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China Shuts 90% of Lead-Acid Battery Plants as Prices Drop (2)
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(Updates prices in fifth paragraph.)

By Bloomberg News

Nov. 15 (Bloomberg) -- China has shuttered almost 90 percent of lead-acid battery makers in a government crackdown to curb lead poisoning cases, cutting sales and weighing on metal prices, said an industry group.

Local environmental protection bureaus have inspected 1,744 lead-storage battery makers and only 229 are still operating, Cao Guoqing, deputy secretary general of the China Battery Industry Association, said in an e-mailed response to questions. China is the world's largest exporter of the batteries used in electric bicycles and hybrid vehicles.

Decreasing lead demand may extend a 20 percent decline in prices this year on the London Metal Exchange and squeeze profits at metal makers Henan Yuguang Gold & Lead Co. and Shenzhen Zhongjin Lingnan Nonfemet Co. Battery producers, which represent 80 percent of consumption, were shut along with recyclers after hundreds were poisoned in Zhejiang and Guangdong provinces in May and June.

"We would expect this will certainly keep a lid on the price of lead going forward," David Lennox, a resource analyst with Fat Prophets, said today by phone from Sydney. This is not the first time "we are seeing lead being removed from the manufacturing industrial processes. There would be certainly more to come."

Lead for delivery in three months on the LME dropped 0.7 percent to \$2,041 a metric ton by 4:18 p.m. Shanghai time, snapping a two-day gain, after earlier falling 1.4 percent. It was the biggest decliner today among the six industrial metals traded on the LME and has fallen 30 percent from a three-year high of \$2,904 a ton on April 11.

Reduced Sales

"Sales and exports must have been reduced, weighing on lead prices," the association's Cao said. He declined to give an estimate of inventory levels for the about 2,000 lead-acid battery makers in China.

China, the world's biggest energy user and largest emitter of greenhouse gases, is seeking to better protect the environment after the economy's size more than doubled in the past five years. The government is accelerating the passage of legislation aimed at preventing heavy metals pollution, Li Ganjie, vice environmental protection minister, said June 3.

At least 600 people, including 103 children were found to suffer from lead poisoning in Zhejiang, the official Xinhua News Agency said June 12. Zhejiang and Guangdong are the two biggest producing regions, supplying 36 percent of total output, according to SMM Information & Technology Co.

Excessive amounts of lead in the blood can damage the digestive, nervous, and reproductive systems, and cause stomach aches, anemia and convulsions.

Government Standards

"It is difficult to estimate when those closed plants can restart production," Cao said. "That must wait until they meet governments' standards."

China produced 160.2 million Kilovolt-Ampere Hour of lead- acid batteries last year, which used 3.13 million tons of lead, according to the association's estimates. This accounts for 83.5 percent of total lead usage, assuming lead consumption at 3.75 million tons, according to the association.

Global usage of lead will increase 6.1 percent to 10.15 million tons in 2011, while production will climb 7.3 percent to 10.34 million tons, resulting in a 188,000-ton surplus, the International Lead and Zinc Study Group forecast in October.

"It opens up a very interesting question though -- who is still producing and how much battery capacity has been lost going into the peak demand replacement battery winter season,"

Nick Trevethan, a Singapore-based analyst with Australia & New Zealand Banking Group Ltd., said. "There may be a loss of demand from the e-bike market facing higher costs, but in terms of vehicle SLI batteries, demand is very price inelastic." SLI batteries are used in automobiles.

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