

**GUILTY**

**Penin and Noble settle civil suit**

Rogue trader admits his part in \$38 million fraud in Swiss court: page 4

**CAUTIOUS**

**Chinese steel majors wary of output cuts**

Mills would rather earn less than lose market share: page 19

**HOTLINE**

**Southgate, Harrison will leave LN Metals**

... as ex-Sims UK md Tom Bird joins Trafigura: page 30

# Metal Bulletin

**CONFERENCE SEASON: PAGES 5, 10-13 & 20-21**

**BIR in Amsterdam**

BMRA and Voss (right) seek credit insurance solution

'Guarded optimism' in non-ferrous scrap market

Ferrous scrap unlikely to recover until 2010

**ILAFA in Ecuador**

Branco (right) plays down Ipatinga BF problems

No ArcelorMittal Tubarão BF restart before April 2010

Venezuelan HBI producers finally seal deal in the USA



**IN FOCUS**

Can Vale's Goro mine restore confidence in nickel laterite projects?: page 30

**FALLING DOWN**

CIS pig iron offers continue decline  
Thin volume and low demand to blame for latest discounts: page 18

**CONTENTS**

**Non-ferrous: page 4**  
**Scrap: page 10**  
**Iron and steel: page 15**



# Scrap and secondary

**BIR Conference** Worst of the turmoil created by the recession is over

## 'Guarded optimism' in non-ferrous scrap market

**AMSTERDAM**  
**BY JOSEPHINE MASON**

The non-ferrous scrap industry is over the worst of the turmoil created by the global economic recession, with a "guarded optimism" pervading the market, according to Robert Stein, president of the Bureau of International Recycling's non-ferrous metals division.

"The outlook is very guarded optimism. Emerging economies [still] need our product," he told delegates at the conference, adding that demand from developed economies will improve as the automotive industries recover.

Stein, who is also vp of non-ferrous marketing at Alter Trading Corp, compared the mood in the room, which he described as "full of hope", with a year ago when it was "full of distrust".

"We've seen the worst" after experiencing the most challenging market conditions in modern times, he added.

The mood and confidence of the market has also improved since the last BIR conference in Dubai in May this year, Stein said.

"The confidence to survive was questioned. We didn't know who to trust. Looking at the participants in Dubai, I wasn't sure all of us would be in business," he said. "A lot of us lost a lot of money."

While confidence has improved, the way companies do business has changed dramatically – there is more caution, with suppliers requiring financial performance guarantees from their customers and increased scrutiny as a new wave of companies arrive on the market, he said.

For all the relief to have survived so far, delegates struck a note of

caution about the sustainability of the price recovery seen so far this year.

Base metal prices have risen sharply, with copper up 95% since the start of the year, but real consumption remains lacklustre, market participants said.

"I'm not so sure the bad times are over. You have to be aware there are risks," Günter Kirchner, secretary general of the Organisation of European Aluminium Refiners and Remelters (OEA), warned delegates at the non-ferrous metal division.

The recovery in prices this year is based more on fiction than reality, according to Michael Lion, chairman and director of Sims Metal Management Asia Ltd.

"It all comes down to timing. The question is can we sustain the level of prices until the recovery takes place," he told MB.

The shortage of scrap due to low manufacturing rates is evidence of the absence of any real recovery on the ground, market participants said.

The market should not get carried away about the impact of the car scrappage scheme launched by US and European governments either, market participants told MB.

Even after the closure of FE Mottram Congleton, one of the UK's largest alloy producers, there is still surplus smelting capacity in the UK, a senior official at a UK producer told MB.

"Other than the motor industry being boosted by the cash for clunkers, there is no recovery," he said. "People have got carried away. I have no doubt that demand improved over the last two months, but that has plateaued now."

By mid 2010, conditions will have improved sufficiently for demand to outpace supply, he predicted.

In the short term, scrap traders and secondary aluminium producers have all but written off this year now and admit that the outlook is still very uncertain.

"I've got a really bad feeling," one scrap merchant told MB on the sidelines.

**AMSTERDAM**

### Cu scrap stabilises after 'ludicrous' spring market – Lion

Copper scrap prices have stabilised after the "ludicrous" market in the spring when some high grades of copper scrap traded at a premium to copper cathode, according to Michael Lion, chairman and director of Sims Metal Management Asia Ltd.

"What happened in early spring was a ludicrous situation. Mill berry was 20 cents above Comex. Cathode was half that premium," he told MB in an interview on the sidelines of the conference.

"Birch cliff was level with the LME. Now it's back the other way," he said.

"90–91% of LME is historically reasonable with copper at these levels," he said.

This represents a price of \$5,853 per tonne basis three months based on the pre-market price of \$6,503

**Lion: 'Tight scrap availability but bigger discount'**



per tonne on October 29. Based on Comex, he would expect birch cliff to trade a 28–30 cent discount.

This is a reversal of market conditions a few months ago, when the shortage of scrap due to strong demand from China and lower supply was so severe that scrap in China traded at a premium to cathode.

European copper consumers found they could not buy scrap because Chinese buyers were paying a premium to LME and were forced to buy cathode instead.

Little has changed in terms of availability of scrap since then, which suggests that levels of scrap generation are low because manufacturing has not improved.

"It's very strange. There's a

paradox. There's tight availability of scrap but a bigger discount," Lion said.

The return of the discount is largely attributable to lower demand, market participants say.

Lion noted another characteristic of the Chinese scrap market that has emerged – rather than being based on LME prices, copper scrap prices in China have increasingly been priced against Comex.

This is because of the large quantities of material exported to China from North America, but it makes more sense to revert to the LME cathode price given that prices for refined copper in China are based on LME rather than Comex, he said.

"So much scrap comes from North America. I'd like to see a move back to the LME. It's illogical [to link to Comex] because the next step up is refineries and that's LME. It's become distorted," he said.

Lion, who has been doing

business in China since the 1970s, said he has never known of so many "imponderables" that could influence the copper price.

"You can make a good story for copper at \$5,000 or \$8,000," he said, declining to make a forecast. Merrill Lynch base metals analyst Michael Widmer forecast an average copper price for 2010 of some \$7,000 per tonne.

Investing in copper as an asset class makes sense though, he said.

"I didn't believe I'd ever say this, but I've said it for the first time that if you bought copper unleveraged as an asset class, if you bought with a three-to-five year view, I haven't the slightest doubt that you'd make a lot of money," he said.

"It's the best performing asset. The reason for that is strong fundamentals," he said referring to the lack of mining investment since the 1980s and the delays to new projects and expansions as a result of the global economic crisis over the last year.

**Credit control** UK scrap industry urges credit insurers to treat them as separate category to automotive

## UK's BMRA meets Atradius to try and ease credit insurance restrictions

**AMSTERDAM**  
**BY JOSEPHINE MASON**

The UK scrap industry is negotiating with Atradius, one of the world's largest credit insurers, to try and ease restrictions on getting insurance on scrap merchants and aluminium alloy producers.

A delegation from the British Metals Recycling Assn (BMRA), including director general Ian Hetherington, met with senior officials at Atradius recently to discuss the problems of credit insurance within the scrap industry.

Confusion has reigned across the industry for the last year as to how credit insurers make their decisions on insurance – its exposure to the stricken automotive sector means it is treated with unnecessary caution, market participants complain.

The reduction or removal of cover is considered detrimental to the survival of the metals recycling industry.

"In no uncertain terms, we told them how [withdrawal of insurance on the sector] had affected the industry," Robert Voss, chairman and md of Voss International who is also chairman of the Bureau of International Recycling's (BIR) International Trade Council, said at the BIR conference. He attended the meeting.

Atradius was asked at the meeting to consider scrap merchants and aluminium alloy producers in a separate category to the automotive sector when deciding whether to insure or not. Scrap is currently listed under engineering, automotive and metal manufacturing.

The meeting was also helpful in educating Atradius about the scrap industry.

"We'll be educating them. We implored them that they treat us as a separate sector," Voss said.

And the Atradius delegation responded well to the suggestions, according to market sources



**Voss: Educating Atradius**

familiar with the matter.

"We got a good reception. They were very humble. They apologised and said they regretted it," the source said.

With discussions still at an early stage, it is not clear if it will be possible to make the changes. There will be a follow-up meeting at an unspecified date.

"Whether it's practical or will come about, I don't know.

Hopefully we'll see insurance come back and we won't suffer the trauma we've all had with insurance pulled out from under our feet," Voss said.

It could be difficult to convince credit insurers to make the changes as the majority of secondary aluminium is used by the automotive sector, market participants said. The car scrappage schemes in the USA and Europe have boosted demand for cars, but otherwise, there have been few other encouraging signs from the automotive industry.

In a bid to get around the credit insurance issue, merchants are trying to protect themselves by asking their customers for deposits, market sources said.

"We've become our own underwriters. Merchants get a deposit and don't need insurance. We're getting around the lack of

insurance by knowing our customers," a senior official at a UK scrap company said on the sidelines of the conference.

Their woes have been exacerbated by the reduction or total withdrawal of credit insurance on customers.

FE Mottram Congleton, one of the UK's largest secondary aluminium producers, shut earlier this year due in part to a lack of credit from its banks and the loss of its credit insurance, which meant many of its suppliers could no longer sell raw materials to it.

"[Credit insurers] don't take into account what we know about our customers, that we've visited our customers, that our customers might have their own insurance on their customers and that we're pretty sure they're running their company in a responsible way," the source said.

The creditworthiness of a company could in future be linked to a company's membership of the BMRA, the senior official suggested.

"The ideal would be the underwriter should say if this is a BMRA member, they're trustworthy," he said.

The insurers have defended their strategy, saying they have imposed stricter terms on cover they provide because of the risk in dealing with the stricken automotive industry, but have not pulled cover on the whole sector.

The BMRA's Hetherington did not respond to questions about the meeting, but said the association is trying to work with the credit insurers to improve their understanding of the industry.

"Our industry has been seriously disadvantaged by the treatment it has received from credit insurers and we are actively working to develop their understanding of metal recycling and trading in order to improve the situation for the future," he said.



**Outlook poor** 'A fundamental recovery is not in sight'

# Ferrous scrap prices unlikely to recover until '10, delegates agree

**AMSTERDAM**  
BY SILVIA ANTONIOLI

Ferrous scrap prices are unlikely to recover until next year, most speakers and delegates seemed to agree at the Bureau for International Recycling (BIR) meeting in Amsterdam.

"Little is expected to change in November-December," said EFR president Tom Bird. "Many operators are expecting an improvement in early 2010 but all will depend on the steel market."

Emerging economies like India and China have more cause for optimism, however, although scrap market participants even in

these regions have significant hurdles to overcome.

"After nearly two months China recently re-entered the bulk market but Korea still remains on the sidelines," said Sims Metal Management vp Blake Kelley.

The last cfr China booking was in the region of \$300 per tonne for containerised material. For bulk material Kelley estimated that prices have fallen to around \$280 on the same terms.

In Europe things are much worse. Steel production has fallen to extremely low levels and, in some cases, has fallen to levels not seen since the 1960s, according to

TSR md Markus Barg.

EU steel consumption was down 40% in the first eight months of 2009, when steelworks consumed approximately 45 million tonnes of scrap.

Interseroh director Christian Rubach agreed, saying that any pick-up in prices was the result of restocking or government stimulus packages rather than any recovery in real demand.

"Especially in Europe the circumstances are far from being good," he said. "And against what most media want to make us believe a fundamental recovery is not in sight."

**SHANGHAI**

## Chinese scrap imports rose 28% in Sep

Chinese ferrous scrap imports jumped by 28% in September to 1.3 million tonnes but the import trade has since fallen much quieter.

The latest figures bring ferrous scrap imports up to end-September to 11.2 million tonnes, nearly five times higher than the corresponding period last year.

But market participants "have almost stopped buying new material from early August," said one trader in Shanghai, predicting a fall-off in imports from October onwards.

Import prices rose to as high as \$330-\$350 per tonne cfr for scrap in July, while scrap dealers have not received any offers since August due to tightening availability from US and Japan as well as softening steel prices on the domestic market.

Shipments from US rose by 26% month-on-month to 498,986 tonnes, and but volumes from Japan slid 4% to 352,854 tonnes, according to customs data.

## TOP SCRAP IMPORTERS

|                  |                |
|------------------|----------------|
| <b>US</b>        | <b>498,985</b> |
| <b>Japan</b>     | <b>352,854</b> |
| <b>Australia</b> | <b>77,665</b>  |
| <b>Hong Kong</b> | <b>71,327</b>  |
| <b>UK</b>        | <b>58,343</b>  |

*Figures in tonnes for Sept 2009  
Source: Chinese customs*

"Japanese scrap suppliers have turned to their domestic market, as well as South Korean buyers. There were no offers in July," said a second trader.

Market participants expected scrap imports to fall in October as steel mills and traders made no new bookings during August in a weaker domestic steel market.

**AMSTERDAM**

## China's stainless scrap imports fall on inventory draw downs,

China's imports of stainless steel scrap have declined as consumers run down inventory built up earlier this year, OneSteel Recycling head of corporate development, Europe

**AMSTERDAM**

## Demand for stainless steel scrap could rebound in Q1 '10

Demand for stainless steel scrap may rebound in the first quarter of next year, Sharif Metals senior director Ahmad Sharif told the meeting.

Over the past two months demand for grade 304 and grade 430 stainless steel scrap from Indian, Korean and Chinese buyers has supported many recyclers' businesses over the past two months, he said.

Demand for grade 316 stainless steel, on the other hand, remained low due to production cutbacks, he said.

"The stainless steel market in the Middle East is no exception to the rest of the world," Sharif said. "There has been plenty of destocking lately on high LME nickel prices."

Three-month LME nickel could rise to exceed \$20,000 per tonne, Sharif said. And conference delegates agreed.

"Traders think LME nickel prices will shoot up to \$23,000-\$24,000 per tonne soon," said one.

**AMSTERDAM**

## Indian stainless scrap imports down on reduced finished products demand

Sluggish demand for stainless steel products is forcing Indian steel mills to maintain low inventory levels and buy limited quantities of stainless scrap, Anand Gupta, commercial director of Ambica Steel told delegates.

Demand for 300 series is particularly low, although 400 series is selling better due to the healthier demand from the railway sector, he said.

"India stainless steel producers witnessed some increased interest in their finished products from the EU and the USA from the beginning of Q2 2009," Gupta said.

"However, demand from Asian countries remained lagging," he added.

**Going down** European merchants stay out of market due to low prices

# Turkish mills get further discounts on ferrous scrap

**AMSTERDAM**  
BY SILVIA ANTONIOLI

Turkish mills have successfully negotiated further price declines on ferrous scrap cargoes, market participants said.

"Last sales cfr Turkey were at \$260 for HMS 1&2 and \$265 for shredded material, \$45 per tonne lower than just a month ago and domestic scrap prices have also decreased," Blake Kelly, vp of Sims Metal Management told delegates at the Bureau of International Recycling (BIR) meeting in Amsterdam.

**\$45**  
↓  
**AMOUNT SHREDDED MATERIAL CFR TURKEY HAS FALLEN IN PAST MONTH**

While US merchants sold some cargoes to Turkey at this lower level last week, most European merchants decided to stay out of the market as prices were considered too low.

But MB heard from delegates at the conference that some scrap was on offer from the EU at even lower prices in the past few days.

"I heard of a cargo of HMS 1&2 (70:30 mix) booked at \$252 cfr Turkey," one delegate said. "I heard of that booking as well, but it must be only very low volumes and is not very representative of the market."

"We would currently not be able to offer at that level. Maybe in a few weeks, if we can secure cheaper scrap," he said.

**AMSTERDAM**

## US ferrous scrap set for \$30 decline in November

US ferrous scrap prices may fall a further \$30 per tonne in November after a \$25 decline in October, delegates at the meeting in Amsterdam told MB.

Low demand and increased supply has undermined prices, both for export and the domestic market, they said.

"I expect prices to fall by \$25 per tonne in November on low demand," a US delegate told MB. "Export prices are falling even faster."

The last cargoes sold to Turkey were at \$265 per tonne cfr for shredded material and \$260 per tonne for HMS 1&2 (80:20 mix), according to Sims Metal Management vice-president Blake Kelley.

Increased buying over the past few months has been down to restocking rather than a recovery in real demand, he said. US steelmakers will also likely reduce production until the end of the year.

As a result, prices will continue to fall until supply and demand once again come into balance, he told the conference.

"This may not happen until late

December buying at earliest and more likely not until January," he said.

**LONDON**

## US demand for stainless scrap set to grow, Hunter predicts

US demand for stainless steel scrap may increase in the near future from its present low levels, Hunter Alloys president Barry Hunter told delegates.

"There are huge energy and environmental projects out there which eventually must happen and will require a great deal of stainless and nickel-bearing materials," he told the audience.

Markus Moll of Steel and Metal Market Research (SMR) estimates a 10% growth of stainless steel production in China for 2010, Hunter reported.

"This could represent 700,000 tonnes of additional requirement of stainless scrap," he said.

**700,000**  
**ADDITIONAL STAINLESS STEEL TONNAGE NEEDED IF US DEMAND GROWS**

**AMSTERDAM**

## The worst is behind us, says Klöckner's Thomas Ludwig

The worst of the crisis in the steel sector is behind us, but there are still risks, Klöckner & Co ceo Thomas Ludwig told delegates at the BIR event.

European manufacturing activity bottomed out in April and 2010 gdp forecasts now indicate a very slight recovery, Ludwig said.

However, while the construction and machinery sectors are likely to grow by the end of the year, the outlook for the automotive sector is still negative, he told the conference.

Growth in the US, EU, China, Russia and Middle East will help boost the construction industry, Ludwig continued.

An increase in ship orders in China and the rest of Southeast Asia will also buoy demand for heavy plate, according to Ludwig's projections.

Steelmakers are likely to increase production in the remainder of 2009. But real demand for steel could remain at low levels, Ludwig warned.

"It could take years for the EU to reach the same steel consumption level as in 2007," he said.

**LONDON**

## EU merchants agree lower prices on some containerised cargo

European ferrous scrap merchants have remained reluctant to offer their material in line with lower international prices, but some bookings have been made at these levels, market participants told MB.

Containerised HMS 1&2 (70:30 mix) sold for \$252 per tonne cfr main Turkish port, equivalent to \$224 per tonne fob.

This was down from \$225-\$230 per tonne fob for the same material two weeks ago.

"I heard the same, but it was only a small volume, 10,000 tonnes, not too significant I would say," one EU merchant said.

Plummeting US prices have put European merchants under pressure to reduce prices. And US merchants expect further declines in November, they said.

"I even heard the US sold 70:30 mix at \$245 cfr, but this was not confirmed," said one.

**AMSTERDAM**

## Russian government may increase export tax on ferrous scrap in November

The Russian government may ramp up export duties on ferrous scrap in November, Recycler Scrap Market's Ildar Neverov told delegates.

"There is a rumour that the Russian duty could increase by 5 times starting from next November but it is not confirmed yet," he said.

"This would obviously limit Russian exports but it is still to be seen if it will happen for real. The Russian government periodically threatens us with such measures," he told delegates.

The domestic market is seasonal, but Russian stainless scrap merchants largely rely on exports, according to Neverov.

"The stainless steel scrap industry is still export-oriented in Russia," he said.



**Proposal** New plan could undermine any future attempts by LME to establish warehouse in China

# SHFE could take copper from bonded stocks

## MB ASIAN COPPER CONFERENCE SHANGHAI

The Shanghai Futures Exchange (SHFE) may accept delivery of copper direct from pre-customs bonded warehouses in China under plans seen as bolstering its position in Asia.

Currently imported copper is held in non-SHFE warehouses at ports, sold to the spot market, or re-exported.

The SHFE's proposals would allow copper to be diverted to the SHFE's own approved domestic warehouses in China. This would reduce the risk of trading copper directly into China and undermine any future attempts by the London Metal Exchange to establish a warehouse presence in China, market participants said.

It is "very likely" the proposal will

be implemented although there is no firm timetable and regulatory approval will be needed, Chen Jisen, senior manager at the non-ferrous metals department of the SHFE, said.

"We have finished most of the research work and we're now considering the policy or regulatory changes required to introduce the new delivery structure," he told MB's 6th Asian Copper Conference in Hong Kong.

The move by the SHFE could also encourage more copper to come directly to China, rather than stopping off in LME warehouses in Singapore or South Korea.

"Most of the copper in bonded warehouses is sent by overseas companies. Under the new policy, we will have more influence over foreign investors and even attract

their attention to some extent," Chen said.

"I am convinced more traders will turn to our warehouses, rather than put their materials thousands of miles away," he added.

The policy change should also be considered against the context of the LME's desire to set up a warehouse in mainland China, market participants said.

"The SHFE is a bit concerned about that so they have to defend themselves," a physical trader in Shanghai said. "Once copper from a bonded warehouse is available for delivery, it means SHFE can draw more players into trading."

If the LME were ever allowed to establish a warehouse in Shanghai, some traders would open positions on the LME while

physically trading in Shanghai, and then the SHFE gets nothing, he added.

The new rules could actually make speculation on China's market easier, said some market participants.

"The big trading houses sometimes bring copper from overseas to China, without finding a specific buyer," one trader said.

"As long as they're optimistic about the Chinese economy, they don't care even if they have to stockpile the material for some time, but they will still have some potential risks as they still have to find a final buyer," one trader said.

"After this, they can just as easily deliver materials to the SHFE, even in a bad market," he said.

→ MB's 6th Asian Copper Conference, see page 6

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## AMSTERDAM

### Europe's OEA proposes new pricing system for aluminium alloy

The Organisation of European Aluminium Refiners and Remelters (OEA) wants to adopt a pricing system for casting alloys, general secretary Günter Kirchner said.

Kirchner announced plans for the initiative at the non-ferrous metals division of the Bureau of International Recycling (BIR) conference in Amsterdam last week, and took many delegates by surprise.

"We need a stable relationship between scrap and aluminium alloys. It's missing," he said referring to the smaller margins for alloy producers who have had in recent years to pay more for their raw material and get less for their alloy.

The initiative was prompted by requests from OEA members, which include Aleris Recycling GmbH in Germany, Austria Metall AG (Amag) Casting in Austria and Trimet Aluminium AG in Germany, and is still in the early stages. He did not give any details of how the system would work.

### Kirchner: surprise announcement on new price system



The first step is to discuss the proposal with metal merchants and then identify the appropriate specifications, the second will be to discuss it with the foundries, then the original equipment manufacturers (OEMs).

The fourth step would be to launch the pricing system in Europe, although the OEA would eventually like the system to be used globally.

He did not give any other details about the OEA's proposal, but market participants were initially sceptical given that the industry already has a terminal market in the form of the London Metal Exchange aluminium alloy and North American special aluminium alloy contracts.

"I doubt he really knows and I doubt he knows what reaction he'll get from the trade. It's certainly not something that's been discussed," said one market participant who questioned whether the BIR conference was the appropriate setting for the announcement.

→ see pages 10-13 for BIR news

## LONDON

### BIT Fondel buys majority stake in Chinese silicon plant

BIT Fondel will buy a majority stake in a silicon joint venture it will set up with Shuangjiang Westland Hydro-Power and Mineral Co, with the aim of producing 52,000 tpy of the light metal.

The two companies have signed a deal for the joint venture which will be called Westland Silicon. No financial terms or shareholder specifics were provided.

The Westland Silicon plant, which is based in Yunnan province, has production capacity of 9,000 tpy of refined grades of silicon metal and is mostly run by its own hydropower station, the company said in a statement.

"The smelter is very economical as it has its own energy supply," a company spokesman told MB.

The two parties intend to increase the plant's capacity in two stages by building a larger hydropower station and installing six 12.5 MVA furnaces, which will increase output to 52,000 tpy.