

## **Chinalco to invest 2 billions USD into project in Peru**

Chinalco, the parent of Chalco, has been granted a loan of two billion US dollars by The Export-Import Bank of China for the construction of its Toromocho copper mine in Peru.

Early last August, Chinalco spent 860 million US dollars purchasing all the shares of Peru Copper Corporation of Canada. Toromocho copper mine is the first and the largest single project invested by Chinalco in Peru. After the construction is completed, annual copper output of Chinalco will increase to 200,000 tons, and Peru's copper export will grow by



25 percent. Chinalco will focus on four major businesses, i.e. light metals with aluminum as the primary product, heavy metals with copper as the primary product, rare earth as advantage product, and nonferrous metal engineering project featuring general contracting, according to Lu Youqing, vice manager general of Chinalco. Toromocho copper mine is located 140 kilometers from Peru's capital city Lima, with a metal reserve of 12 million tons and a copper reserve making up 19 percent of Chinese total.

## **Chinalco: probably to add stake in Rio Tinto**

Chinalco, the parent of Chalco (ACH.NYSE; 601600.SH; 2600.HK) expressed possibility to buy in more shares of Rio Tinto.



**Chinalco chief Xiao Yaqing**

Earlier, Chinalco's vice manager general Lu Youqing of Chinalco once said the company may partner with Alcoa Inc. to increase their equity in Rio Tinto to 49.99 percent from the original 12 percent. Chinalco emphasizes that it's confident about the long-term value of Rio Tinto and it considers currently investment opportunity in Rio Tinto much better than in the beginning of this year. Chinalco hopes Rio Tinto to manage the firm well and maintain its share price. In February this year, Chinalco partnered with Alcoa Inc. to acquire a 12-percent stake in Rio Tinto. Chinalco contributed up to 14 billion US dollars and became the largest single shareholder of Rio Tinto.

By now, Rio Tinto's share price has dropped by 74 percent, and Chinalco has lost about eight billion US dollars on the stock slump. On Wednesday, Rio Tinto's share price in Briton dropped by 3.35 percent to 14.98 pounds, and it slumped 36.7 percent to 15.5 pounds in the previous trading day

## **Chinalco Says BHP's Dropped Bid Helps Chinese Mills**

Aluminum Corp. of China, the largest shareholder in Rio Tinto Group, said BHP Billiton Ltd.'s dropped bid for the world's second-largest iron ore supplier would benefit Chinese steelmakers. The worst financial crisis since the Great Depression has stalled credit and cut demand for commodities. Chinalco bought a 9 percent stake in Rio with Alcoa Inc. for 7.2 billion pounds (\$11 billion), a move analysts said was to thwart BHP from becoming the world's dominant iron ore supplier to steelmakers. BHP Billiton, the world's largest mining company, today abandoned the \$66 billion stock offer for Rio as the purchase would have boosted debt exposure and it would have been difficult to sell assets, Chief Executive Officer Marius Kloppers said.

## **China opposes the proposed iron ore index-pricing model**

Chinese steel plants stand firmly against the iron ore index pricing system proposed by BHP Billitons, according to Shan Shanghua, secretary general of China Iron and Steel Association (CISA).

Earlier, BHP Billitons claimed to insist the index pricing system so as to set iron ore prices on the basis of dynamic supply and demand situations. "Such index pricing model means steel plants have to sign large-amount contracts with iron ore miners before the prices are fixed on spots index, which will give more advantages to iron ore producers," said Shan Shanghua. But BHP also admits that it would take several years for the new pricing model to come out.

## **China's MCC eyeing copper smelter in Philippines**



China Metallurgical Construction Group Corp (MCC) wants to build a copper processing and smelter plant in the Philippines, the minister in charge of mining said on Thursday, at a probable cost of at least \$1 billion.

Some miners in the Philippines are rethinking investment plans as the global credit crunch boosts financing costs and cools demand for metals. MCC, a state-backed Chinese firm that develops mines and metals smelters, had earlier eyed plans for a \$1.5-billion integrated steel plant in the southern Philippines.

But Environment and Natural Resources Secretary Lito Atienza said MCC was "going slow" on the steel mill project as it might not fit its current requirements, and was keen on building a copper processing and smelter plant instead. "We're asking them specific details of the project that they want to put up so we can determine the kind of support we can provide in the venture," Atienza told reporters.

A copper processing and smelting plant would cost at least \$1 billion to build, Horacio Ramos, head of the mines and geosciences bureau, said. The Southeast Asian country's only copper smelter and refinery is operated by Philippine Associated Smelting and Refining Corp, which was acquired by a unit of Swiss commodities firm Glencore in 1999.

MCC operates mines in Papua New Guinea, Pakistan, Australia and Argentina. Sumitomo Metal Mining Co, Japan's largest nickel producer, this month said it might delay construction of its Taganito nickel plant in the southern Philippines, originally planned for 2009, to consider cutting its \$1.7 billion estimated cost.

## **China May Cut Export Tax on Lead, Aluminum; Analysts Divided**

China may eliminate export taxes on refined lead and reduce them on primary aluminum and aluminum alloy, analysts said Friday. But industry sources are divided on the likelihood of Beijing enacting these policy changes.

Some say the prospect is weakened by Beijing's long-term policy to reduce exports from its energy-intensive industries. "There have already been lots of rumors on (the tax changes)," said Judy Zhu, an analyst with Standard Chartered in Shanghai. "I think it's likely." The market expects Beijing may cancel the 10% export tax on refined lead to counter sagging domestic demand, Zhu said. Industry players also expect the government may reduce the export tax on primary aluminum and aluminum alloy to 5% from 15%, effective Jan. 1, Zhu added.

London Metal Exchange lead prices fell more than 7% Thursday to their lowest level since July 2006, on reports China was mulling a reduction in the lead export tax. Traders were concerned Chinese lead exports would flood an already-poor demand environment. The sharp slowdown in the Chinese car industry has cut deeply into battery replacement demand, which has in turn softened the demand for lead. The domestic price premium over LME for refined lead has collapsed from



an average of \$600 a metric ton in October to \$130/ton in November, Barclays Capital said in a note earlier this week. "Now there is no longer an economic incentive to import," it added. Zhu said a tour of lead factories last month suggested there wasn't much lead stock building in warehouses. "But the more important factor is that the outlook on lead demand has become so bad, the government may act well before the large stocks are being built up," she added.

China plans to cut or remove taxes on the export of some steel and aluminum products from Dec. 1, and raise value-added tax rebates for some copper tube and primary aluminum products. But other analysts said the tax removal on refined lead wasn't about to happen, in part due to lead's environmental risks. "It's impossible this would happen in the short term, because of the pollution lead causes," said Macquarie Bank's Bonnie Liu, in Shanghai. "I don't believe it will happen. It's probably much easier to lift duties on any other metal other than lead." The Ministry of Finance, which controls such taxes, declined to comment.

An official there said Friday the ministry wouldn't grant interviews on this issue. Liu also downplayed the likelihood of the export tax regime changing for aluminum or aluminum alloy. "The core policy is to slow exports from energy-intensive industries. That's the long-term goal and the government wouldn't want to change this policy (because of short-term demand contractions)." Wan Ling, an analyst with CRU consultancy in Beijing, and other analysts downplayed the likelihood of aluminum and lead export tax cuts being implemented.

## **CISA sees iron ore oversupply next year**

According to Mr Zhang Xiaogang chairman of Angang and China Iron & Steel Association iron ore oversupply is set to hit the market and the price would not return to previous level in near term. He said that steelmakers should make concerted efforts in curbing steel capacity expansion, since massive steel capacity growth is set to drive up iron ore demand sharply, which would reduce their leverage on the upcoming ore talks. Domestic ore miners should step up efforts in ramping up production to provide a cushion against steep ore imports price hike. Steel mills should also diversify the sources of ore imports, taking more materials from other countries like Russia or emerging suppliers in Brazil or Australia.

Angang Group has lifted its stake in Australia-based miner Gindalbie Metals Ltd to 36.28% from previous

12.94% for AUD 162 million. Mr Zhang also encourages other leading mills to enhance overseas operation in mining sector to secure reliable raw materials supply.

## **Iron Ore Price Negotiations - Hebei Mills Major Dip in 2009**

It is reported that iron ore, the basic steelmaking ingredient, has seen its price soaring over 5 times in the past six years due to strong demand from emerging economies and ore giants' dominant role in annual ore talks and the price surge at the year start has eroded profits of Hebei steel mills by CNY 15 billion.



However, most analysts expect that the situation will change and the iron ore price talks for fiscal 2009 are likely to turn the tables against producers for the first time in several years, and major consuming countries, including China, will have a bigger say in what is expected to be a buyers' market dominated by high inventories and falling demand. The forecast is based on the basic market fundamentals' shift, steel mills across the global have performed massive production cut resulted from diving steel prices, dragging down demand for iron ore and leading to oversupply. As a result, the spot ore price has fallen below contract ore for the first time in seven years. Statistics show that quayside inventories and steel mills' stockpiles for imported iron ore have added up to over 80m tons in Oct, recording the highest level ever. And Brazilian ore giant Vale has also abandoned its additional 12% price advance request for Chinese mills, indicating that global ore giants have felt the market decline.

Global ore price fall is set to benefit steel mills in China, relieving their costs pressure and pulling them back from the verge of profit deficit. Figures show that 45% iron ore consumed by Hebei mills are from imports, and the province is expected to buy 80 million tonnes of the metal this year.

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