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## Death By Antidumping

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posted by **DAN IKENSON**

A *Wall Street Journal* [editorial](#) today shines a long overdue spotlight on an antidumping case that is emblematic of the dissonance within U.S. trade policy. I, too, [wrote about this case](#) last year as an example of how the U.S.




Magnesium. Image via Wikipedia

antidumping regime undermines U.S. manufacturing, penalizes U.S. exporters, and diminishes chances for achieving the administration's goal of doubling exports in five years.

In 2005, U.S. Magnesium Corporation, the sole producer of magnesium in the United States, succeeded in convincing the U.S. International Trade Commission and U.S. Commerce Department to impose duties on imports of magnesium from competitors in Russia and China. Before toasting this outcome with some clichéd or specious utterance about how the antidumping law ensures fair trade and a level playing field for U.S. producers, it is important to understand that downstream, consuming industries (those U.S. producers that require for their own production the raw materials and intermediate goods subject to the antidumping measures) have no legal standing in these cases. Statute forbids the U.S. International Trade Commission from considering their arguments or projections about the likely consequences of prospective duties. Statute

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requires that the ITC consider only the conditions of the petitioning industry.

In other words, the analysis is slanted. The antidumping law codifies these evidentiary asymmetries, which makes it easier for U.S. suppliers to cut-off their U.S. customers' access to alternative sources of supply. In our increasingly globalized economy, this is a recipe for propping up old industries and discouraging and crippling new ones. It is a recipe for economic decline.

Here's what I wrote about the impact of the magnesium duties on one formerly promising U.S. growth industry in May 2010:

Consider the case of [Spartan Light Metal Products](#), a small Midwestern producer of aluminum and magnesium engine parts (and other mechanical parts), which presented its story to Obama administration officials, who were dispatched across the country earlier this year to get input from manufacturers about the problems they confronted in export markets.

Beginning in the early-1990s, Spartan shifted its emphasis from aluminum to magnesium die-cast production because magnesium is much lighter and more durable than aluminum, and Spartan's biggest customers, including Ford, GM, Honda, Mazda, and Toyota were looking to reduce the weight of their vehicles to improve fuel efficiency. Among other products, Spartan produced magnesium intake manifolds for Honda V-6 engines; transmission end and pump covers for GM engines; and oil pans for all of Toyota's V-8 truck and SUV engines.

Spartan was also exporting various magnesium-cast parts (engine valve covers, cam covers, wheel armatures, console brackets, etc.) to Canada, Mexico, Germany, Spain, France, and Japan. Global demand for magnesium components was on the rise.

But then all of a sudden, in February 2004, an antidumping petition against imports of magnesium from China and Russia was filed by the U.S. industry, which comprised just one producer, U.S. Magnesium Corp. of Utah with about 370 employees. Prices of magnesium alloy rose from slightly more than \$1 per pound in February 2004 to about \$1.50 per pound one year later, when the U.S. International Trade Commission issued its final determination in the antidumping investigation. By mid-2008, with a dramatic reduction of Chinese and Russian magnesium in the U.S. market, the U.S. price rose to \$3.25 per pound (before dropping in 2009 on account of the economic recession).

By January 2010, the U.S. price was \$2.30 per pound, while the average price for Spartan's NAFTA competitors was \$1.54. Meanwhile, European magnesium die-casters were paying \$1.49 per pound and Chinese competitors were paying \$1.36 per pound. According to Spartan's presentation to Obama administration officials, magnesium accounts for about 40-60% of the total product cost in its industry. Thus, the price differential caused by the antidumping order bestowed a cost advantage of 19 percent on Chinese competitors, 17 percent on European competitors, and 16 percent on NAFTA competitors.

As sure as water runs downhill, several of Spartan's U.S. competitors went out of business due to their inability to secure magnesium at

competitive prices. According to the North American Die Casting Association, the downstream industry lost more than 1,675 manufacturing jobs—more than five times the number of jobs that even exist in the entire magnesium producing industry!

Spartan's outlook is bleak, unless it can access magnesium at world market prices. Its customers have turned to imported magnesium die cast parts or have outsourced their own production to locations where they have access to competitively-priced magnesium parts, or they've switched to heavier cast materials, sacrificing ergonomics and fuel efficiency in the face of rapidly approaching, federally-mandated 35.5 mile per gallon fuel efficiency standards.

Thus, antidumping duties on magnesium have almost entirely snuffed out a U.S. growth industry that was succeeding in export markets by selling environmentally-friendlier auto parts—two attributes that really should make this a showcase industry, given the administration's stated goals.

But on trade policy formulation, it seems that the right hand doesn't always know what the left hand is doing. Last year, while magnesium imports from China were subject to U.S. antidumping duties, the Obama administration launched a WTO case against China for its restraints on exports of raw materials, including magnesium. That's right. The U.S. government officially opposes China's tax on exported magnesium because it imposes extra costs of U.S. consuming industries, but it insists on enforcing its own antidumping duties on magnesium imported from China despite those costs.

As if that is not enough dissonance, consider that the same U.S. Commerce Department that authorized the antidumping duties on magnesium is simultaneously charged with overseeing the National Export Initiative (and its goal of doubling U.S. exports to \$3.14 trillion by 2015). The Commerce secretary, Gary Locke, was even featured in [Washington Post profile piece](#) yesterday preaching about the national imperative to boost exports. Is Secretary Locke even aware of the incongruities under his roof?

The WSJ editorial concludes with a call to revoke the antidumping duties on magnesium, which is under consideration in a "Sunset Review." (Regrettably, as presented in this [analysis](#) from 2005, revocation pursuant to sunset review is more the exception than the rule.) I agree with the WSJ's conclusion, but would implore policymakers to go further and implement sweeping reform of the antidumping law. It is extremely costly to U.S. industry and totally out-of-step with 21<sup>st</sup> century economic reality. As I wrote last year:

Spartan's is not an isolated incident. Routinely, the U.S. antidumping law is more punitive toward U.S. manufacturers than it is to the presumed foreign targets. Routinely, U.S. producers of upstream products respond to their customers' needs for better pricing, not by becoming more efficient or cooperative, but by working to cripple their access to foreign supplies. More and more frequently, that is how and why the antidumping law is used in the United States. Increasingly, it is a weapon used by American producers against their customers—other American producers, many of whom are exporters.



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If President Obama really wants to see exports double, he must implore Congress to change the antidumping law to explicitly give standing to downstream industries so that their interests can be considered in trade remedies cases. He must implore Congress to include a public interest provision requiring the U.S. International Trade Commission to assess the costs of any duties on downstream industries and on the broader economy before imposing any such duties.

The imperative of U.S. export growth demands some degree of sanity be restored to our business-crippling trade remedies regime.

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