

**Testimony as Prepared  
Garney Scott, President and CEO, Scepter, Inc.  
Chairman, The Aluminum Association  
U.S. International Trade Commission  
September 29, 2016**

Thank you, Mr. Chairman. I want to thank the Commission for launching this investigation and holding this hearing.

My name is Garney Scott. I am the President and CEO of Scepter, Inc. My company serves the recycled aluminum market. We buy aluminum scrap and process it into forms that can then be used for fabricating into value-added aluminum products. Our company is a global leader in recycling aluminum by-products from general aluminum production which are landfilled in many parts of the world, and we are also heavily involved in trading both primary and secondary aluminum products.

I am also here today in my capacity as Chairman of the Aluminum Association. I assumed the Chairmanship in October 2015. In my role as CEO of Scepter, and as the Aluminum Association chairman, I see first hand the impact of overcapacity to the market.

The Aluminum Association represents companies along the entire value chain of aluminum production and fabrication. Its membership consists of large, global companies as well as smaller companies such as mine. Our member companies represent the vast majority of U.S production and aluminum industry employment. The industry represents approximately \$75 billion in direct economic impact in the United States.

With me on this panel are representatives of other members of the Association – Alcoa, Hydro, Novelis, Jupiter, and Constellium. UC Rusal, another member of the Association, will also testify later today.

The Commission staff has already been in touch with the Association, and we have been pleased to cooperate on this investigation. The Association is an invaluable source of industry statistics for the Commission, as well as expertise on standards, energy use, production processes and, essentially, all things aluminum.

In our dealings with government and international organizations, we advocate for fair and transparent trade practices. I encourage the Commission and staff to continue to call upon the Association for assistance throughout this investigation in any way that we can be helpful.

Aluminum is one of those oft overlooked or taken for granted metals that is common in our everyday lives. The ubiquitous soda and beer can, material for building construction, aircraft and automobiles, and all kinds of consumer products are made from aluminum. It is light, infinitely recyclable, and increasingly being used in innovative ways from smart phones to tablets to truck bodies.

The aluminum value chain consists of three main parts – primary manufacturing, manufacturing of semi-finished products, and end products. Most of what you may be familiar with are the end products, but there is a lot that goes on in the manufacturing of aluminum before it is ever seen by consumers. There have been many innovations in how aluminum is used over the past century, and many in just the past decade. The U.S. industry has pioneered many of these innovations. Overall, we have been very successful in meeting the demands of the marketplace, and in producing products ever more efficiently

and with a lower environmental footprint. For example, using recycled aluminum saves more than 90 percent of the energy required to make new – or primary – aluminum. Today, fully 70 percent of U.S. aluminum production is recycled metal – a significant change from the 1980s, and a fact of aluminum production that is almost entirely unknown to consumers. More than half of all aluminum cans are recycled and more than 90% of aluminum in buildings and in cars is recycled at end of life.

The Commission is interested in understanding the U.S. industry in the context of the global market. I can speak to that both because of my company's experience and because of my engagement with the activities of the Association.

This is what I can tell you with certainty. As you will no doubt hear from others and learn from your data collection, the primary aluminum industry in the United States has shrunk dramatically. Since the beginning of last year, the U.S. has shuttered about 60 percent its primary aluminum production capacity, which had already declined from previous years.

This has occurred even though demand for aluminum in the United States and in the rest of the world continues to increase. U.S. primary aluminum producers, quite frankly, have been inundated by a surge in supply from China that has displaced them from the global market.

Chinese supply now accounts for over 55 percent of world primary aluminum production while its share of global demand is less than 52 percent. And some portion of that Chinese demand is actually generated by its exports to other countries. Over the last 9 years China has produced as much primary aluminum as the U.S. has in its entire history.

In light of the curtailments in U.S. smelters, it comes as no surprise that U.S. exports of aluminum ingot declined 11.7 percent in 2015, and are down another 17.7 percent this year. The story is a little more mixed for U.S. exports of aluminum semi-fabricated products, such as sheet, plate, foil and extrusions. They declined moderately in 2015 but are up this year by 4.5 percent.

There is, however, a peculiar development during the past few months that the Commission may wish to explore. There has been a significant increase in the export of aluminum extrusion profiles (Schedule B 76.04.21) from the United States to Vietnam. These exports to Vietnam have increased from essentially zero to 78.9 million pounds, or 81.3 percent of total extruded profile exports.

We believe these shipments might be related to the import of what are known as fake-semis that were brought into the U.S. over the course of the last couple of years, never re-melted, and are now being sent back.

A fake semi is an aluminum product that is ostensibly destined to be converted into a finished product, but in reality is intended to be re-melted as a substitute for primary aluminum. On the surface it doesn't seem to make a lot of sense, but there's some gamesmanship going on and it is affecting the market. As the *Wall Street Journal* recently reported, there seem to be huge inventories of aluminum moving around the globe.

According to China Customs, Chinese exports of aluminum semi-fabricated products totaled 7 billion pounds in 2015, a 20 percent increase over the 2014 level. We know, simply by looking at aluminum for sale on Alibaba, that much of this export, perhaps even most of it, is not really semi-fabricated product in the commercial sense. Rather it is primary aluminum in disguise – a fake semi.

It is exported out of China that way because the Chinese tax system discourages the export of primary aluminum through an export duty of 15 percent. At the same time, it encourages the export of these fake-semis through a value-added tax rebate of 13-17 percent. Once this material arrives at its next destination, it is re-melted and processed into commercially useable semi-fabricated and fabricated product.

Of particular note, at 1.24 billion pounds, China's number one trading partner in 2015 was Vietnam. The volume in 2015 was 527 percent more than 2014 volumes. Eighty-two percent of these shipments were extruded profiles which include fake-semis. We believe that there are purposeful transshipments through Vietnam and potentially other countries for the purpose of evading Chinese taxes and circumventing duties, including CVD/AD orders, on extruded products.

Manufacturing of semi-fabricated aluminum products in the United States has, in contrast to primary, expanded during this recent economic recovery, but it too is affected by the imbalance in the global aluminum market. Chinese production and exports of sheet and plate, for example, has captured increased market share in the United States and everywhere else outside of China. In 2015, more than 70 percent of U.S. imports of aluminum sheet and plate were from China, much increased from just a few years ago.

In the early 2000s, China had, more or less, a balanced domestic market for aluminum in terms of supply and demand. That is no longer the case, and capacity expansions that continue to this day further exacerbate that imbalance. Moreover, while there are many factors that drive the export market, the surge in Chinese exports has clearly made it more difficult for U.S. producers to compete in other growing markets.

The real issue, and what has changed over the several years, is that a significant – in fact, dominant – share of the global supply of aluminum is advantaged by Chinese government policies that the rest of the world's industry does not and cannot benefit from.

It is significant to note that China is not naturally advantaged in either of the two major resources used in aluminum production. It does not possess large bauxite reserves, nor does it produce clean electricity. More than 90 percent of the energy used in Chinese aluminum manufacturing is generated from coal, which brings me to another fact the Commission should examine.

From the standpoint of energy costs and sources, Chinese primary aluminum producers have very cheap energy, largely, we believe, because of a heavily subsidized coal energy industry. They also have the highest emissions in the world.

As an industry, we are united in our concern over the oversupply of Chinese aluminum. As you may know, the Association has been actively communicating our concern to United States Trade Representative and the other federal agencies.

Once again, I would like to thank the Commission for initiating this investigation and appreciate the attention the Commission is giving to this important project.

On behalf of all of the members of Aluminum Association, we stand at the ready to assist in any way we can. Thank You.

**Testimony as Prepared**  
**Heidi Brock, President and CEO, The Aluminum Association**  
**U.S. International Trade Commission**  
**September 29, 2016**

Good afternoon and thank you for the opportunity to testify today. I commend the International Trade Commission and the House Ways and Means Committee for shedding a light on this critical issue. When you consider the fact that China has produced more aluminum in the last ten years than the U.S. industry has produced in its 120-year history, this investigation is not only timely, it is urgent.

My name is Heidi Brock. I am the President and CEO of The Aluminum Association. Representing the vast majority of production of all forms of aluminum, we are the voice for the plants and the people employed in the North American aluminum industry.

**The Aluminum Industry Today**

First let me provide you with some background about the Association. The Aluminum Association represents primary producers of aluminum, aluminum recyclers and producers of fabricated products, as well as industry suppliers. The U.S. aluminum industry directly employs 161,000 workers and employs an additional 521,000 workers indirectly. Our member companies operate approximately 170 plants in the United States. Many of our members conduct business worldwide.

We are an industry worth fighting for.

Despite the challenges that we are discussing in detail today, the domestic aluminum industry is growing and has the potential to grow even more. Because, aluminum is truly a bright spot for American manufacturing. Between 2013 and 2016, the economic impact of the domestic aluminum industry grew about 15 percent and now constitutes \$186 billion in annual economic output, more than 1 percent of GDP.

Demand remains solid as our customers are increasingly turning to engineered aluminum solutions to make good products great and great products even better – from more fuel efficient vehicles to sustainable packaging to green buildings.

The downstream, value-added product sector is driving growth. But the upstream, primary production sector is facing the most serious challenge in its history due largely to a surge in state supported aluminum coming from China.

What's really important to understand is that our industry is experiencing two very different realities. On the one hand, the downstream sector of the North American aluminum industry is experiencing remarkable growth – 36% growth in demand over 6 years... shipments approaching records not seen since the mid-2000s... and \$2.6 billion in committed or spent investment for U.S. manufacturing.

But on the other hand, primary aluminum production in the upstream sector has dropped to its lowest level since the 1950s. Jobs in our upstream businesses have dropped nearly 60 percent in just 3 short years.

We are here today to support the important work of the Commission. The drop in U.S. production is primarily the result of a surge – and unabated expansion – of Chinese production...production that is

unresponsive to market signals...production that generated global overcapacity and eroded the economic foundation of the U.S. primary industry

### **Chinese Overproduction: How and Why**

Let's put the surge in Chinese production into perspective. In 2000, China produced about 11% of the world's primary aluminum – today, it produces 55% of the world's primary aluminum.

For many years, China was in a market unto itself, absorbing most of this aluminum production for domestic use. But even as the Chinese economy and metal demand has softened, China continues to build smelters. China's capacity grew by nearly 12 percent last year, with plans to increase capacity further in the coming years. This kind of growth is not warranted by conditions in the marketplace globally and certainly not in China.

Much of this expansion is being driven by misguided government policies such as artificial incentives, subsidies, and provincial or local government employment programs, all of which encourage the steady build-up in excess capacity and oversupply. The simple fact is this – Chinese producers are not responding rationally to market signals, and they are not acting fairly or responsibly as members of the global economic community.

Oversupply of Chinese primary aluminum has depressed global markets, making it impossible for many producers, including here in the United States, to operate and remain profitable. So as Chinese production grows, production in the rest of the world remains flat or declines in response to the distortions created by the glut.

For years, Chinese government policies and financial support for its aluminum producers have enabled the massive excess capacity that exists in the market today. While newer capacity comes online, less efficient producers remain in the Chinese market because they receive financial support to sustain high cost production.

For example, one of the largest aluminum producers in China announced in 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. But the decision was reversed only a few weeks later when the local government offered significant discounts on critical inputs, such as power, in order to avoid the loss of local jobs.

This story has played out across provinces in China where local governments are encouraging and approving new production and capacity even when doing so makes little economic sense. Central government effort to curb these local policies has been ineffective or nonexistent.

The headline of a September 13 Associated Press article captures this disconnect between what the Central planners say and what's happening in the provinces: "China Vows to Cut Aluminum Output, but Producers Plan Growth."

### **Environmental Consequences**

And with this expansion comes severe environmental consequences. It should also be noted that Chinese aluminum relies on coal and is the most carbon-intensive production in the world. While China now produces 55% of the world's aluminum, it's responsible for 68% of global aluminum industry emissions. These figures are likely to be understated. Because in fact, China does not report either

production data or emissions data to the International Aluminum Institute the way industry in the rest of the world does.

### **China's Excess Supply is Exported**

This excess supply of carbon-intensive aluminum needs an outlet. China is exporting its way out of oversupply in its own market, and China's export tax policy is encouraging it. The Government maintains a tax of 15 percent to discourage the export of primary aluminum, but it offers a 13 to 17 percent value-added tax rebate on the export of semi-fabricated aluminum products.

The problem is that major gaps in oversight and enforcement have created opportunities for some Chinese producers to deliberately misclassify primary aluminum as semi-fabricated to avoid export duties and take fraudulent advantage of the 13 to 17 percent VAT rebate on value-added exports.

There is also evidence that some of this surplus metal is entering the U.S. and global market through the transshipment and re-labeling of aluminum products in third countries in order to circumvent anti-dumping and countervailing duties placed on their products by major trading partners. This is an area that warrants deeper investigation and we will be happy to share specific data with you.

### **Impact on U.S. Imports**

From 2009 to 2012, U.S. exports of primary aluminum increased at a rate of almost 5 percent per year. But last year, U.S. export of primary aluminum fell roughly 11 percent, while at the same time Chinese aluminum imports to the U.S. spiked nearly 31 percent. This reversal, combined with rapidly declining prices, had a serious impact on the U.S. industry and will continue to do so if left unchecked.

China currently has 180 smelters, and plans to build more. We have just five smelters operating in the U.S. today, down from 14 a decade ago. Of those five smelters, two have curtailed capacity to some degree, and another smelter is scheduled for full curtailment by the end of the second quarter.

### **Impact on U.S. Industry**

And all of this is having an impact on U.S. production and jobs. Since the beginning of 2015 five domestic aluminum smelters have closed, leaving only five smelters operational in the U.S. today. And only two of those are fully operational – Sebree and Massena West.

The downshift in production has had a dramatic impact on U.S. employment. Jobs in upstream production like alumina refining and aluminum smelting contracted by nearly 60 percent. In three short years, this segment went from supporting more than 12,000 jobs in 2013 to around 5,000 today – a 60 percent drop in just three years.

There's no doubt that structural factors including domestic power rates and aggressive environmental regulations played a role in this decline. However, it is equally clear that the persistent subsidized overproduction of Chinese aluminum is the most immediate and direct cause of these closed plants and lost jobs.

And while overcapacity is most acutely impacting the upstream market today, it could just as easily impact our growing downstream market tomorrow. That's why the entire aluminum value chain which we represent is committed to getting this right. The severe retraction in the upstream market may be the proverbial canary in the coal mine – a sign of things to come for the entire value chain if we don't tackle the China challenge head-on.

## Addressing Overcapacity

Given the importance of this industry to the U.S. economy and given the challenge posed by overcapacity from China, the question remains – what can we do working together with the ITC and other government partners to enhance the future of domestic aluminum producers?

As an association we support free trade but we also stand for rules based trade. We're concerned that excess production in China, coupled with policies that enable and encourage market distortion, is creating undue pressure on our producers. We're looking to the U.S. government to bring China to the table to have a meaningful dialogue on aluminum and generate much-needed transparency.

We see urgency to engage on this issue now and we are hopeful the Commission's investigation will produce insights that inform an approach to address the capacity misalignment in the aluminum sector.

To that end, we believe the Commission's report should focus on:

- **Needless production:** Produce findings on the nature and extent of continued use of **inefficient and antiquated facilities** and the **continued unwarranted expansion of greenfield capacity**.
- **Transparency:** Highlight the need to **obtain information and transparency about policies that encourage overcapacity** including 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.
- **Tax Policies:** Investigate **China's tax policies on aluminum exports**. Chinese traders are "gaming" the system such that primary aluminum that does not qualify for the tax rebate is making its way into the U.S. market disguised as a semi-fabricated product. How can China tighten its enforcement of the 15% export tax on primary aluminum and crack down on fake semis?
- **Enforcement:** Review the **enforcement of CVD/AD orders and research the impact of transshipments** through third countries that circumvent those orders or other tariffs.
- **Environmental Impacts:** Examine the role of China's aluminum industry in meeting the **commitments China has made to reduce carbon emissions**. China cannot meet its carbon reduction commitments without both eliminating energy subsidies and curtailing outdated, carbon-intensive production in the aluminum industry.

This is a large agenda, but we are gratified that the Commission has begun the process of investigating the complex issues driving overcapacity and overproduction in the aluminum sector in China. We remain committed to a healthy and growing global aluminum industry where all producers play by the same set of rules on a level playing field.

The U.S. industry has already suffered setbacks due to the global distortions created by Chinese Government policies and interventions, and the time is now to engage on these critical issues. On behalf of our members, we stand ready to work with you.