



Domestic copper smelters sign contracts at 66% higher rates

Deal struck by Hindalco and Sterlite with Freeport may push up copper prices

Shubhashish, Mumbai

Amid plummeting demand for copper globally, the two major domestic copper smelting firms, Hindalco Industries Ltd and Sterlite Industries Ltd, have signed treatment and refining contracts with a competitor of BHP Billiton at 66% higher rates over the previous year.

Hindalco and Sterlite signed treatment charges (TC) and refining charges (RC) contracts with PT Freeport, Indonesia, a subsidiary of Freeport McMoRan Copper & Gold, Inc, though the company officials declined to divulge the quantities involved.

Mined, or concentrated, copper is treated and refined at smelters to obtain finished copper.

Hindalco is the largest copper smelter in India with a capacity of 5 lakh tonne per annum while Sterlite has a smelting capacity of 4 lakh tonne, and the development may put upward pressure on prices if future contracts continue to be struck on similar rates.

A Hindalco official, on the condition of anonymity, said, "BHP signed contracts with Chinese smelters at \$75 a tonne and 7.5 cents a pound and this has become the



benchmark for the entire industry."

This is above the rates of \$45 a tonne and 4.5 cents a pound prevailing last year.

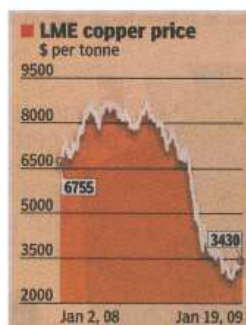
"We too have signed contract with Freeport equal to what the Chinese firms signed with BHP, he said, adding that BHP Billiton will sign contracts with Hindalco at the same rate later this month.

A Sterlite Industries official said, "\$75 a tonne and 7.5 cents a pound is now a benchmark and we have signed contracts with Freeport and continue to do so with others on these rates."

However, others are not seeing the market so buoyant.

An official from Jhagadia Copper, a Gujarat-based smelter, said, "We don't expect prices for us to increase, but will remain flat as last year."

He said that the demand has been low and will continue to be low, and contract prices will not see an upside.



Jhagadia, which has annual capacity of 70,000 tonnes, supplies copper to BHP, but did not divulge the contract prices.

Raghavan Sundararajan, research analyst with Kotak Commodity Services, said, "Unexpectedly, the contracts signed between Chinese firms and BHP are at higher prices. We were expecting contracts at similar rates as last year because the demand for copper has been on the downside. This increase in prices for TC/RC is unjustified as a lot of smelters have resorted to production cuts due to low demand." He said, "This will definitely have an impact on the prices of finished copper and we will see higher copper prices as the cost of production will increase significantly."

The Hindalco official said that Japan has signed contracts to supply three lakh tonne of copper, China has signed for two lakh tonne and India is expected to supply 2.5 to 3 lakh tonne of copper this year.

But, TC/RC prices are fixed depending on the quantity of the concentrated copper being mined. Of the mined copper, only a third is refined into finished copper.

The Sterlite official said, "TC/RC rates last year were low due to lower supply of concentrated copper as various mines were shut down for different reasons. This year, the concentrate copper production will be higher and that is why the contracts are being signed with an upside of 66%."