MANGANESE METAL COMPANY

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Committee on Finance
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Ladies and Gentlemen:

Re: S. 2379 and H.R. 5469, Bills to Modify the Tariff Applied to Imports of Manganese Flake

Manganese Metal Company respectfully opposes the reduction or elimination of tariffs imposed on manganese flake imports. The House bill, H.R. 5469, would eliminate duties on imports of manganese flake, containing at least 99.5% manganese by weight. The Senate version, S. 2379, would reduce the existing tariff from 14% to 12%. In practical terms, either version would reduce the duties paid on manganese flake from China, at the expense of the only alternative source of manganese flake, our company in South Africa. Also, reducing or eliminating tariffs on Chinese manganese flake would seriously undermine the purpose and effect of the African Growth and Opportunity Act ("AGOA").

Manganese Metal Company is the largest producer of pure electrolytic manganese metal in the world. MMC produces only selenium-free electrolytic manganese - the purest form of manganese - to meet the specialized needs of our customers in the United States and around the world. Our production facility is located in Nelspruit, South Africa. South Africa has roughly 80% of the world's reserves of high-grade ore. MMC produces manganese metal from high-grade manganese ore, extracted via a hydrometallurgical process. From the metal, a range of products is manufactured, including manganese flake.

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Historically, manganese metal and flake has been produced in South Africa, China, France, Japan and the United States. However, given low prices offered by Chinese suppliers and high costs of compliance with environmental rules, only South Africa and China have produced manganese metal for the past decade. And, although MMC is the single largest producer of manganese metal, China produces a far larger aggregate volume—China accounts for over 97% of world production.

Manganese flake imported into the United States from South Africa benefits from duty-free treatment under AGOA. Thus, although China's production and exports of manganese flake dominate the world market, the 14% tariff imposed on imports from China allows our duty-free manganese flake imports to compete for a share of the U.S. market. In fact, our manganese flake is the only viable and legal alternative to the Chinese supply.

I personally call on and supply a large customer base in the United States that values our manganese flake for its superior quality and the security provided by an alternative to Chinese flake. Nevertheless, given the very low prices offered by Chinese exporters—notwithstanding a 14% duty—it will become nearly impossible for us to continue to supply the U.S. market if the duties are eliminated.

As shown by the import statistics compiled by the U.S. Census Bureau, imports of manganese metal from China accounted for 81.5% of total U.S. imports of manganese flake in 2011. Imports from South Africa, which accounted for 12.7% of U.S. imports in 2011, are the second largest source of manganese flake. The only other significant source of imports, Vietnam (4.4%), does not have any manganese reserves or mines to produce manganese metal or flake.[1] Imports from Vietnam, in fact, are the result of illegal trade to evade export restrictions or license requirements imposed by the Chinese government.

Given its dominance of the world market since 2002, China has from time to time manipulated access to this critical material. For example, in 2007 and 2008, China reneged on export contracts and demanded sharply higher prices for the quantity that was available. As in the recent WTO case concerning raw materials from China, government policies have been used to distort the world market in the interests of Chinese industry.

Manganese flake imports from South Africa thus serve a vital role in the U.S. market as an alternative to China. Without these imports to supply U.S. manganese users, China will be in a position to raise prices on the world market, while continuing to supply low-priced manganese to its domestic end-users. Inevitably, China end-users will enjoy a significant cost advantage versus their U.S. competitors.

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[1] *See, e.g.,* U.S. Geological Survey, Mineral Commodity Summaries, *Manganese* (January 2012) available online at http://minerals.usgs.gov/minerals/pubs/commodity/manganese/mcs-2012-manga.pdf, last accessed June 20, 2012 (showing world production and reserves of manganese).

If our business cannot be sustained, China will have virtually no competition in the market for manganese flake. As in the case of rare earths, China will then be able to leverage control over a critical raw material to capture a dominate position in downstream industries. For this reason, it is in the best interests of U.S. manganese flake consumers to maintain the competitiveness of South African suppliers and, thereby, maintain an alternative to China.

Finally, removing or reducing tariffs on manganese flake from China will undermine the purpose and effectiveness of AGOA. AGOA is intended to promote local industry and exports in Africa. Duty-free treatment for AGOA products serves as an important incentive to establishment of industry in Africa and promotes trade with the United States. As noted above, manganese flake from South Africa benefits from duty-free treatment pursuant to AGOA. The 14% tariff on Chinese imports narrows the gap in prices offered by Chinese exporters and by Manganese Metal Company.

Yet, if China gains duty-free access to the U.S. market, the benefit conferred by AGOA will be lost. U.S. imports will have no commercial incentive to import manganese flake from South Africa and, indeed, our trade with U.S. users will almost certainly decline or disappear. As such, the existence of a modern, environmentally conscious industry in Africa will be in jeopardy.

For all of these reasons, Manganese Metal Company opposes elimination or reduction of the tariffs on manganese flake.

Respectfully submitted,

Antonie J. Botes
Marketing Manager