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For Further Information,
Contact: Andrew Alper
Phone: 256.721.4113
eMail: aalper@alldyne.com
Web Site: <http://www.alldyne.com>

Beijing Plans Limitations on Metals Industry

22 December 2005 – *Bloomberg* – Beijing -- China will rein in uncontrolled growth of the metals industry and slow energy demand by halting investment in new aluminum projects and small copper smelters.

The government will also veto investment in new mines and smelters for tungsten, molybdenum, tin, antimony and so-called rare earths, its top planning agency said Wednesday. The ban still allows spending to modernize smelters and reduce pollution, the National Development and Reform Commission said.

Premier Wen Jiabao is trying to cool excessive investment in aluminum, steel and other industries, which has driven up raw material prices, increased pollution and spurred inflation in the world's fastest-growing major economy. China makes a third of the world's steel and is the biggest producer of aluminum.

"After the rapid expansion of aluminum capacity in the past two years, the state now wants to curb investment in copper," said Ren Yunhe, copper analyst at Shenyin Wanguo Research and Consulting in Shanghai.

The mainland's spending on factories, roads and other fixed assets rose 29 percent in November, the fastest pace this year, suggesting Wen's efforts to slow investment may not be having the desired effect so far.

"Irrational investment since 2003 has resulted in excessive capacity," Liu Zhi, industrial policy director with the commission, said in Beijing. China's economy, Asia's second-largest, may be 17 percent larger and growing even faster than previous estimates, according to a government report Tuesday. The economy expanded by more than 9 percent in the past nine quarters.



The measures outlined Wednesday are regulations intended to guide development of the economy. The classification of industries as to whether they should be "encouraged," "restricted" or "eliminated" will be revised every year. Industries that have caused environmental damage or have been wasteful with energy, such as power generators smaller than 50,000 kilowatts and oil refining units smaller than one million tonnes, will be shut down in the coming year.

By 2010, the mainland wants to have two major steelmakers each with a capacity of more than 30 million tonnes a year and a few producers of 10 million tonnes per year each. The measures specified that no investment would be allowed in new copper smelters with a capacity of less than 100,000 tonnes a year.

China currently has 18 copper smelting projects, planned or being built, which will raise capacity to 3.7 million tonnes by the end of 2007 from 1.6 million tonnes in 2004, the commission said in October. The nation's investment in copper smelting almost doubled in 2004, it said.

Aluminum output capacity will reach 10.3 million tonnes this year, and exceed demand by 2.6 million tonnes, according to Liu.

The metals and mining industries will account for about 15 percent of the country's estimated coal demand of 2.15 billion tonnes this year, according to the China Economic Information Network, an affiliate of the commission.

Still, the government will encourage exploration and development of mines for resources such as copper, aluminum, lead, zinc and nickel, it said. Loans and tax breaks will be available.

For the steel industry, rising output has spurred record prices for iron ore and coal this year, and falling prices for steel. . From next year, China will start closing steel blast furnaces of less than 300 cubic meters and steelmaking converters and electric arc furnaces less than 20 tonnes, he said.

The mainland's steel production capacity has risen 12 percent this year to 470 million tonnes and 150 million tonnes more are either planned or being built. That compares with steel consumption this year of about 300 million tonnes.

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