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AUTOMOTIVE

Volvo maps out export plans for China

Volvo Cars plans to turn China into an export hub and show that its parent company Zhejiang Geely Holding is able to manage global consumer brands. Volvo would start exporting

Chinese-made sedans – a long-wheel-based version of the S60 called the S60L – to the United States and the XC90 utility crossover to Russia as early as the end of next year. Volvo was also aiming to beat its China sales target by at least 13% this year as it opened more showrooms. Geely's purchase of Volvo from Ford Motor four years ago surprised many in the car industry, who doubted that a relative newcomer could turn around the loss-making, 87-year-old Swedish business while protecting its famous brand. But Yale Zhang, Director of Shanghai-based consulting firm Automotive Foresight, said Volvo's outlook under the ownership of Geely and founding Chairman Li Shufu now looked “impressive” as demand in China for entry-level luxury vehicles soared. Volvo would eventually export about 10,000 S60Ls and a few thousand XC90s each year from China. The company sold about 62,200 vehicles in the U.S. last year, all made in Europe.

China developing technology to let cars communicate

If cars could communicate, many road accidents could be avoided. Professor Huang Liusheng from the University of Science and Technology of China is leading a national research project to make cars “talk”, not just among themselves, but with the road and even the internet. The Chinese government is considering an ambitious plan to equip every car with devices to send and receive messages. The problems, in general, fall into two categories: latency and reliability. Let's take braking as an example. A driver stamps on the brakes on a highway. The event must be immediately broadcast to vehicles nearby, such as those within 200 meters. Other vehicles must interpret the signal and make the proper response. From the occurrence of an event to the implementation of the adjustment, it all must be done in a few milliseconds. That's quite a technical challenge to engineers and scientists. Meanwhile, the signal must remain high quality in various environments. Latency has now been reduced to a very low level and the reliability of wireless communication between vehicles has also increased significantly in recent years. But some technical issues remain such as the absence of an industrial standard, as vehicles using different standards may not be able to communicate. Negotiations over standards are however very political, detailed and lengthy, the South China Morning Post reported.

Car battery makers urge Beijing to bring in recycling rules

Key players in China's vehicle battery industry are urging the authorities to issue specific rules governing the recycling of batteries as a way to protect the environment and make the industry more sustainable. “This is no easy job, but we hope to bring our expertise and technologies to China with support from the local governments,” Kenneth Yeng, Vice President and General Manager of Johnson Controls' power solutions operations said. Milwaukee-headquartered Johnson Controls is the world's largest manufacturer and recycler of conventional vehicle batteries, and it sold more than a third of the world's vehicle batteries last year. Although China is the world's largest car market, it lacks a recycling system for car batteries, with most used batteries collected by small, unlicensed vendors who recklessly dispose of them after selling the lead to other manufacturers. Yeng said such unregulated disposal led to the dumping of hazardous waste, which would eventually spur the government into action. In the United States, more than 90% of lead-acid car batteries are collected by the makers themselves for recycling. Zhang Wei, Manager with Enersys, one of the world's largest industrial battery makers, said manufacturers hoped the government would support the creation of a “Western-style recycling system” that was “not only environmentally friendly but also economically efficient”. China has about 2,000 car battery makers, but a planned consolidation of the industry would see the number of companies reduced to about 300, the South China Morning Post reports.

BYD to set up a plant in Saudi Arabia

Chinese battery and car maker BYD Co is planning to set up a vehicle manufacturing facility in Saudi Arabia to provide vehicles and spare parts for the local market. Once the local charging infrastructure is ready, BYD also plans to export its electric vehicles to Saudi Arabia. Further details and the actual timetable are yet to be finalized. The Saudi Arabia plan is the latest overseas expansion move made by the Shenzhen-based company, after Senior Vice President Li Ke announced earlier this year that it would invest USD100 million for a factory to produce 4,000 electric buses a year in Brazil. The factory, to be located near Sao Paulo and become fully operational by 2016, will also provide products to surrounding markets and Latin America. BYD was the first Chinese automaker to set up an electric bus plant in California last year, with an initial investment of USD30 million. The company has already started to manufacture vehicles in Iraq, Egypt, Ethiopia and Sudan.

VW outsells GM to be top carmaker in China

Volkswagen outsold General Motors in China in the first half of the year, keeping it on track to extend its reign as the best-selling foreign car company in the world's biggest vehicle market. VW's sales in China, including Hong Kong, rose 18% to more than 1.8 million vehicles, compared with GM's 1.73 million units, an 11% increase. In 2013, the German carmaker outsold GM in China for the first time in nine years. China is the biggest market for both VW and GM and key to the three-way race with Toyota Motor for the global sales crown. VW is planning to increase the number of models it sells in China to more than 100 by 2018, from 63 last year. It also plans to boost the number of dealerships to more than 3,600 from 2,395 outlets in 2013. VW said in April it may sell more than 3.5 million vehicles in China this year and would probably exceed 10 million units in global deliveries four years earlier than previously planned. GM will also add production capacity to cater to rising demand, boosting the number of vehicles it can make a year by 65% by 2020, GM China President Matt Tsien said in April. GM will have five new plants in China by the end of next year, invest USD12 billion up to 2017, and introduce more than 60 new and refreshed models by the end of 2018. China's passenger-vehicle sales climbed 11% in the first six months of the year.

Policy expected to boost new-energy vehicle sales

The Chinese government’s move to ensure that at least 30% of new government vehicles are powered by alternative energy by 2016 is expected to boost a new-energy car market that has been losing steam of late because of high prices and a lack of charging stations. The new policy, issued by the National Government Offices Administration and four other government bodies, will be applied to all central-level departments and those in cities selected for a trial run to promote new-energy vehicles. Under the policy, at least 15% of new vehicles would have to run on clean energy by this year in heavily polluted areas such as Beijing, Tianjin, the Pearl River Delta and the Yangtze River Delta. The directive also says that no more than CNY180,000 can be spent on an alternative-energy vehicle by government departments, after deducting the subsidies provided by the Ministry of Finance. The government started providing a CNY120,000 subsidy for the purchase of electric or plug-in hybrid cars a few years ago. A 10% purchase tax for new-energy vehicles has been waived from September 1 until the end of 2017. About 17,600 new-energy cars were sold in China last year, far behind the 110,000 in the United States and the 50,000 in Japan. Yale Zhang, Managing Director of Shanghai-based consulting firm Automotive Foresight, said the steep price tags of electric and plug-in hybrid vehicles were still a major issue for consumers, as was the lack of sufficient charging stations. “With all these measures, it's very likely we'll see a significant increase in sales of alternative-energy vehicles in China this year,” Yale Zhang said.

China’s production of new-energy vehicles surged by 280% year-on-year to 25,946 units in the first seven months thanks to government support. During the period, output of pure electric passenger cars soared nearly 700% from a year earlier to 13,829 units and that for plug-in hybrids climbed about 10 times to 5,027 units. Pure electric and plug-in hybrid commercial vehicles were up by 46% and 60%, respectively.

BMW to increase range of locally-produced models

The BMW Group said that it will double the range of locally-produced models to six and manufacture engines in China. The German-based car producer delivered 225,035 BMW and Mini cars to the Chinese market in the first half of 2014, up 23% and a new record. Friedrich Eichiner, BMW Board Member, said local production will enable BMW to cater to the rising demand of Chinese customers. Eichiner also officially confirmed the extension of the joint venture with Brilliance China Automotive Holdings in China through 2028. The BMW 5 series sedan's long-wheelbase version, the BMW 3 series sedan in both standard and long wheel base versions and the BMW X1 are now produced at the two plants of BMW Brilliance Automotive, a joint venture partnership established by BMW Group and Brilliance Auto in China in 2003. Manufacturing capacity at the Dadong and Tiexi plants in Shenyang will be raised over the next two years to a combined annual total of 400,000 vehicles, against 300,000 at present. When construction of the joint venture's new engine plant is completed in 2016, the BMW 3- and 4-cylinder gasoline engines will be produced there. This plant, located near the Tiexi facility, will be the first BMW engine plant with a foundry workshop outside Germany. The BMW Group has set up research and development facilities in Beijing, Shanghai and recently in Shenyang, to facilitate innovation with a better understanding of the China market. Eichiner said investment in local R&D will continue, the China Daily reported.

Imports of high-end trucks expected to rise

German consulting firm Roland Berger expects rising imports of high-end trucks. At present they only account for 1% of China's heavy-duty truck market, which is very low. Roland Berger assumes the ratio will increase to 3% by 2020, as logistics companies seek to increase their efficiency. Medium and lower-end trucks ranging in price from CNY300,000 to CNY800,000 have an 80% market share in China. 1.77 million trucks were sold in the first half, a drop of 4.27% on an annual basis. Only the heavy-duty truck segment showed an increase as it rose 6.53% while lower-capacity commercial trucks all reported sales declines. Environmental concerns will spur the modernization of heavy-duty trucks. Chinese truck makers are still struggling in increase exports and gain a share of foreign markets.

Michelin releases new tires on the Chinese market

French tire manufacturer Michelin Group put another two high-performance products on the Chinese market on July 16 to further tap growing opportunities in the premium segment. Matthew Ye, Vice President and Marketing Director of Michelin (China) Investment Co, said the release of the brand-new Michelin Latitude Sport 3 (also known as TM Sport 3) and Michelin Pilot Sport Cup 2 demonstrates the French company's confidence in the Chinese premium tire market. “The global premium sports car tire market has grown 25% over the past three years. The TM Sport is mostly aimed at the rapid growth of high-end SUVs in China. Sales of SUVs have far surpassed sedans over the past few years, more than doubling from 2009 to 2013,” Ye said. By 2015, Michelin will increase its high-performance tire production capacity by 70% compared to 2012 with the goal of capturing strong growth in the 17-inch and larger segment. Michelin expects the number of cars with 18-inch and larger wheels will increase by 29 million units over the decade starting from 2013, with premium SUVs and sports cars the major driving force. “Of course, the premium sports car tire markets in Europe and the United States are much larger than that in China, but the market demand for such products in China will increase with more and more global premium sports car products coming to the country,” said Ye. For Michelin, 50% of sales come through original equipment on new cars in the China market, the China Daily reported.

Auto sector targeted in anti-monopoly investigation

Inspectors of the National Development and Reform Commission (NDRC) raided the offices of Mercedes-Benz in Shanghai in an anti-monopoly investigation. The company said it was assisting the investigation. Insiders said the Mercedes investigation may target the company's controls on regulating the lowest price for both completed models and parts to dealers. If a company manipulates prices by controlling production, distribution and sales of a product, it violates the Anti-Monopoly Law. Mercedes-Benz is the first company in the automotive industry confirmed to be under an investigation. Audi is being investigated by the Hubei Commodity Price Bureau and U.S. maker Chrysler by the Shanghai Development and Reform Commission.

Several automakers in the luxury sector have announced price cuts. Chrysler's China unit announced 20% price cuts for 145 spare parts, a CNY650,000 reduction for its Jeep Grand Cherokee SRT8 model and a CNY450,000 cut for its 5.7L Grand Cherokee. Daimler slashed prices for more than 10,000 spare parts for its Mercedes-Benz cars in China from September 1, while Audi cut prices of spare parts for locally produced models by up to 38%. Alleged monopolistic practices by BMW and Lexus are also under scrutiny. Luxury cars in China can cost up to three times the price charged in the United States or Europe. Guangqi Honda, the Chinese joint venture of Japan's Honda Motor, cut prices for about 30,000 spare parts from September 1. BMW reduced prices for more than 2,000 spare parts by an average of 20%.

Four BMW dealerships in Hubei province were found guilty of price fraud by charging fees for pre-delivery inspections (PDI). They were fined between CNY150,000 and CNY937,900. Mercedes-Benz dealerships in Jiangsu provinces were found to be guilty of anti-competitive practices. “Mercedes-Benz is a typical case of vertical price-fixing – the use of its leading position to control the prices of spare parts, repair and maintenance services in downstream after-sales marks,” Zhou Gao, Director of Jiangsu's antitrust unit under the National Development and Reform Commission (NDRC), told Xinhua.

10 Japanese auto suppliers were fined a total of CNY1.24 billion by the National Development and Reform Commission (NDRC) for manipulating prices, the largest fine ever handed down by the Commission. Car dealers had prevented auto parts from flowing freely, as in Europe or the United States, because automakers had set strict restrictions on prices, production quantities and the areas in which parts could be sold. The Commission said that from January 2000 to February 2010, 12 Japanese firms, which included Hitachi and Denso, were found to have held bilateral and multilateral meetings to form horizontal-pricing agreements. Spare parts with fixed prices were used in more than 20 models of Honda, Toyota, Nissan, Suzuki and Ford cars. The heaviest fine handed down – CNY290 million – was imposed on parts maker Sumitomo Electric. The fine was equivalent to 6% of Sumitomo Electric's revenue in China last year. Parts maker Hitachi and bearings maker Nachi-Fujikoshi – which were also investigated – were exempted from penalties because the two took the initiative to report the monopoly agreement and provide proof to regulators.

Short news

- Nissan Motor's premium Infiniti brand in June restarted construction of a plant in Dalian, Liaoning province, after plans for the factory were delayed by rising Sino-Japanese tensions in 2012. The factory would take 12 to 14 months to complete and have an initial annual production capacity of at least 100,000 vehicles. Infiniti is counting on further gains in China next year as it begins building the long-wheelbase versions of the Q50 and QX50 crossover later this year at Nissan's Xiangyang plant. The company would shift production to Dalian if the Xiangyang factory ran out of capacity.
- Automotive finance companies have grown rapidly in China during the past decade with total assets of 17 automotive finance companies reaching CNY281.9 billion in 2014, up from CNY6 billion in 2005. Outstanding wholesale lending to car dealers rose to CNY66.8 billion from CNY2.57 billion, and their outstanding retail loans to customers rose to CNY194.4 billion from CNY1.28 billion, according to a report by the AFC Professional Committee of the China Banking Association (CBA) in Beijing. Most car dealers are small and medium-sized enterprises that have problems getting bank loans due to limited capital. Auto finance companies help them reduce financing costs.
- French auto group PSA Peugeot Citroen said it has chosen to build its fourth factory in China with its new shareholder Dongfeng in Chengdu, capital of Sichuan province. The partners already own three factories in Wuhan, Hubei province, with capacity to produce 750,000 cars per year. Construction of the new plant will begin in the second half of this year and will take the group’s Chinese capacity to 1 million vehicles in 2016. The new facility will make crossover vehicles and four-wheel-drive vehicles under the Peugeot, Citroen and Fengshen brands. PSA and Dongfeng plan to sell more than 650,000 vehicles this year in China.
- The Ministry of Commerce has given conditional approval for a joint venture that plans to mass-produce nickel-metal hybrid batteries for electric vehicles. The company, to be named Corun PEVE (China) Automotive Battery Co, is co-owned by five Japanese and Chinese enterprises. The newly established company will be 41% owned by Primearth EV Energy Co, a joint venture between Toyota and Japan's Panasonic Corp. Hunan Corun New Energy, a Shanghai-listed maker of EV batteries, will have a 40% stake and Changshu Sinogy Venture Capital Co 10%. According to the statement, PEVE, Panasonic, Hunan Corun and Johnson Controls have largely dominated the nickel-metal hybrid market by claiming 97% of the market share.
- London black cabs are set to hit Shanghai’s streets in October, though with higher fares than existing city taxis. Geely’s China-made TX4 taxi is the same model as the famous black cabs of the British capital, and will be operated by Shanghai Qiangsheng Taxi Co. They will mainly target elderly and disabled customers. The London cabs will have a starting fare of CNY19, CNY5 more than the current flag-down rates in the downtown area. Initially, 50 cabs will be put in service, later to be increased to 200.
- German carmaker Volkswagen will build two plants in China in Tianjin and Qingdao as it invests €2 billion along with partner FAW, it announced during a visit by German Chancellor Dr Angela Merkel in July. The new plants fit into VW's plans to overtake Toyota Motor Corp as the world's largest carmaker by 2018.
- French automaker Renault is planning to make electric cars in China jointly with Dongfeng Motor Co to take advantage of the nation's favorable policies for clean

energy vehicles. Renault has about 40% of the market share in the European electric vehicle market. China and Germany signed agreements to use the same charging standard for electric vehicles produced in the two countries. Renault's vehicle sales in China surged 44% in the first half, but still only account for about 4% of China's imported vehicle segment.

- Statistics from the Chinese Association of Automobile Manufacturers (CAAM) show that in the first half of this year, Chinese manufacturers produced 20,692 new-energy vehicles and sold 20,477, up 2.3 times and 2.2 times, respectively, from a year earlier.
- BAIC International Corp is seeking to strengthen after-sales service and expand sales channels through partnerships in its go-global push. The company set up by China's fifth-largest carmaker BAIC in June last year with the aim of boosting its presence overseas. BAIC bought technology from General Motors' Saab unit in 2009 in a deal that allowed it to launch Saab-based vehicles under the Senova brand. The company was targeting markets in Brazil, Russia, Indonesia, Mexico and South Africa.
- The ultra luxury vehicle sector in China continued to expand in the first half of the year despite worries of a drop in sales due to the government's frugality campaign. Porsche reported 19,800 vehicles delivered in China in the first half, an annual rise of 8%. Rolls-Royce Motor Cars enjoyed a record half-year in 2014, with sales in the Asia-Pacific region increasing by nearly 40%, led by the company's largest single country market: China. Ferrari announced plans to open its tailor-made center in Shanghai, the first in the Asia-Pacific region, while Automobili Lamborghini said that it delivered 89 of its super sports cars to Chinese consumers in the first six months.
- The use of government vehicles by all but the most senior of China's officials will be phased out by the end of next year as part of the campaign against corruption. The rule will not apply to the emergency services, or to officials holding the rank of Vice Minister or above. In place of free vehicles, public servants will be paid a monthly transport allowance by the central government of between CNY500 and CNY1,300 depending on their ranks. The move will involve about 800,000 vehicles.
- A team from Zhejiang University has been successful in breaking in to the software used in electric cars made by Tesla Motors, claiming the USD10,000 prize offered by the Symposium on Security for Asia Network conference in July. Tesla had said it welcomed news of any vulnerabilities discovered as a result of the hacking competition. Hackers exploited a "flow design flaw" to gain access to the Tesla car's system, SyScan360. The loophole enabled attackers to remotely unlock the vehicle, sound the horn, flash the lights, and open the sunroof while the car was in motion.
- Holding Group, the largest truck manufacturer in northwestern China, plans to build more spare-parts warehouses, assembly lines and service centers in Russia and Central Asian countries. With medium-duty trucks assembled in Kazakhstan, lengthened-chassis delivered to Russia and heavy-duty trucks sold to Uzbekistan and Tajikistan, the Xian-based company is building a solid reputation for competitively priced and easily serviceable products, which include heavy military off-road vehicles, heavy and light trucks, large and medium-sized passenger cars, minivans, engines and spare parts.
- Auto sales in China will reach more than 50 million units when the market reaches its peak in the next four to six years, according to Liu Shijin, Deputy Director of the Development Research Center of the State Council. "My logic goes like this: now every 1,000 U.S. people have 800 vehicles and 1,000 Europeans have 600 vehicles. Even if we Chinese are frugal and 1,000 people own 400 vehicles from 2018 to 2020, that would be at least 50 million units." At present, every 1,000 Chinese people have less than 100 vehicles. China's car industry registered an almost 10% growth year-on-year in the first half.
- United States-based electric carmaker Tesla Motors has completely and amicably resolved a trademark dispute with Chinese businessman Zhan Baosheng, who registered the "Tesla" trademark before the Palo Alto, California-based carmaker came to China. An end to the dispute would remove an obstacle to Tesla's growth plan in China.
- Sales of passenger cars and commercial vehicles increased 6.7% in July from a year earlier to 1.62 million units. Total passenger car sales were up 9.7% to 1.36 million units. Chinese brands accounted for 34.6%, down 0.6 percentage point from a year earlier. The combined sales of Chinese passenger cars over the past seven months this year totaled 4.1 million units, which was up only 2.4% from a year earlier,

compared to the market's overall growth of 11%. Sales by German, Japanese, American and Korean brands soared 30.9%, 21%, 18.4% and 12.5%, respectively.

- Chinese luxury car dealer China Rundong Auto fell 7.8% below its IPO price on its Hong Kong trading debut in August. The company raised HKD961.7 million, but the retail tranche was undersubscribed.
- The central government has released a list of 42 vehicle rental companies that its departments may use as the number of official cars is to be slashed drastically. Last year, spending on vehicles by 38 central government bodies and 389 affiliated institutions reached about CNY4.2 billion, the National Audit Office (NAO) said.
- German automotive supplier Continental plans to invest at least €1 billion in China over the next five years. The money will go into new factories and the expansion of existing ones, further localization, and the recruitment and training of new employees. It will also be used to step up research and development (R&D). The expansion includes the doubling of capacity at its tire plant in Hefei, Anhui province, to 8 million units annually. A second factory for electronics systems will be built in Wuhu, Anhui province, soon.
- The number of participants in Shanghai's car plate auction fell for the first time in August, dropping 10.7% from July to 121,550, while the number of plates available remained unchanged at 7,400. The drop in participants also led to an increase in the success rate, which rose to 6.1%, from 5.4% in July. The average price of the plates fell CNY895, or 1.2%, to CNY73,785. Since July, only people already in possession of a driving license are allowed to participate in the auctions.
- Italian luxury car brand Maserati celebrated its 10th anniversary in China by holding its China-Italy Centennial Rally. The 35-day journey will cover 12,000 km and is due to finish in mid-September at the company's headquarters in Modena, Italy. The fleet of 82 cars represented the entire Maserati series. In 2013, Maserati's sales in China surged by 334% on an annual basis. The company plans to expand its distribution network to 44 dealerships, which will cover major Chinese first- and second-tier cities.
- Li Shufu, Chairman of Volvo Cars and Geely Automobile Holdings, has urged the Chinese government to totally open up the Chinese car market to spur competition. In August, Li unveiled the first new Volvo developed jointly with Geely. Beijing requires carmakers based outside the country to work with local partners and enforces rules that limit the companies' decision-making. Geely, whose sales fell 29% in the first half to 187,186 units, is trying to boost sales by reducing the number of brands it sells. First-half income dropped 20.4% to CNY1.1 billion. Geely decided to revise its full-year sales target to 430,000 units from 580,000 units. Domestic sales in the first half were down 28% at 152,856 units, while export sales dropped 32% to 34,440 units.
- Brilliance China Automotive Holdings, partner of BMW, said its first-half earnings soared 78.7% from year-ago levels to CNY3.63 billion, bolstered by robust sales of its joint venture BMW Brilliance. The company is pushing forward with its capacity expansion projects to bring total annual production capacity up to 400,000 units over the next two years. The company was confident it could hit the 30% sales growth target under the venture this year, and would introduce three more BMW models in 2016.

METALS

Qingdao metals fraud probe focusing on Decheng Mining

China's investigation of whether metals stockpiled at Qingdao Port fall short of collateral obligations used to secure loans is focused on Decheng Mining, said two bankers assisting with the probe. Decheng's owner, Chen Jihong, has been detained by public security authorities amid the investigation at Qingdao and a separate probe in Gansu province. Investigators are trying to determine if Decheng used the same batches of copper and aluminum stored at the port as collateral to secure multiple loans. Any findings of wrongdoing at Qingdao risks undermining a broader practice in which traders in China use commodities from iron ore to rubber to get funding. Analysts at Barclays and Goldman Sachs Group have said the probe may weigh down the price of copper. The probe may also affect metals stockpiles at Qingdao held by Citic Resources. The amount of metal involved in the probe was about 20,000 tons of copper, almost 100,000 tons of aluminum ingots and about 200,000 tons of alumina, Reuters said. Several lawsuits related to the matter have been launched.

Output boom expected from Chinese mining projects in Latin America

China's mining projects in Latin America will see an output boom over the next several years, but the country's investment in the region's resources industry will slow down, analysts said. Chang Xingguo, Project Director of International Minerals and the Finance Department of the China Mining Association (CMA), said China has invested in many copper and iron ore projects in Latin America since 2005, when commodity prices were high. “Those projects will gradually start production this year,” Chang said. Most of the investments in the region are copper mines in countries such as Peru, a major copper producer, and Brazil. Chang said that when copper projects start operation in the next several years, China will likely have a bigger say in the international cooper market. China has about 23 overseas cooper projects with a total reserve of about 59 million metric tons, according to data from the China Mining Association. Those projects have an overall annual production capacity of 1.7 million tons, but the operation timetable is uncertain due to factors in foreign countries such as environmental issues, approvals from both authorities and local communities and infrastructure construction. Wei Zengmin, Analyst with industrial consultancy Mysteel, said investment in Latin American refining plants and steel mills will become more common in the future. Globally, China's outbound mining investment has been increased rapidly in the past 10 years, reaching CNY20.2 billion by the end of 2013 while the figure was only CNY1.8 billion in 2004. Those figures include investments in the energy sector. China's demand for iron ore, copper, aluminum and nickel will continue to increase, and CRU predicted that China's reliance on foreign supplies of raw materials will not decline in the next 10 years, the China Daily reported.

Nickel deficit narrows as China increases pig iron output

Sumitomo Metal Mining, Japan's top nickel producer, cut its 2014 forecast for the metal's global deficit by 43% as China produces more-than-expected volumes of nickel pig iron, a cheaper alternative. Demand will exceed supply by 17,000 tons, down from the company's April estimate for a 30,000 ton deficit, said Hiroshi Sueta, Tokyo-based General Manager of nickel sales and raw materials. The market last year had a 109,000 ton surplus. “The pace of the drop of ore inventories in China was slower than we had expected earlier because of a jump in imports from the Philippines,” Sueta said. Nickel pig iron is a low-quality alternative for refined nickel in the production of stainless steel. China's stockpiles of nickel ore, which is used to make nickel pig iron, have dropped this year to slightly more than 20 million tons from 25 million tons at the end of 2013, Sueta said. The company earlier forecast that China's nickel pig iron output would begin falling this summer as inventories declined following Indonesia's ore export ban. Sumitomo Metal raised its 2014 estimates of China's nickel pig iron production to 430,000 tons, about 2% higher than its forecast in April. China produced 450,000 tons in 2013, the firm's data showed. China's nickel-ore imports from the Philippines rose 12% in the first six months of 2014 from the same period a year earlier while its imports from Indonesia plunged 47%, according to China's General Administration of Customs.

Tangshan mill closure reflects wider problems in Chinese steel industry

The Xinming Steel Pipe plant in Tangshan, a polluted industrial city that produces more steel a year than the entire United States, shut down in July, leaving more than 400 workers and a host of creditors unpaid. If discussions with creditors fail, bankruptcy proceedings could be launched. The turmoil at the firm shows how huge overcapacity is pushing scores of similar steel enterprises to the brink of bankruptcy. Unlike in the past, however, provincial governments are now unwilling or unable to bail them out. China’s steel industry with huge debts and at least 200 million tons of excess production capacity – far more than either the U.S. output of 87 million tons or the European Union's 166 million tons. China is estimated to have a steel production capacity of more than 1 billion tons. Tangshan, 170 km east of Beijing, produces 100 million tons of mostly low-end steel used in construction every year and has been at the center of a campaign aimed at closing obsolete and polluting steel works. Hebei Governor Zhang Qingwei said in March that at least 16 mills had shut in the province because they had been unable to pay their bills. The steel industry is also in trouble in other provinces. Xilin Iron and Steel in Heilongjiang province and Highsee Steel in Shanxi province are also struggling with heavy debt, the South China Morning Post reports.

Baosteel, China’s leading steelmaker, has estimated national crude steel output last year at 822 million tons, nearly 6% above official data, suggesting the country’s supply glut is worse than previously estimated. The figure given in a speech by Xu Lejiang, Chairman of Baosteel’s parent, would take the annual growth rate for steel output last year from 7.5% to more than 13%. The government has stepped up efforts to crack down on the bloated sector, restricting new capacity growth and forcing outdated and polluting capacity to close, but new plants have continued to go into operation. Xu said China's official steel capacity levels reached 1.106 billion tons last year, putting utilisation rates at 74.3%. Total capacity has now risen to 1.14 billion tons. The 88 members of the China Iron and Steel Association (CISA) had a total capacity of 842.93 million tons last year, and produced 663.8 million tons of crude steel. Smaller, non-member firms had a total capacity of 263.29 million tons and produced 158.17 million tons, putting their average utilisation rate at just 60%. Xu said Chinese steel mills would continue to struggle in the second half of the year amid financing difficulties, rising environmental compliance costs and higher tax rates.

Zijin to move focus from gold to copper

Zijin Mining, China's largest gold processor, will counter falling gold and base metal prices by boosting output, improving downstream operations' efficiency and seeking acquisitions. President Wang Jianhua said he was not optimistic that non-ferrous metal prices would see any significant rise in the second half of the year, given relatively weak global demand. The company's Zijinshan mine, which accounted for 32% of output from its own mines, saw output fall 4.2% year-on-year in the first half. "In the next few years, Zijinshan will undergo a transitory period towards copper mining, but the profitability of copper does not necessarily have to be less than that of gold," Wang said. Zijin posted a 1% year-on-year rise in first-half net profit to CNY1.1 billion. Excluding investment income, assets impairments, and gains and losses on the value of its assets, underlying pre-tax profit dropped 22.9% year-on-year to CNY1.79 billion. Gold contributed 38.4% to Zijin's operating profit in the first half, down from 55.8% in the same period last year, while copper contributed 39.4%, up from 32.9%. The contributions of iron ore, zinc and other metals also rose. Gold processing turned in a profit of CNY13.5 million, compared with a loss of CNY261 million in the first half of last year, while the loss on copper refining narrowed to CNY78.8 million from CNY278 million. Zijin has not changed its 34 ton full-year gold output target for its own mines, set early this year, or the 140,000 ton target for copper output, the South China Morning Post reports.

Short news

- Advanced and environmentally-friendly processing technology took center stage at Aluminum China 2014 in July. Ron Knapp, Secretary General of the London-based International Aluminum Institute, said at the opening ceremony of the Shanghai event that weakening global economic growth presents challenges and offers opportunities to the world's aluminum industry. More than 500 exhibitors from 30 countries and regions met with about 16,000 professionals and buyer delegates from China and other emerging markets in Asia during the exhibition.
- Rising demand and the closure of some 2 million tons of aluminum capacity between late 2013 and May are likely to shrink an expected surplus of the metal in China this year. Shanghai-based Analyst Wang Chunhui at information provider SMM forecast a surplus of less than 500,000 tons. Some capacity has been restarted as prices recovered. An executive at a state-owned aluminum smelter said that demand and supply would be in balance in 2014. China's primary aluminum production grew 7.9% from the year before in the first five months of 2014 to 9.59 million tons, lower than an 8.2% rise in the same period last year.
- Chinese steel producers have seen their profit margins surge to the highest in at least 18 months on the back of sharply lower raw material prices and robust demand. The profit rebound, after three years of losses, is also supported by relatively steady steel prices because of unusually low inventory. Hebei accounts for about 30% of China's steel output capacity and 45% of its spare capacity. Iron ore prices fell 22% in the second quarter because of excessive supply and a 19% rise in imports in the first five months of the year, according to Standard Chartered Analyst Judy Zhu, who expects more price weakness in the current quarter before a rebound in the next.
- China's gold demand dropped 19.4% in the first half to 569.5 tons, the China Gold Association said. Demand for bullion bars dropped 62% to 105.6 tons, while that for coins and other miscellaneous gold products slumped 44% to 11 tons. Demand for jewelry and industrial usage remained robust during the period, both increasing about 11% to 426.2 tons and 26.8 tons respectively. On the production side, total output rose 9.4% year-on-year to 211.1 tons.
- Geologists have discovered the largest gold deposit so far in China's Xinjiang region.

The deposit, located in Ulugqat, on the border with Kyrgyzstan, has proven gold reserves of 127 tons and potential reserves of more than 200 tons, estimated to be worth more than CNY40 billion. The discovery was made after 20 years of geological surveying by Xinjiang Tongyuan Mining in a 20 square kilometer area 3,100 meters to 4300 meters above sea level.

- Tight supply and stricter vehicle pollution control standards will drive prices of palladium higher this year and next year, even as the industrial metal's price reached a 13-year peak. Palladium, platinum and rhodium are used in catalytic converters attached to vehicles' exhaust systems to turn toxic pollutants into less harmful substances. Bank of America analysts projected the annual average palladium price to rise 14.9% to USD834 this year and a further 13.9% to USD950 next year.
- Chinese metals traders have opened offices and hired top talent in Singapore over the past year, aiming to capture opportunities created by the exit of a string of Western banks from the global commodities trading business. They include Maike Metals Group, Awin Resource International, and Kyen Resources. China has long sought more pricing power in commodities as it is the largest consumer of many resources. Chinese firms are now aiming to cut out middlemen and connect with a wider array of producers and users.
- Aluminum product producer China Zhongwang has boosted net profit 18.6% to CNY1.27 billion for the first half from a year earlier. Aluminum extrusion accounted for 99.9% of Zhongwang's revenue. Most of its revenue, which grew 13.2% to CNY7.95 billion for the six months, came from Chinese sales. About 15.1% of its revenue was booked from overseas sales; this contribution surged 41% year-on-year to CNY1.2 billion, of which CNY1.13 billion came from the United States.
- China Molybdenum, China's biggest producer of the metal, is seeking more acquisitions after the success of its USD820 million purchase of a Rio Tinto Group copper mine in Australia. Chairman Li Chaochun said that copper was one of the company's investment priorities. Buying the Northparkes mine, its first overseas copper acquisition, helped it diversify into precious and base metals, as it seeks to become a global mining company. China Molybdenum reported a 66% jump in first-half profit as Northparkes added to production.
- Maanshan Iron & Steel posted a worse-than-expected first-half loss, which more than doubled to CNY730.27 million, from CNY332.83 million in the same period last year. "During the reporting period, the company's production and sales volume has decreased as compared to the corresponding period last year, while fixed costs have increased," Chairman Ding Yi said. Operating revenue dropped 21% year-on-year to CNY28.86 billion and net cash flow from operating activities fell 63% to CNY1.39 billion.

MINERALS

Inner Mongolia eases rules on coal firms

China's top coal-producing region Inner Mongolia said that coal miners no longer need local government approval for corporate transfers or for merger and acquisition (M&A) deals. Coal miners are being encouraged to restructure their businesses and get involved in upstream and downstream industries including electric power, chemicals and building materials. The coal mining sector has been hit hard by high transportation costs. The low calorific content of the region's coal has also made it less competitive. As of April 30, one-third of the mines in the region, most of which were small, had shut down or suspended production, according to the Inner Mongolia Coal Mine Safety Bureau. The province's coal output slid nearly 10% year-on-year to 302.74 million metric tons during the first four months. Administrative and environmental fees were suspended or reduced.

Chinese demand for Indonesian coal increases

Agritrade Resources, a coal miner in Indonesia with China as one of its top markets, aims to raise output and sales by 30% despite slowing Chinese consumption because of rising demand for less polluting coal. Ng Xin-wei, Chief Executive of the Hong Kong-listed company, said it planned to mine and sell 4.5 million to 5 million tons of coal during this financial year to March, up from 3.8 million tons and 2.8 million tons in the past two financial years. "Indonesia is close to both India and China, and its coal production cost is among the lowest in the world as 99% of its output is from surface mining," Ng told the South China Morning Post. "It is cheaper to import seaborne coal into south China than from north China via railways." But slower growth in electricity output is leading to lower coal demand as some 75% of the nation's power is generated by coal. China imported 57.6 million tons of brown coal – with a relatively low heating value – from Indonesia last year, up from 50 million tons in 2012 and 35.7 million tons in 2011. Despite the lower heating value, most of the coal imported from Indonesia is blended with domestic coal to reduce pollutants. Agritrade Resources earlier this month posted a net profit of HKD115.2 million in the year to March, more than double the profit of HKD53.5 million in the previous year.

Coal conversion projects cut back

China's National Energy Administration (NEA) has told local authorities to curb the irrational development of coal-to-oil and coal-to-gas projects, after new technology sparked an investment spree without regard to environmental and economic realities. The country will ban coal-to-gas projects with an annual output of less than 2 billion cubic meters, and coal-to-oil projects that produce 1 million metric tons or less. Projects larger than those will be subject to regulatory approval from the central government. Data show that nearly 70% of energy consumed in China comes from coal, a ratio much higher than in most developed countries. Coal-to-oil and coal-to-gas projects will be banned in provinces that have a net import of coal. The excessive or improper use of water resources will also be strictly prohibited. The NEA also said it is working with the National Development and Reform Commission (NDRC) on two separate documents to guide the orderly development of coal-to-oil and coal-to-gas projects. The documents will be released soon.

End of rare earth patent expected to boost exports

Some Chinese producers of rare-earth magnets are seeking to use the expiry of a key patent held by Hitachi Metals to expand exports of the micro magnets used in products from motors to smartphones. The expiry of a 17-year-old patent that defines the structure of such magnets paves the way for previously blocked Chinese producers to sell to U.S. customers, Shenyang General Magnetic Chairman Sun Baoyu said. Shenyang General has formed an alliance with six other Chinese producers to promote their products and fight Hitachi over other patents, which the Japanese company says largely prevent rivals from making magnets. The end of the patent will pit the seven producers in the alliance and potentially others who try to tap into the market against Hitachi and eight Chinese companies that have paid for the right to make and ship the magnet. An increase in exporters of the magnets could potentially cut prices of the product used in Apple's iPhones and Toyota hybrid-electric cars. Hitachi holds more than 600 patents for rare-earth magnets globally, some of which it acquired after taking over Sumitomo Special Metals in the 2000s. Chinese magnet makers are struggling with overcapacity after an earlier price boom spurred a flood of investments. Japanese companies hold most of the world's rare-earth magnet patents, while China produced about 90% of the global supply. China exported 18,800 tons of magnets last year.

The government has approved two major rare earth producers to become conglomerates by the end of this year in order to further consolidate the sector, combat smuggling and alleviate overcapacity in production. Xiamen Tungsten Co and Inner Mongolia Baotou Steel Rare-Earth Hi-Tech Co have been approved by the Ministry of Industry and Information Technology (MIIT) to form the two rare earth groups. Xiamen Tungsten will integrate rare earth mining, separating and manufacturing within Fujian province in the south, excluding what is owned by China Minmetals Corp by the end of 2014. Baotou Steel will set up China North Rare Earth High Tech Co, consolidating rare earth mining, separating and processing within the Inner Mongolia autonomous region and Gansu Rare Earth Group Co in the north. These two companies are among six groups encouraged to consolidate earlier this year. The other four groups are: China Minmetals Corp, Aluminum Corp of China, Ganzhou Rare Earth Group Co and China National Nonferrous Metals Industry Guangzhou Corp. Chinalco has received written approval from MIIT to use subsidiary China Rare Metals and Rare Earth as a foundation to form a large-scale rare earth firm that will consolidate mining and smelting rivals in Guangxi, Jiangsu, Shandong and Sichuan.

Short news

- Chinese investment in the Australian mining sector this year is set to reach the highest level since 2011, when China poured in AUD11.7 billion. Major investments in recent years in Queensland include Yanzhou Coal's AUD3.5 billion purchase of Felix Resources in 2009 and CNOOC's agreement with BG Group to invest AUD1.93 billion in the QCLNG gas project in 2012. In May, Guangdong Rising Assets Management offered AUD1.46 billion for Brisbane-based miner Pan-Aust.

- Datang International Power Generation said it would sell part or all of its loss-making coal-to-chemicals and coal-to-natural-gas projects to state-owned China Reform Corp. The deal is expected to be completed by early next year. China Shenhua Energy's coal-to-chemicals project in Inner Mongolia posted a net profit of CNY1.26 billion last year, but Datang's Duolun project, also in Inner Mongolia, struggled to resolve technical problems after two years of trial operations.
- The Chinese government will offer subsidies to producers of rare earths to encourage them to improve their technology levels and use environmentally-friendly means of extraction. The subsidies include one-time awards to local governments that have completed supervisory and monitoring systems for rare earth exploration. Companies that have met national environmental protection standards for mining and refining rare earths will also receive awards.
- The government will increase exploration and production quotas for rare earth companies by 10% this year to bring output in line with the sector's capacity, Huang Libin, an official at the Ministry of Industry and Information Technology (MIIT), said. Giving more quotas to the large companies will allow them to replace those that have closed during a campaign to consolidate the industry. The total quota for production is 105,000 metric tons this year. Baosteel got a production quota of 59,500 metric tons for light rare earths, an increase of nearly 20% from last year.
- China's coal sector is taking steps to escape the triple trap of falling prices, weak demand and continued losses. Shenhua Group, the country's biggest coal producer, raised its coal price to CNY489 a metric ton at the start of August, while China National Coal Group raised its price by 4% a ton for a range of coal products. Coal prices may have bottomed out and the supply-demand situation might become balanced in the short term. According to data from the China National Coal Association, 70% of coal companies are losing money. As of June 30, national coal inventories stood at a record high of 99 million tons.
- Australian exports of iron ore to China from Port Hedland, which handles a quarter of the world's seaborne shipments, rebounded in July to hit a record high. Shipments to China rose 4.8% from June to 30.57 million tons, and 50% on July last year.
- China said it "strongly regrets" a decision by the World Trade Organization (WTO) to uphold its ruling that the country violated global trade rules by restricting exports of rare earth elements. The decision is final and, in principle, WTO member states are obliged to follow the ruling. China has argued that the export restrictions are related to the conservation of its natural resources, and are necessary for reducing the pollution caused by mining.

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