

CHAPTER IV

MARKETING

Classification of Ore For Export

The iron-ore exported from Malaya is classified under the following:

- i) Magnetite. Magnetite has an iron content of about 60% to 68%. It is the highest grade iron-ore found anywhere in the world. In Malaya, however, there is little trace of magnetite and as such very little of such type of ore is being exported.
- ii) Haematite. Haematite contains an iron content of about 50% to 60%. This ore is the most common type of ore mined in Malaya.
- iii) Limonite. Limonite is the lowest grade ore of the three. It has an iron content of about 35% and although it may be found in abundance, limonite has little value.

Today, all the iron-ore exported from Malaya to Japan is mainly Haematite. In fact it is difficult to sell to Japan, practically the sole buyer of our iron-ore, one of an inferior type. As such Limonite has no market at all. Current Japanese steel mills specification, places the minimum iron content at around 58%. This has resulted in beneficiation in ores where the earth impurities are excessive. Thus every mine in Malaya has a washing plant.

The reason behind Japan's preference for high grade ones is that they reduce the cost of smelting. This has given rise to mixing of ores in Malaya. Should beneficiation prove to be insufficient to produce the required percentage, then higher percentage ore is obtained and mixed with it in order to achieve the required iron content stated in the contract.

Contract Buying and Selling

Throughout the world, iron-ore is bought on the basis of long term contracts involving bulk purchases and sales except in those cases when the iron mines are owned by the steel companies. In Malaya, contracts are under normal circumstances made and renewed annually except in the case of the larger mines. The Eastern Mining and Metals Co., Ltd. for example, have contracts which lasts a few years.

There are two reasons why iron-ore is sold by contracts.

Firstly, on the side of supply, iron miners want to be sure of a market for their product since there are, in the world, a limited number of large iron smelting concerns but many numerous small iron mining companies. Therefore, it is essential that the mines must find a definite outlet for at least a major proportion of their production.

Secondly, on the side of demand, buyers are equally concerned about having a continuous supply of their raw materials of a definite quality in relation with the demand of their plants. In fact, this has led to many steel mills involving themselves in the production of iron-ore or providing other facilities to producers such as fleets of ocean-going special purpose ore carriers. In other countries, long term bulk buying has also given rise to the establishment of central buying organizations. For example, in England, there exists the British Iron and Steel Corporation (Ore) Ltd. which handles all the imported iron-ore.

But in contract buying and selling, many problems are involved. For example, there is always the necessity to see that the producers have the intention of honouring their contracts. As contracting parties are quite distant from one another, there arises the need for representation on the part of at least one of the parties in either the importing or exporting country. Direct representation by the steel mills is not done because these mills import from a variety of countries so that direct involvement will be beyond the capabilities of existing facilities available in the import department of these mills. In Malaya, representation is made by the Japanese Trading Companies on behalf of the steel mills.

Buying in bulk by contracts can create an advantage for the buyer or seller. Where the advantage lies, however, depends greatly on the relative bargaining power of the contracting parties. If the country is the sole buyer of the commodity, then, due to its monopolist position, it will be able to dictate its own terms to a larger extent. In this respect, Japan has a greater advantage as a buying country for Malayan ore because in this part of the world, Japan is the only major importing country of iron-ore while there are many countries supplying that basic raw material.

The Nature of Prices

The buying and selling of iron-ore by contracts give rise to the fact that within the period of the stated contract, which is normally a year, the price of the iron-ore is relatively fixed. The price paid is based on a given rate for every one per cent of iron content in every ton of iron-ore. There is always a basic iron-content level set for every mine to facilitate calculation so that the total price paid will be equal to the rate for every one per cent of iron-content multiplied by the basic iron content level of that mine. However, the exact iron content level is never achieved.

In fact, it is mere co-incidence if the iron-content level in the shipment of iron-ore is exactly the same as the basic level stated in the contract. Any deviation from the agreed upon basic iron-content level in the ore will be subjected to a penalty if it is below and will enjoy a bonus if it is above.¹ Therefore, during the period of the contract, the only factors that can vary the price of per ton agreed upon are the bonus and penalties. In other words, variation from the contract iron content level is the only factor that will affect the price per ton exported from the mines during the period of the contract.

Increases and decreases of price from year to year however, can be of appreciable magnitude. This variation is basically due to changes in the supply-demand relationship between Malayan exporters and Japanese importers.

i) The existence of a Stockpile. This is one of the factors that can affect the price of iron-ore in the contract.² A large stockpile weakens the bargaining power of any mine and tends to dampen the price offered for iron-ore in a contract. In fact bargaining power is partly a function of the size of the stockpile, varying inversely with it.

ii) The Monopsonistic Buying Position of Japan. In Malaya we have a situation where the many iron mining companies are competing for the patronage of a single buyer. In fact, although Japan has many iron and steel mills buying of ore, collusion among buyers have made the market monopsonistic. This monopsonistic structure of the market is an important factor controlling the price of Malayan iron-ore. It is a feature inherent in such a market situation. There is an excess of suppliers.

iii) Japanese Involvement in Production. The third factor that has effect on price is that some of the iron and steel mills in Japan are directly involved in the production of iron-ore in Malaya. By forming joint ventures with local producers or by working the mines under contracts, Japanese iron and steel mills or their representatives have come to control part of Malaya's Production of iron-ore. Thus they have a say on the price of the iron-ore which they sell.

¹This will be explained later on in page 33, footnote 5.

²In certain years the stockpile in Malaya can be appreciably large. For instance, at the end of 1963, the stockpile stood at over 26% of total export of iron-ore from Malaya in that year.

The Method of Determining Contract Prices

Although Japan buys iron-ore from many countries of the world, the c.i.f. value of the ore in Japanese ports is almost the same no matter from which country the ore comes. In 1964, the c.i.f. price for iron-ore paid by the steel mills is U.S. 21 cents for every one per cent of iron in every dry long ton on the average. Thus, given the transport costs it is possible to determine roughly the f.o.b. value of the ore for each mine. However, the U.S. 21 cents for every one per cent of iron per dry long ton is by no means a set figure. There are factors which may cause deviation from this price.

i) Impurities in the Iron-ore. Impurities affect prices depending on the quantity and type. The lesser the amount of unwanted impurities, the higher the price. In fact, the quantity of impurities is so important that if a shipment of ore contains more than a certain maximum, Japan can refuse to accept the shipment.³ In the setting of the maximum levels for the different impurities and the amount deductible, very much depends on the terms agreed upon in the contract.

ii) The Relative Bargaining Power. This also determines the price for the iron-ore obtained. The sellers' market for this commodity is very imperfect and as such the price which any seller gets is dependent on the ability and condition of the mines to bargain with the buyer. Under such circumstances larger producers like the Eastern Mining and Metals Co., Ltd. which produces around 1/10th of total export of iron-ore in 1963 will have a better bargaining position.

iii) The Expected Life of the Mine. The expected life of the mine also has some effect on price. Owing to the fact that it is more convenient to buy from a particular mine continuously, buyers may offer slightly more favourable prices. Mines which can only produce for a limited number of years for example, will not be attractive to buyers and so can sell their ore only at a lower price.

³ A list of the more important impurities and their respective points of rejection are: Tin - 0.5%, Arsenic - 0.5%, Sulphur - 0.10%, Phosphorous - 0.10% per ton. Although these levels are not set they are the ones most commonly used.

iv) The Geographical Position of the Mine. This factor is quite distinct from the other three because it does not directly affect the c.i.f. value while the others do. This factor only changes the f.o.b. price paid to the miners. With a set c.i.f. value (after consideration has been given to the relevant above mentioned factors), the f.o.b. value will vary in an inverse manner with the distance of overseas transport. This will mean that mines which are nearer to Japan will have the benefit of lower transport costs and thus have a higher f.o.b. price. In recent years, however, although the geographical position of the mine is still important, it has lost some of its influence on f.o.b. value because of the increasing use of specially designed ore carriers which have tremendously reduced the cost of long range overseas transportation of iron-ore.

Therefore, the value per ton of iron-ore depends basically on the iron content of the ore itself but there are several factors which may cause different prices being attached to ore with the same iron content.

In Malaya, each mine accordingly have a set basic iron content level. The setting of this basic level is done after the buyer has sent an engineer out from Japan to do a survey on the quality of the ore. Once the basic level has been agreed upon, the price per ton paid to the miners will be calculated by multiplying the price (c.i.f.) per one per cent of iron content. Any divergence from the basic iron content level that has been agreed upon in every ton of the iron-ore exported, will be subjected to either a penalty or a bonus.⁴ Rates of penalty and bonus vary for individual mines but the most common rate in Malaya is a bonus of plus U.S. 30 cents for every excess of one per cent of iron content above the basic level and minus U.S. 40 cents for

⁴In this context we must remember that manganese which is a desirable element in iron-ore is given consideration. Every one per cent of manganese is always calculated as more than one per cent of iron but here again it all depends on the conditions stated in the contract.

every one per cent iron content insufficiency
in every ton.

⁵Below is an example to illustrate the pricing of iron-ore
in Malayan Mines.

c.i.f. value is U.S. 21 cents for every 1% of iron content in every
ton (after consideration has been given to impurities and the other
factors mentioned.)

Basic iron content level is 58% for the mine. Actual iron content
level is 60%.

Therefore, c.i.f. value per ton = 58×21 cents per ton
= U.S. \$12.18 = Mal. \$36.54 or \$37.00

Transport charges, Malaya to Japan transocean = Mal. \$14.00 per ton
Therefore, f.o.b. value = Mal. \$23.00 per ton based on basic
iron content level of 58%.

But actual iron content level of the ore exported is 60%. Therefore,
bonus of 2% excess.

Bonus rate = U.S. 30 cents per 1% in per ton.
Therefore 2% excess = U.S. 60 cents = Mal. \$1.80
Total f.o.b. value becomes Malayan \$23.00 plus

1.80

24.80
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Price per ton received by mine is Malayan \$24.80 per ton.