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Global Barriers to Trade in Raw Materials: "Raw Deal" Study Examines Export and Investment Barriers; American Scrap Coalition Calls for Immediate Action

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A new study released today concludes that governments around the world are enacting a variety of trade-restrictive measures to gain an unfair advantage in the race for raw materials. The report, ",” documents how China, Russia, Ukraine, India and other governments are increasingly participating in the race for raw materials and are intervening in commodity markets in order to protect their domestic industries and sustain economic growth.

The study, written by Wiley Rein LLP and sponsored by the American Scrap Coalition, details the rise of trade-restrictive measures designed to secure supplies of low-cost raw materials and benefit domestic industrial giants. "These raw material trade barriers are causing huge distortions in global investment in manufacturing industries," said Alan Price, partner at Wiley Rein and one of the study's authors. "These barriers are being used by certain U.S. trading partners to game the system to their advantage while prejudicing those countries that are playing by the rules." The report documents these government-imposed market distortions, including the following:

- **Export Barriers**: China, Russia, Ukraine, India and other countries have enacted a number of barriers to the export of raw materials, including export bans, export taxes, export quotas and export licensing restrictions. These governments use such restrictions to discourage exports, promote the development of certain domestic industries and, according to

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the WTO, "subsidize domestic downstream industries."

- **Foreign Investment Barriers**: These governments also have implemented measures that prohibit or restrict foreign investment in their own raw material resources. Russia and China, in particular, have erected numerous barriers to foreign investment, including banning foreign entities from mining certain raw materials or from having an ownership interest in entities that mine raw materials.
- **Subsidized Acquisitions of Overseas Raw Material Production Assets**: While restricting foreign investment in their own raw material resources, these governments are mobilizing public resources to target overseas markets and tilt the global raw material trade in their favor. China, for example, uses its state-owned enterprises, state-owned banks, and its sovereign wealth fund to subsidize the acquisition of raw material production assets abroad.

"These barriers adversely impact U.S. manufacturers as well as the global economy as a whole. As a result of these trade barriers, manufacturers who play by the rules face limited supplies and higher prices for strategic raw materials," Price said. "More needs to be done to strengthen the international framework for addressing such violations, and we look forward to working with the new administration on this issue."

Many of the trade barriers identified in the report violate WTO agreements or the trading commitments made in free trade agreements and bilateral investment treaties. Many of the barriers have been identified repeatedly as trade distortive, and all of them raise costs to raw material users throughout the global economy.

"China's export quota and export taxes on coke are a particularly egregious trade barrier," said Barry Solarz of the American Iron and Steel Institute. "China maintains both an export quota and a 40 percent export tax on coke, which is a critical input in steelmaking. China also reduced its coke export quota significantly between 2007 and 2008. We believe this quota is WTO-illegal. We look forward to working with our NAFTA partners and with Europe and other countries on eliminating these barriers."

"Russia's scrap export tax is particularly harmful since it has a great deal of scrap available for export," said Thomas Danjczek, President of the Steel Manufacturers Association. "And while steel scrap prices have fallen sharply in recent months, this is not a reason to stop our efforts to remove these barriers. If anything, it is even more important to work on a long-term comprehensive solution for removing these barriers."

"This is not just a trade policy issue—it is also a small business issue," said Stephanie Salmon of the American Foundry Society. "Foundries and other smaller consumers of scrap and raw materials are likely to be particularly impacted by these barriers to trade. Additionally, most of the companies that are members of the American Scrap Coalition are not steel mills—they are smaller users of scrap and raw materials, or consumers of steel."

"While the recent global economic crisis has reduced raw material prices, the inherent problems associated with raw material protectionism persist and will resurface when the economy rebounds," concluded Alan Price. "The current climate of falling prices is the perfect opportunity to insist on permanent removal of these trade barriers."