

**Euromines (Magnesite Group) Position
on
EU treating China as a Market Economy:
Impact on the Magnesite/Magnesia Sector
4th January 2016**

Granting China Market Economy Status (MES) starting December 2016 would threaten the competitiveness and survival of many European companies, especially SMEs, undermine the effectiveness of the EU's trade defence system and expose the EU magnesite/magnesia sector to potentially unlimited Chinese dumping.

- ***China currently violates the five EU market economy status criteria;***
- ***China's currently existing overcapacity when exported to Europe would suffocate the European magnesite/magnesia industry;***
- ***Granting market economy status to China would lead to the loss of several thousand jobs, most of them in regions already facing serious economic and social issues (Spain, Slovakia, Greece and the northeast part of the Netherlands);***
- ***Granting market economy status to China will lead to a decrease in the research and development investments in the European operations;***
- ***Production in China is not compliant with the EU sustainable development value chain requirements (energy and climate change, environmental standards and the social license);***
- ***If China was considered a market economy status, any anti-dumping measures would have to be recalculated to the disadvantage of the European industry;***
- ***The anti-subsidy instrument has never been effective in the face of the distortions of the Chinese economy.***

The European Mining Industry

The European mining industry plays a crucial role in the ability of the European Union (EU) to nurture sustainable growth including access to and supply of raw materials. Linked to all industries across all supply chain stages, raw materials are essential to most industrial sectors thus impacting on over 30 million jobs and playing a key role in the development of modern, environmentally friendly technologies¹.

¹ The Raw Materials Initiative, http://ec.europa.eu/growth/sectors/raw-materials/policy-strategy/index_en.htm

In Europe's free market economy, the European mining industry is competing at all levels, local, national and international. In this context, a strong industrial base securing reliable and unhindered access to sustainable raw materials is of key importance for Europe's prosperity and growth. This requires certain and predictable enforcement of the EU's trade defence system, fair international competition and a level playing field.

The European magnesite/magnesia sector

The EU magnesite/magnesia industry is of particular importance, indispensable to many industrial processes, but also to agriculture and, very importantly, is not substitutable.

The EU extracts approximately 2.9 million tonnes of primary material (expressed as magnesite ore), accounting for 10% of the world production. Europe produces about 1200 thousand tonnes of processed material (all types of magnesia including the synthetic magnesia production in Ireland, the Netherlands and Norway) per year. About 62% of the EU total demand for processed materials is met by European production.

Impact of EU prematurely granting market economy status to China

The present unstable international economic situation makes the EU magnesite/magnesia industry very vulnerable to a further shock such as the 'threat of injury' looming from China in magnesia, refractories and steel, but also for all agricultural and other uses of magnesia.

As many of the EU's major trading partners do not consider that China has achieved market economy status or that any change is automatic after December 2016, the EU unilaterally taking such a position would result in significant trade diversion effects in the sector.

Given all of the above, the Euromines Magnesite Group would like to make the following comments:

1. China violates the five EU Market Economy Status criteria²

The Chinese government's 2013 Consolidation Plan stands proof of the direct policy intervention in magnesia and refractories.

There is a clear collusion and price coordination between producers -- in the case of refractories, this policy is actually written down in the Articles of Association of China Refractories Industry [ACRI].

The 'Northeast Asia Magnesia Materials Trading Centre' is offering financing for Liaoning magnesia companies, with up to Chinese renminbi [Rmb] 10billion [\$1.6billion] available in loans from a consortium of banks that have agreed to cooperate with the centre. Also, provinces hold meetings 'to deal with the loan situation' for magnesia. As a result, Chinese producers can claim 'reduced' financial costs and gain an unfair competitive advantage.

² The EU 5 MES criteria include: a low degree of government influence over the allocation of resources and decisions of enterprises, absence of state-induced distortions in the operation of enterprises linked to privatisation, existence and implementation of a transparent and non-discriminatory company law, existence and implementation of a coherent, effective and transparent set of laws which ensure the respect of property rights and the operation of a functioning bankruptcy regime and the existence of a genuine financial sector which operates independently from the State.

In the Chinese *electricity* value chain, end-users buy electricity from one of the two state-owned grid companies, which each hold a regional monopoly over both transmission and distribution. The retail tariff is regulated by the state government.

The Chinese container-shipping industry is government owned.

2. China's overcapacity exported to Europe would suffocate the magnesite/magnesia industry

The Chinese dead-burned magnesia (DBM) capacity is 11 million mt/year, 2.2 times the actual production in China, while the electro-fused magnesia (EFM) capacity is 3.6 million mt/year, 2.1 times the actual production in China.

Currently, the Chinese capacity surplus of DBM of 6 million mt/year for DBM is 12.5 times the EU production of natural dead burned magnesia. The export of such large quantities to Europe will therefore have a great impact on the European industry.

If China was granted market economy status, Chinese steel could replace 10-15% of the EU steel production and, as a consequence, would make a similar percentage of the EU refractories production obsolete.

3. Granting market economy status to China would lead to the loss of several thousand jobs

Euromines estimates that the EU magnesia industry offers about 6500 well-paid direct jobs in the EU. Including indirect employment, the overall estimate reaches around 20.000 jobs found in most cases in countries and regions already facing serious economic and social issues (Spain, Slovakia, Greece and the northeast part of the Netherlands).

China being treated as a market economy would lead to the shut-down of several companies, the loss of a couple thousand jobs and a severe negative impact on the development of these regions.

4. Granting market economy status to China will lead to a decrease in the research and development investments

European producers are spending considerable effort and capital in developing state-of-the-art technologies. Such investments lead to higher quality products. Magnesia is often used in 'green' or 'clean-tech' applications, either in environmental protection and restoration or in energy reduction processes such as:

- Coal/oil power plants: Caustic calcined magnesia is used as fuel additive; scrubbing to sequester/remove SO_x gas from wet electrostatic precipitators and sulphur dioxide (SO₂) from flue gas desulfurisation scrubbers; for corrosion control and opacity treatment;
- Nuclear waste treatment: caustic calcined magnesia is used in the disposal of low-radiation waste;
- Drilling locations: caustic calcined magnesia is used for borehole stability, hydrogen sulfide (H₂S) absorption, for drilling cements;
- Oil sands production: caustic calcined magnesia is used for silicon dioxide (SiO₂) removal to allow reuse of water;
- Magnesium compounds: for the production of pharmaceutical and food additives as well as compounds for technical applications;

- Catalysts: as natural magnesia has a high melting point, stable structure and good mechanical properties all of which are desired properties for catalyst supports;
- Leather tanning: for collagen fibres of the animal hide that are subject to biodegradation and for this reason chrome tanning sulphate is used;
- Dental applications: to produce defect-free castings with a fine surface finish and which match the dimensions of the pattern, using a magnesia phosphate tooth cement ;
- Brake lining: as magnesium oxide is an important component in friction material formulations;
- Making of special glass: to partially substitute dolomite as a magnesium source during the production of special glasses;
- Mineral insulated cables: made by placing copper rods inside a circular copper tube and filling the intervening spaces with dry magnesium oxide;
- Road patching, in quick set magnesia phosphate cements.

The development of future magnesia applications is also discussed, such as the following:

- Carbon-negative and environmentally friendly cements,
- 'Eco-concrete' floor panels,
- Mg-ion batteries, instead of Lithium,
- Photovoltaic/Thermal Systems with magnesia-water nanofluids flowing over silicon solar cells,
- Recent fluid advances for the completion phase of deepwater projects.

The above-mentioned investments lead to an increase in the overall product costs which are considerably higher than the ones reported by the Chinese magnesite/magnesia sector lacking such projects. Implicitly, the overall quality of the products brought to Europe will decrease if low cost but also low quality products will enter the European market and replace the current ones.

5. Production in China in not compliant with the EU sustainable development value chain

According to the *Nature Climate Change Journal*³, products from China are causing a substantial cost to the environment due to their higher carbon dioxide emissions as compared to similar products produced in other countries, including Europe. The researchers noted that the several products being exported by Chinese high level carbon producing industries, including steel mills, mineral processors and petrochemical plants may also contribute to huge carbon emissions from the country.

Quite the opposite, the EU and the EFTA countries are subject to severe environmental regulations, including, for example an ETS system for greenhouse gas emissions.

³ [Targeted opportunities to address the climate–trade dilemma in China](#)

6. The anti-dumping measures would have to be recalculated to the disadvantage of the European industry

The magnesia value chain would be severely weakened by eventually necessary new anti-dumping measures, recalculated on the basis of cost of production, rather than 'normal value'.

China has repeatedly practiced dumping in dead-burned magnesia, in refractories, in steel and in caustic calcined magnesia and has consequently been the country mostly targeted in anti-dumping investigations regarding these products. Should China obtain MES and thus be able to base a price comparison on costs and selling prices inside China -- dumping in dead-burned magnesia, in refractories, in steel and in caustic calcined magnesia will be intensified while anti-dumping investigations will be severely weakened.

In the two Council Regulations [EC] of 2005, imposing a definitive Anti-dumping duty [on imports of CCM and of DBM respectively] originating in China, the EC had established, that *'...since the People's Republic of China is an economy in transition, normal value had to be based on information obtained in an appropriate third-country market economy in accordance with Article 2(7) of the basic Regulation.'*

Unlike DBM, there is no downstream control of the CCM value chain by EU CCM producers, not even partially. Hence, at prices such as the above, EU CCM producers will not be able to sustain any production of animal feed and fertiliser.

7. The anti-subsidy instrument has never been effective in the face of the distortions of the Chinese economy

Given the distortions of the Chinese economy, the challenges of countervailing imports from China make it unrealistic to think that anti-subsidy measures could be effective to address dumped imports. This is borne out in the level of measures resulting from EU anti-subsidy investigations of imports from China where almost half of the investigations have been closed without the imposition of measures, and the average rate of anti-subsidy duty has been 6.4%. Duty rates around 6% or less are clearly inadequate to deal with Chinese distortions, as they are absorbed by Chinese exporters who do not have to worry about the effect of low pricing on profitability.

About Euromines

Euromines, the European Association of Mining Industries, Metal Ores & Industrial Minerals, represents large and small companies and subsidiaries in Europe and in other parts of the world which provide jobs to more than 350,000 people. Through the activities and operations of these members, more than 42 different metals and minerals are produced. Their sustainable exploitation can increase Europe's supply of mineral resources, help ease imports from third countries usually applying lower environmental, corporate and social standards and foster the socio-economic growth of Europe's Regions.