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India may pull out of ore exports to China

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The head of India's biggest iron ore producer says the country will stop shipping ore to China in as little as five years, in a move that will make room for about 100 million tonnes of new Australian production and underpin firm spot market prices for the future.

National Mineral Development Corporation chairman Rana Som made the comments in Perth yesterday, on a visit to oversee the Indian-government backed company's tie-up with emerging Australian explorer Legacy Iron Ore.

"I don't think that in the near future India will be required to import iron ore. I feel India will slowly withdraw from the iron ore market and that will give extra space to the Australian iron ore market to export more and more quantity to the traditional markets of China and Japan," Mr Som said.

He said Indian pig iron production would move from 65 million tonnes a year to 100 million tonnes as Indian miners feed domestic production growth. This is expected to open the door for Australian miners to export more into China.

"In that case that space has to be occupied, mainly by the Australian exporters, so it will be as good as Australia getting an opportunity to export over 100 million tonnes more. That's an opportunity for Australia," he said.

The Australian Bureau of Agriculture and Resources Sciences predicts Australian exports will grow to 488.7 million tonnes in 2012-13.

Mr Som said while he expected iron ore prices to continue to retreat from their recent highs of up to \$170 a tonne, it was unlikely to drop below \$100 a tonne for the foreseeable future. This is because any steep fall in prices is expected to spark China to withdraw between 200 to 300 million tonnes of iron ore production from its marginal mines from the market, thus shoring up global prices.

He also expected the growth of the Indian steel production over the next five years to more than 100 million tonnes would soak up some of the capacity coming on line from Rio Tinto, Vale and BHP Billiton.

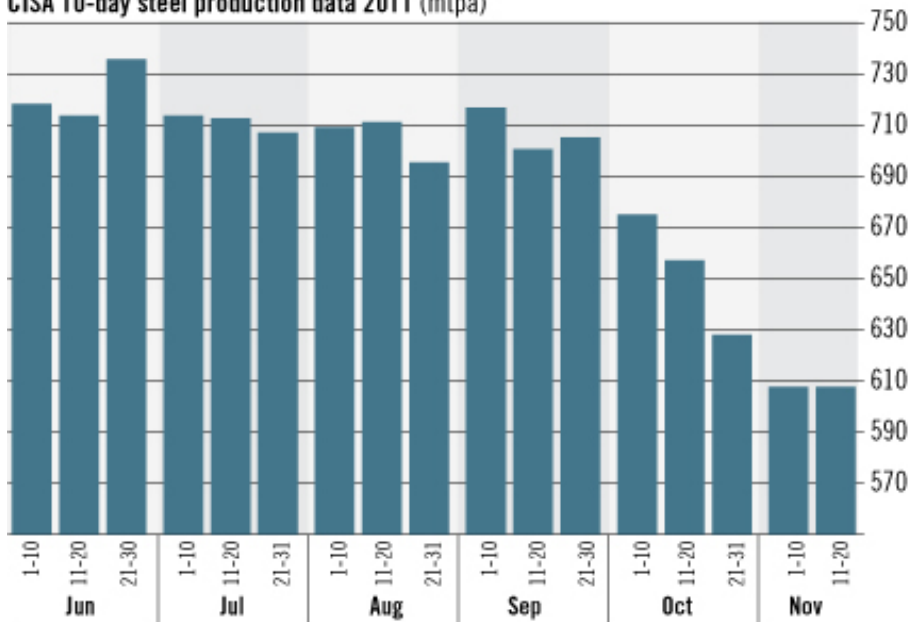
KEY POINTS

- Indian iron production is expected to increase to the extent the nation may stop exporting ore "in the near future", a visiting expert said.
- He expects Australia will benefit as China seeks to maintain imports.
- India's ore exports to China are down.

Steel buckles

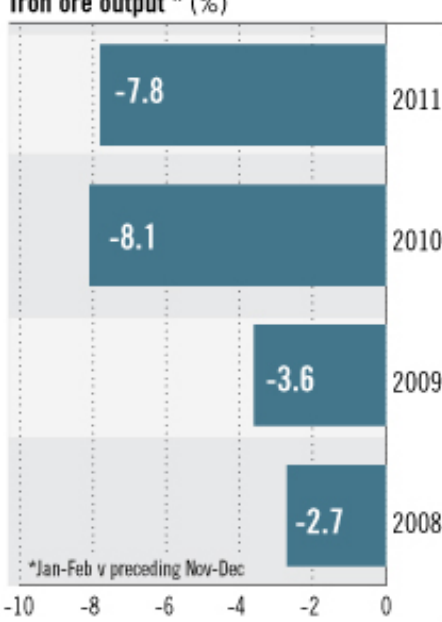
Steel production is down 100mtpa since the end of Sep, the equivalent of total Japanese output...

CISA 10-day steel production data 2011 (mtpa)



... as iron weakens over the northern winter

Iron ore output * (%)



SOURCE: MACQUARIE RESEARCH

The comments come amid intensifying fears in the Australian market over China's shrinking steel production. This, combined with signs that Beijing will maintain controls on investment in property next year, has created concerns that demand for Australia's iron ore could be curbed.

The latest China Iron and Steel Association data shows that on an annualised basis, China's steel output has fallen by 100 million tonnes a year since the end of September. This leaves China on track to produce 690 million tonnes of steel this year, up from 623 million tonnes last year but less than the original forecast for more than 700 million tonnes.

But Macquarie says the production cuts are "overdone" and China will need to ramp production back up.

India's iron ore exports to China have fallen from a peak of 123 million tonnes in 2009 to 90 million tonnes so far this year.

The iron ore fines that India exports are typically regarded as waste by Indian steelmakers, which use lump ores.

A Shanghai-based analyst said recent moves to clamp down on illegal miners in India's southern state of Karnataka had forced many small miners out of business and driven the price of iron ore up for domestic Indian steel producers.

"Without the export business, it drives the cost of mining up for the little guys and actually hurts Indian mills," the analyst said.

He also said thermal coal importers were paying higher freight to get coal to their power stations, with India sending fewer ore-laden trains to ports for export.

Mr Som said the NMDC would continue to look for acquisitions outside India, with Australia still seen as a favourable investment destination.

He said despite the mining and carbon taxes there was "room for profits to be made", although rising construction costs were starting to bite.

The ore produced from NMDC's Australian investment in Legacy Mines will be exported to China.

The Australian Financial Review

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