took effect on December 1.
- Mongolia Energy, the controversial coal miner controlled by tycoons Cheng Yu-tung and Simon Lo, posted a HKD4.83 billion net loss for the financial year, much wider than the HKD310.75 million it lost the previous financial year. The company switched the location of its planned coal processing plant from Mongolia to Xinjiang, where its sole customer, Bayi Iron and Steel, is located. The plant would not be ready for at least a year. In late 2009, then Chief Executive James Schaeffer said the company aimed to start coal production in 2010 with a target of 3 million tons for 2011 and 8 million tons for 2012. It sold 17,350 tons for HKD6.2 million last year.
- China will increase its iron ore imports from foreign independent miners to diversify its supply channels. The ratio of China's iron ore imports from independent miners will rise to 50% of total imports in the following years, said Wang Xiaoqi, Vice Chairman of the China Iron and Steel Association (CISA). In 2011, up to 60% of China's iron ore imports came from the three giant miners — Rio Tinto , Vale and BHP Billiton.
- CITIC Pacific, the Chinese company building the world's largest magnetite iron ore mine, said it has delayed production for at least the second time, hindered by Australia's safety standards and labor shortages. Trial production of the Sino Iron project will now start in November. The mine, being built by China Metallurgical Group Corp, was originally slated to begin output in the first half of 2011. The total cost for the mine will be less than USD10 billion, after costs rose 35% more than expected. Australian mining magnate Clive Palmer sold the rights to the project to CITIC Pacific in 2007 for USD200 million.
- China's coal industry is facing a severe downturn as the national economic slowdown has led to a slump in coal demand and prices. Inner Mongolia, which benefited from the rapid development of its coal industry in the past few years, reported that the Inner Mongolia Chamber of Commerce launched its energy branch, which is responsible for providing the region's energy companies with a platform to support their development. Chairman Liu Yuchuan said the platform will include a coal port in Caofeidian, Hebei province, and an integrated coal trading system. Coal inventories in Qinhuangdao port, the world's largest coal-trading port, have been rising.
- The collapse of China's steel market has reverberated around the world: benchmark prices for iron ore, a key steelmaking ingredient, have dropped to three-year lows of USD89 a ton, down 24% in the past month alone. China accounts for about 60% of global imports of iron ore, a market worth more than USD100 billion annually worldwide. Global mining houses are scaling back investment plans because of slowing Chinese demand.
- Yancoal Australia said it was considering all options to reduce costs in response to lower coal prices. In its 2012 first half-year results presentation, Yancoal said it would review its expansion plans across all mines to ensure that the appropriate capital expenditure discipline is maintained.
- Miners at the Chinese-owned Collum coal mine in Zambia have killed the Chinese mine manager, Wu Shengzai, 50, in a pay dispute. The miners were protesting against what they said was the management's failure to pay a minimum wage of USD320 a

month. Last year, Chinese managers at the Collum mine fired on workers. They were charged with attempted murder, but the charges were dropped.

- China Shenhua Energy's plans to invest more than CNY10 billion in coal rail projects is a sign the rail sector is being liberalized. The company already invested in the Jitong railway in Inner Mongolia. Shenhua had a plan to increase its coal railway network from 1,600 kilometers at present to 3,170 km by 2015. On August 16, another Hong Kong-listed coal company, China Coal Energy, announced it had formed a joint venture with the Ministry of Railways (MOR) and 14 other investors to invest in and build a 1,837 km coal railway from Inner Mongolia to central China, with an investment of CNY154 billion.
- China Shenhua Energy, the listed flagship of China's largest coal producer, reported a 17.2% rise in net profit in the first half, thanks to higher sales and production volume. Profit attributable to shareholders was CNY26.74 billion, while revenue rose 20.1% year-on-year to CNY121.47 billion in the first half. The company said it produced 155.8 million tons of commercial coal and sold 222.1 million tons, a year-on-year growth of 11% and 16.2% respectively.



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