# Global Iron Ore Price Cut Seen Impacting North America

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* Benchmark ore cut pressuring Cliffs to lower prices

* Cuts come as steel prices starting to rise

**By Steve James**

NEW YORK, (Reuters) -- U.S. iron ore pellet producer Cliffs Natural Resources might have to drop prices following a settlement by mining leader Rio Tinto to cut its iron ore price by 33 percent for some Asian steelmakers, analysts said on Tuesday.

But they saw little immediate impact on steel prices which have already started to rise again after a bleak nine-month period in which demand fell away in the economic downturn.

In any case, most integrated American steelmakers have their own sources of iron ore -- a key raw material for steel -- while about half the producers make steel from scrap instead, they noted.

"Cliffs will have to lower prices," said Michael Locker, of steel industry consultant Locker Associates.

Charles Bradford, of Affiliated Research Group, said AK Steel was the biggest manufacturer that relied on outside ore purchases. "AK is naked (exposed) when it comes to iron ore.

"They have a contract with Cliffs, which is more than the world price," he said following the news that No. 2 iron ore producer Rio Tinto agreed to cut iron ore prices to Japanese steelmakers by a third in this year's first contract settlement, which traditionally sets the benchmark for other contracts.

Christine Dresch, a spokeswoman for Cleveland-based Cliffs, the largest North American producer of iron ore pellets, said the company had a system of "provincial pricing" in North America.

"Following today's settlement, we will continue talking with our customers," she told Reuters.

Traditionally, the first deal reached by a major ore supplier becomes the benchmark price in a decades-old system of setting iron ore prices on the basis of annual negotiations, a process now under threat from growing spot market trade.

Since 2002, the iron ore price has quadrupled as economic growth led a boom in demand for steel. But in the current economic downturn, that demand has dwindled and iron ore producers had been widely predicted to cut prices. Some analysts expect Chinese firms to balk at the new benchmark and demand even bigger price cuts.

Last month, Cliffs reported a first-quarter loss and said iron ore pellet sales volume slumped 27 percent to 2.0 million tons, and revenue per ton was down 2 percent at $76.50.

Shares of integrated U.S. steelmakers rose on Tuesday after the announcement. At mid-afternoon on the New York Stock Exchange, U.S. Steel rose 3.7 percent to $30.58, ArcelorMittal was 4.7 percent higher at $30.35 and AK Steel was up 4.2 percent at $13.31.

Locker noted that most integrated U.S. steelmakers will only be affected indirectly. "Only those buying iron ore on a spot basis will be impacted, since most integrated producers have captive mines or buy on contract."

He noted Europe-based ArcelorMittal, the world's largest steelmaker, buys some ore from Cliffs. Bradford said although ArcelorMittal has about 65 percent of its own iron ore globally, it has to buy the rest.

Michelle Applebaum, an independent steel industry analyst in Chicago, said U.S. Steel's domestic operations are completely integrated but the company gets as much income from its European operations.

"Net-net, it's a modest negative for domestic blast furnace companies," she said. For electric furnace companies, some use ore as a scrap substitute. "But scrap prices have collapsed and they are already seeing the benefits of that."

Applebaum said that according to trade press reports and steel buyer input, U.S. steelmakers have announced a variety of price increases for some beams and other long products ranging from $20-$40 per ton, or about 3 percent to 6 percent.

"China is taking the lead at raising steel pricing again, but it tends to be affected by scrap rather than iron ore. There is a big lag too, and this is the first iron ore settlement since September, so... the cuts were expected," she said.

Locker said the ore benchmark cuts would likely have "a dampening effect on prices going up." (*Reporting by Steve James; Editing by Richard Chang*)