

Mining and energy fuel relationship

Whether it is mining for today or energy for tomorrow, these essential sectors are bringing China and Brazil ever closer

Development and planning strategies for mining and energy in a growing economy sometimes cause local concern. As Brazil still has industrial growth ahead, the discussions intensify.

But the debate sometimes overlooks the real benefits the sectors bring to the Brazilian economy and its largest trading partner China.

No industrializing nation in today's globalized economy can be an economic island, simply reaping the benefits of exporting vast quantities of commodities to their trading partners.

Brazil, like many other nations before it, is learning that lesson and is showing signs of working together with its trading partners in energy and mining.

In iron ore, steel, oil and clean energy, Brazil and China share many common interests, and the new relationship will be prosperous for both economies.

With more than 19 billion tons in proven reserves of high density iron ore, Brazil is the world's largest provider of this valuable commodity. Iron ore has also traditionally been Brazil's largest export to China, contributing more than 22 percent of aggregate total by the end of 2010.

In fact "Brazil could move four or five places up the world's largest economy rankings in a short time due to our mineral wealth, in particular due to our reserves of iron ore", said Minister for Mines and Energy Edison Lobão.

The Brazilian company Vale is the world's largest iron ore producer. Its figures show sustainable and

increasing demand for the product and Brazil's other mineral resources.

Vale's second quarter earnings this year increased more than 70 percent over the same period in 2010 mainly due to growing Chinese demand.

China's five-year plan for 2011-2015 is set to drive the need for commodities including iron ore, copper and coal even further — and Brazilian companies are equipped to supply their needs.

The housing plan for China to construct 36 million units and the resulting urbanization will also fuel even greater demands.

Exports

Brazil's iron ore exports in 2010 totaled 370 million tons, an increase of 119 percent over the previous year. They generated almost \$29 billion in revenue, accounted for 82 percent of mineral exports and almost 15 percent of the nation's total exports.

Further significant increases in exports of iron ore, copper, zinc and aluminum are expected by the end of 2011.

Such growth has led mining giant Vale to invest \$2.9 billion to develop the Ponta de Madeira terminal in northern Brazil, paving the way for an exponential rise in exports.

Energy is also a key area defining the relationship between Brazil and China.

During President Dilma Rousseff's visit to China in April, Brazil's State-controlled oil firm Petrobras signed cooperation accords with China's State-owned Sinopec and Sinochem Corp.

NUMBERS

19

billion tons

Brazil's proven reserves of high density iron ore, the most in the world

36

million units

in new housing under China's current five-year plan expected to drive even greater demand for commodities

51

percent

of motor vehicles on Brazil's roads run on biofuel

10

years

the period when demand for ethanol is expected to almost double



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EDISON LOBÃO
BRAZILIAN MINISTER FOR MINES AND ENERGY

The agreements will facilitate strategic cooperation in oil and gas exploration and production in Brazil and further afield.

It is not the first time Petrobras has collaborated with Chinese companies in its future business strategy.

In 2009 it secured a \$10 billion loan from China Development Bank to finance the development of offshore beds in exchange for oil.

Investment

In 2010 Sinopec paid \$7.1 billion for a stake in the Brazilian operations of Spanish oil company Repsol YPF and cooperated with

Petrobras to build a 1,450-km natural gas pipeline.

In July PetroChina's Sulige gasfield — the country's largest — announced that its subsidiary BOMCO would form an oil-drilling equipment joint venture with Brazilian firms BRCP and Asperbras. Operations are expected to start in October this year.

Other areas for cooperation include energy infrastructure and renewable and clean energies — areas of importance to both Brazil and China.

Brazil's plans for thermal and

nuclear power generation over the next 20 years will also provide many areas of mutual interest and participation.

As China's economy grows and as its population continues to urbanize, it may also want to look closely at Brazil's production and use of biofuel.

Last year 51 percent of motor vehicles on Brazil's roads ran on biofuel, and the trend is expected to become mainstream.

Brazil's government recently unveiled new financing opportu-

nities and additional incentives for sugar cane ethanol production as demand is showing signs of outstripping supply.

Minister Lobão explained that the government is working with the private sector to formulate and regulate a 10-year investment plan, the period when the demand for ethanol is expected to almost double.

The increased access and availability of biofuel in Brazil is attracting high levels of investment, helping the country climb in the global rankings of foreign investment.

China crucial to Vale's growth

Editor's note: José Carlos Martins, executive director for marketing, sales and strategy at Brazilian mining firm Vale, talks about the importance of business with China.

How would you characterize the relationship between Vale and China?

Vale has had a long relationship with China. We had our first exploratory visit back in the 1970s and we were immediately struck by the potential China had to offer. When we came back to Brazil we realized that Chinese growth would be the key to our own expansion at Vale.

Clearly we still had our own expanding market in Brazil, but what we saw in China was the opportunity to service a country with a growing population of over one billion, and this was too big an opportunity to overlook.

It was then we decided that China would be a strategic target market for Vale.

As we had been steadily building a solid relationship with China, we realized in the 1990s that the time had come to have a physical presence there.

Today, Vale has a large workforce in China working on multiple projects, enjoying a working relationship with the most specialized and trained personnel in the world.

However we no longer see China as just a market, or as a client, but as a partner.

What is the importance of Vale's presence in China?

It is important to note that we are the Brazilian company with the largest presence in China.

It is also fair to say that to a certain extent that Vale is the driving force behind the relationship between the two countries.

China has become Brazil's largest trading partner and Vale handles a huge amount of this trade. Due to this we have been fundamental in China's increasing interest in Brazil and its products.

Many other companies have seen



We will continue to benefit from China's growth and China will continue to benefit from our products."

JOSÉ CARLOS MARTINS
EXECUTIVE DIRECTOR FOR
MARKETING, SALES AND STRATEGY
AT VALE

how Vale has grown because of this relationship with China and they are also beginning to take a closer look at the Chinese market.

What would you say to those who see China's growth as an economic threat?

Many of these observers would say that their economies are suffering because of China's growth.

However the suffering currently endured by many traditional post-industrial economies has nothing to do with Chinese growth.

China has been growing by its own merits and they have been doing it very efficiently.

No one should blame China for growing and offering attractive alternatives to consumers. China is not the problem; it is part of the solution.

What lessons have you learned from doing business with China?

Just as in doing business anywhere, confidence, trust, and cultural understanding are key factors.

At Vale we have taken a long-term view with China and for this reason we employ very few expatriates. We prefer to invest and show our confidence by employing a largely local labor force.

I would also add that despite being very far apart, having different political systems and speaking different languages, we are actually very similar.

What does the name Vale represent in China?

Vale is very well known in China because our products of steel and iron ore are closely linked not only with Chinese growth, but also with Chinese tradition and history.

Vale has seen tremendous development in the last 10 years. Do you think there is room for further growth?

This is a very good time for Vale as we grow in partnership with China and I believe that its economy will continue to develop.

China has also triggered regional economic growth in Asia and as these economies continue to become more urban there will be an increasing need for the materials to build the infrastructure, which means there will be a greater need for iron ore, and this is excellent for Vale.

Companies like Vale and countries like Brazil share a tremendous responsibility to continue providing the necessary resources that countries like China require to continue developing.

On many levels Brazil and Vale have never been better positioned to take advantage of these demands and we have the capacity to efficiently and cost-effectively deliver products of the highest quality.

We will continue to benefit from China's growth and China will continue to benefit from our products.

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