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W.T.O. Says Chinese Restrictions on Raw Materials Break Rules

By **STEPHEN CASTLE**

BRUSSELS — In a dispute that highlights growing tension between [China](#) and its Western trading partners, the [World Trade Organization](#) ruled Tuesday that Beijing violated global rules by restricting exports of nine raw materials used in the manufacturing of high technology products.

The case, lodged by the United States, the [European Union](#) and Mexico, dates from 2009 and underlines the anxiety in the West about the way China is consolidating its trading dominance.

Significantly, the ruling strengthens other European arguments against Chinese restrictions on another category of exports — [rare earths](#), 17 minerals also used in the high-tech industry. However the case also demonstrates how dependent technology industries have become on some exports from China.

The W.T.O. panel rejected China's argument that its restrictions were motivated by a desire to protect the environment and prevent a critical shortage of the materials.

The decision on Tuesday concluded that Chinese quotas, export duties and license requirements put in place a discriminatory system for the sale overseas of industrial raw materials widely used in the steel, aluminum and chemicals industries, including coke, zinc and bauxite.

"This is a clear verdict for open trade and fair access to raw material," Karel De Gucht, the European trade commissioner, said in a statement. "Furthermore, in the light of this result, China should ensure free and fair access to rare earth supplies," he added.

The E.U. quota of Chinese raw earth elements declined to 30,000 tons in 2010 from around 50,000 tons in 2009, according to an E.U. official who was not authorized to speak publicly.

The U.S. trade representative, Ron Kirk, called the W.T.O. decision on the raw materials "a significant victory for manufacturers and workers in the United States and the rest of the world."

"China's extensive use of export restraints for [protectionist](#) economic gain is deeply troubling," Mr. Kirk

added in a statement. “China’s policies provide substantial competitive advantages for downstream Chinese industries at the expense of non-Chinese users of these materials. They have also caused massive distortions and harmful disruptions in supply chains throughout the global marketplace”

Americans and Europeans had challenged China’s environmental protection argument by pointing out that the raw material consumption was not being controlled domestically.

China must now either appeal the ruling or comply with it. If it fails to do so the United States, Europe and Mexico could eventually be allowed to respond with equivalent trade sanctions.

In a statement issued by its mission to the W.T.O. in Geneva, China said “that although these measures have certain impact on domestic and international users, they are in line with the objective of sustainable development promoted by the W.T.O. and they help to induce the resource industry toward healthy development.”

The nine raw materials covered by the ruling on Tuesday are used in medicines, CDs, electronics, the automotive industry, ceramics, refrigerators and batteries among other products.

Of all the E.U. imports of some categories of magnesium, 95 percent are sourced in China, as is 91 percent of imports of some categories of manganese while almost 30 percent of E.U. phosphorous imports are Chinese.

European officials say the export restrictions increased the global price for the raw materials, and gave Chinese companies a clear commercial advantage which, in effect, constitutes a hidden subsidy. They also made it harder for non-Chinese companies to source the raw materials by making them less readily available on the global market.

The impact can be to increase the price of some products by as much as 100 percent, according to E.U. officials.

The ruling was welcomed by BusinessEurope, the lobbying group. “The W.T.O. panel decision clearly stipulates that almost all export duties and restrictions imposed by China are incompatible with W.T.O. rules,” it said in a statement. “If confirmed, this decision will require China to remove all unjustified restrictive measures on raw materials.”