

June 20, 2017

The Honorable Wilbur L. Ross, Jr.
Secretary of Commerce
U.S. Department of Commerce
1401 Constitution Ave., N.W.
Washington, DC 20230

PUBLIC DOCUMENT
ELECTRONIC DELIVERY

RE: Section 232 National Security Investigation of Imports of Aluminum

Dear Secretary Ross,

As the trade association representing the domestic aluminum value chain – from primary producers, to recyclers, to fabricators, and their suppliers – as well as the vast majority of U.S. aluminum production and 161,000 U.S. aluminum jobs at facilities in 35 states, the Aluminum Association welcomes Department of Commerce’s and the Trump Administration’s leadership in launching an investigation under Section 232 of the Trade Expansion Act of 1962 of the impact of aluminum imports on U.S. national security.

Please find attached the Aluminum Association’s submission in response to the Department’s “*Notice of Request for Public Comments and Public Hearing on Section 232 National Security Investigation of Imports of Aluminum*” (82 Fed. Reg. 21,509 (May 9, 2017)) and “*Change in Comment Deadline for Section 232 National Security Investigation of Imports of Aluminum*” (82 Fed. Reg. 25,597 (June 2, 2017)).

The Association appreciates the opportunity to testify at the Department’s hearing on June 22. In addition to myself, the Association’s Chairman, Garney B. Scott, III (the President & CEO of Scepter, Inc.), will testify at the hearing. Consistent with the instructions provided to individuals selected by the Department to testify at the hearing, our statements will be submitted to the Department separately.

Sincerely,



Heidi Brock
President and CEO

Aluminum Association Submission
Regarding
Section 232 National Security Investigation of Imports of Aluminum
June 20, 2017

The Aluminum Association welcomes the Department of Commerce's and the Trump Administration's strong leadership in initiating an investigation into the impact of aluminum imports on U.S. national security under Section 232 of the Trade Expansion Act of 1962 (Section 232). The Association is pleased to respond to the Department's request for public comments,¹ and we stand ready to provide data, support, and information to the Department during the course of the investigation.

Overview

The Aluminum Association represents the domestic aluminum value chain – from primary producers, to recyclers, to fabricators, and their suppliers. Our members have manufacturing operations in 35 U.S. states, account for 70 percent of the aluminum and aluminum products shipped in North America, and are responsible for creating \$186 billion in economic activity. The Aluminum Association's members directly employ 161,000 U.S. workers, and indirectly support another 521,000 U.S. jobs. Aluminum products touch American lives daily in packaging, transportation, construction, aerospace, and countless consumer products. The U.S. aluminum industry is a global leader in developing innovative aluminum applications for the automotive and aerospace sectors, and in the adoption of clean, environmentally-friendly aluminum production technologies. Having a competitive, economically healthy domestic aluminum industry is vital for U.S. national security.

While U.S. aluminum demand has continued to grow and U.S. companies remain global leaders in aluminum production, in recent years, the global competitiveness of the U.S. aluminum industry has been negatively affected by a number of trends and developments, including China's emergence as a major global producer with large amounts of excess capacity. As a result of significant subsidies bestowed by the Government of China on its domestic aluminum producers, there have been massive and irrational expansions in China's capacity to produce aluminum and aluminum products since the turn of the century, such that it now substantially exceeds domestic demand in China. China is an important U.S. trading partner, but the Chinese aluminum industry has expanded far beyond its domestic needs. Its huge and growing aluminum oversupply has distorted the world market and adversely affected U.S. producers of both primary and downstream products. Chinese aluminum production has grown from 10 percent of the world total in the early 2000s to over 55 percent today. This Chinese oversupply has put severe downward pressure on world prices, which in turn has resulted in the shuttering of U.S. aluminum smelters. China's expansion into value-added downstream products and

¹ "Notice of Request for Public Comments and Public Hearing on Section 232 National Security Investigation of Imports of Aluminum" ([Federal Register](#), Vol. 82, No. 88, p. 21509 (May 9, 2017) and "Change in Comment Deadline for Section 232 National Security Investigation of Imports of Aluminum."

circumvention of U.S. duties through misclassification and/or transshipment through third countries are also major competitive concerns. These trends have had enormous negative impacts on the U.S. aluminum industry, and have adversely affected an industry that is a vital component of the United States' defense industrial base.

The aluminum industry submits here:

1. An analysis of the important linkage between general aluminum industry health and national security concerns, including high purity aluminum concerns;
2. An in-depth analysis of Chinese overcapacity and its effect on U.S. aluminum producers and global markets; and
3. Three broad principles of engagement that the industry supports to shape possible remedies resulting from the Section 232 investigation.

The Aluminum Association and its members support actions under Section 232 designed to address China's subsidies and expanding overcapacity. This requires steps to address Chinese government subsidies and overcapacity in both the primary and downstream sectors, and their negative, trade-distorting effects on global aluminum markets and prices. In evaluating possible actions that may be appropriate for our industry, the Aluminum Association urges the Department of Commerce to focus on the unique characteristics of the aluminum industry, which differ in important respects from the steel industry that is being investigated in a concurrent Section 232 proceeding. The U.S. steel industry has frequently utilized the United States' unfair trade laws to address threats to its operations caused by dumped and subsidized imports of steel from a broad array of countries. In contrast, the U.S. aluminum industry, which has long relied on suppliers in Canada and other nations in conducting its operations, has generally benefitted from fair international trade in aluminum and aluminum products and has been only an infrequent user of the U.S. unfair trade laws. Further, the few unfair trade cases filed by U.S. aluminum producers in the last decade have all focused on imports from a single country – China. As such, we urge the Commerce Department and the Administration to focus any action that may be taken in connection with this investigation on the significant negative impacts that are resulting from the massive overcapacity to produce aluminum and aluminum products in China, frequently with the assistance of subsidies provided by the Government of China.

The Association urges that any Section 232 remedy adhere to the following principles:

- (1) The remedy should be designed to specifically address Chinese overcapacity and its effects, while avoiding unintended consequences for U.S. production and jobs,
- (2) Any remedy should not interfere with the current trading relationship between the United States and critical trading partner countries which have been determined by the Department of Commerce to be operating as market economies (especially Canada and

the European Union, and which support U.S. aluminum production and jobs, and are highly integrated with North American supply chains), and

(3) The remedy should address the needs of the domestic aluminum value chain, including both primary and downstream U.S. production. Specifically, any remedy recommended to the President should ensure that beneficial effects are experienced by producers and fabricators of intermediate aluminum products that are used in manufacturing finished products.

The Aluminum Association and its members support action to address Chinese overcapacity and its effects on the global market. For action to be efficient, it should not allow for broad exclusions of Chinese products. However, we note that there are specific engineered products included in Chapter 7603 of the HTSUS which should be excluded from any possible remedies. These involve a small number of low volume engineered products that do not exhibit the same pattern of subsidization and continued increases in production capacity as the rest of the Chinese industry, and are used by U.S. producers to manufacture pigments and powders.

Ultimately, the Aluminum Association seeks a negotiated government-to-government agreement with China that addresses the underlying concern of chronic supply side overcapacity and its negative effects on global markets and prices.

1. Aluminum Plays a Vital Role in the United States' National and Economic Security

Aluminum is critical for U.S. national defense, from ground vehicles that protect our Army, jets flown by our Air Force, and warships deployed by our Navy. Light-weight and high-strength solutions are essential for today's defense applications. Aluminum allows military aircraft, vehicles, and structures to perform in challenging and often harsh environments, all while also providing superior blast protection for our troops. Aluminum's strength-to-weight ratio allows for products that offer speed and agility, additional payload, increased fuel economy, and state of the art protection. Aluminum products also touch American lives daily in transportation, construction, aerospace, and many other applications that are vital to our country's economic security.

Direct aluminum shipments for defense applications account for less than 5 percent of the total U.S. aluminum market, but the use of aluminum in sectors defined statutorily as part of the Defense Industrial Base,² including infrastructure and transportation, is a much higher percentage of the U.S. aluminum market.

Having a competitive, economically healthy U.S. aluminum industry is vital for the manufacturing and defense industrial base of the United States and the many communities

² Under 10 U.S.C. § 2500(1), the national technology and industrial base is defined as "persons and organizations that are engaged in research, development, production, integration, services, or information technology activities conducted within the United States ..."

dependent on its jobs. Absent actions that ensure robust and healthy commercial markets in the United States for aluminum and aluminum products, domestic producers will not be able to sustain their mills and facilities that also produce aluminum products that are vital for defense applications.

The vast majority of shipments of aluminum to the defense market are made from the most prevalent form of primary aluminum – P1020, the “basic” form of primary aluminum from which most commercial products are ultimately manufactured, as well. Some products, however, do require higher levels of purity, as discussed below.

“High Purity” Aluminum

The Aluminum Association serves as the American National Standards Institute (ANSI) accredited secretariat for the industry charged with overseeing the creation, promulgation, and use of aluminum standards, guidelines, and product definitions. There is no industry-agreed upon definition for so-called “high purity” aluminum. The term is widely used in the market to denote various purity levels of primary aluminum used for specific aerospace, defense, and other specialized applications. While the term is used more restrictively in some market contexts, it is most broadly understood to refer to aluminum of higher purity than P1020. As a result, “high purity” can be defined broadly or narrowly. If defined broadly, it refers to aluminum of purity higher than P1020. If the term is defined narrowly, it denotes a process capable of producing purities in the range of P0610 through P0202.

Several U.S.-based smelters have the technical capability to produce high purity aluminum. There are also numerous smelters within the statutorily defined defense industrial base in North America (e.g., Canada) that either are currently or have the capability to produce high purity aluminum. High purity aluminum production also takes place independently from the aluminum smelting process, and is currently being produced through a proprietary downstream process in the United States which purifies re-melted aluminum inputs. There are no significant barriers to expanding production of so-called “high purity” aluminum using this process.

2. Massive Overcapacity in China Is Creating Pressure to Export Aluminum Products to the United States, Causing Market Distortions That Threaten the U.S. Industry

Research by the CM Group, an analytics firm known for its expertise of the global aluminum industry, shows that Chinese aluminum capacity continues to expand apace despite slackening domestic demand in China. Other leading analysts have provided similar information during the U.S. International Trade Commission’s hearing in a pending Section 332 investigation into *Aluminum: Competitive Conditions Affecting the U.S. Industry*, (USITC Inv. No. 332-557). Numerous national and provincial subsidies and government policies aid Chinese companies, a significant share of which are state-owned enterprises (SOEs), and contribute to excess capacity. The data also show that Chinese policies to date that are designed to control capacity increases have been limited and ineffective. After vastly expanding primary aluminum production, Chinese producers are now engaged in a major expansion into production of

downstream products, threatening the U.S. downstream producers – many of which are engaged in producing products that support U.S. national security – and further distorting global markets and prices. This progression is intrinsically linked to Chinese industrial policies, with major shareholder relationships and/or clustering between primary production and downstream capacity expansion – 50% of Chinese primary aluminum is sold as molten metal to downstream fabricators.

U.S. and global demand for aluminum is rising. The metal has a significant role in many new and innovative applications designed to reduce energy use in transportation and aerospace. Global demand is estimated to grow between 4.0 and 5.0 percent annually, driven in large part by the increased use of aluminum in transportation, but also by improving fundamentals in building and construction and the electrical market. The domestic industry remains a leader in innovative aluminum technologies and applications, but is at a juncture where it will either be able to take advantage of this growth opportunity, or will be irreparably injured by unfair trade practices that undermine its ability to do so. Indeed, this industry has committed to or invested more than \$2.3 billion in domestic plant expansions in the United States over the past several years. Absent measures to address the massive overcapacity in China that threatens the U.S. industry, these investments and the industry's ability to continue to support U.S. national and economic security in the future are at risk.

The U.S. aluminum industry embraces competition that is fair and transparent. We believe that it is vital that the Chinese government:

- Address the negative effects of long-running rampant overcapacity in both the primary and downstream sectors and close smelters until demand can meet supply – this includes, at a minimum, forcing inefficient, unpermitted, and antiquated facilities to close; and
- Pursue policies that align with its own stated sustainable development goals and eliminate subsidies, lending, and other incentives that artificially support its aluminum industry and its resulting pricing practices that negatively affect world markets through its exporting of aluminum.

Absent reductions in excess Chinese supply, the U.S. industry's profitability, exports, and employment will continue to be adversely impacted. For this reason, the United States should lead efforts to achieve a negotiated solution between the U.S. and China, leveraged by trade consequences for failure to take corrective action.

3. Aluminum Association Recommendations on Three Principles to Guide Section 232 Remedies

The Aluminum Association and its members welcome the opportunity to work with the Department and the Trump Administration to on actions to address China's growing overcapacity and its adverse effects on global markets. Ultimately, this requires decisive

actions by the Chinese government to implement quickly its stated policy of “promoting structural adjustment” to address “excess capacity, market supply, and demand imbalances.” While specifically addressing Chinese overcapacity and its negative effects, any actions and negotiations under Section 232 should be carefully structured to avoid restrictions on Canada, which is a vital source of aluminum for U.S. producers, and to cover the U.S. aluminum value-chain, including both primary and downstream U.S. producers and their employees. Such actions should adhere to the following principles:

1. Specifically address Chinese overcapacity and its effects;
2. Do not impact current trading relationship between the U.S. and critical trading partner countries which have been determined by the Department of Commerce to be operating as market economies (especially Canada and the European Union, and which support U.S. aluminum production and jobs, and are highly integrated with North American supply chains); and
3. Have positive effects for the domestic aluminum value chain, including both primary and downstream U.S. producers and their employees.

Finally, while the Aluminum Association and its member companies support strong action to address Chinese overcapacity and its effects on the global market, we note that there are specific engineered products included in Chapter 7603 of the HTSUS which should be excluded from any possible remedies. These involve a small number of low volume engineered products that do not exhibit the same pattern of subsidization and continued increases in production capacity as the rest of the Chinese industry, and are used by U.S. producers to manufacture pigments and powders.

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For the foregoing reasons, the Aluminum Association respectfully requests that the Commerce Department and the Administration formulate actions under Section 232 to address China’s growing overcapacity and its adverse effects on global markets and prices that threaten the U.S. aluminum industry and its ability to continue to support U.S. national and economic security. Such actions should be precisely tailored to promote a long-term solution that addresses China’s trade-distorting subsidies and growing excess capacity, while avoiding restrictions on Canada and addressing the domestic aluminum value-chain.