Q4 2009 Earnings Call

Company Participants

- Eduardo Bartolomeo, Executive Officer Logistics, Project Mgt, Sustainability
- Fabio Barbosa, CFO
- Jose Carlos Martins, Executive Officer for Ferrous Minerals

Other Participants

- Carlos de Alba, Analyst
- Felipe Hirai, Analyst
- Ivan Fadel, Analyst
- Leonardo Correa, Analyst
- Marcos Assumpcao, Analyst
- Victoria Santaella, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to Vale's conference call to discuss 2009 results. If you do not have a copy of the relevant press release, it is available at the Company's Website at www.vale.com at the Investor link. (Operator Instructions). As a reminder, this conference is being recorded.

To access a replay, please dial 55 11 46 88 6312, access code 45838. Again, 45838. The file will also be available at the Company's Website at www.vale.com at the Investor section.

This conference call and the slide presentation are being transmitted via internet as well. You can access the Webcast by logging on to the Company's Website, www.vale.com, Investor section, or at www.prnewswire.com.br.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1995. Actual performance could differ materially from that anticipated in any forward-looking comments as a result of macroeconomic conditions, market risks, and other factors.

With us today are Mr. Fabio Barbosa, Chief Financial Officer; Mr. Jose Carlos Martins, Executive Officer for Ferrous Minerals; and Mr. Eduardo Bartolomeo, Executive Officer for Logistics, Project Management, and Sustainability.

First, Mr. Barbosa will proceed to the presentation. And after that, we will open for questions and answers.

It is now my pleasure to turn the call over to Mr. Barbosa. Please, sir, you may now begin.

Fabio Barbosa {BIO 1907620 <GO>}

Thank you. Good afternoon, ladies and gentlemen. Thank you very much for attending this conference call in which we are going to discuss our 2009 results and the perspectives for 2010.

Of course, at the outset, we should have in mind that 2009 was a special year in the sense that we observed something that we haven't observed for, let's say, several decades. It was a very unique situation that caused a unique approach and, I would say, a unique set of results, considering the previous trends that we observed in our sector and in our Company. So it was a very challenging year, but we believe that, considering the environment that we faced and the nature of our exposure to this global recession, as Vale, out of the major producers-- minerals and (inaudible) producers, was the most exposed in a global fashion, we believe that we performed in a very reasonable way.

And in 2009, our EBITDA fell to $9.2 billion, roughly, and our net earnings, as well, showed a reduction from $13 billion to $5.3 billion.

Despite what the number shows, it's important to stress that we implemented a lot of measures to cope with the recession that prevailed in 2009 and one of the few episodes of global recession in the last 100 years. And so we had to adopt several structural measures in order to reach a leaner structure and to be more efficient in the long term. Some results aren't there, but I would say that a lot of results we'll see over time as we move back to full capacity utilization, as we expect this year.

So we restructured our corporate activities, and it was a sharp reduction in the cost of the corporate center, about 10% in 2009 compared to 2008. We saved there about $40 million.

The restructuring of the nickel business is something that we managed to achieve this year, with an across-the-board cost reduction of 25%.

At the same time, we improved processes in our shared service centers with the implementation of our global presence in this function.

We are fostering innovation. In the last quarter, we asked our employees to present their ideas, and the result was about 7,000 ideas to improve operations in our Company. So it's a lot of material to work with, and we hope to deliver some results associated with that.

And also, we are working hard-- As we are a bulk-product producer, we are trying to optimize our logistics efficiency, and we have very nice results to show, as the MKBF shows there, with the increase, on average, of 22.5% in the last five years ended in 2009.

So it's a lot of structural matters that are being adopted, with the aim of getting to a much better, much more efficient cost structure in the long term.

(inaudible) observed our results in the Fourth Quarter, one cannot deny that we had some issues related to costs; some of them related to the depreciation of the exchange rates, as you may appreciate, and others one-off. And others are related to the recovery of our production to more normal levels.

On the one-off items, I would mention that the tax contingency that we (inaudible) in the Fourth Quarter-- that represented a savings of our Company in the long term of about $100 million. But we had to invest $110 million in dealing with this contingency, as we adhere to a special amnesty program here.

So we also promoted write-offs in-- related to assets like Valesul; $85 million, Barcarena thermal plant; $70 million, and Copper Cliff Deep, a project in Canada that we also associated a $35-million charge to this project.

And finally, we had a labor agreement in the end of 2009 that represented a one-off payment of $35 million to our employees, on top of the 7% nominal increase that we observed both in November and December and, also, the (inaudible) that we pay in Brazil.

So there is a set of elements that helped explain the increase in cost that we observed in the Fourth Quarter; some of one-off nature, some related to the exchange rate depreciation. But of course, we have to work hard on that. We are not happy with the result, although we made a lot of progress. Part of the costs are associated with, as I said, the resumption of normal levels of production. And we believe that we'll able to deliver better actual results as we move on during the year of 2010.

Turning to the sales, I would like to highlight the remarkable achievement of increasing our iron ore sales to China to 140 million tons, a record in our books and an example of our ability to cope with the very adverse scenario that we faced in the beginning of 2009. If you recall, we were fully exposed to a market that had reversed completely from the usual way of operating. So instead of the FOB market, we were faced with a market that were mostly operating on a C&F basis. And we were almost fully exposed to freight rates and a very volatile environment. We managed to-- Through a very pragmatic and objective marketing policy, we managed to reach a new record in sales to this very important country in our sector.

As we announced, we continue to believe that there's a very positive perspective for the sector of minerals and metals, and we, particularly in Vale, believe we have the best pipeline of projects in the industry. So in this connection, we are investing ($12.7 billion) this year, compared to $10 billion last year and $11 billion in 2007. So it's $12.9 billion (sic; see Slide Presentation). And in 2009, we also invested $12.7 billion, if we put together the acquisition.

So in total, we are talking about, in four years' time, something around $50 billion in investments, showing our commitment and our positive view about the long-term performance of the industry. So it's a very important commitment that we have, and it should continue.

We have seven new projects coming on stream in 2010. Iron ore, we have with Carajas Additional 10, but this is the only project that we'll see on the ground before 2012. Right, Martins?

Jose Carlos Martins {BIO 1715332 <GO>}

Yes.

Fabio Barbosa {BIO 1907620 <GO>}

And we have the pelletizing plant of Oman that will use our pellet feed. And in nickel, Onca Puma, the first line will start in mid of the year. Tres Valles project in Chile, with 18,000 tons of copper-- Bayovar 3.9 million tons of phosphate rock that will start out in mid of the year. And the power plants of Estreito and the steel plant of CSA, in which we have a share of 26.87%, as we invested more money last year.

So it's, again, a demonstration of our confidence in the performance of the sector.

As for Goro, I would like to inform you that we had a successful first step in the ramp-up. Our first campaign of HPAL produced 18 metric tons of nickel in MHP. It's a good start. The autoclave was-- (inaudible) impact-- there was no issue. It was a very smooth campaign. And now, we are cooling the equipment in order to allow for the start of a new campaign, a three-week campaign, in the process of ramp-up. This is a long process but, so far, is going extremely well in our view.

Coming to our perspective about the markets, we see the global demand, as we put that in the title, gaining momentum. The global manufacturing output is in a clear recovery path; of course, with the impressive lead of the emerging market economies but also with some contribution of the developed world, particularly the US and Australia-- Japan and Europe at a slower pace. So we see clearly a recovery on the ground, and this is very good news for us, as global industrial production is the main driver of demand for our materials.

The global PMI reached the highest level since June '06, as we put there, and the ratio of new orders to inventories also is showing a positive indication about the future. So we are enhancing our perspectives of future sales on a worldwide basis.

The global carbon steel output is recovering steadily, although with some discrepancies between what used to be in year 2008 and what we have now. It's slightly below the peak level observed in July '08, but it's very close. We are talking about 1.2 billion tons of steel being produced in the world. So it's a very different position from the one that we had in January '09, when we are running at the 900 million tons production rate annually. And this is a global recovery and with more speed in some countries, like China (inaudible) orders. But the fact is that the demand for raw materials increased sharply, particularly in the second half of the year.

And at the same time, what we see is a potential lower contribution of our important supply to the seaborne with India. And we show there that there's a steady decline in their share in the Chinese imports of iron ore. And this is showing what we have been planning for some time now-- that India most likely will have to address their own demand internally in the long term, considering their population and their demand potential for steel products in that country.

So what we see today is a global iron ore market that is clearly showing excess of demand and a clear supply constraint. We had operational issues in the Fourth Quarter that we were a little bit short of what we planned to sell in the market-- to the market. And we were not able to show-- to address those operational issues. But clearly, what is preventing us from selling today are our own issues, because the market is very, very strongly demanding more material than we are able to ship. And this is clearly shown by the spot prices that you can see in chart 16. So it's a very strong market with less (inaudible), in our view, by structural supply constraint.

The global stainless steel production declined in 2009 again, for the third year in a row. The last time it happened, it happened as a similar trend in the three-year period ending in 1993. So in our view, there is limited room for further decline. Actually, as we see the recovery in the developed world, although at a slower pace, we should see some additional momentum to the demand of this material that, combined with the demand from emerging market economies should provide for a stronger market for nickel in the medium to long term.

At the same time, we are producing-- We are resuming production at Sudbury. And we are operating the mines of Coleman, Garson, and Creighton. The Clarabelle mill has already back to operation. The Copper Cliff smelter is operating. The first shipment of feed to Clydach happened this month. So we are positive about the perspectives of resuming normal levels of operations in our Canadian operations sooner rather than later.

Finally, a word on our newest investment. Just yesterday night, we announced the conclusion of the negotiations with Mosaic. And with that, Vale is now-- is going to be when the deal is fully closed-- is going to be the owner of Fosfertil shares and also Bunge's upstream fertilizer assets. So this is a major investment, considering what we have in our pipeline and what we are paying for the asset. But the rationale for us allocating money to this business is literally the same that we had to invest in other minerals and metals, as the drivers are very similar. And in our case, our perception is that the rapid pickup in income growth of emerging market economies will have a very important effect on the demand for proteins and crop nutrients. So we believe that there should be, as we observed in the minerals and metals in general, a structural shift in demand for these materials. And again, in our perception, there is a limited supply of those.

There is also the impact of the increasing share of biofuels as a source of energy, considering the concerns about climate change. So this should foster further the demand for this material.

Emerging Asia and Brazil, as we put there, are the main sources of demand for fertilizers. So the strategic position that we have taken in Brazil is very important because, together with our logistics, this should allow us to grab more synergies and to be more efficient. And combine also with our other projects that we have in the Americas and other continents, this should be able to become one of the top players in this segment.

Brazil is a very solid platform for growth in this business, as we put there. Today, it has a share in the total consumption of these phosphates and potash at 9% and 15%, respectively. This should grow in ten years to 13.5% to 18%, respectively again. So it is a very promising market by itself. And we have a very good position when we combine this whole staff of projects that we are developing or we are about to implement, particularly after this transaction.

As you can see on page 23, we have the Regina project in Canada and other concessions in Canada that, combined, should allow us to reach a production of 5.2 million tons. We have Taquari-Vassouras-- of potash. Taquari-Vassouras is under production right now, but we are there. We have Carnalita, with a potential production of 1.2 million tons of potash. Neuquen, an old project that we have in our project pipeline; 1 million tons of potash as well. Rio Colorado, the project that we bought from Rio Tinto together with the Regina project, 4.35 million tons of potential production when fully implemented.

And in phosphate, we have Bayovar in two stages that should allow us to reach about 6 million tons of phosphate rock, plus Evate, a project in Mozambique that, if fully feasible, it may be able to produce up to 2 million tons of phosphate rock as well.

It's a very, very broad-based pipeline of projects that should allow us to compete in a very efficient way in this market.

So the acquisition of Bunge assets and Fosfertil is very much in line with the strategy. So it's-- The combined assets have proven and probable reserves of 1.5 billion metric tons of phosphoric rock and phosphate and production capacity of 5 million tons of phosphate rock. And with the project, Salitre, that we are able to produce about 2 million tons per year when fully implemented. That was not fully developed because the differences of point of view between shareholders in phosphate (use). So now, as we control the Company, we should be able to implement this project smoothly. And at the end of the day, we are acquiring a market share of 36% of Brazilian consumption of phosphate nutrients. So it's a very interesting transaction, and that should allow us to position Vale as one of the top players in the fertilizer business worldwide.

So we are investing in potash and phosphates, leveraging on our strong mining competencies. So we are-- Actually, this is mining business in our view, and we'll operate in the upstream. And we have no interest to go to the nitrogen set of products. Our focus will be on phosphate rock and potash, as we put there in chart 25.

So Vale has a very strong track record in operation of fertilizers, with the Taquari-Vassouras. It's something that we operate for-- an operation that we have for 18 years now. It's a very successful operation. And also, the Bayovar project that we are implementing in Peru is one of the most cost-efficient projects we have in the industry. So we are not newcomers to this business, and we understand mining business. So we believe that we are increasing Vale's exposure to this very good momentum, sponsored by the growth of the emerging market economies.

And finally, our view about the future-- where we are going to be in maybe seven to eight years' time, the idea is that we'll have-- in the production of phosphates have a solid asset at 3.3 million tons per year and total production of potash of 10.7 million tons per year. That should allow us to be one of the top players in this segment by that time.

Those are my initial comments. We would like to have your views and comments in the Q&A session. Thank you very much.

Questions And Answers

Operator

(Operator Instructions) Felipe Hirai, Bank of America Merrill Lynch.

Q - Felipe Hirai {BIO 15071781 <GO>}

I have two questions. The first one is if you could give us an update on the iron ore price negotiations and your strategy in the market going forward. One of your competitors suggested yesterday that a starting point of the negotiation should be the spot price at a 90% (inaudible) benchmark. And also, given the spot premium, I would like to know how do you expect to split your sales in the benchmark and the spot market in 2010.

And my second question, Fabio, would be on your cost side. Could you help us understand what happened to your costs in the Fourth Quarter, because they were way above what we were expecting? Is there anything on the costs that was non-recurrent that we should expect because you come down in the First Quarter? Thank you.

A - Fabio Barbosa {BIO 1907620 <GO>}

I'll ask Martins to answer the first question, and then I'll come back to your (first) question.

A - Jose Carlos Martins {BIO 1715332 <GO>}

Last year was a year of big challenge for iron ore business. The very nature of the crisis affected (inaudible) western world put Vale iron ore business in a very difficult position because our main customers stopped buying. So we immediately feel the very fact that we couldn't keep producing and shipping it because customers didn't send the vessels. And the market that was buying, which was China-- they stopped buying because the customer decided to look to buy differently instead of fulfilling their contractual obligations. So the very nature of our business, which was supported by long-term contracts, FOB sales, and benchmark pricing, was jeopardized.

So we have to respond very quickly to that. And we said we stopped shipping ore, without the customers, outside the contracts to sell in China on a spot basis. So we are already starting working in such a spot-basis scenario.

So I think we are looking long-term contracts differently now. We are completely free to work on C&F/CFR basis-- not only FOB but CFR basis. If customers don't send their vessels, we send ours. And so this means that we are prepared to work whatever of the market side is better; benchmark system or spot basis. We have no-- We said that before. We have no documents. So we are prepared to sell benchmark or spot basis, whatever will be needed.

Nowadays, it's clear that spot now is twice the price of benchmark. We are fulfilling our contractual obligations for a while. But we really expect that our customers understand that this big difference cannot be kept. Our benchmark is able to accommodate the spot market situation. We are not talking about a small market. Nowadays, spot means almost 50% of the total seaborne market. And in China, it's probably near 70% of the total Chinese iron ore market. So spot price is a reality. It's a price that has to be looked at as a market price today. So the situation is such that our customers will have to accept a different price system that takes into consideration what is going on in these huge spot markets today.

Or, if it's not possible to reach an agreement based on a fixed price for (one year) that takes into consideration these changes in the spot, the outcome probably will be that spot will be the price that we'll be (inaudible) as far as iron ore market is concerned.

So that's the scenario that we see today. And Vale is now much better prepared to work in any different scenarios that could arise from this situation. So we made our homework. We have now a big fleet of vessels. We can sell C&F. We can sell spot. We even can sell freight, if it was needed. So we have a very, very comfortable situation as far as price system, as far as the way the customers will buy from now on. We hope that customers will be willing to understand what's going on. It's a completely different situation from the past, where you have a very stable market and practically no spot market there. So as time went by, spot market was growing, and I think, today, spot market-- spot price is the market price. That's our view so far.

A - Fabio Barbosa {BIO 1907620 <GO>}

As for your second question, Felipe, I believe that you mean the cost of goods sold. Right? So what we had-- First, the depreciation of the real. This was a very important impact. It explains some $186 million of the total increase of $400 million in this item.

We have, of course, what we mentioned; the labor agreement that represented a one-off cost of $35 million. But it has a permanent increase of 7% in reais from November onwards for this item. We hired 1,000 new employees last quarter. We have with this agreement an increase in the provision for profit sharing, as we moved the salary base.

We have some important work in maintenance in order to resume operations. And it is an important part. It is scattered across the accounts. But you'll see there in materials and spare parts, maintenance costs, outsourced services. You see a lot of work done to put back in operation the operations that were previously idle.

So part of those are recurring; part of the expenses are permanent.

You also have the acquisition of-- the increasing in energy costs. That represented some 15% of the total increase in COGS in the Fourth Quarter of '09.

We had also to increase the acquisition of products from third parties. So we bought pellets from our (Espanobras) operation, which is not consolidated under US GAAP. So we put it back in operation as a result of the stronger market. And this represented part of the cost. We doubled-- We tripled the acquisition of pellets from 242,740 tons. And iron ore from third parties-- In order to cope with our clients and the very strong demand and the very strong market that we have, we doubled our acquisition from 600,000 tons to 1.2 million tons of iron ore in the same quarter. Nickel, the same. Nickel, as we have part of our operations stopped, we also increased the acquisition of products by almost 50 million.

We have some expenses related to Valesul that, once we conclude the transaction, they will no longer be there. But we bought aluminum from third parties; $22 million in the Fourth Quarter of '09.

Another element that's-- I would like to ask-- to invite Eduardo Bartolomeo to comment on that. Eduardo, are you online?

A - Eduardo Bartolomeo {BIO 15365202 <GO>}

Yes.

A - Fabio Barbosa {BIO 1907620 <GO>}

It would be the moorage costs in the operation at the ports. We had a lot of-- some operational issues that I'd like to invite Eduardo to comment. But at the end of the day, the moorage costs increased by $18 million in the Fourth Quarter, associated, of course, with the very strong market and the gap we see in the resumption of operations, particularly logistics and the strength of the market. Eduardo, could you comment on that-- on the (inaudible) issue that we had in the port?

A - Eduardo Bartolomeo {BIO 15365202 <GO>}

I think, first of all, as Martins said, we had a very, very strong and very difficult year. We started with (inaudible) face in a year, and we ended in another side. Just to have an idea, we increased 40% of our production. So it's a shift from stop and go, very, very, very fast. So it's-- We did an amazing job to get back on track. And of course, there are some backfalls on that.

So what Fabio is mentioning about, specifically, the moorage is something specifically about Tubarao port around the issue that we had to change our ship loaders in the Fourth Quarter. When you look quarter-to-quarter basis, we lost 2.5 million tons in Tubarao due to the change of the ship loaders.

It's bad news. It's non-recurrent. But it's an excellent view because we have now finished the project. So we gave the Tubarao port a new-- It's already the most efficient port we have to operate, even in the world. But it's actually a brand-new port with the five dumpers, the two ship loaders. So it's operating really well on the logistics side and is ramping up this year, as the fifth line of (inaudible) is coming on track, one of the deliveries of the project this year on the iron ore side of the mine. It's going to operate very well. So we have very good expectations about the Tubarao port.

But we could have offset that on the Ponta da Madeira port, our main port now. It's in the Sao Luis port. And we had, as Fabio mentioned before, the issues on dumpers because we had the implementation of the fourth dumper on November. That should increase a little bit of our capacity. But due to the ramping up of the maintenance problems-- very, very specific problems that we had there, we weren't able to offset the losses we made in Tubarao that were planned because we had already planned the project. So basically, those issues when we look forward, I think we're getting better shape.

Of course, historically, we have the rainy season. We had a very strong, rainy occurrence in Tubarao in November. This month in Carajas was the biggest rainfall that we ever had there.

But anyhow, we've operated very well on the mine side. We stick to our budgets. We were able to stick to our budget on the shipping side. But of course, historically, different periods of dry season and rainy season. But I think we're in very good shape for 2010.

Fabio, that's all I have to comment.

A - Fabio Barbosa {BIO 1907620 <GO>}

Okay. Thank you, Eduardo.

Operator

Carlos de Alba, Morgan Stanley.

Q - Carlos de Alba {BIO 15072819 <GO>}

The first one is-- You're trying to restart production in Sudbury to increase your volumes. Could we have a reference of how much volume you expect to be able to achieve with this strategy you have put in place? That would be my first question.

And my second question is if Martins could comment on the expectations of the Chinese steel production this year and how much that market may be imported of iron ore from the global producers. Thank you.

A - Fabio Barbosa {BIO 1907620 <GO>}

As for Sudbury, we want to resume normal operations as soon as possible. And we are working for that. And that's the idea. Of course, there are issues that we are working. But we have a very good start on the smelter and the mines. So the idea is to progressively reach normal production levels and, as I said, sooner rather than later.

Martins, do you want to comment on the second?

A - Jose Carlos Martins {BIO 1715332 <GO>}

As far as China is concerned, last year their imports grew 40% to 627 million tons of iron ore. 12 months finishing this January already moved to 640 million tons imports. Every information we have from China-- the indication is that steel production will continue to grow; not in the same pace as last year, but there will be small growth this year. So I think that iron ore imports from China will be at least 650 million tons this year; probably, going a little bit above that level.

We have a situation to seize because the spot price in China grew a lot now. Today, it's around $130 per ton. So what will be the impact of these prices on the mass production? So this information is not clear for us because, besides the high cost of local miners, you have some environmental constraints. And also, the very fact that, after importing so much ore this year, many steel mills in China that were used to using local ore are now more resilient to buy local ore again. And they are keeping their (inaudible) on imported ore.

But we don't see big changes from last year. And if some changes happen, it will be for the upside, we think.

Q - Carlos de Alba {BIO 15072819 <GO>}

Thank you.

Operator

Victoria Santaella , Santander

Q - Victoria Santaella {BIO 1521297 <GO>}

I'm sorry, Fabio, to insist a little bit, but I would like to understand, if the supply/demand situation in iron ore is so strong right now and so tight, what is going to be your marketing strategy? Are you going to give more preference or push towards spot prices or continue more on the line of referral prices, as we have seen in the past contract prices? And I guess this comes from the situation where we are seeing other competitors moving or trying to maximize average prices and average revenues. That's my first question.

And the second one is if you can comment a little bit in terms of how is the evolution of your transportation fleet. How are your costs, if there is anything to be mentioned there?

A - Jose Carlos Martins {BIO 1715332 <GO>}

Well as far as the price system, Vale always keeps its policy of selling on benchmark basis. But we believe that you cannot keep such a huge difference between spot and benchmark. So our view is, if our customers want to keep the benchmark, they have to accept something, first, closer to the level of spot today and, secondly, some changes that keeps some kind of flexibility on the pricing system because we cannot live with the difference like that. This difference raises a lot of arbitrage in the system, everybody trying to buy on a benchmark basis to sell on a spot basis. So it's really a mess to manage a situation with such a big difference between spot and benchmark. Another issue is that, today, spot is a bigger market than benchmark. More iron ore is being sold today on spot basis than on benchmark basis.

So we stick with the benchmark system, but, on the other hand, we needed to have some kind of flexibility to accommodate the situation created by this huge and very dynamic spot market. Only to give you an idea, since the crisis started, up to June last year, spot market-- spot price was below middle benchmark and attracted a lot of customers to buy in this market. Since June, the price moved to the same level to the benchmark, and it stayed there for three months at least. And from October on, last year, it started moving, spot above benchmark. So this change-- These very dynamic changes indicate us that we needed to have-- If you want to keep your benchmark, we needed to define a system that could have some kind of flexibility to cope with these variations. It's impossible to keep business as usual with this so huge difference between spot and benchmark. That's our strategy. I think I'm clear about it.

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you. Eduardo, would you like to comment on the fleet?

A - Eduardo Bartolomeo {BIO 15365202 <GO>}

Yes. Last year, I think there was a big window that was open to us about evolving the strategy to fulfill the needs of the iron ore business (about) the fleet. I think we went on and fixed a very comfortable level of freight for 2010. We acquired (17 load) ships, added to our three old ships that we had already in our fleet. We are building around 20, and we have long-term contracts for the future.

So I think we are in a very comfortable position. There's no evolution on the cost because we fixed all the costs for 2010 and forward. Of course, 2011 is going to come the owned or the long-term contracts for the big vessels. But for 2010, it was already fixed during 2009, as I said, in a window that was very good in the sense to guarantee reposition costs for the ships. I think that's basically the--

A - Jose Carlos Martins {BIO 1715332 <GO>}

I'd like to add something to what Eduardo said. Our shipping strategy has two basic points. First is to ship any ton we produce. Even if we don't have customers, we are going to ship it. Second is to keep the freight differential between Australia and Brazil to Asia as low as possible. So based on these two objectives, we are pleased to have the size which we'll have to be-- to reach this target.

Q - Victoria Santaella {BIO 1521297 <GO>}

Thank you very much, gentlemen.

Operator

Ivan Fadel, Credit Suisse.

Q - Ivan Fadel {BIO 4827533 <GO>}

I would just like some details about the subjects that were already discussed. Number one, I understood from Martins and Fabio that the spot market for iron ore is even larger than the contract prices in China. My question would be, then; What were the reasons behind Vale selling less on a C&F basis in the Fourth Quarter; 6.8 million compared to the Third Quarter. I understand it could be shipping issues, or maybe more volumes were diverted to traditional markets. But I would just like to know the reasons behind this or if we could see that number improving going forward.

And also, my next question would be if you could quantify as of today how much Vale could sell if you use the whole capacity that you have for shipping-- how much Vale could sell on a C&F basis in terms of volumes in a given year. Thank you.

A - Fabio Barbosa {BIO 1907620 <GO>}

Martins, could you address that?

A - Jose Carlos Martins {BIO 1715332 <GO>}

I think-- I'm sorry to say that the size of our fleet is confidential information. We don't release this kind of information. But what I can tell you is during this crisis we have to stop producing because we didn't have ships for our vessels-- for our ore. Customer didn't send the vessels. And so we have to stop operations because you cannot keep producing if you have no space. The best place to store iron ore or any mining product is in the mine-- is in the pit. So to take from the pit and to put somewhere is not a good solution. So we understood by that that we have to move from FOB to C&F, according to the market situation. If the customer send the vessels, we sell FOB. If they don't send, we sell C&F. So we needed to have the flexibility to work C&F and FOB according to the market situation. And as I told you before, we have three legs in this iron ore market, which is long-term contracts, FOB, and benchmark prices. And these three things work together. So if customers didn't fulfill their obligation and their LTC, it's clear that they're not sending the vessels, and, also, they are looking for a different price in the market.

So the situation we have today is not we are going to move from FOB to C&F. No. The situation we have today is we are going to sell every ton that we produce. And we will do it FOB or C&F according to the market, according to our customers. So that's the big difference. We have to stop production last year because we cannot ship. Now we are in a condition to ship, even if you have problems with customers. So I wouldn't put our strategy as moving from FOB to C&F. It's not our policy to make money in freight. Our policy is to make money in iron ore. So the ships is needed, as always, to give us this flexibility. What we are looking for is full flexibility in price, in shipping, FOB or C&F. And also, long-term contracts or completely spot is (inaudible). As we told you before, we don't have documents. And I think the crisis was-- teach us that we have to be more flexible in our policy and that we needed to have all of these windows open to use it according to the market moment. For instance, nowadays, every customers are sending the vessels because they want to get the ore at the benchmark prices. So it's a completely different situation. And Vale now is better prepared. If you needed to ship more C&F because the customers are not buying, we are in condition to do it. But what makes it possible? What makes it possible is the spot market in China. Nowadays, you have near 600 million tons of ore being sold every year in the spot market in China. So this is an opportunity for everybody that wants to ship its ore. So our main target is not to have it to constrain our production because we don't have ships. So that's the main base of our policy from now on.

Operator

Leonardo Correa, Barclays Capital.

Q - Leonardo Correa {BIO 16441222 <GO>}

Good afternoon, everyone. My first question is regarding the annual volumes outlook and the challenges you are encountering as you shift to full capacity. We've seen in the Fourth Quarter that you have some maintenance stoppages at Carajas and also at Ponta da Madeira terminal, which Eduardo has just commented on. Can you, please, comment on if these issues have been concluded? Or should we expect some impact-- negative impacts going forward in the upcoming quarters? That's the first question, please.

A - Fabio Barbosa {BIO 1907620 <GO>}

Eduardo and Martins, could you comment?

A - Jose Carlos Martins {BIO 1715332 <GO>}

Eduardo, I think you can comment, and then I'll comment later.

A - Eduardo Bartolomeo {BIO 15365202 <GO>}

Okay. On the side of the logistics, as I said before, we had-- We have to separate in two levels. First of all, is railways. They are perfectly capable for shipping whatever plan we have next year, either on MRS that's not fully operated by us nor Vitoria a Minas in Carajas. So we had even the fleet for the upgrades. That's no big issue.

Around the ports, as we mentioned before, we have good news around Tubarao; that we finished the overhaul of Tubarao. It's an incredible project that enhanced capacity also. So we are able to see the increase of production that is going to be happening, as Martins said in the beginning, around the mines. And he can comment a little bit later.

We have issues around Ponta da Madeira. The dumper-- As I said, the fourth dumper was implemented in November. It's ramping up. It's operating very well so far. This month is going very fine. And I think we are overcoming the problems. Naturally, as we do the right thing, just to do the right maintenance at the right time. And I don't believe that it will be a big issue on quarters to come.

Anyhow, so far, we are facing a tough time for mining. It's the rainy season for everybody; for the railway, for the ports, and for the mines. But it's not an issue to start fulfill our guideline to produce, from the point of view of logistics.

If Martins can add something?

A - Jose Carlos Martins {BIO 1715332 <GO>}

In the mining side, our capacity is around 25 million tons per month. Okay? And during the rainy season, this volume down to 22 million or 23 million tons and, in the dry season, goes up to 27 million or 28 million tons but, in either instance, around 25 million tons. Mining, railway, ports-- all of the system is designed for such a level and, with some-- I would say some spare capacity in the logistics side. So we believe that we can reach this level with-- to ramping up from the level we reached during the crisis was a big task for two reasons. First, we cut capacity a lot during the crisis; at least, 40% in the mining side and 80% in the pelletizing plant. So that was the size of capacity cuts during the crisis. And because we are prepared to face a long period (inaudible) left more-- you type (wwzz), all of this. It seems that the crisis was of this type. And it starts to recover fast, and we have a lot of trouble to get back to the same level. And we have some space yet to conclude-- to improve in order to get our full capacity.

But you can look at the range of 25 million tons per months as our average capacity for this year. And we expect to operate to reach this level. As soon as this rainy season finish, we expect to work in this level of production and from now on. Market is very strong. And demand is very strong. Europe is recovering faster than we expect. Also, Japan is now in the same pre-crisis level. And China is well above the pre-crisis level. So the situation for the market is even better than it was before the crisis.

So the very difficultly for us is to cope with this production recover, one side and, other, to implement the new projects that we have been developing during this period. So I think, again, the situation moved to the production side, and we need to work to improve our operations and to smooth the link between mining, railway, and port. But we are much better prepared. As Eduardo stated, we completely revamped Tubarao port. It's quite a brand-new port with five car dumpers, two big ship loaders. The same situation also in Ponta da Madeira. So we are much better prepared now to ramp up our production and to reach a stable level according to our mining capacity.

Operator

Marcos Assumpcao, Itau Securities.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

My first question is on the iron ore market. If Martins could answer what were the main reasons that pushed the spot prices up from $100 per ton in November to $130 per ton currently and, also, if he could mention some signs of the market tightness-- We have been hearing that. If he could confirm-- We have been hearing that come clients are willing to pay a provisional price in order to guarantee the volumes right now in the beginning of the year.

A - Jose Carlos Martins {BIO 1715332 <GO>}

Well as far as the strong market, mainly in China, I think manufacturers are working on it. First is, in China, you have today a very strong winter. And so this creates some problems for local ore production and also for logistics to move iron ore from ports to the mills. So this is an internal factor.

Besides that, we have two additional factors. One is that local steel production continues to grow.

And third is many steel mills that never used imported ore, after this crisis, they had access to this ore. And now their preference is for imported ore. I think the space for local ore is becoming-- is narrowing. And you can see it when you compare the spot prices for imported ore against spot prices for local ore. We already can see a difference. The customers are paying more for imported ore than local ore. So this means that there is a structure of change in the blast furnace burning in China mills. So more and more, the imported ore will take share from the local ore.

As far as provisional price, yes, we are discussing with many customers a provisional price. For instance, in pellets that we have a very low price established last year to cope with the very low demands. And now, the situation is completely different. So we are now defining provisional price with pellet customers.

And also, in case of China, 75% of our contracts in China are based on calendar year. So it means that 75% of our sales in China is now based on the new price. And we already negotiated with this customer the provisional price for this year. And I think that this huge difference from spot to the benchmark creates a good condition for establishing a provisional price when the calendar-- when the contract is based on calendar year.

Operator

Ladies and gentlemen. this concludes today's question and answer session. Mr. Barbosa, at this time, you may proceed with your closing statements, sir.

A - Fabio Barbosa {BIO 1907620 <GO>}

I'd like to first thank my colleagues, Martins and Bartolomeo, for participating at this conference call and also to say that we are at your disposal for further questions that you may have about our results and perspectives. Thank you very much for attending this conference call.

Operator

That does conclude our Vale's 2009 results conference call for today. Thank you very much for your participation, and have a good day.