EUROFER
The European Steel Association

Fact Sheet

Critical Raw Materials

Iron Ore

Iron ore and the European steel industry • THE FACTS

98 per cent of global iron ore production is consumed by the steel industry. About 1.6 tonnes of iron ore are needed to produce one tonne of steel via the blast furnace route. Iron ore is thus the essential raw material for steel production. Reliable, sufficient and competitively priced iron ore supplies are of vital importance for European steel makers.

Europe is the world's second largest importer of iron ore,

followed by Japan and Korea. The largest is China with 618.6 million tonnes in 2010. Europe's share of 134.4 million tonnes represents about 12.8 per cent of global iron ore imports. Apart from Sweden, there is no noteworthy domestic production of iron ore in the EU.

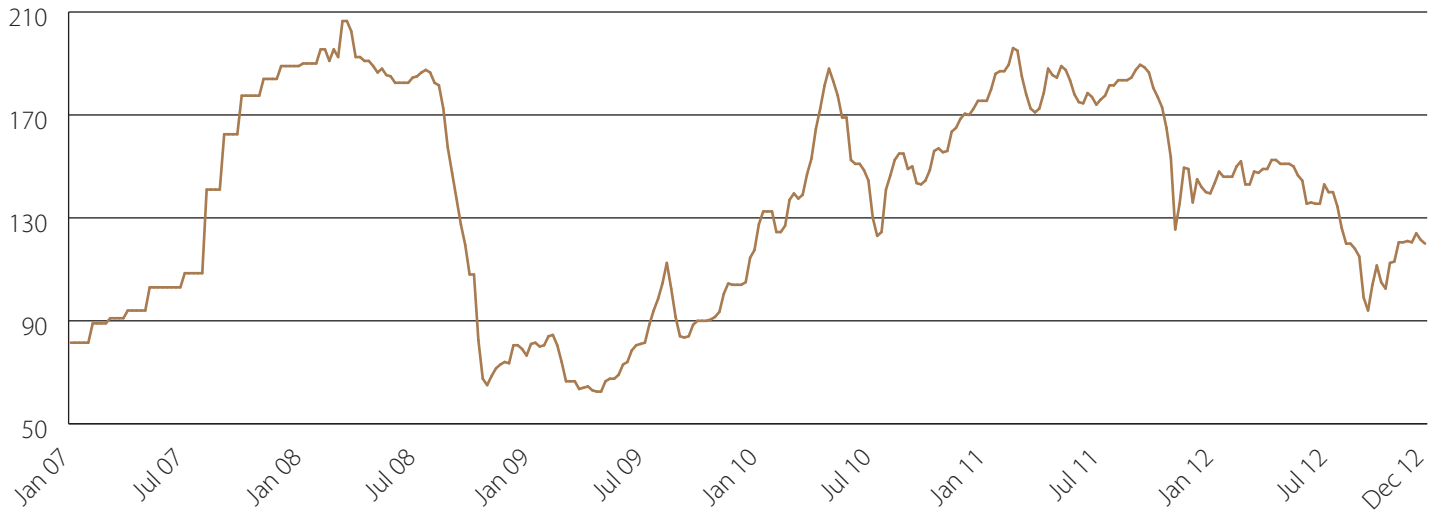
Iron ore mining production and iron ore reserves are concentrated in a small number of states outside the EU.

73 per cent of global production comes from Brazil, Australia, China and India. More than 70 per cent of global iron ore reserves are concentrated in Brazil, Australia, Russia, China and India. Brazil and Australia alone account for two thirds of global iron ore exports.

Three mining companies dominate the market for seaborne iron ore.

Vale (Brazil), BHP Billiton (Australia) and Rio Tinto (Australia) together have a market share of about 75 per cent.

Iron ore spot price, from India (63% ferrous content, cost and freight to China)



The spot price for iron ore has increased significantly

from US$ 62 per tonne in 2009 to 150 US$ per tonne in February 2012. During the third quarter of 2012, spot prices have fallen by approximately 50 US$ per tonne, due to weakening global steel market fundamentals. Costs for iron ore account for more than 30 per cent of the hot-rolled coil steel price.

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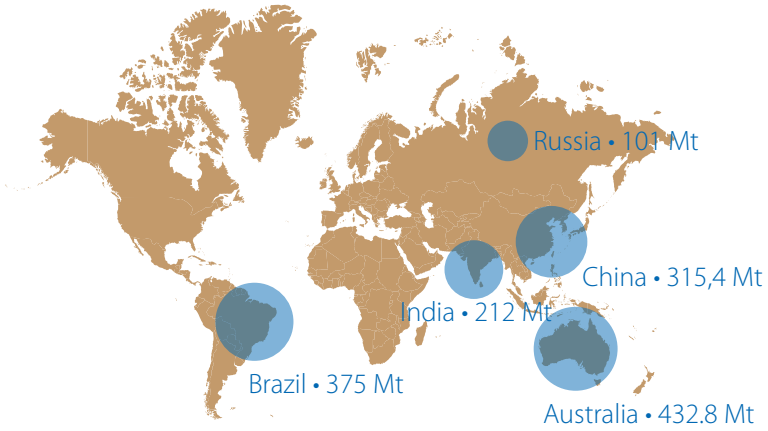
Lack of competition among suppliers.

The oligopolistic structure of the market for seaborne iron ore favours unjustified pricing and artificial supply shortages.

International price for iron ore is driven by China.

China accounts for almost 60 per cent of global iron ore imports. Chinese import prices are used as benchmark prices for the rest of the international steel industry. However, while steel demand in China is 50% up on the 2007 level, EU demand is still 20% lower than in 2007. This implies that steel buyers in the EU are reluctant to pay high prices for steel products and EU steel mills have difficulties to pass on high raw material costs to downstream users.

Iron Ore production by country, 2010



Far-reaching, structural changes on iron ore pricing.

The unfavourable supplier structure and China's enormous demand have terminated the annual benchmark pricing system that had existed for more than 40 years. It was replaced by spot market-based pricing systems. Following its introduction in 2010, contracts moved from predominantly quarterly terms to monthly periods. Rather than improving price stability and transparency, the new pricing systems resulted in high volatility and significant price increases.

China's strategic raw material policy.

The Chinese Ministry of Finance has established a special funds for overseas exploration aimed at securing the raw materials needs of Chinese companies. The funds have hitherto been used for mergers and acquisitions mainly, e.g. in Africa (Algeria, Liberia, Madagascar) and in South America (Brazil). The aim is to increase China's control over global iron ore supplies. China also raised export duties on domestic iron ore.

Global trade barriers.

Several countries, apart from China, apply export duties on iron ore, notably Argentina, India, Iran and Vietnam. Malaysia, the Philippines and Iran have also applied quantitative restrictions on iron ore exports.

Lack of support for domestic production.

While global iron ore production has almost doubled from 1990 to 2010, domestic European production has experienced a decline during this time. This although there are still unexploited reserves especially in the north of Europe.

The European steel industry is extremely dependent on imports from third countries. It is also very vulnerable to distortions taking place in the global iron ore market. With steel being the most important industrial base material, disturbances in iron ore supply and prices also affect a large number of European key industries.

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