

## **OECD workshop on raw materials**

### **Economic impacts and policy objectives of export restrictions**

*Paris, 30 October 2009*

### **BIAC Discussion paper**

#### **Introduction**

BIAC appreciates the opportunity to participate in the OECD Trade Committee workshop on raw materials and the implications of export restrictions. Over the last few years, restrictions on raw material exports have been frequently observed and have had serious implications for business in a range of sectors, raising the question of global access to raw materials and security of supply. We support the objective of the OECD workshop to improve the understanding of the impacts of measures aimed at restricting trade in these sectors, with a particular focus on export restrictions. This meeting can play an important role in fostering dialogue between OECD member and non-member countries, while at the same time shedding light on the implications of export restrictions for business. It is BIAC's hope that the workshop will be the starting point for a continued dialogue of the Trade Committee on this important issue. BIAC stands ready to actively contribute to these discussions.

We would like to recall that BIAC sees work on export restrictions as part of a possible wider OECD program of work on raw materials security, as proposed in our submissions to OECD Ambassadors in November 2006. Before addressing the impacts of export restrictions for business, we would briefly like to reiterate the main lines of the BIAC proposal concerning future work on raw materials. We hope that the Trade Committee's activity could set the stage for a broader horizontal OECD effort in this area.

#### **The challenges facing raw materials security**

Industry-wide concerns about raw materials security have been increasing in recent years, as commodity prices have become increasingly volatile, and access to certain raw materials has become a serious issue for a number of businesses. The consequences have been

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seen in terms of compromised competitiveness and implications for a range of downstream sectors. Uncertainty and compromised competitiveness have a negative effect on a wider range of related sectors as unpredictable prices and shortages create insecure environments in which companies are unwilling to invest in large or extensive projects. In addition, the economic and financial crisis has had additional implications for this longer-term tendency of price volatility and lack of predictability.

Market distortions and unfair trade practices have aggravated the strained market. Observable measures in several countries include: refunds of sales taxes on imports, licensing systems, high duties or other restrictions on exports as well as government subsidies or discriminatory pricing of raw materials. In particular, many emerging economies are pursuing industrial strategies aimed at restricting foreign companies' access to their own resource base to generate advantages for their downstream industries. The future supply situation may also be negatively affected by ongoing attempts by some countries to secure exclusive access to raw material deposits in resource-rich developing countries.

In addition, a major concern of some industries is that these measures are enforced in response to government programs, not market demands. A sound investment environment for producers and open markets without trade distortions are key requirements for the availability of raw materials in sufficient amounts and qualities at reasonable prices.

At the same time, an analysis of the current environment must include a clear understanding of supply side factors, as smooth functioning of raw materials markets begins with healthy producers. This depends primarily on available investment opportunities, an environment free from inefficient regulation as well as free trade without competitive distortions. For example, barriers to investment in mining exploration in countries endowed with natural resources need to be tackled. Weak governance presents a significant impediment to business investment in many countries where the mineral resource potential is high. Also within OECD countries, the mining industry often struggles with certain regulatory requirements, skills shortages and a lack of adequate investment, which place severe limits on its scope for new capacity development.

Finally, the role of the recycling industry needs to be addressed. Ensuring raw materials security also requires a well-functioning recycling sector, which is facing growing competition from rapidly industrializing economies. It is confronted with the impacts of trade distorting measures put in place by a number of scrap importing countries, which thereby provide a decisive purchasing edge to their operators. At the same time, the recycling industry's resource base is restricted by - sometimes illegal - exports of waste to third countries. A considerable problem is that in defiance of the Basel Convention, it can happen that waste is falsely declared and exported as usable products although it is only dismantled in the country of destination. This results in a considerable burden for the population and the environment.

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## A broad-based role for the OECD

As mentioned above, BIAC put forward an ambitious work proposal for the OECD, of which work on export restrictions was an important part. BIAC believes that the OECD as a multi-disciplinary organization with excellent analytical skills would be ideally suited to address the issue of raw materials security. We therefore encourage the Trade Committee to work closely with other Directorates to address, among others, the following issues:

- Provide statistical analysis and assessment of raw material availability and quality as well as analytical supply/demand balance forecasts for key commodities.
- Identify supply side impediments and address barriers to investment in new capacity, which may reflect government-imposed distortions and sovereign risk.
- Foster a policy framework for open and properly functioning raw materials markets and provide a fact-based analysis of the range of existing trade distortions affecting the movement of raw materials.
- Encourage cooperation between demand and supply countries and highlight win-win opportunities achieved through close cooperation.
- Enhance bilateral dialogue with countries using export restrictions through the OECD outreach program.
- Share OECD experience in the area of scrap collection and recovery structures with key emerging economies.
- Foster implementation of international legislation and propose adequate multilateral rules against export restrictions and import subsidies to ensure fair trade and competition.
- Develop proposals for how illegal exports of waste, when they occur, can be effectively counter-acted within the framework of the Basel Convention, for example, through guidelines to help export authorities distinguish between waste and usable products.

## Addressing export restrictions

The rapid growth of emerging economies over the last decade has been accompanied by growing demands for a range of raw materials in a range of different sectors. This has often led to calls for export restraints in these countries and has resulted in squeezes on processing industries in other countries. Increasingly, many emerging economies are pursuing strategies aimed at protecting their resource base to generate advantages for their downstream industries. For example, China operates quantitative restrictions in the form of

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quotas on exports of bauxite, coke, fluorspar, tungsten, molybdenum, antimony or rare earths, among others, in the form of ore or intermediate raw materials.

In recent years, a number of mineral-exporting countries have imposed export restrictions to maintain supply for their domestic industries. Such export restrictions for minerals and metals have included export tariffs, compulsory export permits or licensing systems, and eventually export bans. Scrap metal (ferrous and non-ferrous) in particular has been extensively targeted by a large number of countries. Overall, it appears that export restrictions on minerals and metals have been increasingly widely used. A number of these measures seem to contravene WTO commitments.

As shown by the following examples, non-tariff measures by some third countries have taken several forms:

- Ukraine: export taxes, restrictive investment rules, dual prices,
- Russia: export restrictions, restrictive investment rules, dual prices,
- China: export restrictions, subsidies, export taxes,
- Gulf States: dual prices, export taxes, restrictive investment rules,
- Some African countries: export taxes,
- India: import duties, additional taxes, restrictive investment rules,
- Argentina: differential taxes.

Trade restrictions should be examined to see if they are being applied for genuine development reasons (especially in the case of African countries) or for industrial policy reasons (as in the case of some emerging economies). The following is a non-exhaustive list of examples in various sectors.

#### *Non-ferrous metals*

Non-ferrous metals have been greatly impacted by export restrictions (see also below). The scope of distortions on inputs has considerably increased over the last 5 years. Impacts of distortions on inputs are aggravated by distortions along the supply chain, with specific export objectives. The economic crisis has exacerbated the impacts of distortions as the manipulation of instruments and the use of export markets to secure growth has often been reinforced. Immediate action against non-compliance with WTO commitments, in particular on export taxes, is crucial.

#### *Ammonium Paratungstate (APT)*

China has introduced increasingly severe restrictions on APT exports. They first took the form of a progressive reduction of the VAT rebate on export from May 2005 up to the total elimination of this rebate in September 2006. Export restrictions were drastically enhanced in 2007 with the imposition of a 5% export tax, which was increased to 10% in 2008. This taxation rate was maintained in 2009 until the end of June when it was reduced to 5% in view of the crisis. The reduction of the taxation rate on exports is presumably temporary as it has been operated in view of the negative impact of the crisis on China's exports of tungsten

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materials/products. As a result, foreign processing industry - which relies heavily on Chinese tungsten raw materials - is inevitably confronted with higher input prices (Chinese export prices inflated by export taxes), and its international competitiveness vis-à-vis China's processing industry is deteriorating because of dual pricing of inputs.

### *Copper*

Since 2005, one could observe the implementation of increasingly tight trade measures in China aimed at facilitating imports and discouraging exports of copper resources, while promoting the export of downstream products (elimination of import duties on scrap, unrefined and refined metal; enforcement of export taxes on the same, VAT rebate on export of processed products). At the same time, there has been no effective domestic action against fraudulent practices on copper scrap imports that result in considerable tonnages being purchased in Europe, for example, at unaffordable prices.

Macro-control measures of the copper value chain take place at several levels, from mining and recycling to refining and processing. They take several forms: e.g. investment in foreign mines with state funds, cheap loans for material purchases, export taxes on domestic raw materials, direct subsidies, differentiated VAT rebates on semi-product exports, and dumping export prices for end products.

### *Molybdenum (Mo)*

China has been a major traditional supplier of Mo raw material on the international market, but wants to make its Mo sector a national champion. This has led to the creation of preferential prices for the raw materials by eliminating VAT rebates on exports and imposing an export tax (June 2007 15%). Dual pricing of input materials is thereby created, providing a competitive edge to the domestic Chinese producers of processed products. In addition, distortions are introduced in normal trade patterns because some processed products are manufactured for the sole purpose of avoiding export taxes on certain raw materials, (e.g. faked forged rods for scrap) and are offered on the international market at prices below the raw material (scrap or pellets).

### *Metal scrap*

The intrinsic value of metal recycling is rising as climate change policies place a higher price on raw materials. The recycling and re-use of metal scrap is thus essential. Newly industrialized countries are generally short of scrap. Some countries impose export restrictions on scrap to assist local industries. This is an unfair practice and has negative implications for industry broadly. This statement should not be interpreted as opposing the controls on the export of contaminated waste, which, rightly, is regulated under the Basel Convention.

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## *Coke*

Coke, which is a major input for steel production, is another example of distortive effects of China's export restraints. In 2008, China was the world's leading producer of coke, accounting for approximately 60 percent of global production. However, China placed export quotas on coke that limited annual exports to only 12 million MT. In addition, China imposed substantial duties on coke allowed to be exported - first, 25 percent export duties, and later in the year, 40 percent duties. The price effects were dramatic and gave China's downstream steel producers a major competitive advantage.

## *Agricultural raw materials*

Some traditional agricultural exporting countries have long standing provisions providing for restrictions on agricultural raw material exports as a means for protecting their processing industries and retaining domestically the value added from processing. Other agricultural exporters apply export taxes as a means of raising fiscal revenue for Governments. Although there are provisions in the WTO governing the use of such export restrictions, they are in practice, largely ineffectual.

During the 2007/08 price spike in world commodity markets there was, unfortunately, a very significant increase in the use of export restrictions and, in some case, outright export bans as a means of avoiding domestic food shortages. This was particularly marked in the world rice market, but also applied on a lesser scale for other food commodities. It is clear that the use of such export restrictions was a significant factor in aggravating the severity of the rise in world food commodity prices. Although the domestic political pressures leading to such measures are evident, their effect was nevertheless to thrust more of the burden of adjusting to world food shortages onto world markets. Recent research reported by IFPRI at the 2009 WTO Public Forum suggested that export restrictions accounted for 30% of the rise in world cereal prices in 2007/08.

It is clear that in the WTO Doha Development Round negotiations, the use of export restrictions needs to be more effectively disciplined. Particularly so as the lack of such disciplines, combined with the spike in world food commodity prices, have undermined many developing countries' belief in world markets and the effectiveness of international trade for domestic food security needs.

## *Chemicals sector*

In the chemicals sector, certain countries have applied targeted industrial policies by restricting the access to raw materials as a measure to develop their domestic chemicals industry without imposing such restrictions on exports of the derivatives produced from those raw materials. Examples include, but are not limited to, yellow phosphorous (China), fluorspar (China), palm oil (Malaysia). These practices have been spreading.

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## Concluding remarks

The above-mentioned examples, which could be complemented by other examples, demonstrate that export restrictions are a serious concern for many sectors. BIAC therefore encourages the OECD Trade Committee to continue work in this area by analyzing specific examples as well as their economic impact.

BIAC would like to reiterate its willingness to work closely with the OECD Trade Committee and other OECD Committees on a broad-based project aimed at addressing raw material security concerns. We congratulate the OECD Trade Committee for the organization of this workshop and thank the European Commission for the support it has provided to this initiative. Recognizing the added value the OECD can bring to the table thanks to its geographical coverage, cooperation with emerging economies, its analytical skills and capability to work horizontally, BIAC looks forward to working with the OECD on these important questions.