Q3 2009 Earnings Call

Company Participants

- Fabio Barbosa, CFO

Other Participants

- Carlos de Alba, Analyst
- Felipe Hirai, Analyst
- Ian Bragg, Analyst
- Ivan Fadel, Analyst
- Jorge Beristain, Analyst
- Leonardo Correa, Analyst
- Marcos Assumpcao, Analyst
- Rodolfo De Angele, Analyst
- Tony Rizzuto, Analyst
- Vincent Lepine, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for standing by and welcome to Vale's conference call to discuss Third Quarter 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 investors section. At this time all participants are in a listen-only mode. Later we'll conduct a question-and-answer session. Instructions will be given at that time. (Operator Instructions).

As a reminder, this conference is being recorded. The replay will be available until November 4, 2009. To access the replay, please dial 5511-4688-6312 access code 408. The file will also be available at the Company's website at www.Vale.com at the investors section. This conference call and the slide presentation of being transmitted via Internet as well. You can access the webcast by logging onto the Company's website, www.Vale.com in the investors section, or at www.PRNewswire.com.PR.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. 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 in Rio de Janeiro is Mr. Fabio Barbosa, Chief Financial Officer. First, Mr. Barbosa will proceed to the presentation, and after that we will open for question and answers. It is now my pleasure to turn the call over to Mr. Barbosa. Sir, you may now begin.

Fabio Barbosa {BIO 1907620 <GO>}

Good morning, ladies and gentlemen. Thank you very much for attending this conference. I'd like to start our discussion today by commenting on the (actions) of our agenda. Today we are going to discuss our Third Quarter results that you saw in the release. But more than that, we are going to focus on the drivers of these results. And finally, a second item, we will discuss our view about the future and how we are preparing Vale for that.

In terms of our results in the Third Quarter, I think that the numbers speak for themselves. We have 35% growth quarter-to-quarter of shipments in iron ore and pellets. Our operating revenues grew about the same. There was an impressive recovery of our EBIT margin and our EBITDA figures. And our net earnings start below previous years. But we posted a very impressive recovery compared to the Second Quarter of '09.

This is basically the result of the global recovery, the synchronized growth that is taking place. Just now we saw the numbers for the US GDP growth. The US GDP growth in the Third Quarter annualized rate reached 3.5% against 0.7% in the Second Quarter of '09, so it's a major swing showing that the recovery around the world is taking place in a more sustainable and synchronized fashion.

And the results in our EBITDA are reflecting this perspective, with impressive growth compared to the Second Quarter of $1.3 billion or so. And as I said, this is the result of the sharp recovery of industrial production. It's a major component explaining the demand for minerals and metals.

This recovery came, as we point out, faster than we and the average analyst expected. So we have now the global industrial production in the positive territory, nearing 10% on an annualized basis. And more than that, now the effort of emerging market economies is being joined by the developed economies, so they also came to the positive territory in this last quarter.

But of course the major drivers here today and the last several months, they have been the emerging market economies. And as we put there in slide 9, they explain the very sharp recovery in prices that we observe in this crisis.

Despite the depth of the current crisis, the fact that the emerging market economies are the leaders of the recovery in the world economy today represented or allowed for a much faster recovery of aluminum, copper, and nickel prices compared to the previous episode. So this is a very important feature of the current economic situation.

And as you can see also for the future, slide 10, the ratio of new orders to inventories is pointing to a more sustainable growth moving forward.

As we also state in slide 11, the global economic recovery is likely to be sustainable due to the nature of what is taking place in the world right now. Not only the indicators that are confirming this perspective, but the very (correctivist) of more diversified growth that is taking place around the world.

In our perspective, the downside risks are diminishing. We don't see today the same degree of volatility that we observed in particular in the first half of the year.

Nowadays a sort of accommodation in the process of recovering, reaching a more normalized level in terms of growth for some countries where we had extreme growth in some cases -- particularly in the case of Singapore, for instance. There the GDP grew about 20% on an annualized basis in the Second Quarter of '09. And now we see accommodation in a different level, but clearly on a more sustainable basis and a more moderate fashion. So this is very good news for us.

I would like to point out also the Chinese performance, particularly in our iron ore, in terms of iron ore imports. This, contrary to some comments that we hear from time to time, this has nothing to do with the speculative demand or something of this sort. This is actually the result of actual growth taking place in carbon steel output, combined with a structural trend towards replacement of domestic ore by imported ore of higher quality, as we can see in the statistics.

This is not a short-term phenomenon. It is a long-term phenomenon and it's a long-term trend, and we believe that it should continue moving forward.

At the same time, another idea that has a little difference to reality is the indication that there would be some inventory accumulation as well on the steel side. What we see is that (apparent) consumption of steel has been growing steadily there in China in line with the steel output.

This has to do with the very growth in the Chinese property construction, as you can see in these two charts there on page 14. So floor space sold, floor space completed, started and developed -- all pointing to the growth direction.

So this is nothing like a speculative short-term event. It's the result of the characteristic of the Chinese recovery that this is more based today in the domestic demand and gradually bringing the contribution of exports to this trend. So this is sustainable, in our view, and should continue moving forward.

And we at Vale, at least we commented in the last-quarter results, we have been able to export this very strong performance of the Chinese market. We managed to reach our all-time high level of shipments in the Third Quarter with almost 40 million tonnes of sales to

China of iron ore and pellets. A major achievement. And we are now close to the annualized rate of 150 million tonnes of iron ore shipped into China.

The good news is that this is not limited to China, as we said before. Growth is spreading to the European Union. We see the global growth of carbon steel where we have now reached the level of about 107 million tonnes per month. And we see the impressive recovery in Europe, as well in Brazil and Japan. Japan reaching almost 80% of the pre-crisis level of production.

So as we discussed in the last quarter, we are benefiting from the unique position that Vale had to explore the upside in the market. As we had -- we suffered the most during the first half of the year with some idle capacity, and now we were able to very quickly increase our shipments in the Third Quarter, as you can see.

The same goes for stainless steel production, that this is the path to recovery. And this has been contributing to support the nickel prices as you can see there in page 20 at a higher plateau. You can visualize there that the lower level volatility that has been (prepared) in this market.

Now how do we see the future? We continue to see the future as a very promising one. We haven't changed our minds about the strength of the structural changes that are taking place, and that's why we invested in the last several years $60 billion in our Company.

So out of this total organic growth represented 60%, and we also made several accretive acquisitions during this time. So it's a very important expression of our confidence in our future.

And combined with the expanding growth, we also -- we are able in these years to be one of the top sustainable value creators according to Boston Consulting Group. As you can see there we are in the nice fourth-place there, and showing that not only the volume of investment was impressive, but also the very performance of the Company throughout the years that allowed us to reach this very honorable position there.

And of course for the basic materials industry, we are the top player there with 10 years' leadership there in terms of value creation among basic materials companies.

Well this photo of the past should not change in our view, as we are uniquely poised to explore the future growth trends of the world economy, particularly due to this element that we put there in page 25, in which we reaffirm the idea of decoupling. Meaning decoupling there -- not the disconnection between emerging market economies and the developed economies over time, but rather the different pace of growth that those economies naturally tend to have due to the maturity of their own -- of their very equipment.

So it's natural to have, as you can see there in our longer perspective, starting here in the '70s, we clearly had decoupling during the '70s that was interrupted by the debt crisis that prevented emerging market economies from growing faster. Then in the late '90s, early 2000 years, we have clearly reestablished the natural decoupling of the emerging market economies and developed economies.

And this is a benefit to the minerals and metals industry, because we are the ones that should benefit most of this trend. And based on this view, we announced our CapEx program for 2010 with $12.9 billion; and growth is the bulk of this investment program for 2010.

We have a very nice distribution in terms of projects that we are going to invest. You can see there in page 27. The fact is that this is again a message of confidence in the future of our industry and the capacity of Vale to explore -- of exploring the opportunity, the long-term opportunities that are there.

It's an impressive pipeline of projects. You will see also some photos on page 28. At the same time, we are not putting there the exhaustive list of all our options to grow in the future. As you can see in page 29, there are several other projects that are listed there in copper, potash, phosphate, and coal that could add to that pipeline and that would allow the Company to grow over the next five years or so on an average rate of 12.6%.

So this is the basic message. We continue to be extremely confident in the future of our Company, because we do believe that the structural changes that are taking place in emerging market economies will continue. And again, Vale is uniquely poised to explore those opportunities. Thank you very much and I'll be here to try to answer your questions if you have one. Thank you.

Questions And Answers

Operator

(Operator Instructions) Felipe Hirai, Bank of America.

Q - Felipe Hirai {BIO 15071781 <GO>}

Hello. Good morning, everyone. Good afternoon. So Fabio, congratulations on the results. I have two questions here. First, is the (trade) on iron ore shipments that we should see over the next quarters?

So do you think that it's possible that we could see your iron ore shipments going up to something like 80 million or 85 million tonnes already in the next few quarters given that despite the very strong increase in shipments from the second to the Third Quarters in some regions -- shipments to Americas or Europe, for example -- they are still down about 50% compared to the same period last year. And also, apparently, you had some -- you still have some inventories there. So if you could comment as well if you still have some inventories more to sell in the Fourth Quarter.

And my second question would be related to the realized average iron ore price in the Third Quarter. Was there any impact difference from like a higher mixture to Europe that positively impacted your realized price for the average item or price for the Third Quarter?

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you, Felipe. Of course, I cannot provide any guidance in terms of volumes and what I can comment is much more on the side of demand. We see the demand getting stronger on a daily basis, and as you can appreciate by the results that we released, we have now a more -- to components that are very important. First, more diversified growth in demand, although in some areas still below previous years. But we have, first, the recovery in our natural markets, and particularly Europe and Brazil; and second, impressive growth of shipments in China.

So in a way there has been a structural change in terms the composition of our shipments. Because we managed -- as we commented in the last quarter, we managed to enlarge our customer base in China and at the same time the old buyers are back. And that has allowed us to very quickly increase our shipments. And we haven't been able yet to bring to production any meaningful additional volume compared to the nominal capacity that we used to have before the crisis, so this very strong combination.

I of course am not going to give you any figure, but the demand has no -- we have no expectation that there will be a reversal of demand. To the very contrary, we believe that demand will continue to get stronger and stronger. And on the other side, there are clear physical limitations to the supply that may be available to market.

On your second question, the results of this is the price change that you see there is basically the result of the diversified geography of the sales, and also the products, the product mix that we are selling including sharp recovery in pellets, as you can appreciate.

So I think that from now on, I mean from this year onwards, we had to get used to a more volatile pricing quarter after quarter. This is part of this environment that we live today and this should prevail over time, so that we have to be accustomed to this sort of -- thank you very much.

Q - Felipe Hirai {BIO 15071781 <GO>}

Okay. Thank you, Fabio.

Operator

Rodolfo De Angele, Banco JPMorgan.

Q - Rodolfo De Angele {BIO 1541593 <GO>}

Hi. Good morning, everyone. Good morning, Fabio. I have a -- well, my first question is, if we've been in a very bullish scenario for iron ore demand for next year, Fabio, considering bottlenecks, logistics, what is the maximum volume do you think Vale could ship in terms of iron ore pellets in 2010? That's my first question.

A - Fabio Barbosa {BIO 1907620 <GO>}

As I mentioned in the previous answer, Rodolfo, there has no -- has been no meaningful change in our nominal capacity compared to last year. We, depending on the depletion of mines and the logistical constraints, we may reach the nominal capacity of 300 million and 310 million tonnes per year, depending on our ability to operate the mines and to remove waste and several other variables.

This is not a forecast of any sort. This is just I'm replicating the numbers that we published some time ago about our capacity, so it's around that, and that's (why) -- it's a challenge, as you well know, to operate at full capacity in any circumstances. And this year or next year, there is not a difference in terms of the challenges involved in operating at this level. So again, there has been no addition -- major addition to supply and this is the basic idea. Thank you.

Q - Rodolfo De Angele {BIO 1541593 <GO>}

Okay. And just my second question. On the nickel side, Fabio, I know that you are -- Vale is working on the strikes in Canada. We saw the volumes of nickel and related products going down this quarter. Could you mention or comment to us a bit on what is the inventory situation there? And what's the strategy while the strike is still on? Would you be purchasing to meet your commitments with clients? What is the overall strategy? What should we expect? Thank you.

A - Fabio Barbosa {BIO 1907620 <GO>}

Rodolfo, I will not comment on inventories, and we have no news about the discussions with our colleague. We'll try to operate within the boundaries of our possibilities and that's what I can say about that. This has to be analyzed and in a long-term perspective of the sustainability of the business and that's our approach and that will continue to be our approach about that? Thank you.

Operator

Carlos de Alba, Morgan Stanley.

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

Good morning, Fabio. Two questions. First one is, obviously, the iron ore business did fantastically well in this quarter and (inaudible) is for it to remain strong. But if we take a moment to look at the performance of the nonferrous mineral segment, the operating margin despite significant increases in base metal prices during the quarter, it only increased 5%.

What is the Company doing to take the stability of this statement to higher levels, even if it is not as high as we saw in 2008, it clearly appears that there may be room for the business to improve on that front?

My second question will be regarding if you can give us any comment on your take on the royalties and the potential increasing or special new export tax on minerals; that would be great. Thank you.

A - Fabio Barbosa {BIO 1907620 <GO>}

Okay. Thank you. On your first point, I think we should look in perspective. We are talking about the nonferrous business that came from minus 23 to plus 5 (in three quarters). So it's a major swing of margins. I'm not saying that we don't have more work to do, but we have been doing a lot.

Remember in the last quarter that combined effect of nickel and iron ore business cost reduction -- remember that shot -- that we indicated that there has been a cost reduction of around 35% in the nickel business as we measured in the last quarter. So there has been a lot done already and we believe that is the right path, although we are still -- we are not happy yet with the result, we still have a long way to go, but a lot has been accomplished in this area and the numbers are there.

But this is also, in a way, a structural change that should be reflected over the quarter. The important thing is that in the average of the industry we remain extremely competitive in every segment.

As for your second question on the royalties and taxation. I think this is part of the debate. My impression is that the idea of a tax on exports has been -- is no longer an idea that is being discussed with -- that often, let's say. The economic history shows that this is not a good course of action, it's not productive. To the country there is negative effects of taxation and of this sort and I'm not saying about only minerals, but in general, that sort of taxation does not contribute to the country in the long term as experience shows in several economies.

As for the royalties, this is also a debate that is taking place. I think Brazil is a very rich country in terms of natural resources and this is part of a routine. We have to debate this and show how we believe that there is currently a proper taxation in place and this is a challenge that we have. And it's natural to have this debate and we welcome this debate and we believe that we'll be able to show what is the most appropriate idea for the country and the segment.

It's not only Vale, there are a lot of other companies that operate in this segment and Brazil, again, is a country very rich in opportunities that could be further explored if the right environment is in place. Thank you.

Operator

Ivan Fadel, Credit Suisse.

Q - Ivan Fadel {BIO 4827533 <GO>}

Yes. Good afternoon, everyone. My first question is related to the options that Vale has to grow in the future, specifically in iron ore. There is a slide that shows that there are a lot of projects that can be put into business. And my question would be whether the main projects as the Carajas plus 30, or (Serhasu) could be actually anticipated if there is enough demand for it, or this is the best or the earliest that we can have those projects come into the market?

A - Fabio Barbosa {BIO 1907620 <GO>}

The timeline of the project is a result of the actual physical constraints of that. Remember that Vale is investing this year a record figure and we invest -- we will invest next year another record figure. So the timeline is actually driven by the constraints that we have in terms of the implementation of the projects. If we could, we would be happy to anticipate the startup of the project, but the problem is that we are not able to do that, so this is -- we believe that the markets will remain very strong over the next several years, and we actually regret that we are not able to bring more capacity sooner rather than later. Thank you.

Q - Ivan Fadel {BIO 4827533 <GO>}

Okay, next question would be related to the cost side, it was a great thing that costs came very much under control on the iron ore business on a cost per tonne basis, and actually slightly down quarter on quarter. I suspect that this has to do with dilution effect offsetting the stronger reais and perhaps the fact that you brought up higher cost mines.

So my question would be is this what it is really? And should we expect more of this effect for the upcoming quarters? Or should we expect now Vale to have larger gains in the cost-cutting process that is being implemented? What's your view on the cost side? Thank you.

A - Fabio Barbosa {BIO 1907620 <GO>}

I think that it is a combination of the affect that you mentioned and that they should continue, because several actions that we took, for instance, streamline of corporate structure, the adjustment in our management model in the nickel business and the procurement optimization, among others, they are about to deliver results in a long term basis.

The volume effect, as you indicated, was already noticed in this quarter and I think that as you move forward, you have to consider the positive effects of dilution of costs associated with higher volumes, but also the fact that the marginal -- higher marginal costs in mines are being brought back to production and the challenge that we have is to ensure that we keep costs strictly under control in this environment. Thank you.

Operator

Marcos Assumpcao, Itau Securities.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Good morning, everyone. Congratulations for the strong results. First question is regarding the iron ore market in China. Can we expect a seasonal slowdown in the Fourth Quarter volumes because of high levels of inventories of steel in China right now? And if this happens if you could see more volatility on spot prices. And just to complement, can we expect the continuous trend of reduced volumes on a (CNF) basis as we saw in the Second Quarter, 70% of sales to China were under this type of contract and in the Third Quarter it dropped to 56%. Thank you.

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you, Marcos. I think that the major issue today in terms of volumes to China is not on the demand side. I don't share this view regarding inventories or something of this sort. The growth in the Chinese economy continues. The GDP growth is now at an annualized rate of 8%, very much in line with our expectation. As I said before, we (inaudible) our customer base in China, and we don't see any weakening of demand moving forward.

And the challenge that we have is actually on the supply side, considering that, as expressed before, our traditional markets are backed by a much stronger pace of demand. This is the issue that we have today and we are not concerned at all with the demand side.

As for me volumes and the CNF FOB, if you recall we commented that when there was a reversal of the market there was a clear trend towards more CNF sales. Because, actually, clients were not willing to take the very volatile freight risk there. So when there is -- what we observed in the less stable month is that a change in a different direction and in our perspective is actually an indication of the strength of demand moving forward. So I would not give you, as I said before, any guidance about volumes, but I see the higher percentage of FOB sales into China is one more indication of a stronger market here. Thank you.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Okay. Second question, regarding nickel. We saw during this quarter the nickel pig iron producers coming back to the market. So can we expect prices to be capped around the level that they are right now given the high level of inventories on LME and also the nickel pig iron producer's back?

A - Fabio Barbosa {BIO 1907620 <GO>}

I think that there has been some activity that the nickel pig iron producers are ready and this was not able to affect meaningfully prices in the last quarter, but the trend that we see is that as growth became more spread throughout the world and I just commented at the beginning of our discussion, they observed growth in the US economy on an annualized basis 3.5% GDP growth, this is very good news.

And it's one of the largest markets for nickel as well, so we see -- I'm just pointing out this number due to the importance of the US economy. So you see a very good combination of recovering stainless steel and at the same time, more widespread growth in the world economy and this allows us to think of a strong demand moving forward. But prices, market will determine them moving forward according to the balance between supply and demand.

Operator

Jorge Beristain, Deutsche Bank.

Q - Jorge Beristain {BIO 17554499 <GO>}

Good morning, Fabio. Just trying to understand how the pricing dynamics are working in China right now. In your Second Quarter press release you made reference to the fact that iron ore fines, back adjusting for the provisional price impact, would have been around $50 a metric tonne in the Second Quarter, they went to 57. We know that roughly 70% of your sales are on contract, so we should not have seen a significant change quarter on quarter in those sales.

So in other words, it would have had to have been the CNF which only represents 30% of your sales mix, driving a 14% quarter-on-quarter improvement in pricing. My back of the envelope math tells me that those CNF sales would have had to fetch upwards of 40% or 45% premiums to the contract price of $50 to make that formula work.

So I'm trying to understand, is there something I'm missing here? Could there have been some resets of higher quarter-on-quarter fines, prices that are under contract or maybe some changes in global sales mix shifting regions increasing Europe's exposure that could have contributed to that higher quarter-over-quarter sales? Or am I reading it correct to assume that you are significantly benefiting on your CNF sales far above what you would be realizing on contract right now?

A - Fabio Barbosa {BIO 1907620 <GO>}

Jorge, unfortunately, you cannot. It's not like that. We, as I said before, the average prices that you see as a result of product mix and the increased sales to other geographies where you observed a higher price. So it's nothing of the sort.

We actually see a growing trend in terms of the benchmark. This is the reference, the basic references more than ever. So I don't see the way you see it. There is no extraordinary premium, to the very contrary. It is, as I said before, it's something that we'll have to get used to. It's the increased volatility in prices from quarter to quarter. Thank you, Jorge.

Q - Jorge Beristain {BIO 17554499 <GO>}

If I could follow up on that, then, how do you explain the fact that this quarter China accounted for 55% of your iron ore sales revenue but also 55% of your volumes, would indicate that average Chinese iron ore pricing is in line with the rest of the world when Asia typically is getting a 10% discount just because of your contract structure?

A - Fabio Barbosa {BIO 1907620 <GO>}

Because you have other countries that you are bringing to the picture and other regions where prices are higher and products with higher prices, that's why. There is no change there. There is no extraordinary premium there, and more than the previous quarters, we are, as we commented in the previous question, we are observing clients moving toward -- more towards FOB pricing that's implied in that is also the use of the benchmark as the reference. Okay? Thank you.

Operator

Leonardo Correa, Barclays Capital.

Q - Leonardo Correa {BIO 16441222 <GO>}

Hi. Good afternoon. Thank you for the call. My first question is regarding the rebound in European iron ore demand. As the restocking effects dissipate during the next months, when does Vale expect real demand recovery to take place in the region? Is there any timing? Are you guys seeing a recovery already in the First Quarter of 2010 or would this probably occur later in the year? That's my first question regarding European iron ore recovery?

A - Fabio Barbosa {BIO 1907620 <GO>}

And your second question?

Q - Leonardo Correa {BIO 16441222 <GO>}

And the second question would be to touch and explore a little bit more the very strong Chinese iron ore import levels for the month of September? I know you already disclosed part of your thoughts before, but given that crude steel production rates and domestic ore production in China have remained relatively constant during the past couple of months, could there be any other explanation for this big movement in imports? Do you contemplate any possibility of Chinese strategically stockpiling ahead of a tough round of negotiations in 2010. Is that something that is contemplated by Vale? Those are both of the questions.

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you. As for Europe, first, we are now observing Europe operating with average utilization of roughly 65% to 70% of the levels they were operating with before the crisis. So we believe that this is already reflected in our numbers. If you remember that by May and June the capacity utilization was around 40% to 50%. So it's a major change and this is reflected (normally), as I said before.

And Europe, different from what we observed in the Second Quarter when it represented less than 9% of our total volumes. Europe represented this Third Quarter about 15% of the volume. So this is an impressive recovery and as the consolidation on the recovery takes place, in Europe as well, we believe that this trend should be further enhanced in terms of participation of total sales.

As for the iron ore imports in China, I think that the explanation for that -- I really had (inaudible) concept of inventories (inaudible) in China. Particularly in bulk materials like iron ore, it's -- we have to understand that as the actual demand increases as we show there with the apparent consumption of steel increasing, the production of steel increasing, there is a natural increase in demand for iron ore.

And there is also the structural trend of replacement of domestic ore by imported ore. And this is irreversible in our view and actually represents a major market opportunity for companies like Vale that could be (export full) in the future because we have the reserves, we have the projects, and we, I would say, we are the ones best poised to increase production and meet the demands for the very reduction of domestic ore and total ore consumption in China.

So I believe that this is a structural trend and has nothing to do, in our view, with short-term speculation in terms of inventories or anything of a different nature. Okay? Thank you.

Operator

(Ian Bragg), OPSEU Pension Trust.

Q - Ian Bragg

Thank you, yes, OPSEU Pension Trust. And I want to stay on the nickel and I appreciate your encouraging demand protection. And related to that I wanted to refer back to several questions before that mentioned the United States Workers strike at Vale Inco. As you know, Sudbury is a heavily unionized environment and the company's nickel production has never operated during previous work stoppage.

So I'm not clear if you can't make any comments at all, but I do think it's an important question what your strategy is in dealing with the strikers and how you intend to manage current and future production with some real risk of a potentially ugly labor situation?

A - Fabio Barbosa {BIO 1907620 <GO>}

As we have an ongoing dialogue with our colleagues, I would prefer to keep this dialogue involving only the two parties, ourselves and them. And when we have any relevant news about this, we, of course, will publicly disclose, if you don't mind.

Q - Ian Bragg

Okay. Thank you.

Operator

Vincent Lepine, Exane BNP Paribas.

Q - Vincent Lepine {BIO 3623991 <GO>}

Good afternoon. I'm afraid I'm going to ask about China again. You said that steel consumption in China was very strong and you mentioned apparent steel consumption which indeed was up 40% or so in the past two months. But it's also strange that in the country where steel consumption is the strongest on earth, this is where you have the lowest steel prices.

So I'm just thinking, yes, going into 2010 steel consumption in China is probably going to be robust, but short term don't you think there's a need for destocking (inaudible)? And (inaudible) yesterday was saying that there is indeed a need for short-term destocking, nothing too bad, but at least over the next two to three months. And given that imports of iron ore and even domestic production of iron ore in China have remained pretty high, I mean it does seem that there's a little bit of a disconnect between the two.

So what's your view on the real steel demand in China versus the apparent consumption and therefore the inventory restocking that we've seen over the past two months? Thank you.

And the second question, if I may, is on CapEx. If I'm not mistaken your guidance for this year is about $9 billion and therefore if I take that and so strike the first three quarters, that would mean $3.6 billion or $3.7 billion for the Fourth Quarter. So given it's about double or even a bit more than double what you had in Q3, just if you could tell us exactly what projects you are accelerating just now? Thank you.

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you, Vincent. Well on the first question I'm afraid I have to repeat myself. The apparent consumption is actually real consumption. That's what it means (inaudible) speaking. We have a calculation of the internal consumption plus the imports and so the net import if any, and that's why we come to this figures, so this is actually happening.

Again, we don't see any speculative move in terms of stockpiling either in the steel area or in the iron ore. Just consider that the GDP in China on an annualized basis grew 15% in the Second Quarter and in the Third Quarter, it was 8% -- 10%, sorry. So this has been an impressive growth trend and is reflected -- instead of other consumption indications and (inaudible) in the cases that you have in the country.

So this is nothing like, in our view, a speculative move. It's actually demand on the ground. We could have some fluctuation on a weekly basis here and there, but the structural trend undoubtedly is towards a higher demand in China this year and in next year. Our expectations for the world's steel output would be a growth of 9%, so returning to the pre-crisis levels, as we put in our release. So it's a very bright perspective for the industry. As the economy recovers we'll (inaudible) and China, of course, will be no exception to that. Thank you.

Operator

Tony Rizzuto, Dahlman Rose.

Q - Tony Rizzuto {BIO 1490590 <GO>}

Thank you very much. A couple of my questions have been asked (multiple speakers).

A - Fabio Barbosa {BIO 1907620 <GO>}

I'm sorry, I'm sorry. I have to come back to the second question, Tony, just I forgot about it. Just hold on a minute, please, if you don't mind.

Q - Tony Rizzuto {BIO 1490590 <GO>}

No problem.

A - Fabio Barbosa {BIO 1907620 <GO>}

Okay, the CapEx, the question by Vincent Lepine from BNP -- the CapEx, you were right that the execution was lower if you compare it to the even distribution of the expenses, but they are not like that. I mean they tend to be higher in the last quarter of the year, and we are on track to spend the full $9 billion that we announced in our CapEx program. Sorry for. Thank you. And, Tony, you can start, please.

Q - Tony Rizzuto {BIO 1490590 <GO>}

Thank you very much, Fabio. A couple of my questions have been asked already, but I wanted to ask about the nickel situation. I understand the sensitivities there, but we watched as US Steel Corporation is facing sanctions for violating job and production commitments to -- at their Ontario operations under the Investment Company Act of Canada. And I'm wondering are you also -- is Vale feeling similar pressures from the government there?

A - Fabio Barbosa {BIO 1907620 <GO>}

Absolutely not. We are complying fully with our (inaudible) and we are a good company, we are a good corporate citizen. We are meeting all the requirements of the agreement that we signed and there has been no indication whatsoever of any discomfort as far as the Canadian authorities about us.

Q - Tony Rizzuto {BIO 1490590 <GO>}

Thank you very much, Fabio.

A - Fabio Barbosa {BIO 1907620 <GO>}

Thank you, Tony.

Operator

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

A - Fabio Barbosa {BIO 1907620 <GO>}

Well once again I would like to thank you all very much for attending this conference and, as usual, we'll be available for any further questions that you may have about Vale and the quarter results. Thank you, all very much.

Operator

That does conclude our Vale Third Quarter 2009 earnings conference for today. Thank you very much for your participation and have a good day.