



## Iron Ore Price Negotiations - Cut to Impact North America

May 29, 2009

Reuters quoted analysts as saying that US 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% to 44% for some Asian steelmakers.

But they saw little immediate impact on steel prices which have already started to rise again after a bleak 9 month period in which demand fell away in the economic downturn. They said that 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.

Mr Michael Locker steel industry consultant Locker Associates said that "Cliffs will have to lower prices."

Mr Locker said that "Most integrated US 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."

Mr Locker however added that the ore benchmark cuts would likely have a dampening effect on steel prices going up.

Ms Christine Dresch a spokeswoman for Cleveland based Cliffs, the largest North American producer of iron ore pellets said that there was a system of provisional pricing for Chinese customers until the benchmark was set. She said that "Following today's settlement, we will continue talking with our customers."

Another spokesman, Mr Steve Blaisden later explained that for North American customers, Cliffs had a formula based pricing system, which took into account 3 factors the pellet price, current steel pricing and the company's costs.

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.