

IRON ORE

By William S. Kirk

The major trend in the international iron-ore industry in 2001 was consolidation, a process which began in 2000. World iron-ore production and consumption fell slightly. Brazil was the largest producer of iron ore and China the largest consumer. Iron-ore trade decreased and prices increased. Pig iron and steel production dropped.

In April, Companhia Vale do Rio Doce (CVRD) purchased Ferteco Mineração (Ferteco) SA, a Brazilian iron ore producer and pelletiser, from ThyssenKrupp Stahl AG, a German steelmaker. CVRD, based in Brazil, is the world's largest iron-ore producer. Ferteco, which produced 25 Mt of ore in 2000, owns two iron ore mines, Fábrica and Feijão and a 4.0 Mt/y pellet plant in Minas Gerais State, where CVRD's southern system iron ore mines are also located. Ferteco also owns 10.5% of the MRS Logística system, which until the purchase had been the only iron-ore-carrying railway in Brazil in which CVRD did not have a stake. The acquisition of Ferteco also gave CVRD shares in all of Brazil's pellet plants.

CVRD also made an offer for a shareholding in Caemi Mineração e Metalurgica SA (Caemi), a Brazilian non-operational holding company based in Rio de Janeiro. Caemi owned 84.8% of Mineração Brasileiras Reunidas SA (MBR) and 50% of Canadian pellet producer Quebec Cartier Mining Co. (QCM). Mitsui & Co. Ltd, a Japanese iron-ore trader, owned 40% of Caemi and in April, Mitsui announced that the company had decided to purchase the 60% of Caemi that it did not own and sell 50% of Caemi to CVRD. The European Commission (EC) anti-monopoly regulators then began an investigation to determine whether there were competition issues that could have an adverse effect on European steel producers.

A major portion of the ore imported into Europe each year comes from Brazil and

Canada, and the EC was concerned that, without the sale of QCM, the transaction would create or strengthen a dominant position in the iron-ore market. To gain acceptance by the EC, Mitsui offered to sell its 50% stake in QCM that it owned through Caemi. The EC approved the deal. The other 50% of QCM was owned by Dofasco Inc., a Canadian steelmaker that decided to sell its stake as well. As agreed, Mitsui bought Caemi and sold 50% of it to CVRD. Although Caemi will be run as a distinct joint venture, its acquisition completes the consolidation of Brazil's iron-ore industry.

CVRD also bought the 5% of MBR owned by Bethlehem Steel for US\$25 million. CVRD paid US\$4.4 million in cash and the remainder will be paid in the form of iron ore shipments to Bethlehem over a nine-month period. Caemi held 84.8% of MBR and a group of Japanese steelmakers and traders owned the remaining 10.2%.

BHP Ltd, the world's third largest iron-ore producer, merged with Billiton plc on June 29. Billiton, with major holdings in other metals, had not previously produced iron ore.

When Rio Tinto purchased North Ltd in 2000, it gained a 56.1% interest in Iron Ore Co. of Canada (IOC), Canada's largest iron ore producer. In late 2000, Rio Tinto began an effort to acquire the 18.9% of IOC owned by Labrador Iron Ore Royalty Income Fund, through its Labrador Mining Co. subsidiary. This would bring Rio Tinto's ownership in IOC to 75%. The other 25% is owned by Mitsubishi Corp. of Japan. As of April 2001, Rio Tinto had acquired 20.2% of the Labrador Iron Ore Royalty Income Fund. There has been no change in its holding since then.

There also was acquisition activity in the US, but in this case it was because financially

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troubled steel companies' wanted to sell their shares in iron-ore producing companies. Between 1997 and mid-2001, 18 domestic steel mills had filed for bankruptcy. Cleveland-Cliffs, the leading iron ore company in North America, announced that consolidation of the North American iron ore industry would lead to a more cost efficient industry and that the company intended to lead that consolidation.

Just as Bethlehem sold its share of MBR, the financially troubled company intends to sell its 70% share of Hibbing Taconite Co. Cleveland-Cliffs announced that it would like to buy Hibbing Taconite, raising its ownership share to 85%. Cleveland-Cliffs announced the planned acquisition of Algoma Steel Inc.'s 45% interest in the Tilden mine. The deal would raise Cliffs' ownership in the mine from 40% to 85%. Cliffs, in the autumn of 2000, purchased the 12.5% of the Empire mine that was owned by Wheeling-Pittsburgh Steel Corp., another steelmaker that had filed for bankruptcy protection.

National Steel Pellet Co., in Keewatin, Minnesota, was being marketed for sale by National Steel Corp., 100% owner of the facility. Minnesota Iron and Steel Co. (MIS) was seeking a US\$25 million loan guarantee from the State of Minnesota so that the company could acquire the additional financing needed to purchase National Steel Pellet Co. MIS is a company based in Minnesota that was formed with the idea that it would build and operate the first fully integrated sheet mini steel mill in the US at the former Butler mine near Nashwauk, MN, on the western end of the Mesabi iron range.

Acme Steel Inc. of Riverdale, Illinois, operating under bankruptcy protection, announced its intention to sell its 15.1% of the Wabush mine in Canada. Acme stopped financially supporting its share of the mine's cash requirements in August, which was mostly responsible for the decrease in production at Wabush.

Benefits to iron-ore producers that acquired other iron-ore producers include having more

power in price negotiations, reduction of operating costs through increased economies of scale, increased synergy because of the proximity of mines and railroads, and increased product diversification.

The economic slowdown that began in the US in 2001, and spilled into other countries, became a global economic downturn. At the end of the summer, signs were beginning to emerge that the slump in the US might be easing and that a return to moderate growth might be expected in early 2002. The terrorist attacks of September 11 and the associated disturbances inflicted a severe shock to the world economy, and their effects on the iron - ore industry were significant.

World Iron Ore Production¹ (Mt)

Country	1999	2000	2001 ^P
Australia	153.0	171.0	181.0
Brazil	189.0	209.0	209.0
Canada	34.0	35.9	27.9
Chile	7.7	8.0	8.0
China	92.2	99.9	102.0
India	70.2	76.0	79.2
Iran	12.4	12.4	12.1
Kazakhstan	9.1	14.9	14.1
Mauritania	10.4	11.5	10.3
Mexico	11.2	12.7	11.5
Russia	81.9	86.6	82.5
South Africa	29.5	33.7	34.8
Sweden	18.9	20.6	19.5
Ukraine	47.1	55.7	54.7
US	57.8	63.1	45.8
Venezuela	17.0	17.4	19.0
Other	22.3	21.9	20.6
TOTAL ²	863.0	950.0	931.0

^P Preliminary

¹ Does not include countries that produced less than 5.0 Mt; these quantities are included under 'Other'.

² May not add to totals shown because of independent rounding.

World iron-ore production in 2001 was estimated at 931 Mt, a 2% decrease from that of the previous year. The decline in US and Canadian production accounted for most of the decrease in world production; the US produced 45.8 Mt, the lowest quantity since 1986. Had the two countries produced at the same level as in 2000, world production would have risen slightly. Although iron ore production was widely distributed, occurring in about 50 countries, the bulk of world production came from just a few countries. The five largest producing countries (Brazil, Australia, China, Russia, and India), accounted for 70% of the world total. Of these, only Australia had as much as a 5% growth in production. China was the largest producer of crude ore, but because its crude ore has an Fe content of about 32%, it must be concentrated so that the Fe content is 60% or more. Therefore, its usable ore production ranked well below that of both Brazil and Australia.

World Iron Ore Exports¹ (Mt)

Country	1999	2000	2001 ^P
Australia	146.0	165.0	164.0
Brazil	140.0	160.0	156.0
Canada	26.9	26.5	22.0
Chile	6.3	6.4	6.0
ex-USSR	24.6	27.6	23.7
India	31.0	32.9	37.3
Mauritania	11.0	11.1	10.1
Sweden	13.9	16.0	13.7
South Africa	21.1	21.4	23.5
US	6.1	6.1	5.6
Venezuela	6.6	6.9	6.9
Other	7.2	6.3	5.6
TOTAL ²	441	487	474

^P Preliminary

¹ Does not include countries that exported less than 5.0 Mt; these quantities are included under 'Other'.

² May not add to totals shown because of independent rounding.

World iron-ore consumption fell slightly. On a global basis, iron ore consumption is not measured directly, but there are indicators that clearly show whether consumption rose or fell. These are the production of pig iron, direct reduced iron (DRI), and crude steel, and imports of iron ore. Pig iron and DRI production are direct indicators of iron-ore consumption. Crude steel production is less direct because a steel producing country's steel production may come partly from minimills, which use varying quantities of scrap rather than iron ore. Iron-ore imports are not a direct indicator of iron-ore consumption in any country that produces iron ore, but if there is reason to believe that a company's ore production is static, imports can be a strong indicator of consumption.

World consumption of iron ore decreased as the result of declines in pig-iron production. The reductions in pig-iron production in North America (-11.5%), and Europe (-5.2%), were partly offset by increases in Asia (5.2%) and the CIS (1.3%). World pig-iron production at 577 Mt dropped by 0.1%. Either Japan or China has been the largest pig-iron producing country since 1992 and probably as far back as 1980, with Japan being the larger by far in that year. In terms of shares of world production of pig iron in 1980, Japan had 17.2% compared with China's 7.5%. Their positions relative to each other changed in 1992 when Japan had 14.7% and China 15.2%. Their 2001 shares were 25.2% for China and 13.7% for Japan. In terms of quantity, however, Japan's output has changed little, falling from 87.0 Mt in 1980 to 78.8 Mt in 2001, a decline of 9.4%, while China's output rose from 38.0 Mt to 145 Mt, an increase of 282.4%.

World crude-steel production fell by 0.9%. Among steelmaking countries in which 15 Mt or more were produced in 2001, China had the largest gain at 12.6% and the US had the largest loss at 11.5%, followed by Canada at 9.0%. China has been the world's largest steel-producing country for the past six years and its share of world steel production rose

during that period from 13.5% to 17.1%, having grown by 41.5% while world production grew by 11.9%. World production from 1990 through 2001 rose from 770 Mt to 839 Mt.

Australia and Brazil continued to increase their domination of the global export market, with 67.5% of the total in 2001. In decreasing order of market share, Australia held 34.6%, Brazil 32.8%, India 7.9%, and South Africa 5.0%. No other exporting country had as much as 5%.

World Iron Ore Imports¹ (Mt)

Country	1999	2000	2001 ^P
Austria	4.3	5.5	5
Belgium/Lux	12.1	11.6	9.8
Canada	7.3	6.5	5.9
China	55.3	70	92.3
Czech Republic	5.4	6.9	5.4
France	20.2	19.7	16.7
Germany	39.2	47.6	40.1
Italy	15.6	17.6	15.8
Japan	434.0	485.0	475.0
Korea, Republic of	35.5	39	46.5
Netherlands	7.9	8.9	6.3
Poland	7.3	9.3	9.0
Spain	6.3	6.3	6.6
Taiwan	13.3	14.9	15.6
US	14.3	15.7	10.7
UK	17	16.7	15.4
Other	52.4	57.0	47.7
TOTAL ²	434	485	475

^P Preliminary

¹ Does not include countries that imported less than 5.0 Mt; these quantities are included under 'Other'.

² May not add to totals shown because of independent rounding.

Europe and Asia have long been the dominant iron-ore importing regions. From 1980 through 2001, their combined share of world imports averaged 91.1% and was never lower than 89%. In 1980, Europe accounted for 50.5% of world imports and Asia accounted for 40.4%. That pattern began to change in the late 1980s and, in 1991, Asia's share reached 47.7% while Europe's share was 44.3%. In 2001, 60.1% of world imports went to Asia, while 31.6% went to Europe.

In 2001, European imports fell by 13.5% and North America's fell by 25.2%, while Asian imports rose by 9.1%. Japan continued to be the largest importing nation, with 26.6% of total world imports, followed by China and Korea. These three countries accounted for 55.8% of world iron-ore imports in 2001.

Iron-ore prices increased slightly in 2001 after an increase in 2000. The price of fine ores from Broken Hill Pty Co. Ltd (BHP) and Hamersley Iron Ore Pty. Ltd sold to Japan was US\$28.98 per long ton of contained iron, a 4.3% increase. On the same basis, the price for lump ore from BHP and Hamersley was settled at US\$38.03. The price of Carajás fines sold in Europe was US\$30.03/t of contained iron, an increase of 4.3%. The price of eastern Canadian pellets rose by 7.3% to US\$51.53.

Australia

BHP announced it had signed a Letter of Intent (LOI) with Pohang Iron & Steel Co. Ltd (POSCO), of South Korea, to enter into a joint venture for the development and operation of an iron-ore mine at Mining Area C (MAC) in the central Pilbara, Western Australia. The LOI covered a defined resource sub-lease, known as C Deposit, which reportedly contains a proven reserve of 200 Mt on the northern flank of the MAC area. Under the terms of the LOI, BHP and POSCO were to undertake a feasibility study for the development of C Deposit to examine the nature of the development and determine the level of capital expenditure associated with mine construction as well as supporting rail and port infrastructure. Full-scale mining was expected to commence in 2003.

BHP Billiton planned to expand its Yandi lump ore production to 4 Mt/y in mid-2002 from the 2001 rate of 1 Mt/y.

Rio Tinto announced that its 100%-owned subsidiary, Hamersley Iron Ore Pty Ltd, had reached agreement with Shanghai Baosteel Group Corp., the largest steelmaker in China, to form an unincorporated joint venture iron-ore operation in Western Australia. Under the agreement, Hamersley will supply Baosteel with 200 Mt/y of ore over the 20-year life of the joint venture. Hamersley will hold a 54% equity share, with the remaining 46% held by Baosteel. The initial capital outlay will be US\$64 million to develop a new mine, 10 km east of the Paraburdoo mine in the Pilbara region.

Hamersley and the Robe River joint venture partners have agreed to share rail infrastructure in the Pilbara region of Western Australia. In 2000, Rio Tinto purchased North Ltd, which owned the majority of Robe River. Hamersley is a wholly-owned subsidiary of Rio Tinto; Robe River has remained an independent iron ore miner in the joint venture between Rio Tinto (53%), Mitsui & Co. (33%), Nippon Steel Corp. (10.5%) and Sumitomo Metal Industries (3.5%). One of Robe River's assets was the West Angelas deposit, which Robe River planned to develop. Part of the plan was a 340 km railway from the deposit to Robe River's port at Cape Lambert. After the purchase Rio Tinto announced its intention to build a 60 km rail link from its railway to the West Angelas deposit rather than the 340 km line. Robe River's Japanese participants pressed to have the longer railway built, but eventually agreed to the construction of the shorter link.

Brazil

CVRD was investing US\$15.4 million in building a new pier at the port of Ponta de Madeira, raising its capacity to 56 Mt/y; an additional US\$27 million was to be spent to expand stockyard facilities. This includes the construction of a new pier (No. 3) that will be capable of handling vessels of as much as 200,000 deadweight tons (dwt). CVRD also

was expanding mining and beneficiation facilities at Carajás. This follows the development of a new deposit, N5E, and will raise Carajás production by 30%. Improvements include a third in-pit crusher, power increases for conveyors, and an expansion in screening capacity. These expansions are necessary both to provide feed to the 6 Mt/y pelletising plant being built at the port and to handle its output. The plant was expected to begin production in June of 2002.

Electrical consumption in Brazil is growing at an annual rate of 4.8%, and new generating capacity will be needed to avoid power disruption. However, the combination of droughts, the faltering restructuring of the Brazilian electricity-generating sector, and the incomplete privatisation of federal/state-owned power generation equipment raise the spectre that Brazilian electrical-power supplies may become unreliable in the future. Energy prices rose 27% in Brazil in 2000. In fact, the situation during 2001 was such that CVRD hired 55 large generators to maintain iron-ore production because Brazil was rationing power. The generators were installed at the company's iron-ore mines in Minas Gerais, including recently acquired Ferteco, and at the port of Tubarão in Espírito Santo. The Carajás mine and railway and the port of São Luis (Ponta de Madeira) did not require generators because the power cuts were not in force in northern Brazil.

Because CVRD's operations consume so much electrical power, some 4% of Brazil's output, the company has embarked on a major investment programme to achieve at least partial self-sufficiency in the area to keep its operating costs down. Towards that end, CVRD was involved in a number of projects. The company earmarked US\$177 million for 2001 and US\$1.1 billion over the next five years for hydroelectric energy-generating facilities. The company was involved in eight hydroelectric power plant projects. Additionally, CVRD was analysing two thermo-electricity projects. The decision to go ahead with these will depend on natural gas price levels.

CVRD was in the process of divesting its iron-ore transporting subsidiary, Docenave. As of October 2001, six of the fleet of 15 had been sold. The company stated that, as shipping was a highly competitive business, there was no longer an economic advantage in possessing its own fleet.

CVRD signed an agreement with Shanghai Baosteel Group Corp., China's largest steelmaker, to form a 50-50 joint venture company named Baovale Mineracao SA, which will develop an 8 Mt/y iron-ore mine at Agua Limpa at Santa Barbara in Minas Gerais. The agreement calls for Baovale to supply 6 Mt/y to Baosteel for 20 years. The deal represents estimated revenue for CVRD of US\$2 billion over the 20-year period. CVRD also believes that the agreement may open further opportunities, in particular the possibility of purchasing Chinese coal using the ships that deliver the iron ore.

CVRD spent US\$3 million to increase the capacity of the Gongo Soco mine, formerly owned by Socoimex, from 7 Mt/y to 8.4 Mt/y.

Ferteco was in the early stages of ordering equipment for a second pellet plant. However, plans for a new plant were put on hold pending a review by Ferteco's new owner, CVRD.

MBR was expanding its capacity to produce and ship ore. The company was expanding the production capacities of the Tamanduá and Capitão de Mato mines, which will replace the Aguas Claras and Mutuca mines. At Capitão de Mato, MBR was installing a new crushing plant, and at Vargem Grande, a new beneficiation plant. The first line in the beneficiation plant was completed in 2001. This line was processing ore from the Capitão de Mato mine. The second line, to be completed in 2002/03, will process ore from the Tamanduá mine. Each line will have a production capacity of 8 Mt/y of ore. One reason for having two lines is that ore from the two mines have different mineralogy. The completion of the second line will increase MBR's beneficiation capacity to 32 Mt/y. The company would then have three beneficiation centres, one

at Vargem Grande, close to the Andaime terminal, and the others at Pico and Mutuca.

The new beneficiation plant was located at Vargem Grande because it was one of the few flat areas in the mountainous region and was close to the Andaime rail terminal. The beneficiation centre will have a conveyor system connecting it to the terminal. MBR is part owner of, and has invested more than US\$70 million in, the MRS Logistica railway that moves the company's iron ore to MBR's port on Guaiaba Island. The railway increased its capacity from 45 Mt/y to 67 Mt/y in 2000 and was expected to reach about 80 Mt/y in 2001. At MBR's port on Guaiaba Island, a new rail car dumper and a third stacker are being added at a cost of US\$30 million, which would raise the capacity from the current 28 Mt/y to 32 Mt/y.

Canada

The three eastern Canada iron ore producers, IOC, QCM and Wabush mines, which combined produce 99% of that country's ore, were all affected by the recent consolidations and/or steelmaker bankruptcy problems. Rio Tinto, in 2000, purchased 56% of IOC. In 2001, 50% of QCM was bought by a joint venture enterprise that has stated that it will sell its share of QCM. The other owner of QCM, has also stated that it wants to sell its 50% share. A 15% owner of Wabush was in bankruptcy protection and intends to sell its share.

IOC announced on September 28, that it was suspending the reconditioning of its pellet plant in Sept.-Iles, Quebec, because of deteriorating market conditions. The reconditioning project involved bringing back into production a plant that had been mothballed for 19 years. The plant was to have come on line in mid-2002 and to have brought the annual production for that facility to 4.5 Mt/y.

QCM resumed operations on April 30, after a 39-day period in which its workers were locked out. The lockout began in March after difficult negotiations on the revision of a labour contract.

The new four-year agreement between the United Steelworkers of America and QCM, which was to run from March 1, 2001 to February 28, 2005, brought new measures regarding work rules. Another stoppage took place in August when QCM ceased its mine and rail activities for a three week period to reduce unusually high levels of concentrates. Still another closure was planned for about four weeks beginning January 21, 2002. QCM's 50% owner, Caemi, purchased by Mitsui and CVRD, will sell QCM in order to comply with EC regulations (as described in the beginning of this article). The other 50% owner, Dofasco Inc., a Canadian steel mill, announced its intention to sell its share.

Wabush mines, the third of the three eastern Canada iron-ore miners, reduced its pellet production by about 25% for the year because two key customers stopped accepting ore. One customer, Acme Steel in the US, was in bankruptcy protection, while the other, Duferco Clabecq in Belgium, closed its blast furnace.

China

China became the world's largest steel-producing country in 1996 when it produced 2 Mt more than Japan, which had been the largest producing country. In 2001, that margin grew to 46 Mt even though Japan's production in 2001 was 4 Mt higher than in 1996. This increase in steel production is reflected by an increase in iron-ore imports. In 1999, China imported 55 Mt of ore, in 2000, 70 Mt and in 2001, 92 Mt. China's steel production capacity will continue to grow and most of that production capacity will be based on the blast furnace. Shanghai Baosteel (officially Baogang) is constructing a blast furnace that is expected to become operational in 2004/05. Although China has large iron-ore resources and domestic production is high, the Fe content of the ore is low (about 32%). A study by the State Administration for the Metallurgical Industry (Sami) concluded that China should invest further in overseas iron ore mines to raise the proportion of imports from Chinese joint-venture mines from the current 12% to 50%.

Towards this end, the Baosteel Group Corp. formed joint ventures with major iron ore producers in Australia and Brazil (described previously under Australia and Brazil). The Chinese overseas investments in iron ore prior to these were China Metallurgical Import & Export Corp.'s 40% ownership of the Channar mine in Australia and Shougang Corp.'s 100% ownership of the Marcona mine in Peru. These joint -venture agreements appear to be a part of China's strategy to secure long-term sources of iron ore.

To meet the need to handle these anticipated increased imports of iron ore, assured in part by the joint venture agreements, Baosteel constructed a large (10 Mt/y) port facility. The company completed test unloading at its new US\$210 million port on Majishan Island close to the mouth of the Yangtze River. This is the largest such project in China, but will be followed by other port upgrades in the next few years to meet soaring demand for imported iron ore. The new terminal will be capable of handling 250,000 dwt vessels, which offer considerably lower costs compared with Beilun, the port that Baosteel had been using. Beilun could handle vessels of only 150,000 dwt, was congested, and charged Baosteel for its use. Because Majishan, in its first phase, is reserved solely for Baosteel, China must increase port capacity elsewhere. One of the most important areas will be along the Yangtze River, where there are steel works hindered by the restricted shipping access offered by the river. Water depth at the mouth of the river is being deepened to allow fully loaded 100,000 dwt vessels to travel upstream, with the goal of building one or two specialised berths close to the mills.

India

Kudremukh Iron Ore Co. Ltd's (KIOCL) 30-year mining lease expired in 1999. Since then the company has operated under temporary leases. The Indian Government recommended extending the lease for 20 years, subject to approval from the supreme court. KIOCL was planning to open a new iron-ore mine and

beneficiation plant at Ongole in the Prakasam district of Andhra Pradesh. The goal of the new mine is to produce 1.5 - 2.0 Mt/y of concentrate for export. Part of the project is developing a port to handle the exports. The mine site is just 18 km from the coast.

National Mineral Development Corp. (NMDC) planned to raise its iron-ore mining capacity from the current 17 Mt/y to 30 Mt/y by 2006. Developing Bailadila's 10 and 11A deposits in Chattisgahr state will add 5 Mt/y. Another 3

Mt/y will be added at Dominalai in the Bellary Hospet district, which was expected to begin operation in 2004/05. An additional 5 Mt/y will come from the Bailadila 11B deposits, which will be developed along with deposit 14 and was expected to begin operations in 2005/06.

Iran

Gol-e-Gohar Iron Ore Co., a 51% subsidiary of National Iranian Steel Co. (Nisco), received seven bids for the construction of a US\$150-200 million 4 Mt/y pelletising plant.