China’s Steel Plan Puts Challenge to Australian Iron Ore Miners
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By Krystal Chia and Martin Ritchie

(Bloomberg) -- China pledged to slash its reliance on third parties for iron ore in a five-year plan for the steel industry, amid soaring prices of the raw material and a burgeoning trade dispute with top supplier Australia.

By 2025, the world’s biggest steel sector should get at least 45% of its iron inputs from sources that China controls, the Ministry of Industry and Information Technology said in a draft policy document. The proposal foresees an expanded role for China-owned mines overseas, cooperation with non-dominant suppliers, as well as greater consumption of steel scrap that’s an alternative to mined iron ore.

The proposal follows a series of comments from China’s top steel officials about over-reliance on external sources of iron ore, especially as spot prices surged to more than nine-year highs in December. China produces well over half the world’s steel, and around 70% of its iron ore imports come from just two countries, Australia and Brazil.

That could be of particular concern for Australia, which counts iron ore as its top commodity export earner and China as its biggest market. While Beijing has imposed curbs on a string of imports from Australia, iron ore has so far been unaffected, which analysts have attributed to the Asian country’s heavy reliance on Australian supply.

China has already been moving steadily to secure iron ore resources. Some of its overseas mines include Sinosteel Corp.’s Channar mine joint venture in Australia and Shougang Group Co.’s Marcona project in Peru. But the focus is on Guinea, where some of China’s biggest state-owned firms are close to getting the go-ahead to develop Simandou, the world’s largest untapped iron ore deposit.

“It’s entirely feasible that China could raise its self-sufficiency in virgin and secondary iron units to 45% from its current level of just over 30% if it successfully develops the Simandou project,” said Navigate Commodities co-founder Atilla Widnell.

To reach 45%, Simandou has to produce 200 million tons a year to displace imports from other countries, said Widnell.

Still, “it may be a stretch” to achieve that level by 2025 given geographical challenges in the area, and he estimates that with

the current pace of development, the goals will be reached by 2030.
As iron ore prices surged last year, miners including Australia’s BHP Group, Rio Tinto Group and Fortescue Metals Group Ltd. have heavily benefited, with FMG’s shares more than doubling in 2020. Even Brazil’s Vale SA -- whose supply disruptions have helped prices in recent years -- saw its stock climb almost 60% in the second half of 2020.
Rio Tinto and Fortescue declined to comment on China’s draft policy, while BHP’s spokesperson didn’t immediately respond.
In other broader goals for the steel industry, China aims for its top-five steelmakers to account for 40% of domestic output and to continue strictly enforcing a ban on building new steel plants unless approved under the country’sscheme for replacing capacity.
In recent years, the country has pressed home efforts to cut steel capacity to protect prices, which has spurred a spate of mergers and acquisitions. China is also aiming for scrap and electric-arc-furnaces to account for a greater part of steel production.

--With assistance from Alfred Cang.

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