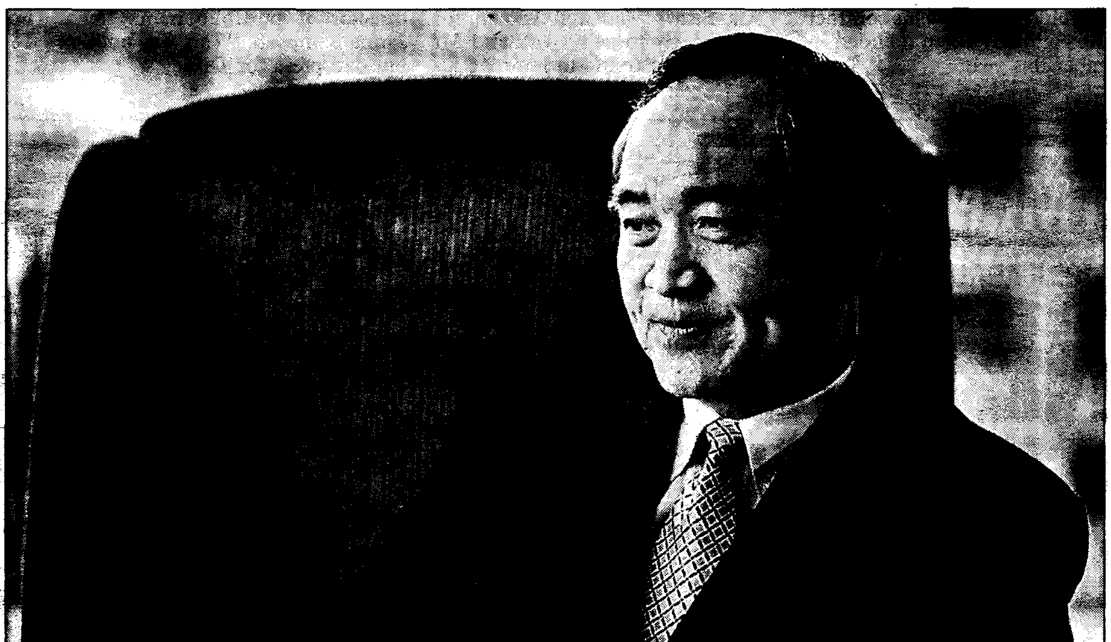
Sinosteel lays foundations for big future

The president of this Chinese state-owned steel company has a grand vision, reports Asia-Pacific editor **Rowan Callick.**



Huang Tianwen has invigorated Sinosteel since his arrival from China Minmetals 18 months ago. Photo: ARSINEH HOUSPIAN

China's iron ore buyers won't cop another 71.5 per cent price rise in the same way they did this year.

Sinosteel Corporation's president Huang Tianwen said on a recent visit to Australia that he expected Chinese demand to be sustained at more than 300 million tonnes of ore a year for the next 10 years — in 2004 it consumed 270 million tonnes.

But, he said, "from next year China will play a more important role in price negotiations". The Japanese steel mills led the talks this year, and settled unusually rapidly, anxious about losing secure supply to their Chinese competitors, who in 2003 overtook them as the world's biggest buyers.

Mr Huang was concerned that while BHP Billiton "at the end agreed to the Chinese side" in price negotiations in April — it had sought a 115 per cent rise — its expectation of a bigger rise incorporating a higher freight premium "won't go away".

Together, BHP Billiton, Companhia Vale do Rio Doce and Rio Tinto account for 70 per cent of world iron ore supply. That makes BHP's position "unhappy for the Chinese side", Mr Huang said.

He expected that the Chinese buyers — the steel mills, China Minmetals and Sinosteel itself — would accelerate moves already under way to collaborate on supply prices, echoing the long-entrenched Japanese pattern. But it is not likely, he said, that the Chinese would work closely with the Japanese.

During his visit to Australia, Mr Huang advanced Sinosteel's potential involvement in four major iron ore projects, all in Western Australia, and hosted a launch in Perth of the company's aggressive international growth program.

He signed up a framework agreement with Midwest Corporation, held discussions with Mount Gibson Iron, talked with entrepreneur Clive Palmer about taking a major role in the second of three stages of planned development of iron ore prospects by his Mineralogy Pty Ltd, and registered a continued interest in Andrew Forrest's Fortescue Metals Group's iron ore project in the Pilbara.

Sinosteel, which has evolved out of China Metallurgical Import and Export Corporation, established one of China's first overseas joint ventures, investing $120 million 18 years ago to obtain 40 per cent of the Channar iron ore mine operated by Rio Tinto's Hamersley Iron.

Mr Huang joined Sinosteel from its larger competitor, China Minmetals, about 18 months ago, and has invigorated the company, which reports to the State-owned Assets Supervision and Administration Commission, which in turn is run by the State Council, China's cabinet. Many of his top executives are young, Western-educated and English-speaking.

If its commercialisation proceeds briskly, as planned, part of the company will be floated — most likely on the Hong Kong Stock Exchange, but possibly in Australia. Mr Huang has asked Melbourne lawyer Robin Chambers, who is a director of Sinosteel's Australian entity, to help establish an international advisory board to guide the company's global expansion, for which it has a $US2 billion ($2.7 billion) war chest.

Mr Huang said that half the sustained growth in China's steel demand would come from construction.

The growing demand for cars will also drive much steel consumption. At present, Mr Huang said, much of the steel for cars was imported from Japan and Germany because the domestic product was not suitable for car production — but Chinese mills were starting to adapt to this burgeoning market.

"The Chinese market economy is not yet mature."

Price fluctuations, and supply-demand imbalance, reflected China's transitional status, he said: "The Chinese market economy is not yet mature. It takes time. But supply and demand will get back in balance."

He described Sinosteel as "a comprehensive company," which had long-term relationships with steel mills which it formerly operated".

"Today they are independent," he said. "But they are brother companies, with many personal, business, technical and research relationships with Sinosteel."

Such relationships were no longer based on control, he said, but on mutual benefit. In the future, Sinosteel would develop into the prime supplier of inputs to steel mills and their agent for selling products internationally.

Mr Huang said it would also be engaged in exploration and resource development both within China and overseas (as in Australia), trade, logistics and in science and technology research. It already operates six research centres.

Mr Huang, who has moved Sinosteel into a 35-storey tower in the heart of Beijing's high-tech zone, also has ambitions beyond China, anticipating supplying German, French, Indian or other steel mills in the future with "not only iron ore but other raw materials", including manganese, nickel and coking coal.

So Mr Huang is establishing a Chinese version of a Japanese trading house — a Mitsui or Sumitomo — but with a tighter focus.

Its competitor China Minmetals, whose annual revenue is about four times Sinosteel's, has yet to engage in the same way internationally — failing, for instance, in its bid last year for giant Canadian mining house Noranda.

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