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China begins graphite overhaul January 5th 2017

China has begun an overhaul of its graphite industry by removing an export tax on flake graphite and introducing a pollution levy that will become law.

China's Ministry of Commerce announced in late-December that it was to remove a 20% duty on natural graphite exports from 2017 onwards, in a move which is expected to have serious repercussions for graphite prices and the wider industry.

Rumoured for some time, changes in export duties for several niche minerals and metals were confirmed following years of disputes with the World Trade Organisation.

The removal is expected to be implemented from January 2017 onwards, however clarification on this is expected in Q1.

When the duty is eventually removed global prices are expected to experience serious downward pressure as China – which already hosts many of the lowest cost producers in the world – will be able to export at prices up to 20% lower than current market rates.

This type of decrease would drag prices to unprecedented lows in an industry which has experienced almost five consecutive years of downward market pressures, and threaten not only the existence of established producers elsewhere but also several development stage projects with higher production costs.

Despite this possibility, industry participants are now waiting to find out whether alternative taxes will be levied on other areas of production.

By the end of the year plans had already been put in place to implement an environmental tax on graphite producers in an attempt to clean up some of the country's less efficient operations and potentially ramp up consolidation in the industry.

This new environmental tax will come into effect on 1st January 2018, but industry sources believe this could be the first of a number of new taxes levied on the country's producers to counteract the export duty removal.

Measuring the impact

Natural graphite – both flake and amorphous – is currently subject to a 20% tax on exports from China, however in practice producers often do not pay the full duty.

As a result, suppliers are expecting the removal of the duty could cause a decrease in export prices of between 10-18% on average.

It is, however, important to note that this duty is only applied to flake graphite concentrate, rather than its value-added derivatives such as expandable and spherical graphite.

These processed grades are not subject to an export duty and therefore their pricing structures are expected to be largely unaffected.

This means that for many established and development stage projects targeting value-added production, the news will have little impact on their business models. But for the few outside of China which try and compete in the flake concentrate market, troubling times could be ahead.

It is too early to judge the true impact of this type of announcement for the wider industry but it does signify a major shift in China's approach to the graphite market.

As a strategic input for value-added markets – and in particular the battery industry – the country will seek to comply with international pressures while protecting its domestic producers and interests downstream.

This will likely see consolidation, greater domestic consumption and value-added production in the longer-term. 2017 looks likely to be the start of this journey.