

CHINA – A LOOK AT IRON ORE REQUIREMENTS, INVESTMENT AND PLANS FOR THE FUTURE

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Introduction

World dynamics in the iron and steel industry today are focused on China.

In 2003, China became for the first time the world's largest steel producer and the largest importer of iron ore.

China last year was the largest exporter of steel in the world.

China's leading position in the global iron ore trade is reflected in the agreement reached by Baosteel with CVRD on 22 December 2006 to set the benchmark prices for 2007.

This represents a clear message that the Chinese in the future, as the world's largest importer and consumer of iron ore, wishes to be the lead price settler in Asia. It also wishes to be in a better position to control prices in the future.

China has pursued a policy of looking for foreign sources of iron ore. This is being supported from the top levels of the Chinese government.

In response, many of China's steel mills and traders are coming to Australia and targeting new iron ore opportunities in Australia. The demand had outweighed the number of available projects.

It is quite logical that China should be seeking to integrate vertically by acquiring strategic stakes in Australian iron ore mines. Australia is the largest source of iron ore imports to China.

The Chinese steel mills want to enter the market at the source rather than just for purchase at the end of the supply chain.

In this presentation, I propose to deal with the following aspects:

1. An historical perspective to Australia's involvement with China.
2. The impact of China's iron ore requirements on global supply.
3. China's strategy to curtail price increases.
4. China's "Go Global" strategy for foreign investment.
5. China's promotion of increased competition to the big three suppliers.
6. Conclusion – Is demand slowing down or full steam ahead?

1. An Historical Perspective to Australia's Involvement with China

At a time when numerous new projects are being targeted for development, it is appropriate to look at the historical perspective of China's involvement in the Australian iron ore industry.

While the WA Minister yesterday referred to there being 60 new projects under development in WA, as of yesterday there are only three major operating iron ore projects in existence with Chinese participation. Only one of these is a "classic" full joint venture.

China's first Australian iron ore joint venture and reportedly China's first overseas project is the \$420 million Channar joint venture.

That was entered into with Hamersley Iron in November 1987. I was appointed as the lawyer for the Chinese government on these negotiations in October 1984.

This joint venture is widely regarded as the "model" joint venture for all subsequent Chinese investment in energy and resources projects in Australia.

To evidence its significance in the political context at the time, the negotiations took place at two levels:

- at the policy level between the Prime Minister Bob Hawke and the Chinese Premier Zhou Zhiyang; and
- at the commercial level between Hamersley and MMI.

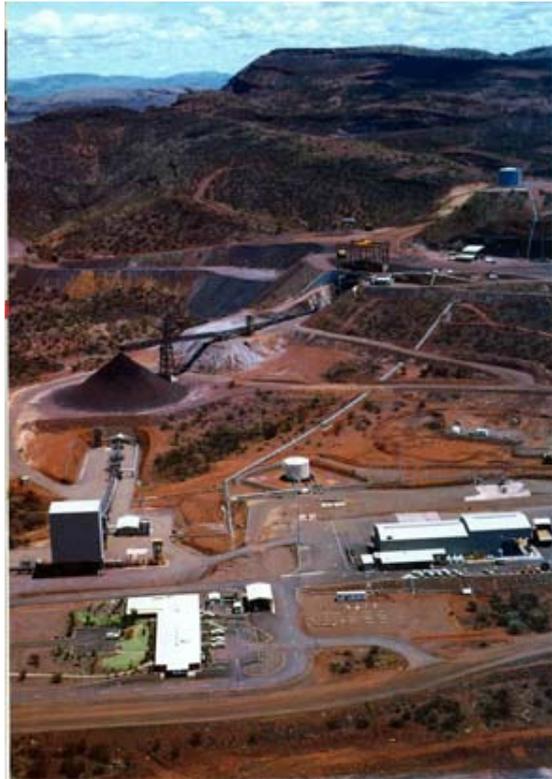
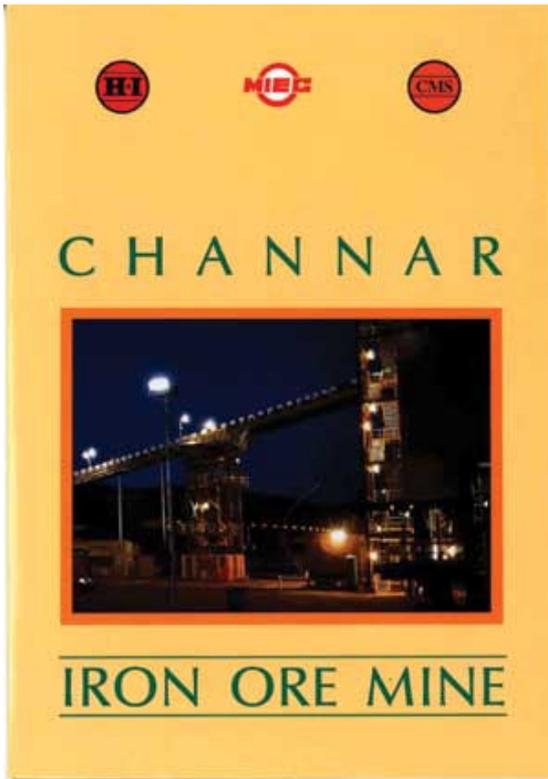
This is a 60:40 joint venture with the Chinese holding the minority interest.

Hamersley guaranteed 200 mt of ore over its 24 year life and the Chinese guaranteed the market in China. At the time the project was being put together, the biggest debate in China was whether to risk the joint venture approach or to just have a long-term sales contract.

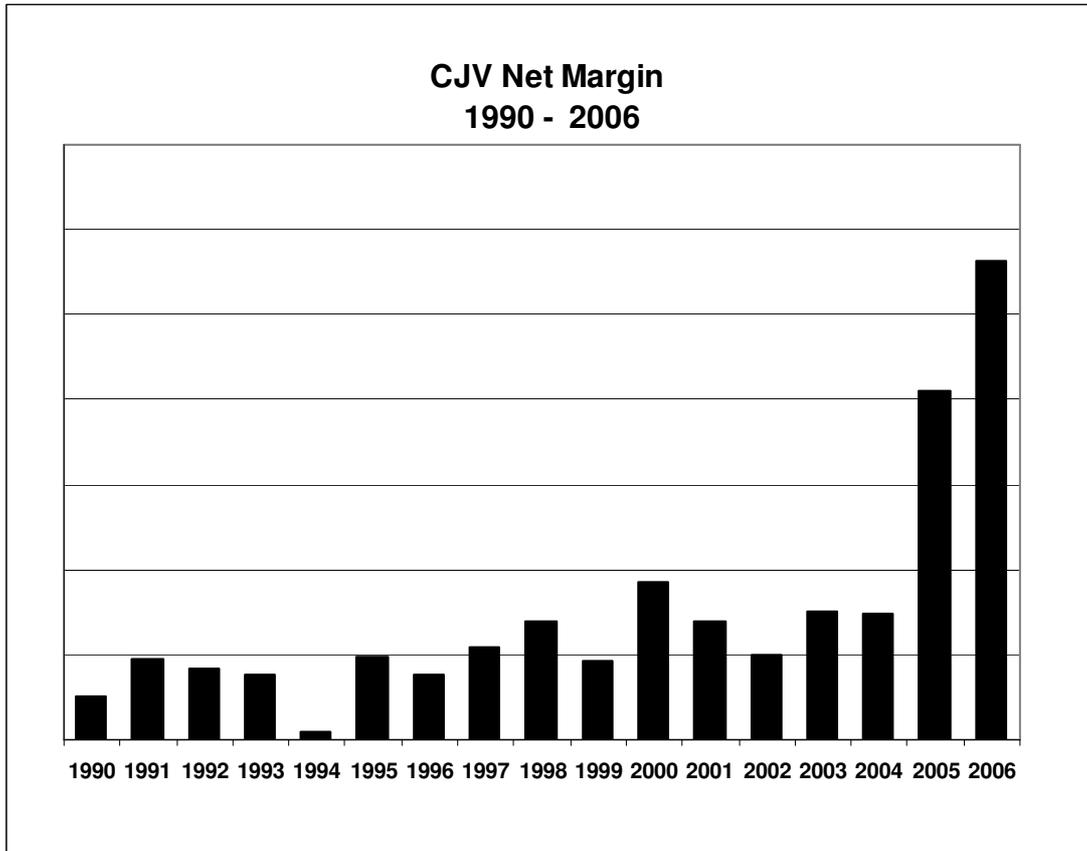
When the project was first agreed, the Chinese government party was the Ministry of Metallurgical Industry.

MMI had the monopoly on the import and export of all iron and steel in China.

Accordingly, its market guarantee was not an issue.



2006 NET MARGIN IS A NEW CJV RECORD



Source: Channar Management Services Pty Ltd

This chart shows the net margins for the project over its 16 year life.

There are a number of significant points arising from the chart, but I will focus on two.

Three significant points

Three Significant Points

1. One is to direct your attention to the net margin in 1994.

It was around that time that the Chinese government, as part of its progression to move towards a market economy took the first step to remove the Steel Ministry's monopoly position.

The new policy adopted by the Chinese government was to open up iron ore trade for the steel mills to be permitted purchase their own iron ore requirements directly.

You will see the net margin in 1994 as a result.

While MMI had to still make its guaranteed sales in China, the project's margin fell to near nothing. It took some time for the Ministry to recover. It moved its trading activities into a separate corporate entity. The Ministry was disbanded a few years later and today Sinosteel Corporation, a major State Owned Enterprise under State-

owned Assets Supervision and Administration Commission (SASAC) holds China's Channar equity.

One important feature in that situation in 1994 was that the Chinese side still stayed with its contractual obligations. It still honoured its offtake contractual obligations to take the ore even though it was doing so at breakeven or losses.

Another Asian country was well-known just to not send the ships.

2. Another is with reference to 2003. This really saw the beginning of the current boom conditions. It was not predicted by the major industry players. Ore sales in 2003 were slow until the second half and the industry has not looked back.

3. Gradually, as the market changed, and today's owner Sinosteel (and its predecessors) continued, it has recovered its market share and [It]now shows the all time record profits, which are escalating with another great increase budgeted for 2007.

Overall, this chart best shows the remarkable profit-making history of the Australian iron ore industry.

The only two other operating joint ventures with the Chinese are the Eastern Ranges joint venture between Hamersley Iron and Baosteel and the Wheelarra joint venture between four of Chinese largest top steel mills and BHP Billiton.

2. Impact of China's Iron Ore Requirements on Global Supply

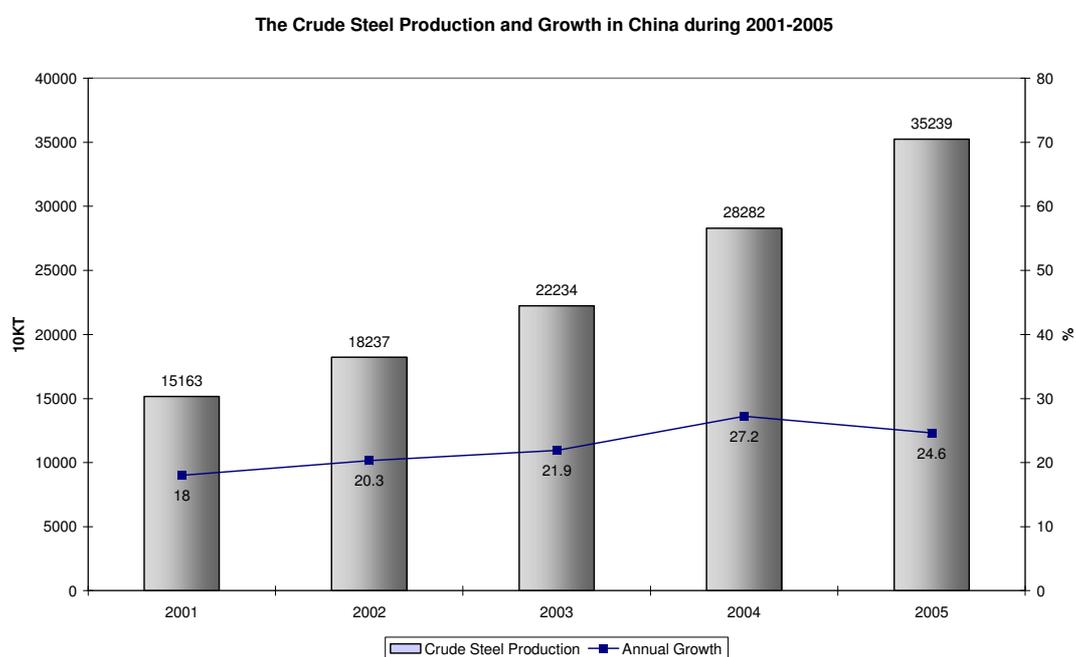
What is the position in China?

Crude Steel Production

World economic growth prospects in the steel industry from the starting point of forecasting steel production and consequently global demand for iron ore are all focussed on China.

China's production has risen by more than 400% in the last ten years according to IISI, and now accounts for one third of the world's total.

According to official statistics in China, China's crude steel production reached record levels in 2005 of 352 mt, an increase of 60 mt over the previous year and the fourth consecutive year of growth over 20%.



Source: China Iron & Steel Association

CISA's chart shows the China crude steel production and annual growth in China over the period 2001 to 2005.

In 2006, the output of crude steel reached 418.78 mt, an increase of 18.48% year on year.

In 2007 CISA predicted that crude steel output will rise to 460 mt.

As to steel consumption, up to October 2006 (which is the latest figure to be obtained from China) consumption of crude steel in the China domestic market reached 321 mt, which is an increase of 28.37 mt year on year, or 9.73%.

However, this increase in steel consumption - under 10% - is the lowest percentage increase in five years year on year. But the sheer scale of China's steel consumption

is now such that it cannot reasonably be expected that it will keep going at anything like the same rates.

Over the past five years, in four of those years the increases had been more than 20%.

Accordingly, the 2006 increase of less than 10% highlights the strong reduction in consumption.

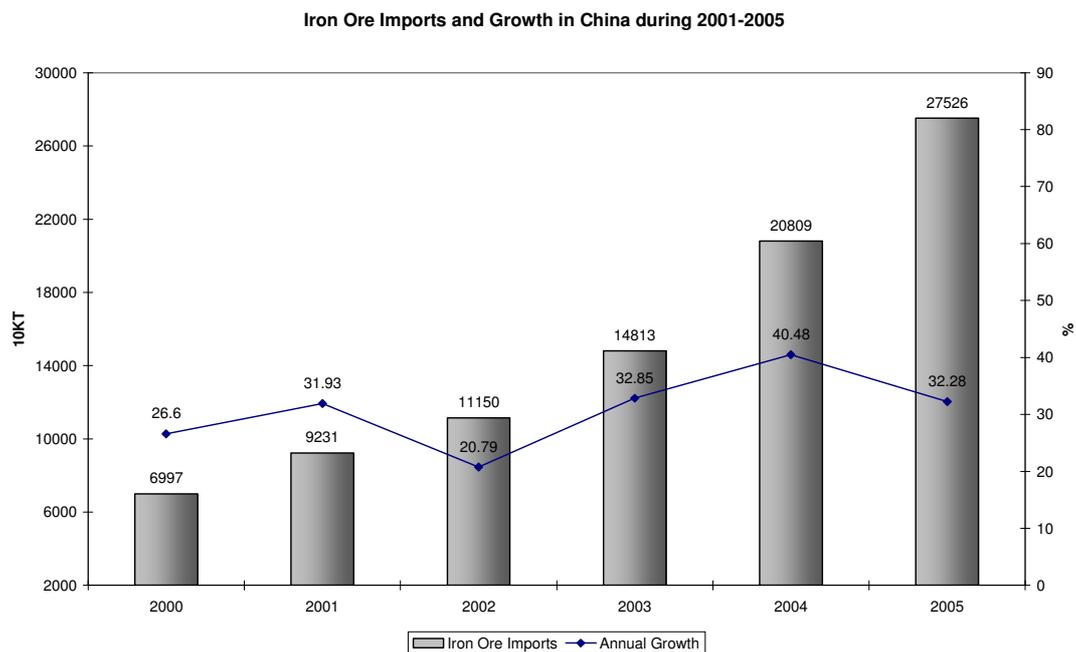
Accordingly, the Chinese are focussing on a phase of slower increased demand. The important question is how is this going to impact on China's iron ore requirements, and especially imports from Australia.

Having said that, every year so far analysts have shown a trend of consistently underestimating production and consumption, usually by a wide margin. All the statistics continue to point to significant increased growth.

China's Iron Ore Requirements

In 2005, China imported 275 mt of iron ore, which provided around 51% of its total requirements.

To fuel its steel mills, China's imports of iron ore have risen by roughly 20% in addition to the dramatic one third increase in its own low grade domestic iron ore.



Source: China Iron & Steel Association

This chart shows a rapid increase in China's growth of iron ore imports into China during the period 2001 to 2005.

In 2002, the figure first passed 100 mt.

In 2003, China's imports exceeded Japan for the first time and China became the largest iron ore importer.

In 2005, imports exceeded 275 mt, up 32.21% year on year.

In 2006, the figure for total imports is 325 mt, which is more than 18% over 2005.

For 2007, CISA is reported to predict that China's iron ore imports will increase by 33.8 mt to meet China's increased steel production.

According to SSB reports, iron ore imports in January 2007 were a massive 35.85 mt, up 31.9% compared with January 2006.

In December 2006, China imported 28.64 mt of iron ore. Annualised, January's volume gives the total import figure of 422.1 mt.

Scrap supply of around 60 mt is reported to have met a further 16% of China's supply needs.

Overall, China's steel makers' expansion of its steel industry continues to require major imports of iron ore from global suppliers, with a corresponding impact on world competition for traded ore.

When I spoke to this conference two years ago, I talked about China's new import policy to license importers. This has had an important restraining effect on import access.

In 2007, China has further tightened its requirements for import licences.

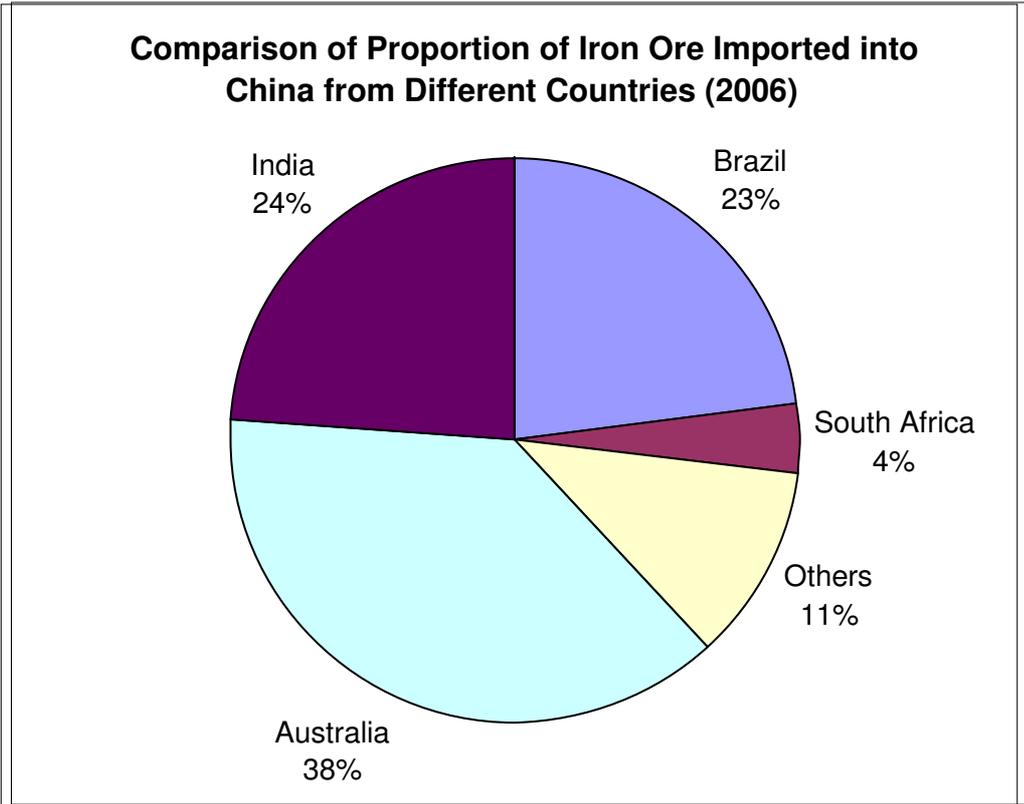
This is said to be designed to curtail imports for the small and less efficient mills, and to try to rationalise the steel industry in China, where the top ten producers are responsible for only 29% of all China's total steel production, down from 33.6% in 2005.

Who are the main suppliers?

China Iron Ore Imports

	2006	2005
	(326.1 mt)	(275.25 mt)
Australia	126.81	112.2
Brazil	76.42	54.72
India	74.75	68.57
South Africa	12.56	10.54

Source: Steel Business Briefing



Source: Sinosteel Corporation

This chart prepared by Sinosteel shows the comparative proportions of iron ore supplies country by country for the first nine months of 2006.

It is noteworthy that the Australian share of supply to China has fallen below 40%, while the Brazilian share has increased. Australia's market share shrank from 40.76% in 2005 to 38.89% in 2006, while Brazil's share – largely as a result of the CVRD's increased production and shipments, grew from 19.88% in 2005 to 23.43% in 2006. With the further planned expansion by CVRD, this year the 300 mt, the challenge is therefore Australia to increase its proportionate share of the China market.

3. China's Strategy to Curb Price Increases

The emergence of China as a major global economic power was further demonstrated in the recent price negotiations in December. This settlement clearly has the full backing of the Chinese government, as part of its policy to assert China's control over the pricing levels which it is paying for its imported ore. China delegated this responsibility to Baosteel to negotiate by itself, which established Baosteel's position as the lead negotiator.

Prices fixed by Baosteel for 2007 based on its successful negotiations with CVRD became the benchmark prices for the 2007 fiscal year, which applies from 1 April 2007 to 31 March 2008.

The benchmark price is now known as the China Reference Price.

It was not always like this.

In the past, the prices for the Asian steel market were universally recognised to be the Japanese steel mill prices.

Those prices have been fixed annually by the leading Japanese steel mills in the toughest of negotiations year by year.

The Japanese played off the three big producers one by one against each other, while acting in a united capacity.

The negotiations were tough.

In the long-term sales contracts in which I have been involved over the past 23 years for China, there never used to be any reference to benchmark prices, although the industry always understood that the benchmark prices of the Japanese steel mills would set the prices for China as well.

For the Channar joint venture which I negotiated for the Chinese going back to 1984, and which were formalised in the signed documents in 1987, the reference to pricing, which was to be negotiated annually, involved a detailed description of the kinds of factors which should be taken into account in the annual price negotiations. Above all, it was stipulated that the prices must be "competitive" and "attractive" to the Chinese steel industry.

Initially, it was accepted and agreed that the China price should be a little lower than the Japanese price and that position continued for quite some time.

The Chinese were always good negotiators.

When I was involved for the four Chinese steel mills with BHP in 2003, again the pricing clause was a description of the key factors to be taken into account.

The initial negotiations laboured on whether China's price should be "very competitive" or just "competitive".

But there was also resort to arbitration if the price was not settled by the Japanese by the stated annual deadline, with key criteria inserted to guide their determination.

All of this is now history.

The latest price settlement with Baosteel was the first time that China had acted as the price setter in the annual negotiations.

It is also the earliest settlement since 1994 and represents the seventh consecutive year in which CVRD has been the price-setting producer.

It is yet another indication of the emergence of China as a major global economic power.

Before the latest price increases were announced, it was generally believed that the Japanese would allow the Chinese to take the lead in the negotiations, but that they would not allow this to take as long as they did to settle the price in 2006 when the price was not settled until May, and it took even longer for the Chinese to accept.

Commodities far from hitting the wall as China caves in on ore price Mills swap abuse for savvy realpolitik

Analysis

CHINA'S steel mills this year swapped abuse and arrogance in favour of savvy realpolitik, and Australian iron ore giants BHP Billiton and Rio Tinto had best beware.

Last year, the Chinese steel mills let their new-found status as the world's biggest iron ore consumers go to their heads. They thought being big was enough and in the face of a tightening market, refused to countenance anything but a small price rise. During fractious talks, China fired off dire warnings to both Canberra and the miners about future relationships being threatened.

But after one of the most drawn-out negotiations in the history of iron ore price talks, the European and Japanese steel mills lost patience and settled for a 19 per cent rise, which the

embarrassed Chinese had no choice but to accept.

This year, the price settlement has been the fastest in more than a decade as the Chinese, led by giant Baosteel, were determined that for the first time they would be the ones to settle prices, not the Japanese or Europeans.

And while it may seem they have had to pay up for the privilege, with a 9.5 per cent rise coming in at the high end of expectations, just maybe they settled early because they knew the market would stay tight.

"It is a smart move by the Chinese. It lets you know that they see the outlook as being strong," Daiwa Securities resources analyst Mark Pervan told *The Australian*. Mr Pervan had been forecasting prices in 2008-09 to fall 10 per cent but is now tipping a rollover. It is also significant that the Chinese settled with Brazil's CVRD,

rather than the Australians. CVRD, because of its freight disadvantage in shipping out from Brazil, is the weakest negotiator of the big three because it markets the most expensive ore.

Certainly, CVRD's press release yesterday went out of its way to compliment the Chinese for a "highly professionally driven negotiation".

With CVRD and the Chinese cosyng up, it makes it hard for BHP and Rio to win a so-called freight premium for their ore to reflect the cheaper cost of freight that Asian buyers pay for Australian products.

BHP, which two years ago tried unsuccessfully to win a freight premium, is now looking to sell more of its ore on a cost-and-freight paid basis (CFR). About half of BHP's iron ore is now sold CFR.

Andrew Trounson

Source: *The Australian newspaper*, 23 December 2006

What had happened in 2006?

China had sought a lower price increase or no price increase at all in the first round of negotiations with CVRD, but still there was a price increase.

Reportedly, China had the opportunity to settle in February 2006 for an increase of only 10%.

The price increase was 19%, following an increase of 71.5% in 2005.

After this year's success, China's price-setting role is entrenched.

The recent price increases have reflected the very strong demand for iron ore. There is a continuing imbalance between demand and supply.

Supply growth out of Australia and Brazil continues to lag behind the rise in demand, ensuring that China remains dependent on future increases in domestic and Indian iron ore supply.

4. China's Investment "Go Global" Strategy

The need to secure access to overseas raw materials to support China's economic growth rate has been a key strategic driving force.

One of the fundamental drivers of China's overseas investment is the supply shortage of key energy and raw material input.

Decentralisation within the Chinese steel sector has seen supply administration increasingly passed on from centralised planning agencies to state owned enterprises, underscored by aggressive cross-border investment policies.

The Chinese authorities have encouraged Chinese steel enterprises to pursue equity in upstream raw material suppliers, principally through joint ventures.

China's "Go Global" strategy, with its more formalised policy framework, was given weight in 2001 by the then Chinese Premier Zhu Rongji.

China's "Go Global" policy was reinforced in March last year when the Chinese premier, Wen Jiabao, stated that the government will institute a policy support to improve the mechanisms for conducting overseas investment and risk management.

To support this policy, China had relaxed its foreign currency controls and is providing direct and indirect subsidies and offering preferential financing from Chinese banks in the form of credit lines and low-interest loans.

Another specific priority for the Chinese government under its go-global strategy is the support given by the National Development and Reform Commission, which is controlling and allocating investment opportunities to major designated Chinese enterprises.

Political and financial support for state-owned enterprises is giving them an advantage over market oriented companies by reducing their cost of capital.

According to a Deutsche Bank research report last year, China's overseas policy extended back to the introduction of its open door policy in 1978 and divided roughly into three distinct phases:

From 1958 to 1985, overseas investment was overwhelmingly directed by official political considerations, mainly in the form of joint ventures.

From 1985 to 1990, private enterprises were given permission to go overseas.

From 1990 onwards, the Chinese government has been actively encouraging Chinese overseas investments in the natural resources sector and reorganised its industry structure for state-owned enterprises under the state owned assets supervision and administration division.

5. China's Promotion of Competition to the Big Three Suppliers

Under its "Go Global" policy China is seeking to diversify away from the big three suppliers to produce more competition in the marketplace and to redress and reduce its reliance on those suppliers.

Basically, China was unhappy with the massive price increases, especially in 2005, when it felt that its steel industry was hostage to the big three producers.

To counter this, the big three major suppliers, CVRD, BHP Billiton and Rio Tinto, have undertaken massive expansion projects, effectively doubling and more their supply of available ore at marginal costs compared with those of new entrants.

The three major iron ore producers continue to dominate the world iron ore trade. Together they control around 68% of the world's sea-borne trade in iron ore.

Their respective shares of sea-borne trade in iron ore are:-

CVRD	34%
Rio Tinto	18%
BHP Billiton	16%

Their total trade in 2005 was 605 mt.

The big three producers have announced major plans for the expansion of their existing mines and new projects.

These producers, to protect their market shares, have been more open than usual about their plans in the hope that their impressive expansion projects will make potential new producers think twice before going ahead.

Each of these producers is meeting the challenge to its market supremacy by undertaking massive investment in the expansion of its production.

CVRD

In 2005, its ore sales totalled 213.3 mt, of which 56.5 mt or 26.4% went to China.

In 2007 CVRD's announced plans are to reach production of 300 mt, up from 264 mt in 2006.

BHP Billiton

In 2005, BHP Billiton produced 105 mt. It is the number three seaborne supplier of iron ore from Western Australia.

In 2007, BHP Billiton expects to produce 129 mt.

It plans to go to 152 mt in 2010 subject to market demand.

Rio Tinto

In 2005 Hamersley Iron produced 98 mt up from 89.6 mt in 2005, but its majority owned Robe River Iron Associates another 52.4 mt.

Since 2000 Rio Tinto has committed more than \$4 billion to expand its Pilbara operations in Western Australia to around 200 mtpa.

Future planning is to take its total Pilbara capacity to 220 mtpa.

Since all other traders in the global market are smaller, the strategy of the three largest producers has a strong influence on market developments.

This is best demonstrated by the practice of benchmark pricing agreements, which are concluded by one producer with an important customer in annual negotiations and then copied by the rest of the industry.

The magnitude of investment required in the iron ore industry makes it difficult for companies without large financial resources to enter the market and to compete.

The three established major producers face significantly lower marginal costs of expansion. They are able to expand existing operations often with relatively minor additional investment in transport and port infrastructure.

They can also open up new deposits close to existing mines, reducing the costs of using existing mine and infrastructure facilities with some upgrades.

To counter their market domination, China has adopted strategies seeking to diversify its supply. It is evident from China's response to the very high price increases imposed on it in the last three years that it is moving to reduce the market influence of the three major producers.

Three strategies:

- expansion of the volumes of domestic production;
- increased imports from India, as well as South Africa and Russia, which are beyond the control of the oligopoly;
- encouragement for new producers to enter the market with Chinese investment support and guaranteed offtake, including investment in alternative suppliers in the magnetite ore market.

First - Expansion of Domestic Ore Production

China has moved to expand greatly its domestic iron ore production.

Supply and Demand of Iron Ore in China

Year	Demand	Amount of Import	Output of Domestic Iron Ore	Self-Supplying Percentage
2006	630 mt	326.3 mt	310 mt	49%
2005	515 mt	275 mt	240 mt	47%
2004	400 mt	208 mt	192 mt	48%
2003	320 mt	148 mt	172 mt	54%
2002	270 mt	112 mt	158 mt	59%

Source: Sinosteel Corporation

This chart shows the supply and demand in China between imported and domestic production.

Total domestic production of iron ore concentrate was 308.65 mt.

Accordingly to Steel Business Briefing, total output of domestic crude ore in 2006 was 310 mt, up from 240 mt in 2005.

This is an increase of one third. Even with this increase, domestic production still accounts for less than 50% of China's total iron ore requirements.

At the recent CISA conference last September, presentations revealed that domestic mines are producing at a very low scale (many only 50,000 to 60,000 tonnes), some with Fe grades lower than 10% and often at very high costs, stimulated by high spot prices in China.

It was also suggested that the domestic production figure may have been understated as many mine owners report lower production levels in order to avoid taxes that are paid on a per tonne basis.

Despite record levels of domestic production, the iron ore market continues to be tight - spot prices have not fallen from their high levels and stockpiles at port have not increased significantly.

In summary, while some Chinese industry officials continued to suggest using output of domestic ore was an alternative to imports, few of the powerful mills – which have invested into high technology facilities in recent years – would be able to use the poorer quality ore in large amounts.

Second - Increased Supply from India

In 2005 India exported 85 mt of ore, of which 68 mt went to China and 10.5 mt went to Japan. Its exports were expected to reach 100 mt in 2006.

Indian iron ore is the second largest source of Chinese imports.

Indian iron ore exports are limited by the following factors:

- low industrial concentration;
- small scale mine production (average is less than 2 mtpa);
- infrastructure bottlenecks;
- Indian government policy to encourage domestic steel production.

With demand increasing much faster than supply out of Brazil, Australia and other traditional suppliers, the Chinese steel industry has become much more reliant on spot suppliers of relatively high-cost domestic and Indian ore.

Together, these two sources have supplied more than 50% of the increased ore requirements of China in 2005.

To secure that supply, spot prices for iron ore have remained high.

There is still a significant gap between the delivered cost to China of Australian ore compared with Brazilian and Indian supply.

Indian spot prices moved closer to Brazilian contract delivered prices in 2005/2006.

Third - Encouragement of New Projects

Consistent with China's apparent policy of sourcing much of its minerals and energy requirements from Australia, China has encouraged its steel mills to pursue investments in new Australian iron ore projects.

To date, China has invested in three major operating joint ventures in Australia:-

- the \$420 million Channar joint venture between Sinosteel and Hamersley Iron;
- the Eastern Ranges joint venture between Baosteel and Hamersley Iron;
- the \$11.6 billion Wheelarra joint venture between four of China's steel mills and BHP Billiton.

With much of the world's high quality iron ore in the hands of the big three miners, there is much reduced scope for new players to secure economically worthwhile reserves.

But with the prospect of continuing higher prices, and the sizable difference between the cost of mining and market prices, the incentive is strong to do so.

Investment in iron ore mines is expected to be a good proposition for some time yet. But for the Chinese, it is more a question of securing long term supply from guaranteed sources as much as profit-seeking ventures.

In Australia, BHP Billiton and Rio Tinto appear to have adopted a policy of not introducing the Chinese steel mills into new joint ventures. They have been keen to retain 100% of the profits and offer only long term sales contracts with the Chinese mills.

This has frustrated the Chinese, which have been under pressure from the Chinese government to go out and do more projects to secure long term supplies of iron ore.

And, of course, as with the Channar joint venture, to share in the massive profits which apply. The steep increases in iron ore prices have provided a substantial cost advantage to those who own iron ore mines.

China's focus has been on pursuing a wide range of new opportunities in Australia in Western Australia but also in South Australia and the Northern Territory.

The next two big mines of any size are Hope Downs, which is now in a joint venture with Hamersley, and Fortescue Metals Group, which to date has no Chinese equity. Perhaps Mineralogy under CITIC Pacific may be next.

For a while, it looked like Hope Downs would be the next major project for the Chinese. Two top Chinese steel mills were in the negotiations but dropped out before the final rounds.

For Fortescue Metals Group, with its initial plans 45 mtpa starting next year, its market is obviously China-focused. Chinese equity may be attractive to cement the relationship if it is to follow the Channar model to be successful.

These two hematite projects between them will add additional production equal to Hamersley's total production several years ago. This will be a significant increase in the total Australian output.

Then there are the numerous new projects represented by other speakers at this conference, which are still going through early development in the pre-feasibility and feasibility phases, and presumably dealing with all the other regulatory requirements, such as native title and environmental approvals.

There are also quite major infrastructure issues to be resolved, such as the means of transporting the ore from the mine to the port. Except for access to the Geraldton Port for the Midwest projects, new port facilities will be required for the new projects, all of which will involve considerable capital expenditure.

Apart from Hope Downs and FMG, mainly the new projects with hematite ore bodies are or will be producing in relatively small quantities, in several cases using the cash flow to develop their larger but more costly magnetite deposits.

The Chinese have also refocused their efforts toward magnetite deposits and at this conference there have been a number of presentations from their Australian sponsors. I have been involved myself on the documentation of five of those projects.

The Chinese have been key partners in most of the new magnetite projects in Western Australia.

The Chinese also have the technology to deal with magnetite. It is the most common ore supply for their existing steel works.

Just how well they will be able to compete with the high grade hematite projects over time is something for the future to decide.

But the Chinese investors are comfortable with magnetite ore as they are used to its prominence in their own steel mills in China.

The markets which they will provide in China, and their ability to finance project development, will be crucial factors in the success of these projects.

6. Conclusion

The massive increase in demand over world supplies of iron ore by the Chinese steel industry has driven major expansion of the existing producers, as well as attracting new investors into the market.

Some analysts have observed that the large price increases in 2005 and 2006 have resulted in an overinvestment in iron ore supply globally, with the threat of competition to current suppliers causing instability.

If so, some of the new projects being planned today may encounter difficulties once they enter operations.

Some projects may be phased in over a longer period rather than initially planned.

The existing large producers are clearly in a favourable position since their financial strength allows them to be flexible on the timing of their expanded entry into production.

The smaller producers and projects that depend heavily on loan financing may find themselves in the situation where they either cancel their projects or face having to come into production when the market has turned.

China has endeavoured to counter its reliance on imports.

It is expanding its own domestic production, even where the supplies may be below economic value.

It is diversifying its sources of supply.

It is encouraging new investment, especially in Australia.

With the growth in iron ore capacity, the question is will the demand by the steel industry in the future still be large enough to absorb all the new supply.

When does the boom end?

Is demand slowing down or full steam ahead?

It is likely that the present tight situation will persist into 2007, but many are predicting that the supply and demand of iron ore will come into balance in 2008.

But China's massive scale of raw material consumption, together with its high growth rates, are what is important. These growth rates have trended lower, but the incremental tonnes are still driving the supply / demand balance.

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