

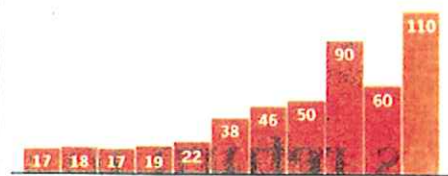
March 31st 2010

Steel prices set to soar on iron ore deal



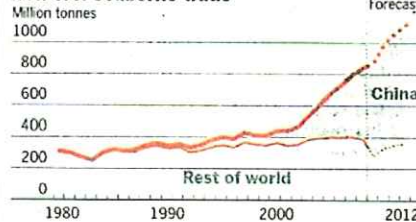
Hot commodities

Iron ore price
\$ per tonne



Annual price contract up to 2009-10. 2010-11 refers to price agreed for next quarter

Iron ore: seaborne trade



Source: Goldman Sachs

Steel prices

Hot rolled coil, \$ per tonne

\$380 Low point in 2009

\$650 End-March 2010

\$750 Forecast for end Q2 2010

By Javier Blas in London and Peter Smith in Sydney

Global steel prices are set to rise by up to a third, pushing up the cost of everyday goods from cars to domestic appliances, after miners and steelmakers yesterday agreed a groundbreaking change in the iron ore price system.

The deal by Vale of Brazil and Anglo-Australian BHP Billiton with Japanese and Chinese mills marks the end of the 40-year-old benchmark system of annual contracts and lengthy price negotiations. The industry instead agreed to move to quarterly contracts linked to the

nascent iron ore spot market. "The benchmark system has ended. There is no comeback," said a senior mining executive directly involved in the talks.

The top ore miners stand to profit greatly in the short term from the new price system. One executive estimated that the profits of the big three producers, Vale, Rio Tinto and BHP Billiton, would be boosted by at least \$5bn (£3.3bn) this year.

The new system is a response to last year's stalemate in the negotiations between miners and Chinese steelmakers, when both sides were unable to reach an agreement on annual prices. The balance of pricing power

has shifted in the miners' favour due to the emergence of China as a voracious consumer over the past 10 years.

Brendan Harris, a mining analyst at Macquarie in Sydney, said the shift was a "momentous" day. "It's not every day that the pricing terms for one of the core commodities in world trade change," he said. Steel accounts for 95 per cent of the world's metal consumption and iron ore is the main ingredient in steelmaking.

The new price system will lift the cost of iron ore to Asian steelmakers to about \$110-\$120 a tonne during the April-June period, up between 80 and 100

per cent from the \$60-a-tonne level at which the 2009-10 annual contracts were settled.

The steelmakers said they would compensate for the increase in raw materials costs by raising steel prices by up to a third. Some companies have already raised prices in anticipation of the move in iron ore.

Additional reporting by William MacNamara in London, Robin Harding and Jonathan Soble in Tokyo, Song Jung-a in Seoul and Patti Waldmeir in Shanghai

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Graphic: www.ft.com/Iron-ore