



SIERRA ALUMINUM COMPANY

ALUMINUM EXTRUSIONS • PAINTING • ANODIZING • FABRICATION

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June 19, 2017

Brad Botwin
Director, Industrial Services
Bureau of Industry and Security
U.S. Department of Commerce
1401 Constitution Ave, NW
Washington, DC 20230

Dear Mr. Botwin:

I am writing on behalf of Sierra Aluminum Company (Sierra) in regards to the Department of Commerce's Section 232 investigation into aluminum imports.

Sierra is a fully integrated aluminum extruder with operations located in Southern California. We currently employ 528 people directly on our payroll and an additional 74 full time temporary employees (all of which we intend to hire after their 90 day probationary period is complete). In 2016, our hourly employees earned an average annual compensation of \$48,300 in wages, excluding benefits. Our non-executive salary employees earned an average annual compensation of \$105,700 in wages, excluding benefits. The major benefits we provide are a company PPO medical plan, a 401K retirement plan, and an Employee Stock Ownership Plan (ESOP). We are 100% employee owned. As of 3/31/2016 (our 2017 numbers are not complete as of this time), we had 530 plan participants with an average account balance of \$161,000.

Sierra is absolutely against the imposition of a blanket duty on aluminum imports. We believe that blanket duties have the potential to dramatically hurt Sierra, our employees from both a job and an ownership perspective, our customers, our suppliers, and our communities. We have multiple areas of concern:

1. **Aluminum Supply:** The United States of America (America) stopped supporting the aluminum primary industry decades ago. Using the Pacific Northwest as an example, the Bonneville Power Agency (BPA) markets low cost wholesale electrical power from federal hydroelectric projects in that area. In the 1930's and 1940's the aluminum smelting industry needed large quantities of power and the BPA had lots to sell. The development of aluminum smelters in the area continued through the 1950's and 1960's and the region eventually produced as much as 40% of the aluminum needed in America. Smelters were given preferential rates due to their large consistent electrical usage which fit nicely with the power generating attributes of the hydroelectric power base. Over

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time the smelters lost their preferential low cost rate structure and all classes of customers eventually moved to more equal rates. This dramatically raised the cost of power to the smelters. Without a competitively priced source of power, the smelters began to slowly curtail production. As a buyer of aluminum in the late 1980's and 1990's, Sierra observed this curtailment first hand. It seemed that with each passing year less aluminum supply was available for purchase. Sierra's needs exceeded what was available for purchase and began to develop alternative off-shore supply during this time period. The power situation continued to deteriorate finally culminating in mass smelter shutdowns that occurred with the West Coast power crisis in late 2000 and early 2001 (see attached pdfs "Valenco May Close Doors" and "Columbia River Aluminum History"). But for the off-shore supply, Sierra would not have had aluminum to use in the production of extrusions at this time.

Over time, a small number of smelters did eventually restart but many more didn't and these were eventually torn down. While Sierra continues to buy metal from Alcoa's Intalco smelter located in Ferndale Washington (the lone operating smelter in the area) we do not view supply from this smelter to be secure. Intalco is operating with a short term power contract that runs through February 14th, 2018 (see attached pdf "Deal to Keep Alcoa's ...").

America needs a lot of aluminum and the domestic assets simply don't exist to supply it. Most defunct smelters have already been torn down and the sites redeveloped. Building an aluminum smelter takes years to plan and additional years to construct. Even with a newly implemented duty on aluminum, companies with the know how to build and operate smelters will not immediately begin to build new ones. It will take years for this to happen. In our opinion, a duty will probably lead to the restart of a few old smelters and create up to a few thousand jobs. It will not lead to an American aluminum smelting renaissance. Imported aluminum will continue to be the major source of supply and at a new higher price.

- 2. Consequences of Higher Aluminum Prices:** Should a duty be put in place on aluminum imported into America, Sierra will have no choice but to immediately pass this additional cost along to our customers. Our customers will pass it on to their customers and ultimately it will get passed on to the end consumer. In the short term our customers will have no choice but to accept the increase. How long this short term time period is depends on the industry.



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In the distribution customer segment we sell to, all of the shapes we extrude can be classified as “standard shapes”. These items are readily available from most extruders inside and outside of America. Typically, this is a very price sensitive industry and it is the distance from the mill to the distributor that oftentimes determines who gets the order. Closer mills have a lower freight costs and can offer a lower price. Distribution customers could switch to new suppliers in Canada, Mexico, Europe, Australia, India, the Middle East, etc. with the placement of their next order. In theory these suppliers would be much lower priced because they would be purchasing aluminum without a duty. The lower price would more than off-set the higher freight cost. Short of the additional shipping time to get the material, the transition away from American sourced material could happen within weeks. The Distributor that puts in place off-shore supply the fastest will be able to earn extra profit initially, but then as all distributors make the change lower the price to the new market level. About 20% of our business is sold into the distribution segment. We could begin to see declines in this segment within a few weeks after the duty goes into effect.

For customers with more highly designed custom extrusions, if the duty establishes a high enough cost, they will also shift business away from domestic extruders. It will just take more time, months instead of weeks. This represents the other 80% of our business.

While I have only listed some potential consequences to Sierra, these consequences would apply to all aluminum extruders. It is our experience that customers will begin to look at different suppliers of material when the differences are measured in pennies per pound. If duties drive the differences between on-shore and off-shore suppliers to dimes or more per pound then changes in the supply base will happen rapidly.

Our belief is this will not only happen to the aluminum extrusion business, but to businesses that make aluminum products. If Commerce elects to apply a blanket duty on aluminum, it needs to be prepared to also apply a blanket duty across the board on all imported aluminum extrusions, sheets, plates, foil, castings, and forgings. If this does not happen, companies and jobs will be lost in these businesses. Losing these companies and their expertise could in time weaken our national defense capability in regard to manufacturing know how.

3. **Assembled Products:** A blanket duty on aluminum in America, but not in place elsewhere, will raise the cost of building aluminum intensive products in America. Our customers may conclude very quickly that it is no longer cost



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effective to manufacture their products in America. The differential in raw aluminum cost may allow them to manufacture a product more cheaply outside of America and import it. Why make a window, storm door, awning, motorcycle exhaust pipe, etc. in America if it can now be made off-shore, packed in a box, and imported for less. The concept of comparative advantage advocates manufacturing out of the market area when the cost savings of making it elsewhere exceed the extra logistics costs to import it. In the case of aluminum, the price around the world has been relatively level since the price is determined through an international exchange on a daily basis. If a duty artificially raises the cost of the commodity in America, but not elsewhere, that will completely change this. If Commerce elects to apply a blanket duty, it needs to be prepared to apply a blanket duty across the board on all imported assembled products that contain aluminum. If this doesn't happen, companies that make products that contain aluminum may have a new reason to begin closing their American manufacturing locations, laying off their workers, and making these products off-shore. Both up and down stream businesses will suffer, jobs will be lost, and closures will happen.

4. **Substitution:** In the 2007 to 2008 time period, aluminum briefly traded around \$1.40/lb. This price did not last long, but in the time period that it did occur, a number of our customers started to look at material substitution. In the aluminum building and construction industry a dramatic increase in the cost of the aluminum commodity could lead to material substitutions with plastic, fiberglass, steel, wood, etc. Through the imposition of a duty, the competitive landscape for industries could change very quickly with the government being responsible. The market would very quickly choose a new winning material, not on the existing value proposition, but on the adjusted duty included value proposition.

Beyond the four previously listed concerns, many others could be given. If a true risk exists to various defense related industries due to the potential closure of a small number of aluminum smelters, it would be appropriate to protect these companies with narrowly defined orders around particular aluminum grades, alloys or products. If something like this can't be structured properly it appears the real issue that these companies face has everything to do with the cost of power and the inability to put long term low price contracts in place (see attached pdf's "Massena Hopeful ..." and "Power deal saves ..."). Without the certainty of low cost power, these companies can't justify investing in modern technology to lower their energy usage per unit produced. Without the investments, there is no chance they will ever be competitive in the world



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market. Perhaps the Federal Government could offer very low cost, very long duration contracts to these smelters through entities like the Tennessee Valley Authority or the Bonneville Power Agency. The federal government may also be able to facilitate some type of negotiated agreement to help the local utility companies lower their distribution costs. With certainty over fully bundled energy costs and long duration, these companies may be able to make the long term investments in their facilities necessary for them to be competitive. Surgical specific remedies seem more appropriate than general duties and more in keeping with a section 232 argument. They would also seem to be less costly when weighed against the potential consequences of a general aluminum duty.

In summary, the blanket application of a duty on primary aluminum is fraught with risk and potential unintended consequences. Managing and mitigating every one of these risks seems to be virtually impossible. We see the potential loss of thousands if not hundreds of thousands of jobs in downstream businesses that use aluminum if a duty is implemented. To avoid these losses, Sierra advocates specific remedies for the companies that truly need to be protected from a national security perspective. For general industry, Sierra advocates maintaining the status quo with regard to commodity grades of aluminum. Imports must continue to be available in America, duty free.

Should you have any questions, please feel free to reach out to me at (951) 934-4030 or sseever@sierraaluminum.com.

Sincerely,



Michael Shayne Seever
Vice President, Administration

Attachments: Vanalco May Close Doors_Northwest Hydropower News Archive
Columbia River Aluminum History
Deal to Keep Open Alcoa's Intalco Smelter into 2018 Finalized
Massena hopeful as Alcoa deadline hits two year mark_NCPR News
Power deal saves 300 jobs at Century Mt

Northwest Hydropower News *Archives 2010 & Older*

Vanalco May Close Doors

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November 2nd, 2000

One of first aluminum smelters in Northwest plans to lay off 600 workers by end of year

By Mike Rogoway
Columbian staff writer

Vanalco's anticipated electricity deal has gone sour; so the company says it will part permanently with most of its 600 workers and may shut down by the end of the year.

This could be the end for the Vancouver aluminum smelter; one of Vancouver's biggest employers and most prominent corporate citizens for the past 60 years.

Nearly all of Vanalco's employees were laid off last summer after a sudden sharp rise in Northwest electricity prices. In September, Vanalco announced it had a tentative deal for cheaper power, but the company now says its unnamed supplier has raised prices.

We have to give you the unhappy news that this means termination of employment for most Vanalcans," the company wrote in a letter to employees dated Tuesday. It said most workers will receive notices by the end of December.

Vanalco continues to operate at a low level and is seeking a new power deal, but says it's still losing money. Chuck Reali, Vanalco general manager, said Wednesday that chances are high the plant will shut down for good at the end of this year.

"That's what I think," he said. "That's not a for-sure situation."

Vanalco shut down most of its production in June after Northwest electricity prices skyrocketed. The higher prices were triggered by growing demand for electricity throughout the West and deregulation of the California power market, which competes with the Northwest for regional power.

Aluminum is an extremely power-intensive industry. Vanalco, for example, consumes about 230 megawatts – roughly half the average power consumption of all the rest of Clark County.

Unlike some other Northwest aluminum smelters, which had fixed-price power contracts with the Bonneville Power Administration, Vanalco bought almost all its electricity on the wholesale power market to take advantage of then-lower prices. That left the company fully exposed when power prices shot up last spring.

"It's an unfortunate situation because, you know, the plant has been running magnificently," Reali said. "There were these outside forces that one has no control over."

Vanalco's troubles reflect a crisis facing the aluminum industry throughout the Northwest, said Whidbey Island metals analyst Robin Adams, adding that demand for electricity is rising, but few new generators have been built.

"Obviously the people who were running Vanalco simply didn't see this happening and they've been caught short by it," Adams said. "They're not alone in this deal."

Since last spring's surge in electricity prices, six Northwest aluminum smelters have cut back or ceased production. About 1,500 workers have been laid off.

Opened by Alcoa in 1940, the Vancouver aluminum smelter was the first of 10 built in the Northwest to take advantage of the cheap power generated by the region's hydroelectric dams. The Vancouver smelter closed once before in 1986, when Alcoa failed to reach a contract agreement with its union.

Alcoa called that closure a "permanent shutdown," but a private group of investors bought the smelter and reopened it the next year as Vanalco. Adams said the plant might reopen in the future, possibly under a new owner.

"I think it could, but not until power prices return to reasonable values," he said. "I think it could be two or more years, because you've got to build more power stations."

Vanalco general manager Reali said he doesn't know what the smelter's owners plan to do with the plant if it does close. He said high power prices would deter prospective buyers.

"If they try to make aluminum, they're going to have the same problem."

The Columbian
Vancouver, WA
November 2, 2000

ALUMINUM

The [Columbia River \(/history/ColumbiaRiver/\)](/history/ColumbiaRiver/) has a key role in the history of aluminum production in America, as the industry was the first major industrial customer of Columbia River [hydropower \(/history/Hydropower/\)](/history/Hydropower/). Over time, the industry grew to employ around 11,000 people in the Northwest and consume 3,150 megawatts of electricity, enough to light three cities the size of present-day Seattle for a year. But rising costs of electricity and labor, and intense competition in the world aluminum market made it increasingly difficult for the 10 Northwest smelters to compete, and by the end of the 20th century most of the region's smelters were closed and/or facing an uncertain future.

The electrolysis technique of producing aluminum from bauxite requires large amounts of electricity delivered steadily. With Bonneville Dam coming online in 1938 and the region hungry for economic expansion, the aluminum industry seemed promising for the Pacific Northwest. That year J.D. Ross, first administrator of the Bonneville Power Project (it was renamed the [Bonneville Power Administration \(/history/BPAHistory/\)](/history/BPAHistory/) in 1940), commented in the Project's first annual report that industrial development and national defense would be important uses of electricity from the dam. But he did not mention aluminum. Ross didn't favor aluminum because smelters used large amounts of power but did not employ large numbers of people. He thought the aluminum industry should stay out of the Northwest in favor of other, more labor-intensive industries until the completion of [Grand Coulee Dam \(/history/GrandCouleeHistory/\)](/history/GrandCouleeHistory/) in 1941.

However, the Bonneville Project faced tough questioning in Congress in 1938 and early 1939 about its low revenues. The Project needed to boost its sales to satisfy Congress, and aluminum was the answer. Ross died in March 1939, and in May President Roosevelt appointed Frank Banks of the Bureau of Reclamation as a temporary replacement. A conservative Republican, his ties to private business made him unpopular with public power advocates and New Deal Democrats. Banks would go on to be key figure in the construction of Grand Coulee Dam, but his tenure as Bonneville administrator ended in September when Roosevelt appointed Paul Raver as permanent administrator. Raver signed a contract with ALCOA in December to supply electricity — initially 32.5 megawatts — for a smelter at Vancouver. The first transmission line from the dam was completed to Vancouver at about the same time. With that smelter the Northwest aluminum industry was born.

Other aluminum smelters soon were constructed. Reynolds Metals Company constructed the next one, at Longview, Washington, about 40 miles north of Vancouver, in 1941. Other plants were built by the Defense Plant Corporation, which was formed by the federal government to invest in industrial production. The plants were dispersed geographically around the Northwest, so that they could benefit multiple communities and be sold after the war. Each bought electricity primarily from Bonneville.

Boeing, which was building warplanes in Seattle, was a primary customer for aluminum from Northwest smelters. It has been estimated that electricity from Grand Coulee Dam alone provided the power to make the aluminum in about one-third of the planes built during World War II.

Following the war, aluminum production crashed and hundreds of workers were laid off. But production rebounded, and by 1946 the region produced 36 percent of the nation's supply of ingots; by the 1950s it was 40 percent. The Defense Plant Corporation's plants were sold after the war at low prices in order to encourage competition in the industry.

Through the 1950s and 1960s the industry prospered and the number of aluminum smelters grew to 10. At full operation, the plants employed around 11,000 people, a small percentage of the region's workers. But the jobs paid well, and the plants had benefits for Bonneville and the Northwest. They consumed large amounts of hydroelectricity at steady rates of demand, thus providing significant income to Bonneville and operational consistency for the dams. They provided economic benefits to the communities where they were located, communities as diverse as rural Goldendale, Washington, and Columbia Falls, Montana, and as urban as Spokane and Tacoma.

The smelters accounted for 40 percent of the smelting capacity in the United States and 6 to 7 percent of the world's capacity. The aluminum companies paid millions of dollars to Bonneville, and this important income helped Bonneville provide many power-related benefits to its customers and environmental benefits to the region, particularly after Congress approved the [Northwest Power Act \(/history/NorthwestPowerAct/\)](/history/NorthwestPowerAct/) in 1980.

The Power Act was something of a watershed for the politically powerful aluminum companies. In the Power Act, the aluminum companies, and the several other direct-service customers of Bonneville, got what they long had wanted — long-term power sales contracts. In exchange, the companies agreed to pay a premium in those contracts to finance the “residential exchange,” an important element of the Power Act in which Bonneville exchanges its low-cost power for like amounts of higher-cost power produced by investor-owned utilities so that all residential and small-farm electricity customers in the Northwest would pay approximately the same per-kilowatt-hour charge. The direct-service customers paid the difference.

For the aluminum companies, the Power Act meant rate increases but also stable long-term costs for power. It made sense at the time, given the chaos caused by the rising costs and increasing public disillusionment over the participation by Bonneville and many of its customers in building five nuclear power plants to augment the hydropower supply. See the discussion of nuclear power under the heading “[hydro-thermal power program \(/history/HydroThermal/\)](/history/HydroThermal/).” Bonneville already was raising its rates in response, and they would go up more — a lot more. Between 1979 and 1983, Bonneville raised its rates nearly 250 percent.

The aluminum companies were not immune, despite the contract provisions of the Power Act. It was a devastating blow. Before the increases the companies enjoyed very competitive rates from Bonneville, compared to the prices paid for power by their competitors. Now, their position in the global marketplace was eroding as a result of increasing costs for power. Bonneville funded an energy conservation program for the smelters, but efficiencies were expensive and difficult to achieve at the aging smelters.

Problems continued to mount for the aluminum companies as they struggled to stay competitive in the world marketplace in the 1990s. In 1996 the relatively brief history of aluminum smelting in the Northwest began to

unravel. To keep the industries as customers, Bonneville tied its smelter rates to the worldwide price of aluminum, but still the companies struggled. In 1996 and 1997 the smelters gave up some of their long-term contracts with Bonneville in exchange for increased access to the wholesale power market, where electricity was less expensive than Bonneville's. As a result, Bonneville reduced the power it supplied to the smelters to about 60 percent of their previous contracted amount, and reduced it further in 2001 to 40 percent or about 1,425 megawatts. Meanwhile, technological advancements and the construction of new smelters in other countries with lower labor and power costs further disadvantaged the Northwest smelters.

The West Coast energy crisis of 2000 and 2001, when a power shortage drove wholesale prices up by factors of 10 and 20 or higher, may have been the final blow. By the summer of 2001, all 10 aluminum smelters were shut down or were operating at very limited and periodic production. Practically everyone on the West Coast experienced a rate increase during the energy crisis or as a result of it, including Bonneville and the aluminum companies. Two companies, ALCOA and Golden Northwest Aluminum, proposed to build their own natural gas-fired power plants and share the output with Bonneville, but discussions broke down over issues of construction costs and power pricing. Ultimately, the aluminum companies simply no longer could compete.

There is little optimism that the smelters ever will resume full production. Low-cost electricity lured the aluminum companies to the Northwest in the 1940s and 1950s; increased prices for raw materials, volatile electricity prices, and worldwide competition with other, often lower-cost production and supply, eventually drove them out of business.