



Offshore threats to the industrial minerals industry



IMA-NA Annual Meeting 2003

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Industrial Minerals Magazine

- Founded 1967, leading global publication on non-metallic minerals - focus on market developments and trends rather than geology or technical issues
- Arose out of parent Metal Bulletin PLC because of a perceived need to cover non-metallics
- International Congress every two years (Barcelona 2004), Chinese meeting every two years (Shanghai 2003), annual fluorspar meeting
- Contributed feature from IMA-Europe, hope to expand co-operation with new IMA-NA

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What are offshore threats? Could encompass a variety of issues...

- Cheap imports taking domestic market share due to low production costs overseas, or even state subsidised production
- Closure of foreign markets to domestic exporters due to protectionist measures
- Consumers moving offshore where costs are cheaper
- Increased foreign ownership domestically
- International events that affect domestic economy/costs - eg. uncertainty of war duration in Iraq pushing up price of oil in March 2003
- Smuggling of minerals - illegal exports

To be covered...

- Perceptions of what constitutes a threat
 - *Dumping, cheap/injurious imports- definitions*
 - *Procedures, problems, examples in USA/India/EU*
 - *Movement of production or sourcing offshore- examples, reasons*
 - *Foreign ownership of domestic industry?*
- Case studies in the USA
- China - a love/hate trade relationship
- Reality versus perception

DUMPING AND CHEAP IMPORTS

What is dumping? First what it is not...

- US Dept. of Commerce: *“In learning what dumping is, it is also important to understand what dumping is not. For example, dumping is not the sale of foreign merchandise in the United States at a price less than the price charged by US producers of the same merchandise”*.
- It also does not include subsidies from the exporters government - this is a separate issue with its own procedures and remedies (countervailing duties)
- Another separate measure, safeguards, apply when there is a surge in imports of a particular product irrespective of country of origin - ie. differs from dumping which is country/company specific

DUMPING AND CHEAP IMPORTS

So what is dumping then?

- Less Than Fair Value or LTFV: defined generally as when a foreign firm sells merchandise into the export market at a price lower than the price it charges for a comparable product sold in its domestic market (the “normal” or “fair” value).
- Dumping is intentional because the exporting company sells at a loss in a foreign market, with the intention of increasing its market share and destroying the local competition.
- This in itself is not enough for an antidumping duty to be imposed - it still must be shown that the dumping is injuring the domestic industry, and to a sufficient degree to warrant duties
- Note neither does it include subsidised production that is exported, or smuggling - these are separate issues

It is also not the same as customs duties

- Customs duties fall in the realm of trade and fiscal policies of the Government while antidumping measures are there as trade remedial measures.
- The object of antidumping is to offset the injurious effect of international price discrimination while customs duties have implications for the government revenue and for overall development of the economy
- Antidumping are levied against exporter or country as they are country specific and exporter specific as against customs duties which are general and universally applicable to all imports irrespective of the country of origin and the exporter.
- The antidumping duty is levied over and above the normal customs duty

DUMPING AND CHEAP IMPORTS

Determination process- similar in most countries

- First - a “petitioner” files a complaint to the trade body or bodies saying that injurious dumping has occurred over a recent period and why
- Body or bodies begins preliminary investigation in form of questionnaires to both exporters, petitioner(s) and other like consumers
- “Normal” value vs. export price compared- decision made a) whether dumping occurred and to what extent; b) if it materially injured domestic industry (in the US Commerce rules on dumping and dumping margin, USITC on injury)
- If injury found, a provisional duty usually imposed related to the dumping margin (difference between normal value and export price)
- A final in-depth investigation confirms or quashes earlier probe and upholds/alters or quashes duties

DUMPING AND CHEAP IMPORTS

Not without problems...

- To accurately determine normal value requires a lot of detailed information (for necessary adjustments) often this is not forthcoming and an estimate is made based on exports to a third country or simply constructed
- Second-hand information on costs/market/prices eg. from the petitioner (or exporter) can be biased- when there are few players in the industry this makes determination difficult
- Body is trying to understand what are often obscure markets from sometimes scant information, poor response to questionnaires
- Often difficult to establish that injury to a domestic producer has occurred due to dumping rather than loss of market share because of other factors eg. its own increasing costs, raw material availability etc
- In industrial minerals cases, often only a few companies worldwide control the market

DUMPING AND CHEAP IMPORTS

Types of duties and problems

- Minimum price - if the whole market fluctuates- ie. prices across board increase a lot to point where imports still injurious but actually exceed earlier determined minimum.
- Direct duty - sometimes more effective- imposed as fixed tariff
- Duties can often be bypassed - send product to another country for processing, give it a different origin - thereby avoid duties. Or call it something else that can be grouped in another classification. Also “tariff jumping”
- Reviews take time- standard period is a year. “Sunset” reviews review existing duties before they expire.
- Duty set against the injury margin or the dumping margin?
- “Like products”- many commodities have numerous grades- a slightly different grade or quality could be sold in the home or export market

Current examples from US/EU

- USA minerals AD duties in force - not as many as might be expected (origin)
 - barium chloride (China)
 - gray portland cement and clinker (Japan, Mexico)
- EU minerals AD duties in force (origin)
 - silicon carbide (China)
 - acid grade fluorspar (China)
 - caustic and dead burned magnesia (China)

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And those now under consideration...

- USA
 - barium carbonate from China
 - brown fused alumina from China
- EU
 - no new investigations- sunset reviews on the fluorspar and magnesia duties underway
 - interestingly, the EU BFA duty expired 10/02, around the time the US initiated an investigation

India- much more aggressive stance- on China's doorstep

- 1992-1994: 3 antidumping investigations
- 2000-2002: over 50
- In force include:
 - soda ash (China), fused magnesia (China)
 - Also, until recently effectively stopped ANSAC soda ash - still no major US exports of soda ash to India
- Under consideration include:
 - TiO_2 pigment (China), borax decahydrate (China, Turkey)

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For more information about trade, dumping and individual cases see...

- WTO
 - www.wto.org
- European Commission
 - www.europa.eu.int/comm
- South African DTI
 - www.dti.gov.za
- Indian Dept Commerce
 - www.commerce.nic.in
- US International Trade Commission
 - www.usitc.gov
- US Dept of Commerce
 - www.doc.gov

What does all this mean?

- Essentially that you can't go after a foreign mineral import just because it is undercutting your domestic price and you don't like it - LTFV has to be established - this takes a year and a lot of questionnaires
- The process of establishing normal value and dumping margin involves the submission of a lot of confidential pricing and business information
- Sometimes far flung operations can fairly export within their costs and compete - especially where mine/plant by water, and consumer by water - eliminate overland costs
- This shows in the fact that there are very few mineral antidumping duties in place in USA/EU

What about Mexico and Canada?

- Still counts as offshore
- Complicated by NAFTA issue and removal of certain tariffs and customs duties
- Already seen some effects - eg. movement of ceramic industry to Mexico
- Canadian nepheline syenite competing with feldspar in the USA
- Canadian GCC and Georgia kaolin compete in northeast paper market
- Mexico is ANSAC's largest market, also largest market for US sodium sulphate - competing with Mexican producers
- So mostly just competition - but if you wanted to try to seek AD duties, likely that Commerce/USITC would be reluctant to be seen as protectionist to land border neighbours

China- love/hate relationship

- More and more industrial minerals exports globally from China over the years - a long list: graphite, fluorspar, talc, wollastonite, barytes, magnesite/magnesia, bauxite, fused minerals, soda ash etc.
- Used to be in raw lump form and quality/grade consistency questionable - now higher quality, more processed grades, even finished products (particularly in the case of refractories)
- Of course they can still produce more cheaply- labour costs extremely low, little in way of health/safety, environmental scrutiny
- More direct sourcing, less use of mineral traders
- Most exporters (particularly minerals and chemicals) still state owned/controlled
- Many examples of subsidised production eg. cheap electricity
- Flooding foreign markets - fuels overcapacity in China - price drop off - everybody hurts (including the producers in China who don't reap the benefits)

What about controls of Chinese minerals trade?

- Controls tried - export licences/quotas - fixed tonnage of mineral decided for export the following year eg. Fluorspar, magnesite
- Often have not worked as more material simply released when licences ran out creating oversupply and falling prices
- Works the other way - there have been shortages as licences have failed to predict demand increases and prices move up
- China now a WTO member - as such scrutiny into safety, environment rapidly increasing (though has retained the right to exclusive state trading of minerals)
- Membership includes disciplines relating to subsidies and countervailing measures, anti-dumping and safeguards
- It has also meant China has had to agree to open up its own market to more foreign participation/ownership

China - In it to win it?

- Despite all this- China is the world's fastest growing economy and everybody wants a piece of the pie - US government doesn't want to be seen as protectionist against China, as it could respond with actions against US exports
- Many North American mineral companies import Chinese minerals anyway - MTI (Polar), Luzenac America, Timcal, M-I etc.
- China has even become an importer of some minerals - celestite from Spain!
- In some cases where its consumption will overtake its domestic supply - this will increase
- Definitely seen now as an opportunity by global businesses

Movement of minerals production offshore

- Other examples of domestic industry decline - may have involved dumping at some point but ultimately concerns move to world-class deposits elsewhere
- Minerals advanced examples - lithium carbonate/iodine to Chile, iron ore to Brazil, low grade magnesia to China
- Future one to watch - more kaolin share to Brazil?
- Why? Better deposits - larger more accessible reserves. Eg. lithium/iodine from Salar de Atacama
- Combine this with cost of production - lower labour/energy/processing costs

Foreign ownership of domestic minerals industry

- Arguably the most striking offshore effect of last ten years. Some may argue that this affects share of profits of domestic industry going to truly domestic companies
- In USA the minerals picture is now very much one of foreign control (following slides)
- But the foreign owners have also modernised, put in more investment, in some cases have made US products more globally competitive
- Not a threat - already occurred - but an interesting observation

Who said Belgium was a little country?!

- NA industrial minerals majors (home country) below - most of the leaders now foreign owned
- Imerys (France) owns: K-T Clay - ball clay, C-E Minerals - refractory raw materials, Timcal - graphite, Treibacher - fused alumina, former Dry Branch - kaolin, Georgia Marble - GCC.....amongst others!
- Rio Tinto (UK) owns- US Borax, Luzenac America, as well as leading Ti-slag producer QIT in Quebec
- Lhoist/Chemical Lime (*Belgium*) and Carmeuse NA (Lafarge-Carmeuse JV- France/*Belgium*) dominate NA lime market
- Sibelco Group (*Belgium*) member Unimin (silica sand, silica, kaolin, nepheline syenite, feldspar, ball clay)
- Solvay Minerals (*Belgium*)- soda ash; OCI Chemical (South Korea) - soda ash

Who remains? Of course many...

- Soda ash- FMC, IMC, General Chemical, American Soda
- Sodium bentonite still firmly US controlled- Amcol, Wyo-Ben, BPM (Halliburton), M-I, Black Hills
- Industrial sand- Fairmount, US Silica, Badger, Oglebay Norton
- Lime - Graymont, Global Stone, Mississippi Lime
- Kaolin/specialties- Huber, Engelhard, Thiele
- Gypsum/wallboard- National Gypsum, USG
- Talc, PCC, refractories - Minerals Technologies
- Others- RT Vanderbilt, World Minerals, Spinks/Franklin, NYCO

Summary - perception versus reality

- China is now a WTO member - while still a centrally planned economy with subsidies and lower environmental standards this is changing fast, and it is fastest growing economy by far- could argue will reap more benefits working with than against
- Duties still relevant in certain circumstances but on the whole still difficult to achieve and implement effectively
- Perhaps better to look at other pressing threats first - asbestos/silica litigation, harder permitting, controlling energy cost fluctuations, emissions compliance
- Work to preserve own international strengths (borates, ball clay, phosphate, sodium bentonite, kaolin, soda ash, wollastonite, potash etc) - through IMA-NA of course!

******Thank you******