

Testimony
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Office of the U.S. Trade Representative, the Department of Commerce,
and Other U.S. Government Agencies
Hearing on the Global Steel Industry Situation
And its Impact on the U.S. Steel Industry and Market
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Good afternoon and thank you for the opportunity to testify today. My name is Heidi Brock. I am the President and CEO of The Aluminum Association.

I first want to express my appreciation to USTR and the interagency for inviting sectors that are also affected by excess global capacity to provide testimony at this hearing.

About the Industry

The Aluminum Association represents primary producers of aluminum, aluminum recyclers and producers of fabricated products, as well as industry suppliers. Our member companies operate approximately 170 plants in the United States, with many conducting business worldwide. The U.S. aluminum industry directly employs 157,000 workers and an additional 521,000 workers indirectly. In total, our industry enabled \$154 billion in economic output accounting for almost 1 percent of the U.S. GDP in 2013.

The North American aluminum industry has a remarkable story to tell for the downstream sector – experiencing 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. That said, we have serious concerns for the upstream sector due to the recent surge – and unabated expansion – of Chinese production that is generating global overcapacity and deflated prices.

Between 2013-2015, the U.S. aluminum industry as a whole grew by 3 percent, even as our aluminum smelting sector contracted by 58 percent. This is the tale of two industries.

Excess Global Capacity

Let me cut to the chase. Excess global capacity and supply in the aluminum industry today is the direct result of a massive surge in aluminum production in China over a short period of time.

During the past decade, Chinese aluminum production increased sharply from 10 percent of global supply to over 55 percent, while production in the rest of the world remained flat or declined. In fact, it is estimated that China has produced more primary aluminum in the last 10 years than the U.S. has since our industry first began production in 1883.

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. The Chinese economy has slowed, as has its demand for aluminum, but government employment policies and manufacturing sector subsidies continue to drive the build-up in overcapacity.

Oversupply has depressed global markets to the point of making it impossible for many producers, including here in the United States, to operate and remain profitable. Under this pressure, primary aluminum capacity outside of China declined by nearly 2 percent in 2015. The global industry has made difficult decisions to close or idle aluminum smelters and production facilities, including losing nearly 3,500 U.S. jobs and 60% of U.S. capacity.

So why and how is Chinese production and capacity continuing to increase?

For years, Chinese government policies and financial support for its aluminum producers have contributed to and encouraged 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.

China's Excess Supply is Exported

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 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 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 relabeling of aluminum products in third countries in order to circumvent anti-dumping and countervailing duties placed on their products by major trading partners.

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 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 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. The question remains: do we, as a country, want to rely on China for our aluminum supply?

Addressing Overcapacity

This is why we see urgency to engage on this issue now.

We would like to offer three suggestions for how the U.S. Government can cooperatively engage with the Chinese government to address the capacity misalignment in the aluminum sector.

FIRST – We now have a dedicated platform for discussing overcapacity with the Chinese Government under the Joint Commission on Commerce and Trade, and an opportunity to **construct an agenda for a**

meeting this year that produces practical, immediate, and meaningful actions to address aluminum capacity in China.

We should use the dialogue to **obtain information and transparency about policies that encourage overcapacity** and what the Central Government can and is doing to engage provincial and local governments to end subsidies. This should **include 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.**

The dialogue must **include a discussion on 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.

The U.S. Government should **protest the Chinese Government's announced plans to stockpile primary aluminum,** which serves only to prop up non-competitive smelting capacity even while new capacity is being built. Most importantly, the dialogue should be used to **obtain commitments that China will allow and encourage inefficient and antiquated facilities to close, and curtail greenfield capacity.**

SECOND - The United States should not grant market economy status (MES) to China this year. The aluminum and other industries are not operating in a competitive free market system. The U.S. Government can and should continue to apply its right to assess the aspects of China's economy that are relevant to any U.S. trade enforcement action. At the same time, USTR and the Commerce Department must **aggressively enforce CVD/AD orders including investigating and penalizing transshipments through third countries that circumvent those orders or other tariffs.**

THIRD - China should be held to the commitments it has made to reduce carbon emissions. 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 exceed other world suppliers in total and per ton of aluminum produced. 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 for the opportunity to begin dedicated discussions with the Chinese Government on the complex issues driving overcapacity and production in the aluminum sector in China. 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 the issues seriously affecting the U.S. aluminum industry. On behalf of our members, we stand ready to work with you.

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