Iron Ore Resources and Supply in China: Current Situation and Prospect Forecast
I. Iron Ore Resources in China: Current Situation and Existing Problems

III. Current Status and Development Trend of Iron Mines' Production Capacity Building in China

III. Iron Ore Supply and Demand Analysis

IV. Prospect Forecast
I. Iron Ore Resources in China: Current Situation and Existing Problems

1. Rich resource reserves, and big potentials for prospecting new ore resources

   • As of the end of 2010, there had been a total of 3,846 iron mining areas in China, and proven available iron ore resource reserves reached 72.699 billion tons. Of this, basic reserves amounted to 22.232 billion tons and the resource volume was at 50.467 billion tons. Compared with 2009, the number of mining areas increased by 209, while proven available resource reserves rose by 8.099 billion tons, of which basic reserves increased by 932 million tons, and the resource volume by 7.167 million tons. Compared with 2005, the number of mining areas was up by 1,377, while proven available resource reserves increased by 13.314 billion tons. Of this, basic reserves rose by 628 million tons, while the resource volume increased by 12.74 billion tons.

   • Iron ore is widely distributed in China. But, it is relatively concentrated in 13 provinces (autonomous region/municipality), including Liaoning, Sichuan, Hebei, Anhui and Shandong. Among most of these provinces, each has a gross proven available iron ore resource volume of over 1 billion tons, and their combined available resource reserves stand at 64.992 billion tons, accounting for 89.4% of the national total.
Table 1. Distribution of Iron Ore Resource Reserves in China (by province)  Unit: 100 million

<table>
<thead>
<tr>
<th>Region</th>
<th>Basic Reserves</th>
<th>Resource Volume</th>
<th>Proven Resource Reserves</th>
<th>% of National Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nationwide</td>
<td>222.32</td>
<td>504.67</td>
<td>726.99</td>
<td>100.00</td>
</tr>
<tr>
<td>Liaoning</td>
<td>75.46</td>
<td>107.84</td>
<td>183.30</td>
<td>25.21</td>
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<tr>
<td>Sichuan</td>
<td>28.73</td>
<td>68.11</td>
<td>96.84</td>
<td>13.32</td>
</tr>
<tr>
<td>Hebei</td>
<td>37.49</td>
<td>50.12</td>
<td>87.61</td>
<td>12.05</td>
</tr>
<tr>
<td>Anhui</td>
<td>8.19</td>
<td>39.72</td>
<td>47.91</td>
<td>6.59</td>
</tr>
<tr>
<td>Shandong</td>
<td>10.31</td>
<td>36.94</td>
<td>47.25</td>
<td>6.50</td>
</tr>
<tr>
<td>Yunnan</td>
<td>3.82</td>
<td>33.50</td>
<td>37.32</td>
<td>5.13</td>
</tr>
<tr>
<td>Inner Mongolia</td>
<td>12.12</td>
<td>24.93</td>
<td>37.05</td>
<td>5.10</td>
</tr>
<tr>
<td>Shanxi</td>
<td>12.13</td>
<td>21.40</td>
<td>33.53</td>
<td>4.61</td>
</tr>
<tr>
<td>Hubei</td>
<td>3.73</td>
<td>26.26</td>
<td>29.99</td>
<td>4.13</td>
</tr>
<tr>
<td>Henan</td>
<td>1.65</td>
<td>14.7</td>
<td>16.35</td>
<td>2.25</td>
</tr>
<tr>
<td>Xinjiang</td>
<td>3.57</td>
<td>8.01</td>
<td>11.58</td>
<td>1.59</td>
</tr>
<tr>
<td>Hunan</td>
<td>1.63</td>
<td>9.67</td>
<td>11.30</td>
<td>1.55</td>
</tr>
<tr>
<td>Beijing</td>
<td>0.88</td>
<td>9.00</td>
<td>9.89</td>
<td>1.36</td>
</tr>
<tr>
<td>Total (13 provinces)</td>
<td>199.72</td>
<td>450.2</td>
<td>649.92</td>
<td>89.40</td>
</tr>
</tbody>
</table>
2. Many new iron ore discoveries have been made in recent years.

- In recent years, China has implemented a comprehensive land and resource survey strategy and increased inputs into geological exploration. In 2010, RMB95.3 billion was injected into geological exploration, up by 14.7% y-o-y. Of this, investment in solid mineral exploration grew by 21.5%. During the year, the central government made an additional input of RMB5 billion into basic mineral exploration work and invested RMB3 billion in mineral resource conservation and intensive and integrated utilization. Central and provincial geological exploration funds were set up, with a total amount of RMB15 billion. In addition, there was more investment in geological prospecting from local finance and social funds.

- In the first 3 quarters of 2011, RMB36 billion was put into solid mineral exploration, up by 33.3% y-o-y, marking a further increase on the high growth of 2010. The State-owned Assets Supervision and Administration Commission recently introduced relevant policies to encourage public funds and central enterprises to make their active inputs. Enterprises can get 50% of their exploration expenses back as profit from the government. These measures will greatly stimulate enterprises to invest in mineral resource exploration. As a result, inputs into iron ore exploration alone reached RMB10 billion, up by 30% than that of 2010.
In recent years, China Geological Survey has applied new theories, new methods and new technologies to key metallogenic belts, pooled resources to step up iron ore prospecting and made major breakthroughs. In eastern China, aeromagnetic and weak magnetic anomaly surveys have been conducted in depth areas and a special resource exploration project has been implemented for medium-and large-sized mines to replenish their resource needs. Thanks to increased investments from local finance and public funds, a number of new concealed iron ore deposits have been found. In western China, aeromagnetic anomaly investigations and mining spot checks have also led to the discovery of some iron ore deposits. Statistics show that 79 new medium- and large-sized iron ore areas have been found in the past 5 years. Newly-explored iron ore resource reserves amount to a total of 16.425 billion tons, of which, 9.29 billion tons was found in 2010, making it the year of the biggest reserves found in the past 5 years. In key exploration areas like Anben, Jidong, Yanzhou, Panxi and Lucong, almost 10 billion tons of iron ore resources were found. In its special integral exploration program, China Geological Survey has found through deep and peripheral iron ore prospecting that the prospective vana-titano magnetite resource volume in the Panzhihua-Xichang region is expected to reach 20 billion tons, providing an important resource basis for further exploratory and development work.
In 2010, China’s proven iron ore resource reserves stood at 72.699 billion tons, up by 22.42% over 2005. This not only met the needs of bringing raw iron ore output from 420 million tons to 1.07 billion tons but also increased proven available iron ore resource reserves by 13.3 billion tons.

Through the special replacement resource exploration project for the crisis mines, a cumulative total of 870 million tons in new iron ore resource reserves has been added. All such reserves have now been directly utilized by mining enterprises.

In addition, there are some new exploration discoveries which are not yet included in the official statistics. In eastern and central China, the Sigezhuang-Songdaokou Iron Ore Belt in Jidong is predicted to have a resource volume of 460 million tons. In western China’s Xinjiang, the Western Tianshan Mountain Iron Ore Belt has an estimated resource reserve of over 1.5 billion tons. The prospective resource volume of the Western Kunlun Mountain Iron Ore Belt is estimated to exceed 2 billion tons. The Nixiong Iron Ore Concentration Area in Tibet has a predicted prospective resource volume of 300-500 million tons, with the grade being at 55-68%. In the Qimagantäge region at the border of Xinjiang and Qinghai, the prospective iron ore resource volume is projected to exceed 1 billion tons. All these regions have a low level of iron ore exploration. Their iron ore deposits are shallow, of high grade and large size, and easy for mining and utilization.

To sum up, there are fairly big iron ore prospecting potentials in eastern, central and western China. A total of 18 iron ore deposits with a resource reserve of over 100 million tons have been found in recent years. 10 of them are in eastern China, while 7 in central China. According to forecast, up to a depth of 1,000m from ground, China’s prospective resource volume to be proven exceeds 100 billion tons, while the volume at up to a depth of 2,000m from ground is estimated to exceed 250 billion tons.
3. The Prospecting Breakthrough Strategic Action Initiative will produce a profound impact on ore prospecting and the iron ore market in China.

- In October 2011, Premier Wen Jiabao presided over an executive meeting of the State Council. The meeting deliberated and adopted the *Strategic Action Outline for Prospecting Breakthroughs* (2011-2020) submitted by four ministries and commissions.

- The Outline sets the goals and tasks of geological exploration work in the country for a period of time in the future: through implementing a prospecting strategy, make new major breakthroughs, form a number of strategic mineral resource complementing regions, establish a reserve system for important mineral resource reserve and provide sound resource assurance and industrial support for the stable and fairly fast growth of the economy.

- First, strengthen basic geological survey and research work. Push forward basic geological survey and integrated research on key metallogenic areas and belts, and find out their resource potentials and prospects for exploration and development; speed up prospective exploratory work in key metallogenic areas and belts, and look for new target prospecting areas; and enhance basic geological and metallogenic theory research, and develop and promote new mineral exploration technologies and methods.

- Second, intensify the exploration of important minerals. Through integral exploratory work, find more reserves of important mineral resources, and form large-scale mineral resource bases; and carry out the in-depth exploration and peripheral complementary resource exploration of old mines, and extend their service life.

- Third, implement enterprise-centered pilot projects of mineral resource conservation and comprehensive utilization, and develop circular economies in the mineral resource field; and carrying out the prospecting breakthrough strategic action initiative, give full play to the role of market mechanisms and establish diversified investment platforms.
• The Ministry of Land and Resources will seize this opportunity to research and implement a working plan for *The Strategic Action Outline for Prospecting Breakthroughs*. The Prospecting Breakthrough Strategic Action Initiative will establish an institutional platform in accordance with the rules of market economy to attract diversified investments, and improve resource assurance and capacities. The Initiative sets out to make major progress in geological prospecting within 3 years and major prospecting breakthroughs within 5 years, form a new mineral exploration and development pattern within 8-10 years, push forward the resource industry to make a strategic shift to western regions, sea areas and overseas, and establish a reserve system for important energies and resources.

• Iron ore is the most important mineral in the current Prospecting Breakthrough Strategic Action Initiative. Through integrated iron ore exploration, China will increase proven resource reserves and form large-scale iron ore resource bases. For this purpose, the Ministry of Land and Resources has set up a first group of 47 integrated exploration areas for the Initiative. Among them, there are 17 integrated iron ore exploration areas, covering a total area of 126,400Km². Following prospecting breakthroughs, most of them can become resource complementary bases. China plans to increase its iron ore resource reserves by 20 billion tons through geological exploration during the 12th Five-Year Plan Period.

• The official release and implementation of *The Strategic Action Outline for Prospecting Breakthroughs* fully reflects the Chinese leadership’s determination and confidence to address current resources shortages in China. It is a completely new strategic initiative and a strategic measure to safeguard national resource security and promote stable and fast economic growth. It is also a strategic measure for China to push forward coordinated regional economic development, improve national industrial layout and market mechanisms and achieve the benign development of mineral exploration and development. The Initiative will fundamentally change the situation of China’s bulk scarce minerals market, especially the iron ore market, which is currently monopolized by three leading foreign mineral suppliers.
II. Current Status and Development Trend of Iron Mines' Production Capacity Building in China

1. Iron ore price has remained high for years, and the iron ore industry has become a popular spot of investment, forming an annual raw mineral production capacity of 1.55 billion t/a.

   • In 2010, 1,408 iron mining areas were under extraction in China, with an available resource reserve of 25.555 billion tons, including basic reserves of 12.336 billion tons. These iron mining areas accounted for 35.15% of China’s gross available iron ore resource reserves. The top 6 provinces with available resource reserves are: Hebei (5.194 billion tons), Liaoning (4.348 billion tons), Shanxi (2.84 billion tons), Anhui (2.445 billion tons), Inner Mongolia (1.763 billion tons), and Shandong (1.005 billion tons).

   • In 2010, there were a total of 4,250 iron ore producing mines in China. These included 101 large-sized mines, 239 medium-sized mines and 2,365 small-sized mines. Their iron ore raw mineral output totaled 1.072 billion tons.

   • In 2011, China’s iron ore mine construction and output reached a new high: raw mineral production capacity reached 1.55 billion t/a, up by 300 million tons over 2010. Raw mineral output set a new record, hitting 1.325 billion tons, up by 23.6% over 2010. 15 provinces (autonomous region and municipality), i.e. Hebei, Liaoning, Sichuan, Shanxi, Inner Mongolia, Anhui, Xinjiang, Fujian, Guangdong, Yunnan, Jilin, Shandong, Beijing, Hubei and Henan, had an output of over 10 million tons. Hebei, Liaoning, Sichuan, Inner Mongolia and Shandong had a total raw iron ore output of over 1 billion tons, accounting for 79.3% of the national total.
2. **Huge utilizable resource reserves and the highly profitable mining and dressing industry create conditions for the further development and utilization of iron ore.**

- As of the end of 2010, there had been 1,264 iron ore mining areas available for planning and utilization in China, with a proven resource reserve of 28.604 billion tons, accounting for 39.3% of the national total. Their basic reserves amounted to 5.892 billion tons, accounting for 26.5% of the national total. Among the provinces, Liaoning had the biggest proven resource reserves of 7.98 billion tons, followed by Sichuan with 6.341 billion tons, Hebei with 3.342 billion tons, Shandong with 3.204 billion tons, Anhui with 2.28 billion tons and Inner Mongolia with 1.462 billion tons. Taking into account the fact that newly-found resource reserves in recent years are generally of low grade, China now still has 37.3 billion tons of proven iron ore resources (including mining areas for planned use) available for utilization.

- To rapidly turn resource advantages into economic strength, the State encourages various fund sources to invest in commercial exploration of iron ore and obtain priority on mining rights. In its (2011) No.55 Documents, the Ministry of Land and Resources specifically pointed out that those exploration right holders who carry out integrated exploration and have insufficient financial abilities may bring in social funds to undertake joint exploration and share risks and returns. Central and local fiscal funds are to be mainly used to support geological work of a public benefit nature and should exit and give exploration rights to the public after pre-exploration is completed. This actually means that fiscal funds can only promote geological exploration but will not be allowed to compete for profit with the private sector. The Document also stipulates that for large-sized mineral deposit areas suitable for mining, large-sized enterprises should be encouraged to adopt advanced exploration and mining technologies. In essence, this is to encourage large-sized enterprises and various social funds to follow up, thus rendering a rare opportunity for large-sized enterprises and various social funds to acquire mining rights (including exploration and mining rights). Future resource allocation must favor large-sized enterprises with strength. There is no such thing that “State-owned enterprises advance, while private enterprises retreat”.
Iron ore resource security has been included in China’s Twelfth Five-Year Development Plan: The iron and steel industry is to basically establish an iron ore resource security system of benefit sharing by 2015, maintain a self-sufficiency rate of over 45% and keep foreign iron ore resources under its control to over 50% of China’s gross iron ore imports. This will ensure China to adequately address the security threat to its iron and steel industry posed by international market monopoly and financialization.

The Ministry of Land and Resources has started to establish “a fast iron ore mining right examination and approval channel”.

Naturally, iron ore supply security needs to be guaranteed by the market. In recent years, iron ore price in China has remained high. Between January-August 2011, average iron concentrate powder price stood at RMB1,255/t. Due to overall changes in the market, iron ore price started to fall to RMB964/t in September. In early November, average iron concentrate powder price (including taxes) was stabilized at around RMB1,000/t.

High mineral prices have brought huge profit to mines. From January to November 2011, iron ore enterprises above the designated size saw their added values up by 20.2% y-o-y, 8.2% higher than average annual growth in China. Cumulative sales revenues reached RMB705.07 billion, up by 40.17% y-o-y. Gross profit stood at RMB85.23 billion, up by 52.4% y-o-y. Under such a situation, capitals of various sources were enthusiastic about iron ore development. In 2011, fixed asset investment in China’s ferrous metal ore mining and dressing industry grew fast, amounting to a total of over RMB125 billion, up by 19.5% over the previous year. Thanks to the wealth pooling effect in the iron ore mining and dressing industry, fixed asset investment in the industry will continue to grow fast in the next few years. Raw ore production and dressing capacities will also further increase.
III. Iron Ore Supply and Demand Analysis

1. China’s iron ore output continued to grow fast in 2011, and China’s mines increased their share in domestic iron ore consumption.

In 2011, China’s iron ore raw mineral output reaches a new record high, hitting 1.327 billion tons, up by 23.8% over the previous year. Calculated by a milling grade of 30% and an ore dressing recovery rate of 77.5%, this could form 506 million tons of finished ore with a grade of 61% (the average grade of imported ore). China imported 686 million tons of iron ore, up by 10.8% over the previous year. Port overstock amounted to 97 million tons, up by 25.5 million tons y-o-y. Throughout 2011, 1.095 billion tons of iron ore was consumed, up by 14.4% over the previous year. Domestic mines accounted for 46.2% of the gross consumption, up by 3.6% y-o-y.
2. China’s imported iron ore increased in both quantity and price in 2011, but experienced a price fall in Q4.

- In 2010, China imported 619 million tons of iron ore, down by 1.4% over the previous year. However, average CIF stood at $128.38/t, up by 60.7% over the previous year.
- In 2011, China’s imported iron ore amounted to 686 million tons, up by 10.93%. Average CIF reached $163.84/t, up by 27.6% y-o-y. What is worth noting is that both monthly imports of 68.97 million tons and monthly average CIF of $175.93/t reached a record high in the year. Due to rising prices, Chinese enterprises paid an extra of $24.76 billion from January to November, 1.85 times of the gross profits of China’s medium- and large-sized iron and steel enterprises during the same period.
- China’s iron ore import sources have been obviously diversified. Source countries from which China imports iron ore rose from 48 at the beginning of the year to 65 at the end of the year. Imported iron ore from Australia, Brazil, India and South Africa accounted for 80% of China’s gross annual iron ore import, basically the same with the previous year.
- In 2011Q4, there was a big fall in the price of imported iron ore. In November and December, the average price of imported iron ore stood at around $160/t, down by 10% from the peak level of $176/t in September.
3. Supply shortage in China’s iron ore market has been eased.
   • In 2011, there was a rather ample supply of iron ore resources in China. In terms of supply and demand balance, iron ore resource supply was only in shortage in February, April and May, while oversupply remained in the rest of the year. Throughout the year, cumulative supply exceeded demand by 97 million tons of finished ore. Affected by resource and freight distribution, port layout and other factors, there was imbalanced iron ore allocation among leading pig iron-producing provinces. Hebei, Shanghai, Sichuan and Inner Mongolia had a fairly ample supply of iron ore, while Shanxi and Jiangsu faced a short supply of iron ore. Liaoning and Anhui achieved a balance between iron ore supply and demand.
   • In 2010, China imported an excess of 40 million tons of iron ore, with its actual level of dependence on foreign imports standing at 61.3%, down by 2.5% y-o-y. From January to November 2011, 70 million tons of the excess of imported iron ore put China’s actual level of dependence on foreign imports at 57.4%, down by 3.9% y-o-y.
   • As of the end of December 2011, there had been an overstock of 97.15 million tons of iron ore at leading ports in China, up by 25.53 million tons, or 35.6% y-o-y.
   • The big fall in the price of imported iron ore in Q4 and the high level of iron ore inventory showed an obvious oversupply in China’s iron ore market in 2011.
4. There are still many irrational factors in iron ore demand.

- While the current demand for iron ore remains big, not all of it is effective demand. In other words, there are many irrational factors in the huge demand. The most important ones include: firstly, an apparent surplus of iron and steel production capacity; secondly, a big output of sub-quality wire rod; and thirdly, there are still considerable iron and steel exports.

- Iron and steel production capacity is obviously in surplus, and there is still a long way to go to eliminate backward production capacities. In the second half of 2011, the State explicitly ordered 31.22 million tons of backward iron smelting and production capacities be eliminated, which could reduce iron ore imports by 52 million tons. During the 2011-2012 period, 95 blast furnaces will be built, with production capacity of 133.75 million tons. Most of them are to be built by small- and medium-sized enterprises and located in the Tangshan region, of which 5.2%, i.e. 7 million of the production capacity is backward and would be likely eliminated. By the end of 2012, China’s crude steel production capacity is expected to reach 870 million tons, among which consumption demand and exports amount to 700 million tons, and the rest 170 million tons is a supply surplus.
There is a big output of sub-quality wire rod. After the financial crisis broke out, China unveiled a RMB4 trillion economic stimulus package to shore up investment. This has pushed up the demand for construction-use steel and enabled enterprises producing construction-use iron and steel to make huge profits. In the past 2 years, there has been an apparent increase in the production capacity of long products in China. In the following 2 years, hot-rolled bar production capacity will be increased by 21.5 million tons and wire rod production capacity by 20.6 million tons, both being higher than the increase in the product capacity of other hot-rolled steel products. As new capacities are put into production, there will be mounting pressure on the production capacity of long products. Worse still, there are considerable quantities of poor quality products, causing various project accidents each year. Experts estimate that by improving steel quality and eliminating quality-related waste in projects, China can save some 50 million tons of steel and reduce iron ore import by 1 billion tons each year.

By reducing steel product export, it is possible to significantly lower iron ore import. In 2010, the General Office of the State Council issued *Some Opinions on Stepping Up Energy Conservation and Emission Reduction Work and Speeding Up the Restructuring of the Iron and Steel Industry*. The Document stipulates that iron and steel product import & export policies need to meet domestic demand and help fulfill the overall goals of energy conservation, emission reduction, total pollutant control and elimination of backward production capacities in the iron and steel industry. It is necessary to continue to control the exports of heavy-polluting, energy consuming iron and steel products with low added values. In compliance with the relevant provisions of the World Trade Organization, there is a need to formulate import and export measures that promote energy conservation and emission reduction in the iron and steel industry and adjust iron and steel import and export policies accordingly. In other words, export tax rebate for some iron and steel products will be lowered or even abolished, while export tariff for some iron and steel products with low added values will be increased. If such policies are well implemented, iron and steel exports will be reduced by 20 million tons, and iron ore imports will be cut by 35 million tons.
5. **The whole iron and steel industry suffered losses in Q4 2010.**

   - As the iron ore end-user, China’s iron and steel industry only made RMB90 billion in prime operating profits in 2010, with a profit margin of only 2.9%, far below the average of all industries in the country. Because the world’s top 3 mineral supplies forcibly replaced annual agreements with quarterly pricing in an effort to shore up prices, iron ore price rose to $146/t in December from less than $90/t in January, with an annual rise of 62%. The 3 biggest iron ore suppliers made huge profits from it, leaving China’s iron and steel industry suffering losses.

   - The situation happened again in 2011. During the January-November period, 77 medium- and large-sized iron and steel enterprises in China made a cumulative gross profit of RMB85.297 billion, but their product sales margin only stood at 2.55%. Especially in the second half of the year, iron and steel enterprises met with a falling profit margin. In October and November, sales margin was only at 0.47% and 0.43%, respectively. More than one-third of the enterprises were in losses. The situation was worsened in December, and the whole industry suffered losses.

6. **Supply and demand in the iron ore market**

   - To sum up, supply shortage in China’s iron ore market has been gradually eased. The drastic fall in iron ore import price in Q4 forecast that the international iron ore price controlled by the world’s top 3 suppliers will return to a rational level.
IV. Prospect Forecast

1. China’s iron and steel industry will enter a track of high consumption and low growth.

As China basically completes the phase of heavy industrialization, change in economic growth mode, economic growth slow-down and cooling real estate development and high-speed railway construction will lead to a low growing demand for iron and steel products. Forecast shows that raw steel demand in China during the Twelfth Five-Year Plan Period will fall to 4% from 12% during the Eleventh Five-Year Plan Period. However, China currently has a raw steel production capacity of 800 million tons. As the country implements environmental protection policies and further restricts the export of heavy resource-consuming products, China’s future iron and steel production will mainly meet domestic demand, and its iron and steel product exports will fall. There will be persistent efforts to eliminate backward production capacities. During the Eleventh Five-Year Plan Period, 122.71 million tons of backward iron smelting and production capacities and 72.24 million tons of backward steel making capacities totaling were eliminated in China’s iron and steel industry, with most backward equipment to be thoroughly dismantled. During the Twelfth Five-Year Plan Period, the industry will continue to eliminate 75 million tons of backward iron smelting and production capacities and 40 million tons of backward steel making capacities. Enterprise M&As will continue to be pushed forward, leading to a greater industrial concentration. China will step up supervision work to prevent the flow of poor quality steel into the market. Pig iron output will no longer grow significantly, and steel output increases will be mainly supplemented by re-smelting of used iron and steel. In 2010, state steel utilization rate in China only stood at 14%, with merely 80 million tons reused, thus leaving a big room for improvement. Currently, China’s iron and steel industry has a profit margin of under 3%, with at least 1/3 of steel plants in losses. Low steel price forces steel plants to reduce production. It is inevitable that the demand for iron ore consumption will also slow down.
2. Forecast of China’s iron ore market in 2012

- To sum up, China’s apparent raw steel consumption in 2012 is preliminarily predicted to be 700 million tons, up by around 4%. Gross pig iron output will amount to 654 million tons, up by approximately 26 million tons. This will require an increase of 43 million tons in finished product iron ore, putting the total demand for finished iron ore to 1.182 billion tons.

- As for iron ore supply, domestic mines have developed a production capacity of 1.55 billion tons. However, production cost is relatively high, with the average marginal cost of over $95/t. The market is therefore rather sensitive to the price fluctuations of imported iron ore. If the price of imported iron ore remains at the current level ($155-160/t), China’s mines will continue to release their production capacities, with output growing at around 10%. If the price of imported iron ore rises by over 10%, domestic mines will release a large amount of their production capacities, with output up by over 15%. If the price of imported iron ore falls by 10% or more from the current level, new production capacities will be difficult to get released, and output growth will be under 5%. When all these factors are taken into account, China’s raw iron ore output is estimated to be between 1.4 billion tons and 1.55 billion tons, equivalent to 534 million — 591 million tons of finished iron ore. Because China’s iron ore market is now on a falling track and considering that half of existing port inventories will be used for consumption, the country’s demand for imported iron ore in 2012 will only be around 590-650 million tons (including imports from iron ore mines in which Chinese enterprises have equities).
3. **Mid- and long-term outlook of the iron ore market**

There will be an apparent oversupply in the international iron ore market around 2014.

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