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Vale explain prices for third quarter of 2010

In statements issued in April and May, Vale announced that it had agreed, permanently or provisionally, with all its customers throughout the world - involving 100% of its contracted sales - to alter existing contracts to move to a system of index-based prices. In an environment of rapid growth, the old benchmark price system, based on annual bilateral negotiations, showed that it is not suitable for accommodating demand and supply dynamics. The new price system will smooth out the natural daily volatility on the spot market, establishing a quarterly price based on average index prices in the three-month period ending one month before the new quarter in question. As well as preserving flexibility, this system will enable steel companies to know in advance the price to be paid in the following quarter, facilitating cost control and stock management.

Accordingly, the price for the third quarter of 2010 was automatically established by calculating the average spot market prices for iron ore sold in China in March, April and May 2010. These prices are based on indices - such as the Platts, Metal Bulletin and TSI indices - that are easily accessed on a daily basis by the market, contributing to transparency.

"Our customers can choose the index or composition of indices they prefer to use. Vale is open to negotiating in line with our customers' needs," explained José Carlos Martins, the company's executive director for ferrous metals.

One of the essential characteristics of this system is its ability to recognize differences in product quality. Given that spot price indices are based on a standard iron content of 62%, while for Vale's high-grade ores the figure is as high as 66%, the new price system incorporates this additional value by means of bonus payments for ores of higher iron content.

"Iron ore prices are following market demand and supply. Vale is not fixing prices - prices are established in the market. We're merely reflecting in our contracts what is happening today in the market," said Roger Agnelli, CEO of Vale.

"Nobody disputes about prices of soybean, aluminum or copper - whoever wants to buy buys. In the long term, the price of iron ore will be fixed in the same way," said José Carlos Martins.

More information



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