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SUMMARY REPORT OF THE RAW MATERIALS WORKSHOP

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SUMMARY REPORT OF THE RAW MATERIALS WORKSHOP

October 30, 2009
OECD Conference Centre

I. Background

1. Prices for commodities such as minerals, metals and agricultural products have increased sharply over the past few years. At the same time, there has also been an increase in restrictions on the export of raw materials which has led policy makers and business people to the question of free trade of raw materials.

2. The OECD workshop on raw materials was first proposed at the October 2008 Trade Committee meeting, and was further developed by the same Committee at its March 2009 Working Party, and a final decision to hold this workshop was taken at its April 2009 meeting. The European Commission and Japan committed voluntary contributions to make this workshop financially possible.

3. Although various policy measures, including export restrictions, domestic taxation and investment measures, can affect the trade of raw materials, this Workshop focussed on export restrictions in view of their direct impact on trade and more frequent use of these measures in recent years.

4. The aim of the Workshop was to improve the understanding of the economic aspects of export restrictions as well as the policy objectives of measures designed to restrict trade of raw materials. To achieve this objective, the workshop was composed of two sessions. Session 1 focused on the economics of export restrictions, while Session 2 focused on policy objectives. The effectiveness of export restrictions in achieving policy objectives depends in part on whether they affect the price and quantity of the product as expected. In this regard, a discussion of the economic impacts and policy rationale complement one another.

5. There were approximately 120 participants at the workshop. The audience was composed of government representatives (from both OECD and several non-OECD countries such as Argentina, Chile and the Russian Federation), representatives of the business community, as well as academics and representatives from international organisations including the WTO secretariat.

6. The papers and presentations of the Workshop can be found at: www.oecd.org/trade/ntm/rawmaterials. The Programme is annexed to this summary report.

II. Presentations and discussion

7. The Director of the OECD Trade and Agriculture Directorate opened the workshop by welcoming workshop participants. He expressed special appreciation to speakers from non-member countries who agreed to present their policy experiences and to BIAC and business participants whose presentation and participation in the discussions were critical to understanding the issues.

8. The OECD has analysed export restrictions as a form of non-tariff measures (NTMs) since 2003. However, recent economic developments require that OECD has a better understanding of these measures as not only do more governments apply these measures today, but they also apply more restrictive ones. Furthermore, much more attention has been given to measures which apply to metals and mineral products. Indeed, when several countries apply export restrictions to deal with social objectives such as environmental protection and conservation of natural resources, such measures create concerns in countries which rely heavily on imports of these products for their own manufacturing industries.

9. A keynote speech by the Director for WTO affairs, OECD and Food-related sectors of the European Commission, followed and highlighted the concerns of importing countries of the growing impediments to the free trade of raw materials. The application of export restrictions, by distorting price signal and trade flows, creates an uneven playing field between countries applying these measures and importing countries. Despite the multiple policy objectives sought by these measures, the potential benefits are accompanied by inefficiency caused by the distortion of resources allocation. Access to raw materials has become a global challenge because no economy is fully self-sufficient in every raw material. This issue is of interest to all countries, developing and developed, as well as resource-rich and resource-poor countries.

10. The fact that governments apply export restrictions to achieve policy objectives indicates the necessity for a broader and more integrated approach. Food security, environmental protection, government revenue and industrial development are a few examples of policy objectives. Although there is an important trade component, analysis from the perspective of the domestic policy objectives is important in enhancing understanding of this issue.

A. Session 1: Economic impacts of export restrictions – Presentations and discussion[1]

11. The general economic analysis of export restrictions was the topic of the first presentation in this session. It indicated that these measures could deteriorate the terms of trade and real incomes of trading partners. Export taxes also reduce the domestic price of the taxed commodity and benefit final consumers of this commodity, which explains why several governments have applied export taxes for domestic food security purposes.

12. Recognizing that export taxes can be applied for food security purposes, the presentation indicated that such measures, when applied by large countries that can influence world prices, impact negatively on the welfare of trading partners, especially those of small countries, by reducing the supply to the world market and thus amplifying the negative aspects of the initial high price.

13. Export restrictions can induce policy responses from importing countries and the cumulative effects of these measures on international food prices were emphasized. Considering food safety as common policy interests, while exporting countries opt to apply export restrictions, importing countries can choose to reduce import tariffs. In this case, application of an export tax will raise the international price and thus make it necessary for importing countries to reduce their import tariff rates much more than in the case where no export tax was applied. These two measures, combined, will increase international prices even higher. This process implies the implementation of a non-cooperative policy equilibrium which worsens world welfare and calls for international coordination.

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1. The conference on "Global Challenges at the Intersection of Trade, Energy and the Environment" which took place a week before the OECD workshop dealt specifically with raw materials in the energy sector. Panel 2 of the conference focused on the import, export and production restrictions on energy goods. More information can be found on the website: http://www.graduateinstitute.ch/ctei/home/ctei_events/energy_conference.html .

14. Participants indicated that export restrictions on agricultural products increases doubt on dependence on world market, encouraging many developing countries to rely more on self-sufficiency.

15. The dynamic impact of export restrictions drew remarks from several participants. High international prices caused by export restrictions can encourage production in countries where such restrictions are not applied, thereby increasing supplies that in turn reduce prices in the long term. However, in the country where such measures are applied, producers will have less incentive to increase their production capacity. In this sense, it is difficult to foresee the long-term effects of such measures as a whole.

16. Comparison between dual pricing of natural gas and export tax on raw timber in the Russian Federation was the focus of the second presentation. In the case of natural gas, dual pricing can be explained by high prices associated with strong market power in Europe and regulated prices to limit monopolistic pricing in Russia. Increasing competition in the Russian market will reduce monopolistic market power, thereby reducing the necessity to regulate domestic price.

17. Against this background, the differences in the economic situation between the gas and timber industries were explained. In the case of natural gas, a monopoly producer extracts profits without government intervention. In the case of Russian timber, this industry faces a competitive market. Thus, government intervention through an export tax or export licensing aims to maximize market power that the industry as a whole possesses in the European market. Developing the domestic wood processing industry is an additional domestic objective as a part of industrial diversification efforts. The current export tax rate vastly exceeds the optimal level considering its market power, and this high rate distorts price signals and resource allocations.

18. A participant indicated that the export tax on timber failed to lure investment in the Russian processing industry while many companies in Finnish downstream industries suffered from the increased import price of timber. Although export restrictions can provide an incentive for foreign investment in downstream industries, case-by-case analysis is necessary to evaluate their effectiveness. Investment decisions are made based on several factors and the benefits associated with a better access to raw materials will be weighed against other factors.

19. The Secretariat examined the presence and impact on trade and global supplies when export restrictions applied to selected metals and minerals. The strategic metals and minerals selected for the study share a number of characteristics. Their exploitable mineral reserves are generally found in one or only a few geographical regions of the world which, in turn, leads to a dependence on such imports by countries that consume these materials or produce finished goods. It suggests that countries holding reserves may influence the price and quantities of the raw materials made available on world markets. These metals and minerals are generally used as inputs into high-technology or strategic sectors, and have few substitutes available in the short-term.

20. A number of insights regarding the impact of export restrictions can be deduced on the basis of three case studies. Many export restrictions are put in place either for environmental reasons or to conserve natural resources. In order to attain their objectives, however, they must reduce production levels. In one case study on molybdenum, this was not the outcome of the imposition of export restrictions. As many of the raw materials are produced in a limited number of countries, an export restriction that is imposed in one country can motivate other countries to follow if importers divert their source of imports. The restriction imposed by the first country then loses its effectiveness, which can then lead to a situation of competitive policy practices, *i.e.* application of higher export taxes. Export restrictions can impact on potential investment in mining facilities worldwide. Investments in the mining industry, which are necessarily long-

term and require large amounts of capital, may be effected by the possibility of sharp changes in world prices due to either the imposition of export restrictions or to their sudden removal.

21. Analysis of export restrictions regarding the steel industry focused on their price effect and impact on developing countries. While world demand for raw materials to make steel is likely to continue to increase, a growing number of countries impose restrictions on the export of raw materials. This situation, combined with frequent modifications of the measures applied, raises concerns in importing countries on the stable supply of raw materials.

22. Coke price data has shown that the export restriction measures as applied by China has led to a significant differential between the domestic price and the price available to foreign companies. It has also had an important impact on world price levels of this raw material. Although changes in world coke prices have not significantly been associated with changes in either steel production or steel prices, the changes that have occurred are a direct reflection of export restrictions. Finally, developing countries have been negatively affected by such measures because many developing countries, just like developed countries, do not have substantial iron ore reserves or steel scrap supplies.

23. The next presentation focused on the economic impact of differential export taxes throughout the supply chain. Differential export taxes favours the downstream processing industries in exporting countries by taxing exports of a raw material at a higher rate than for exports of downstream products. In this regard, it was suggested that differential export taxes have the same economic effect of an export subsidy to the downstream industry.

24. In importing countries, differential export taxes directly affect the domestic downstream industry because the local industry must compete with imports of processed products that benefit from the price advantage given by these taxes. Differential export taxes also affect exports of downstream products to foreign markets where they have to compete with the products of the country applying such export taxes.

25. The impact of export restrictions on the business environment was the final topic of Session 1. Price volatility and unstable supplies caused by export restrictions create an insecure environment and companies are thus unwilling to invest in long-term projects. This is especially important regarding the supply dimension of raw materials because it will delay investment by the mining industry to increase its capacity.

26. Business participants affirmed their concerns about the application of export restrictions without prior notification. Long-term business decisions on production and investment are based on foreseeable business environment and unanticipated application of export restrictions raises uncertainty in the business environment.

B. Session 2: Policy objectives of export restrictions – Presentations and discussion

27. The Secretariat introduced policy perspectives of export restrictions by covering both policy objectives of export restrictions and importing countries' concern regarding the frequent use of export restrictions. It indicated that although these measures have been applied in response to several policy concerns, several governments relied on alternative policy options to achieve the same policy objectives[2].

2. For example, as a response to high international food prices, many developed and developing countries relied on reduction of import tariffs, cash transfer to vulnerable groups and providing production support to increase domestic supply. For social objectives such as the conservation of natural resources and environmental protection, regulation on production itself rather than on trade is another option because these social concerns derive from production regardless of the products' destination.

28. A review of importing countries' policy concerns was based on responses submitted by several OECD members and non-members to the questionnaire circulated by the Secretariat. Price is the most obvious way in which export restrictions can affect industries and consumers of importing countries. The availability of a product and quality of the substitute products was also critical. The measures, when combined with limited competition, drew special attention from policy makers. When export restrictions are applied by a country with a monopolistic or quasi-monopolistic status on the world market, importing countries have more difficulty in finding alternative source of imports.

29. Three policy objectives of the Argentine export tax were explained in relation to its economic crisis in 2002. Fiscal consolidation is the first objective. In 2001-2002, Argentina experienced one of the most severe economic crisis and significant devaluation of its currency. Export taxes were applied when collection of more traditional income and value added taxes dropped significantly due to the recession. Another objective for implementing export taxes in 2002, particularly in the case of agricultural products, was to moderate the impact of devaluation on domestic food prices and their impact on real wages and poverty. Export taxes also contribute to a fairer income distribution by reducing windfall gains of exporters.

30. The Argentine government also maintains differential export tax rates, taxing primary products at higher rates than processed items, to compensate domestic downstream producers for tariff escalations. Export taxes on unprocessed commodities, by reducing their domestic price, favour the development of the local processing industry. The use of export taxes was suggested as the second best policy choice considering the difficulty to persuade other countries to reduce tariff escalation, which is the first best option.

31. The Chilean government described why it decided not to apply export restrictions even though its exports consist mostly of primary products. Emphasizing that Chile's economic growth is led by exports, the presentation indicated that export restrictions reduce national welfare and do not help its economic growth. With its strong belief in free trade, Chile has included provisions that prohibit export restrictions in most of its free trade agreements.

32. Chile's policy experience in dealing with the conservation of non-renewable resources drew attention from participants regarding environmental protection purposes. Despite the importance of copper in Chile's economy, Chile responded to resource depletion by applying a mining tax on the operating income of mine operators rather than relying on export restrictions. This tax is intended to affect domestic demand as well as foreign demand, and the revenue generated by this tax is destined for development and innovation projects in the mining and other sectors.

33. As a response to a recent price hike of agricultural products, Chile implemented a cash transfer program to people registered in social aid programmes. This consumer-based approach does not affect producers' incentive and is more effective by focusing on targeted groups.

34. Free trade and the stable supply of raw materials were emphasized as a pillar of the European Union's perspective on raw materials. In 2008, the EU developed an integrated raw material policy to deal with the whole cycle from production to consumption: (1) reducing the EU's consumption of primary raw materials, (2) fostering sustainable supply of raw materials from European sources, and (3) gaining stable access to raw materials on world markets in undistorted conditions.

35. The EU considers dealing with export restrictions as a priority because of the significant economic inefficiencies they create. Considering the economic interdependence of major economies in raw material, this issue should be put on the table so that constructive dialogue is developed.

36. The Japanese government focused on why enhanced transparency for export restrictions is critical. Current WTO rules do not provide sufficient transparency regarding export restrictions, while there is an increasing tendency to rely on these measures by many governments.

37. Japan's proposal during the Doha Development Agenda (DDA) negotiation was explained as a way to enhance transparency on export licensing. Their proposal requires each country to notify, in writing, existing measures on export licensing and any new measures on export licensing within 60 days after the effective date of the new measures. Each country, upon request by any WTO member, is required to provide all relevant information.

38. Several participants indicated that improving only transparency is not sufficient as a discipline on export restrictions. In response, it was argued that enhanced transparency could be a starting point for broader discipline on the issue in view of the difficulties encountered during DDA negotiations regarding more substantive discipline on export restrictions.

39. The policy experiences of the Russian Federation were the subject of the final presentation in Session 2. A distinction was made between export limitations and export policy which includes an export tax on timber and scrap metals. While the first is about protecting national security or preventing the proliferation of mass-demolition weapons, the second aims to meet economic needs.

40. The Russian Federation applies to export restrictions to serve diverse policy objectives and these measures are asserted to be consistent with trade rules such as GATT Article XX. Export tax on round wood is applied to preserve environment in a non-discriminatory way. Export tax on scrap metals is intended to prevent illegal commercial export operations: theft of railway rails and scrapping of large equipment such as ships.

41. Several participants voiced the importance of WTO DDA negotiation as an opportunity to provide a framework on export restrictions. Pointing out the similarity between an export subsidy and an export restriction in their economic impact, it was indicated that to focus only on abolishing export subsidies does not constitute a balanced approach. Another participant emphasized that it is imperative to conclude on discipline of export restrictions during the DDA, considering their increasing application. Although many participants agreed on the urgency of the issue, the probability of a conclusion on more discipline during the DDA was not shared amongst participants.

III. Conclusions by the chairpersons

42. Two chairpersons provided collectively a list of findings of the Workshop.

- The significance of export restrictions on raw materials for the world economy is recognized, especially noting the high level of interdependence between exporting and importing countries.

- Export restrictions affect a wide range of products and are applied to achieve diverse policy objectives, such as fiscal, development policy and social policies. This requires an integrated approach which is beyond trade policy in its coverage.

- It is a global challenge which requires coordinated responses. No economy is fully self-sufficient of every raw material. More interest from developing countries is critical. Although several measures are applied for development purposes, it is noteworthy that developing countries are as equally affected by such measures as are developed countries.

- There is consensus that export restrictions create economic inefficiency by distorting resource allocation and can negatively affect the welfare of trade partners. Evaluation of their dynamic impact is more complicated and requires further study. The measures create a differential between the price available to domestic and foreign processors and thus provide foreign processing industries with a disadvantage. Price volatility caused by the measures and lack of transparency in applying them create an unpredictable business environment.

- While export restrictions are applied to achieve several policy objectives, there exist alternative policy options with different trade impacts. Furthermore, uncoordinated application of export restrictions, combined with additional policy responses from other countries, can lead to an unexpected outcome and thus fail to achieve the original policy objectives. This leads to the following questions regarding how to improve national policy: (1) whether export restrictions are more effective and whether their economic costs are higher as compared to the alternatives, and (2) how to encourage coordinated responses among policy makers.

- There is a strong case for international cooperation in dealing with this issue. Although the WTO is a natural forum in this regard, alternative forums can be sought for additional study and dialogue.

- Several future steps by OECD were suggested to take this issue forward. Gathering information on the application of export restrictions and regularly updating it are important. Exercising additional case studies and finding best practices can provide more in-depth understanding of the economic impacts and policy effectiveness of export restrictions.

OECD Workshop on Raw Materials

Economic Impacts and Policy Objectives of Export Restrictions

30 October 2009

Programme

09:00 – 09: 30 Check-in at the Security Desk (OECD Conference building)

Opening (09:30 – 10:00)

09:30 – 09: 45 Welcoming remarks by Mr. Ken Ash, Director of the Trade and Agriculture Directorate, OECD

09:45 – 10:00 Keynote Speech by Ms. Signe Ratso, Director for WTO Affairs, OECD and Food-related sectors, DG TRADE, European Commission

Session 1: Economic impacts of Export restrictions (10:00 – 13:00)

Chair: Mr. Simon Evenett, Professor of Department of economics, University of St. Gallen

Export restrictions generally bring about a decrease in export volumes which has various economic impacts on domestic and foreign markets. They may divert supply to the domestic market, leading to a downward pressure on domestic prices, while possibly raising importing prices and diverting sources of imports. Impact on domestic production also draws attention, considering that many governments apply measures to reduce domestic production for either conservation or environmental purposes. Impact on international price is another interesting point since these measures, by reducing international supply, can raise the international price of the products while these measures themselves might have been triggered by high commodity price. This session focuses on these potential effects on price and quantity of the products both in exporting and importing countries.

10: 00 – 12: 00 Presentations from academics and business associations

Academic experts will provide economic analysis of economic restrictions covering both theoretical issues and sector-specific features of the measures. Representatives from relevant industries will complement academic presentation by displaying on-field experiences, which will provide participants with an opportunity to better understand how these measures affect relevant industries.

Speakers

1. **Mr. Antoine Bouet**, Senior research fellow, the International Food Policy Research Institute, “Understanding why countries implement export restrictions: a theoretical and CGE-approach contribution focusing on agricultural products”

2. **Mr. David Tarr**, Professor of Economics at the New Economic School, Moscow, “Export restraints on Russian natural gas and raw timber: What are the economic impacts?”

3. **Ms. Jane Korinek**, Trade analyst, the OECD Trade and Agriculture Directorate, “Export restrictions on strategic raw materials: their impact on trade and global supply”

4. **Mr. Alan H. Price**, Partner, Wiley Rein LLP, “Export barriers and global trade in raw materials: the steel industry experience”

5. **Mr. Eduardo Lopez-Perez**, Deputy Director of ANIAME, Mexican association of edible oils and shortening producers, “How export restrictions affect importing countries – oilseeds products case”

6. **Mr. Gordon Peeling**, Chair of the BIAC Raw Materials Committee, “Market distortions and effects on raw materials supply – a BIAC perspective”

12:00 – 13:00 Open floor discussion

Lunch Break (13:00 – 15:00)

Session 2: Policy objectives of Export restrictions (15:00 – 17:45)

Chair: **Mr. Fernando de Mateo**, Chair of the OECD Trade Committee

Governments apply export restrictions to achieve several policy objectives. These include domestic food safety providing key products at lower prices, and social policy objectives such as the conservation of natural resources. Export taxes may also be applied in order to increase fiscal revenues. However, not all countries rely on these measures to achieve such objectives and alternative targeted measures can be applied. The effectiveness of export restrictions in achieving policy objectives depends in part on whether such measures affect the price and quantity of the product as expected. Considering the existence of alternative policy tools, the question is whether and under which conditions export restrictions are most effective in achieving policy objectives and whether the economic costs of export restrictions are higher or lower as compared to the alternatives that are available.

15: 00 – 16: 10 Presentation from several governments to share policy experiences

OECD will introduce a list of policy objectives evidenced by current application of export restrictions. It will be followed by presentation from several government officials with the aim to share policy experiences. Why do several governments apply export restrictions to achieve diverse policy objectives? Why do several governments rely on alternative measures for achieving the same policy objective? Does the effectiveness of export restrictions vary depending on policy objectives aimed at? If several governments are concerned about the measures applied by other countries, what is the reason for such concern? These are the issues which we would identify by sharing policy experiences.

Speakers

Policy perspective of export restrictions, Jeonghoi Kim, Trade analyst, the OECD Trade and Agriculture Directorate

1. **Mr. Euardo Tempone**, Director of Economic Multilateral Relations, Ministry of Foreign Affairs and International Trade of Argentina

2. **Mr. Christian Fresard**, Counselor at the Permanent Mission of Chile to the WTO

3. **Mr. Peter Klein**, Acting Director, Directorate of Market Access and Industry, DG TRADE, European Commission

4. **Mr. Jun Takashina**, Director for Multilateral trade system department, Ministry of Economy, Trade and Industry of Japan

5. **Mr. Ivan Prostakov**, Chief of the Trade and Economic Delegation of the Russian Federation

16:10 – 17:45 Open floor discussion

Closing: Joint conclusion by chairs of both sessions (17:45 – 18:00)