

April 4, 2016

Mr. Jim Sanford  
Assistant U.S. Trade Representative for Small Business, Market  
Access and Industrial Competitiveness  
Office of the U.S. Trade Representative  
600 17<sup>th</sup> Street, NW  
Washington, DC 20508

**RE: Request For Comments Regarding Policy Recommendations on the Global Steel Industry Situation and Impact on U.S. Steel Industry and Market (Docket: USTR-2016-001)**

Dear Mr. Sanford,

On behalf of The Aluminum Association and its member companies, I submit these comments in response to the request announced on March 4<sup>th</sup> in the *Federal Register* (81 FR 11638-39) - [Hearings Concerning Policy Recommendations on the Global Steel Industry Situation and Impact on U.S. Steel Industry and Market](#). The Aluminum Association represents primary producers of aluminum, aluminum recyclers and producers of fabricated products, as well as industry suppliers. Member companies operate approximately 180 plants in the United States, with many conducting business worldwide. In recent years, the global competitiveness of the U.S. aluminum industry has been impacted by a number of trends and developments, including the emergence of an oversupply of both primary aluminum and semi-fabricated aluminum products, particularly from China, which has recently emerged as the dominant global producer.

The Aluminum Association appreciates the interest of the Office of the U.S. Trade Representative (“USTR”) in obtaining stakeholder views on the global steel industry situation, “as well as other U.S. industry sectors that may have concerns about the impact of excess capacity on their particular market.” Overcapacity, particularly in China, is of paramount concern to the aluminum industry as well. While the demand for aluminum is growing globally, and is particularly strong in North America, the Aluminum Association shares many of the concerns of the steel industry about growing overcapacity in China and questionable trading practices. Aluminum producers in the United States have been hurt by these practices and increasingly find themselves under the same pressures and problems faced by U.S. steel producers if Chinese policies contributing to global overcapacity and market distortions are not effectively addressed.

**Background**

The U.S. aluminum industry is a key element of the nation's strong manufacturing base, directly employing 157,000 workers and generating \$66 billion in economic output in 2013. Indirectly, the domestic industry employs an additional 521,000 workers and generates an additional \$88 billion in economic output. In total, the \$154 billion in economic output made possible by this industry accounted for almost 1 percent of the U.S. Gross Domestic Product in 2013.

Aluminum is the second-most-widely used metal on earth. Aluminum supports markets ranging from automotive and aerospace to consumer packaging to building and construction to consumer electronics. Aluminum is also a sustainable product. Infinitely recyclable and widely recycled, the industry has invested significant resources to increase recycling and minimize environmental impacts of production. Since 1995, the carbon footprint of primary aluminum produced in the U.S. and Canada has declined nearly 40 percent, driven by advances in efficiency technology, an increased reliance on renewable hydropower, and voluntary emissions reduction efforts.

The recognition of aluminum's unique attributes has contributed to an increased demand for the metal, both in North America, which is the world's largest market for aluminum outside of China, as well as in the rest of the world. From 2009 to 2014, demand in the U.S. and Canada was up over 37 percent. Globally, growth in demand has averaged roughly 5 percent per year over the same period. Likewise, the outlook for aluminum in North America is extremely encouraging. Demand in the region is estimated to grow at roughly 4.9 percent<sup>1</sup> in 2016, with the transportation sector driving transformative growth. For instance, the total use of aluminum in the average North American vehicle will grow from less than 400 pounds today to more than 500 pounds by 2025. That type of growth translates to billions of pounds of additional aluminum. With the domestic industry poised for such significant growth, Aluminum Association member companies have announced plant expansions and planned investment in the downstream aluminum rolling business totaling more than \$2.6 billion in the United States alone to capture this growth opportunity.

However, even with growing aluminum demand, unfair trade practices by China as a result of excess capacity are threatening to upend the domestic industry's future growth prospects. These questionable trading practices by some Chinese aluminum manufacturers are a result of the slowing economic conditions in China and the implementation of domestic tax and industrial policies that have artificially stimulated exports and created a significant oversupply situation.

### **Excess Capacity Affecting the U.S. Aluminum Industry**

Chinese overcapacity in aluminum is a real and measureable problem. Chinese aluminum production has grown from 10 percent of global supply to over 55 percent in a few short years, while in the same time frame, production has remained essentially flat in the rest of the world. In 2015, aluminum production outside of China contracted by 2%. China is an important U.S. trading partner, but as the Chinese economy has slowed, Chinese aluminum consumption growth has also slowed. This has exacerbated overcapacity and oversupply problems that have been building for the last decade. Chinese production and capacity continues to increase because of supports and incentives that prop up aluminum production even in the face of oversupplied domestic and international markets. The result has been significant closures of aluminum smelters and production facilities in the United States and elsewhere, with the related loss of almost 3500 jobs.

For years, Chinese governmental actions and financial support in manufacturing industries like steel and aluminum have contributed to the massive excess capacity that exists in the market today. The resulting over-production of metal is distorting the global market by creating an oversupply situation that has significant impacts on U.S. producers. While the rest of the world responded to such pressures – primary aluminum capacity in the rest of the world declined by nearly 2 percent in 2015 – Chinese

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<sup>1</sup> CRU International Ltd. "CRU Aluminum Monitor." *CRU Group*, 07 January 2016. Web. 4 April 2016.

capacity grew by nearly 12 percent<sup>2</sup>, with plans to raise capacity further in the coming years. As China looks to find external markets for its excess supply, pressure increases on producers in other countries to find markets for their displaced products. Hence, competition in the North American market increases not just with imports from China, but imports from other countries as they are displaced from their home markets by the Chinese supply.

The increase in Chinese capacity is due to a combination of newer capacity coming online with lower operating costs (a result of captive coal mines and power stations) and the inability to close higher cost, less efficient capacity. For example, one of the largest aluminum producers in China announced in early October 2015 that it would curtail all of the capacity at one of its largest smelters due to low aluminum prices and the resulting losses.<sup>3</sup> However, the decision was reversed a few weeks later as the local government did not want to lose the jobs of the more 2,600 employees working at the facility. Consequently, the smelter was able to secure discounts from the local government, including a reduction in power tariffs.<sup>4</sup>

This is just one example of how Chinese provincial and Central governments' continued use of incentives and subsidies are leading to an increase in production and capacity even when doing so makes little environmental or economic sense. These actions are creating a significant amount of uncertainty and having clear ramifications in the global marketplace for aluminum. Domestically, the massive increase in Chinese aluminum imports into the U.S. (up nearly 31 percent year-over-year in 2015) and the rapidly declining price have resulted in the number of U.S. smelters declining from 14 in 2005, to just 5 today. Of those five smelters, two have curtailed capacity to some degree, with another scheduled for full curtailment by the end of the second quarter.<sup>5</sup> U.S. exports of primary aluminum in 2015 fell approximately 11 percent from 2014 levels. For comparison, from 2009 to 2012, exports of primary aluminum from the U.S. increased at a rate of almost 5 percent per year.

The good news for U.S. aluminum producers is that there has been an increased appetite for aluminum due to that metal's unique attributes. From 2009 to 2015, demand in the U.S. and Canada was up over 37 percent. Globally, growth in demand has averaged roughly 5 percent per year over the same period. Likewise, the outlook for aluminum in North America is extremely encouraging. Demand in the region is estimated to grow at roughly 4.9 percent<sup>6</sup> in 2016. Recyclability and environmental sustainability are distinct characteristics of aluminum production. Since 1995, the carbon footprint of primary aluminum produced in the U.S. and Canada has declined nearly 40 percent, driven by advances in efficiency technology, an increased reliance on renewable hydropower, and voluntary emissions reduction efforts. These attributes, along with the versatility, durability and strength of aluminum applications, have helped sustain the growing demand, particularly in North America.

The strong demand outlook noted in the Background section above has helped abate some of the adverse consequences of China's production overcapacity. Nevertheless, even strong demand for aluminum in North America outlook has not been able to keep pace with the rise in overcapacity and

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<sup>2</sup> CRU International Ltd. "CRU Interactive Tool." CRU Group. Web, 04 April 2016

<sup>3</sup> Lane, Andrew. "Chalco to Shut Down Liancheng Smelter, Reducing Capacity by 14%; Fair Value Estimate Unchanged." *Morningstar*. 16 October 2015. Web. 28 October 2015.

<sup>4</sup> CRU International Ltd. "Aluminum China Fortnightly." *CRU Group*, 23 October 2015. Web. 28 October 2015.

<sup>5</sup> Maltais, Kirk. "Alcoa to delay Intalco closure to 2d qtr." *American Metal Market*. 19 January 2016. Web. 04 April 2016.

<sup>6</sup> CRU International Ltd. "CRU Aluminum Monitor." *CRU Group*, 07 January 2016. Web. 4 April 2016.

excess supply that is being aggravated by Chinese tax and industrial policies, nor does it resolve problems of competition on unfair terms.

The Chinese government has attempted to shift production away from energy-intensive manufacturing and toward value-added downstream production. In the aluminum industry, it has done this by providing a 13 percent value-added tax (VAT) rebate on the export of semi-fabricated aluminum products. The implementation of such trade-distortive tax policies has encouraged questionable trading practices by some Chinese aluminum producers and has resulted in tremendous uncertainty and unfairness in the global market for aluminum.

As the Chinese economy has weakened, the appetite for aluminum has softened considerably as well. Nevertheless, Chinese capacity and production of the metal continue to increase. All of that additional aluminum needs to find a market. Without one, Chinese producers engage in unfair trading practices in order to create or gain access to one. For instance, there is growing evidence that some Chinese producers are deliberately misclassifying primary aluminum as semi-fabricated products in order to avoid export duties on primary and to take advantage of the 13 percent VAT rebate on value-added exports. Additionally, there is also evidence that some of this surplus metal is entering the U.S. and global market through the transshipment and relabeling of aluminum products in order to circumvent anti-dumping and countervailing duties placed on their products by major trading partners.

In addition to the efforts of The Aluminum Association, the Aluminum Extruder's Council (AEC), which represents U.S. manufacturers of extruded aluminum shapes, has been successful in working with the US government on the imposition of AD/CVD tariffs on a wide range of extruded products, the 5 year review of which is presently being conducted. Absent this effort, the effect of Chinese oversupply on the domestic market would be even more detrimental.

Adding to Association's concern with China's oversupply situation is the environmental situation in China whereby most of China's aluminum production is supported by coal-fired electricity generation, thus exacerbating the GHG impact of China's production as compared to North America's majority hydropower supported production.

### **Addressing Overcapacity**

The Aluminum Association suggests the following approaches that can be taken cooperatively with the Chinese government to address the situation.

1. The Chinese government should **acknowledge that capacity growth has exceeded domestic needs and has led to an increase in exports that is disrupting the global market because Chinese capacity is not responding to market dynamics**. There is evidence that some in China have recognized the problem, but Chinese production and exports continue to increase, notwithstanding the effect on global markets. Much of the reason lies in financial support and incentives provided by local governments. The Chinese national government should undertake a concerted effort to institute policies which lead to sustainable aluminum production, and which minimize subsidies and incentives that prop up the Chinese aluminum industry in the short term. China should commit to stop building any new greenfield capacity and, instead, allow inefficient and antiquated facilities to close.

2. **Focus attention on overcapacity issues during bilateral exchanges.** Fora such as the Joint Committee on Commerce and Trade (JCCT) and the Strategic and Economic Dialogue provide an opportunity to discuss overcapacity issues that are of mutual concern. Indeed, China committed to discussing overcapacity in aluminum at the JCCT in November of 2015. In those dialogues, USTR and the State Department should press China to take practical, immediate, and meaningful actions to allow competitive market forces, and not government policies, to drive aluminum capacity in China. USTR should insist that China provide more transparent information about policies that encourage overcapacity and what it can and is doing about changing them.
3. **USTR should insist that China provide more transparent information about state-owned enterprises (SOEs) operating in the aluminum industry as well as SOEs that provide the industry with supplies, electric power, and services.** Although China is not part of the Trans-Pacific Partnership (TPP), placing sideboards on SOEs was a significant objective of the TPP negotiations. That objective should be carried into bilateral negotiations with China. As will be required of TPP partners, the Chinese should share a list of SOEs, the extent of government ownership or control, and the non-commercial assistance they provide to Chinese aluminum producers. As has been stated by USTR in the TPP, SOEs should compete on the basis of quality and price, not on the basis of discriminatory regulation, subsidies, or favoritism.
4. **China's tax policies on exports provide a significant stimulus to Chinese exports of aluminum and should be changed.** The Chinese government has attempted to shift production away from energy-intensive manufacturing and toward value-added downstream production by assessing a much lower export tax and much higher VAT rebates on value added products. This is a purposeful policy designed to encourage more downstream manufacturing. It has not accomplished that with respect to aluminum exports. In fact, the practical effect has been the opposite. China is exporting unalloyed, rudimentarily formed aluminum that is then re-melted in another country before being further manufactured in the same way that unwrought aluminum ingots are processed, and treating them essentially as a primary material. Yet, those slightly fabricated products, known as "fake-semis" in commercial trade, are classified as semi-processed for purposes of Chinese tax treatment and international trade. We believe that Chinese traders are "gaming" the system and improperly classifying these products to take advantage of Chinese export tax policy. According to the Petersen Institute, the difference in the export tax and VAT rebates for those products is a difference between 4 percent and 32 percent. The disparity provides an export subsidy to Chinese manufacturers to ship semi-finished products to the United States and other producers for re-melting and further processing. Not only are American producers suffering; this is hurting the Chinese government too, through evaded taxes and tariffs.
5. **The Chinese government, national and local, should curtail any further lending designed to increase aluminum production.** Much of the financial support going to the Chinese aluminum industry is coming from government controlled lending institutions. The Chinese central government should restrain local governments from financing that encourages additional aluminum capacity and instead eliminate policies that support inefficient manufacturing.
6. **China can and should start moving toward commitments it has made to reduce carbon emissions by eliminating subsidies for coal-fired electric production that also, in effect, encourage aluminum production.** Along with government supports for raw materials, capital

lending, land and infrastructure, inexpensive coal has fueled much of the increase in Chinese aluminum production. China's carbon emissions from its aluminum industry far exceeds other world suppliers both in total, as well as per ton of aluminum produced. The high carbon intensity of Chinese aluminum, as well as the scale of the industry, together justify the need for carbon specific commitments from the Chinese aluminum sector which decrease or eliminate energy subsidies for the most polluting segment of the sector.

7. **Announced plans for stockpiling primary aluminum should not be advanced by the Chinese government.** While governments stockpile materials for many legitimate reasons, a stockpiling strategy that is executed solely to prop up non-competitive aluminum smelting capacity, while new capacity continues to be built, will inevitably worsen the eventual shock to the Chinese, and the global, economy when corrections occur. Further, specific details of the announced plan for stockpiling call in to question its compliance with international trade law.
8. **The United States should not grant market economy status (MES) to China this year.** The aluminum industry, not to mention steel and many others, are not operating in a competitive free market system and China should not be accorded market economy status until they do.
9. **USTR and DOC must aggressively enforce CVD/AD orders including investigating and penalizing transshipments through third countries that circumvent those orders or other tariffs.** While The Aluminum Association is not currently pursuing anti-dumping or countervailing duties against China, a separate trade association representing specific interests in aluminum extrusion (the Aluminum Extrusion Council, AEC) is approaching the 5 year review for existing orders for their segment of the market. As the administrator for standards and certifications for the broader industry, our Association has aided AEC in addressing circumvention of these existing orders by Chinese exporters. We have also requested the investigation of allegations of transshipment and remelt of fake semi's in third party countries.

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Respectfully,



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