

China Rejects WTO Accusation of Magnesium Market Manipulation

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Producing well over 80 percent of the world's magnesium, China is calling the shots when it comes to determining the price and availability of the light metal that is a key material for manufacturing car parts and engines. Its dominance, however, may abate slightly amid heightened international criticisms, but whether producers in other countries are willing to challenge China head-on remains to be seen.

In July, the [World Trade Organization](#) [3] ruled that China has violated global rules by restricting the export of magnesium, among the eight other raw materials that are critical for industrial production, including [rare earths](#) [4]. The United States together with the European Union and Mexico have argued that Beijing was deliberately manipulating the market that it corners and forcing manufacturers to bend to their prices.

For its part, however, Beijing insisted that it needed to cut back on shipping magnesium overseas as it cut back on production to ensure environmental sustainability in producing the metal. The government maintains that argument as Beijing officially appealed last month that it was not violating any WTO rules.

"We still feel the country's policies on exports of raw materials don't violate the rules of the WTO," Shen Danyang, a Ministry of Commerce spokesman said at a press briefing. The country has stated that it will close down its smaller magnesium plants in an effort to control environmental damage as a result of the pollution caused by processing magnesium.

Yet, even if they were to shut down its smaller, more antiquated plants, China still has the capability to produce at least twice as it does now, said George Haley, Director of the [Center for International Industry Competitiveness](#) [5] at the University of New Haven.

What's more, China's commodities producers including magnesium companies are being heavily subsidized by the government, which in itself violates international trade agreements, he added.

But instead of simply pressing China to abide by WTO regulations and lift any export restrictions, other countries should ensure that their own supply of magnesium and other materials remains steady, Haley argued.

There is only one company in the United States that continues to produce magnesium. While all other US producers such as [Dow Chemical](#) [6] (NYSE: [DOW](#) [7]) eventually retreated from the market as they were unable to produce with the cheaper material produced in China. Salt Lake City-based [US Magnesium](#) [8] is still in operation to this day, and indeed, is single-handedly responsible for the United States to be the second-largest magnesium producer in the world. As magnesium is a key component to produce jet engines as well as electronics and automobiles, many US legislators have encouraged companies to source their material from US Magnesium. In fact, the US Department of Defense requires most magnesium that is used for military purposes to be sourced from either the United States or Canada, but Haley pointed out that there can be a more systematic approach to ensure a steady supply of critical industrial materials from within the US borders, especially in light of national security.

Depending too heavily on one foreign producer, as is the case with magnesium, the United States and other countries become vulnerable to any unilateral export restrictions. Furthermore, US defense contractors and other manufacturers will be hostage to materials not regulated by their own government's standards if the domestic supply is not ensured.

In April 2010, for instance, substandard magnesium powder imported from China was found to be used in the US military aircraft. Three companies, namely [ESM Group](#) [9], [Superior Metal Powders](#) [10], and International Technology Group, were charged, but 1.8 million flares worth \$42 million that are used by military aircraft to divert heat-seeking missiles were made with the substandard material. None were mounted onto the aircrafts, however, and all flares have been destroyed.

Disclosure: I, Shihoko Goto, have no interest in the companies mentioned in this article.



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