Aluminium
Association
of Canada

COMMENTS BY THE ALUMINIUM ASSOCIATION OF CANADA

Submitted to:
United States of America
Department of Commerce, Bureau of Industry and Security

Notice of Request for Public Comments and Public Hearing on Section 232 National Security Investigation of Imports of Aluminum

By:
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President and CEO
Aluminium Association of Canada

June 20, 2017

FOREWORD

The Aluminium Association of Canada (AAC) represents the primary metal industry in Canada, encompassing 40,000 people, including employees, suppliers and retirees.

The Section 232 Investigation into the Effects of Imports on the National Security of the United States of America serves as an opportunity to voice our shared concerns within the North American value chain regarding overcapacity and unfairly traded aluminium.

The industry statistics used in our submission are from the 2015 Aluminum Statistical Review produced yearly by The Aluminum Association. The Aluminum Association is the only source for basic statistics on the North American industrial value chain integrating Canada, the U.S. and Mexico.

Montreal, Canada, June 20, 2017

TABLE OF CONTENTS

Figures

EXECUTIVE SUMMARY

The Aluminium Association of Canada (AAC) fully supports the United States Government's investigation into the impacts on its economic and national security of aluminium imports and overcapacity. As part of the USA's domestic supply base, our industry is also affected by the ongoing world market situation.

Canada's aluminium industry contributes to a healthy transnational aluminium sector, a necessary borderless ecosystem nurturing its more strategic components for military and aerospace usage.

The rise of a new production area, such as China becoming the world's biggest ever producer of aluminium in 15 years, has a disruptive and lasting effect on our capacity to maintain the integrity of our own aluminium ecosystem

Canada has taken a step back from producing 10% of overall world production in 2000 to 5% in 2015. During the same period, U.S. production went from 15% of total world production to 2.7%. Meanwhile, China ramped up from 11% to 55%.

Beginning in the 1950s, Canada's industrial capacity has been progressively and formally integrated into the U.S. Defence Production Program.

On the basis of this longstanding security cooperation, any Section 232 investigation must conclude that imports from Canada are not detrimental to U.S. national security, but, in fact, support it.

Canada's share of North America apparent aluminium consumption expanded from 7% in 1980 to 10% in 2006. Both countries were hit by the financial crisis. U.S. apparent aluminium consumption of 2009 was almost 30% lower than the level registered only a few years before. In Canada, it dropped by 23% during the same period. Since then, apparent aluminium consumption has recovered in both countries.

U.S. and Canada primary aluminium production increased at almost the same pace until the beginning of the 1980s.

As an additional sign of their integration, the aluminium industries of both countries have suffered from the 2008 financial crisis. In Canada, primary output dropped by 7.6% between 2008 and 2015, while U.S. primary production shrank by about 40% during the same period.

Over the last decade (2005-2015), North American production has declined at an annual rate of 1.7%. Canada's share of U.S. imports of aluminium products (ingot and mill products) has declined over the last 3 years, dropping from 61.1% in 2013 to 54.6% in 2015. During the same period, U.S. imports of aluminium products originating from China have almost doubled, swelling from 5.8% to 9.5%.

China's phenomenal increase in primary aluminium production may be attributed not only to some natural comparative advantages in some provinces, but also to induced advantages driven by a plethora of market distortions. These policies plus the expected prices have justified the construction of greenfield smelters and the expansion of existing ones, while stimulating world capacity and, thus, global production.

Despite a surge in China's aluminium consumption over the same period, its net exports of primary, semis and intensive manufactured products (including wrongly classified and misrepresented products) have grown strongly, exerting downward pressure on aluminium prices. This progressively destroys existing privately owned competition, while inhibiting market-driven expansion outside China.

The erosion is already weakening established domestic capacity around the world — most notably in NATO countries, the U.S., Canada and Europe — threatening our shared capacity to step up in times of special needs to supply our national security requirements.

More recently, the wave of curtailments hit here in the U.S. with a series of plant closures, taking American production all the way down to 1% of the world's total capacity as compared to 15% in 2000.

In this perspective, and to the extent that Canada, the U.S. and European industries are concerned and impacted by overcapacity and disruptive business behaviour, the Aluminium Association of Canada submits the following **recommendations**:

- The U.S. government must treat Canada as part of its domestic supply base and must ensure to "Do no harm" to its industry.
- Canada, the U.S., and Europe should engage with China within an appropriate international forum to formally assess the situation in full transparency and take action to quickly and progressively resolve the issues affecting the world aluminium market.
- **Remedies** should provide a sustainable outcome and:
  - » do no harm to fairly produced and traded aluminium from Canada and Europe;
  - » benefit the whole value chain, from upstream to downstream;
  - » avoid disruptive affects at the border on fairly produced and traded aluminium;
  - » be China focused, including overcapacity and unruly market behaviour;
  - » be implementable, enforceable and verifiable;
  - » deal with data availability and transparency;
  - » enable consequent reporting;
  - » be aimed at accelerating and verifying China's implementation of its commitments to close illegally-built capacity.

INTRODUCTION

The Aluminium Association of Canada (AAC) representing the primary metal industry in Canada recognizes the effects of subsidized overcapacity in China and fully supports the United States Government's investigation into the impacts on its economic and national security of aluminium imports and overcapacity. As part of the USA's domestic supply base, our industry is also affected by the ongoing world market situation.

We have been supportive of the United States' numerous attempts and initiatives at circumscribing the problem of China's overcapacity and non-market behaviour, joining forces with our American and European peer industry associations in front of the United States International Trade Commission (USITC), vis-a-vis the G20 and G7, as well as on a continuous basis through multilateral and bilateral meetings with the China Non-Ferrous Metals Association (CNIA).

As it will mark 10 years in 2018 that we entered into an unprecedented low commodity price cycle, the North American industry on both sides of the border (all privately owned) has, through these demanding times, run out of resilience and has had to curtail and shut down production capacity in order to survive.

Even with growing demand and a metal deficit in the domestic North American market, low world prices make any expansion project unsustainable. While Canadian production has always answered the U.S. market call for metal, we are now unable to satisfy additional supply requirements through brownfield project expansions.

Moreover, as we invested heavily in modernization of our plants and improved our environmental performance, our overall employment base has decreased in order to remain competitive given current world prices and cost curve.

The future of our domestic North American industry, and the health of our industrial value chain are affected by a situation beyond our borders, requiring exceptional means in order to effect the required changes. This situation has lasted far too long and must now be addressed with a sense of urgency and long-term sustainability, in the interests of the U.S. and Canada, as well as of the rest of the world.

North America must safeguard this seamless integrated industrial value chain, which is unique in the free world and has been a true success story to date of free, fair and integrated trade between neighbouring countries.

HISTORY OF THE INDUSTRY

The respective economic development and military defence architecture of both Canada and the U.S. take origin from our shared continental region.

With its rugged northern terrain and geological formations, Canada has developed a resource-based economy, endowed with vast quantities of captive renewable hydro-electricity originally through U.S. and British investments. This stranded energy developed into world-class aluminium smelting operations, an optimal way to export this energy.

Sparsely populated relative to its size, Canada is an important resource supplier to the rest of the world and mostly to its southern neighbour. The more clement geography and climate of the U.S. have fostered the development of a largely densified country with a highly skilled manufacturing sector transforming metals into parts and final products destined to its domestic and export markets.

Aluminium is the best example of this synergy. While unable to really develop and sustain a downstream transformation sector for lack of critical mass, Canada's primary aluminium industry anchored on renewable clean hydro has grown through its exports, mostly to the U.S., both in times of peace and war. It has, in fact, become totally integrated into U.S. industry, forming part of a seamless continental industrial value chain.

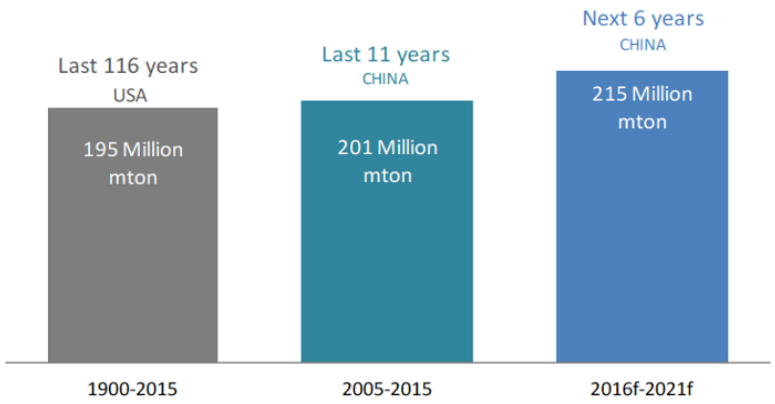
Canada's aluminium industry contributes to a healthy transnational aluminium sector, a necessary borderless ecosystem nurturing its more strategic components for military and aerospace usage. Our world-class research centres and smelting operations backed by a complete network of suppliers and industrial engineering firms remain self-sustaining to this day.

As we developed over time, however, so did the world aluminium industry, seeing the rise of new production areas like the Middle East and China. Indeed, China has become the world's largest-ever producer of aluminium over the last 15 years. In fact, as illustrated in the next Figure, it took China only 11 years to produce more aluminium than the U.S. manufactured in over 100 years.

Canada's primary aluminium industry has become totally integrated in the U.S. industry, becoming part of a seamless totally integrated continental industrial value chain.

Figure 1. Cumulative primary aluminium production: US vs China

(million mton)



Source: *HARBOR Aluminum*

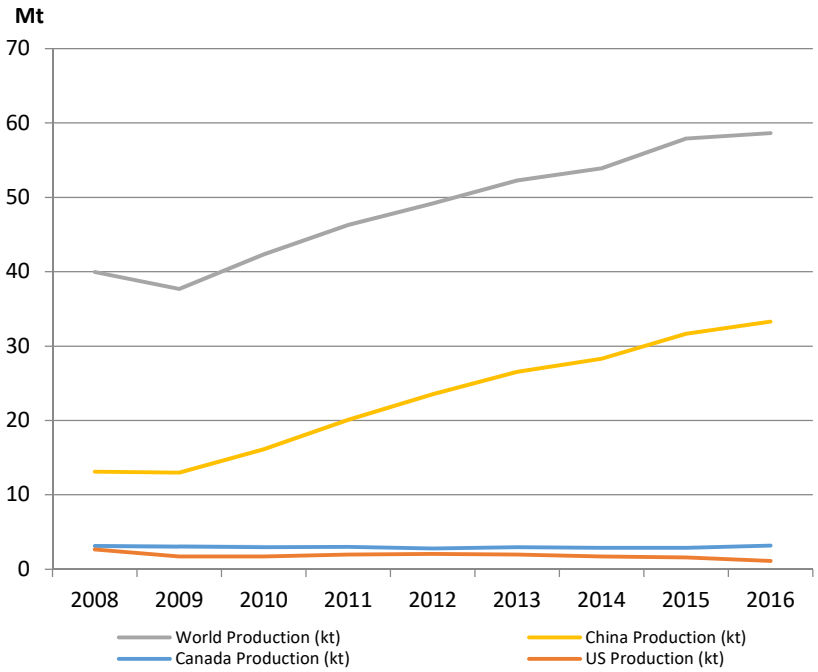
Canada has taken a step back from producing 10% of overall world production in 2000 to 5% in 2015

This drastic change also affects our capacity to maintain the integrity of our own aluminium ecosystem. Unable to keep up with the growth in demand both in the U.S. and abroad because of sustained low world prices, Canada has taken a step back from producing 10% of overall world production in 2000 to 5% in 2015.

During the same period (see Figure 2), U.S. production went from 15% of total world production to 2.7%. Meanwhile China ramped up from 11% to 55%.

Figure 2. Aluminium production 2008-2016

(million tons)



Source: AAC

History of the aluminium industry in Canada | Key milestones

1901

Birth of the industry in Quebec

In Canada, the Pittsburgh Reduction Company, later renamed Alcoa, poured its first ingot of aluminium in Quebec on October 22, 1901.

1925

Building of the world's greatest aluminium complex

In the spring of 1925, the Northern Aluminum Company started construction of the Arvida aluminium smelter. On July 8, 1925, the Northern Aluminum Company Limited was renamed the Aluminum Company of Canada.

1925-1945

Growth of the Aluminium Company of Canada, Alcan's predecessor

Support to the war effort: world production tripling between 1939 and 1943, growing from 687,000 to to 2,200,000 metric tons.

1945

Founding of Alcan

Demand for aluminium dropped due to wartime overproduction. However, recovery was quick in coming.

Aluminium was increasingly being used for civil purposes, particularly in the manufacturing of airplanes and automobiles, as well as various domestic products.

1951-1954

First aluminium smelter in British Columbia

In 1951, under the helm of its American-born president, Alcan initiated a $500 million project at the mouth of the Kitimat River, the largest public-private partnership ever introduced in Canada at the time. The Kitimat smelter started up production in 1954.

1986-1997

Three new smelter projects in Quebec

Bécancour
Aluminerie de Bécancour started production in 1986.
Alouette
New smelter in Pointe-Noire, near Sept-Îles. By June 1992, Phase I was in full operation with an annual production of 215,000 metric tons.
Alcoa
In July 1998, Alcoa purchased the Alumax smelter in Deschambault, as well as the 25% share Alumax held in the Bécancour smelter.
In 2000, Alcoa acquired the Canadian Reynolds Metal Company, which also owned the Baie-Comeau smelter.

1998-2004

Development and consolidation

Between 1998 and 2001, Saguenay—Lac-Saint-Jean became the largest construction site in North America, as **Alcan** undertook the construction of a $3 billion smelter in Alma.
In 2004, Alcan became the aluminium industry world leader by acquiring Pechiney.
In 2002, **Alouette** expanded its smelter in Sept-Îles from 240,000 to 575,000 metric tons.

2005

Expansion of the Alouette smelter

In January 2005, Alouette started up its new series of 330 cells, increasing annual production to 575,000 tonnes. The aluminium smelter would become the largest in the Americas and the fifth largest in the world. In all, the Alouette expansion project represented an investment of $1.4 billion.
A few months later, Alouette announced that it would ship half its annual production by water. The "blue highway" between Sept-Îles and Trois-Rivières would reduce the number of truckloads on highway 138 by 15,000 annually.

2006-2007

More plant upgrades

In August 2006, **Alcan** unveiled a plan to upgrade its aluminium smelter in Kitimat, British Columbia, representing an investment of $1.8 billion.
At the same time, **Aluminerie Alouette** improved its performance, becoming the world leader in energy efficiency for its electrolysis cells.

2011

Rio Tinto announces investment

Rio Tinto announces an additional major investment to further upgrade the Kitimat smelter.

CANADA AND THE U.S. TOGETHER IN THE WAR EFFORT

While sharing an isolated continent represented a mutual interest in the defence of North America, with ensuing military policy choices to optimize continental defence, it also made possible a joint war effort through the integrated use of both countries' industrial complexes.

The Monroe Doctrine, as it came to be known, has been at the heart of Canada's defence policy since the early 20th century.

Canada could count on its neighbour to protect it on a continental basis, should the need arise for an allied European intervention alongside Britain.

The same logic has prevailed in the way our industrial supply base has developed.

Canada and the U.S. have been through two World Wars together. Our contribution through these trying times has also defined our respective industrial base and supply chains.

As Canada prepared its entry into World War 2 (WW2), it was propped up by Great Britain to contribute to the war effort. In order to ensure adequate security for the North American continent in case of invasion, President Roosevelt and Prime Minister McKenzie King established the Permanent Joint Board on Defence (PJBD) on August 18, 1936. Thanks to its "permanent" character, the PJBD was meant to outlast the war and to remain through time still in use today.

On August 14, 1936, President Franklin D. Roosevelt gave his first public pledge of defence assistance to Canada at Chautauqua, New York:

"Our closest neighbors are good neighbors. If there are remoter nations that wish us not good but ill, they know that we are strong; they know that we can and will defend ourselves and defend our neighborhood."

On August 18, 1936, President F. D. Roosevelt and Prime Minister W. L. McKenzie King established the Ogdensburg agreement:

"It has been agreed that a Permanent Joint Board on Defence shall be set up at once…by the two countries… It will consider in the broad sense the defence of the north half of the Western Hemisphere."

The Hyde Park Declaration

Stating that a “continental” approach to defence material was in the United States’ national interest, the Hyde Park Declaration allowed the U.S. to produce war materials in Canada for British use.

Canada was thus called upon to redirect its industrial manufacturing capacity to contribute to the war effort. The Boeing, De Havilland, General Motors, Massey Ferguson and Rolls Royce companies were all tasked to produce war planes for the allied forces in unprecedented historical numbers.

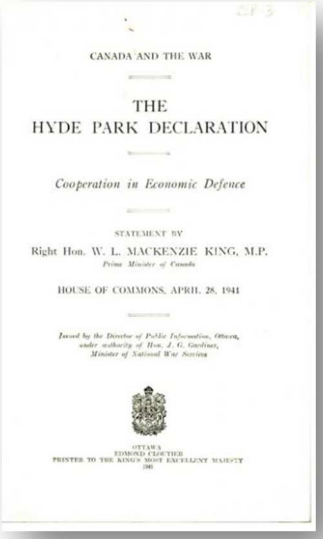
Production in the aircraft industry grew from extremely low levels before the war to 4,000 military aircraft a year by the end of the war.

Canada assembled a total of 16,000 military aircraft, 10,000 of which were shipped directly to Britain. The remainder went either to the United States or remained in Canada for use in the British Commonwealth Air Training Plan, which in President Roosevelt’s words made Canada the “Aerodrome of Democracy”.

Canadian factory space for the production of aircraft increased from 500,000 square feet before the war to a high of 14,000,000 square feet at its peak during the war. Meanwhile, Canada accounted for 40% of the allies’ total aluminium manufacturing and 95% of nickel.

Canada’s aluminium production assets were considered highly strategic. Therefore, the Eastern Air Command was tasked with protecting exposed war-essential industrial facilities.

“*Indeed, the Eastern Air Command had to face other requirements besides the fight against U-boats… In 1942 and 1943, the Canadian government set up a network of radar stations and deployed fighter and interception squadrons along the East Coast to seal off any possibility of an enemy intrusion. In Quebec, a Hawker Hurricane squadron was posted permanently in Bagotville, an air base specially created to protect the Arvida aluminium production facilities.”*
https://www.junobeach.org/Canada-in-wwii/articles/home-defence/



CANADA AND THE WAR

THE
HYDE PARK DECLARATION

Cooperation in Economic Defence

STATEMENT BY
Right Hon. W. L. MACKENZIE KING, M.P.
Prime Minister of Canada

HOUSE OF COMMONS, APRIL 28, 1941

Issued by the Director of Public Information, Ottawa, under authority of Hon. J. G. Gardiner, Minister of National War Services

OTTAWA
EDMOND CLOUTIER
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1941

Canada accounted for **40%** of the allies’ total aluminium production and **95%** of nickel.

Source: Bagotville; 75 Years of Air Defence, Ric Peterson

The Bagotville airbase is still in place, keeping an eye on the now expanded world-class Saguenay primary aluminium complex.

CANADIAN AND U.S. ALUMINIUM INDUSTRIES, ONE AND ONLY

As part of our contribution to the war effort, our industry was called upon to supply metal, increasing its footprint through added capacity and technological development.

Beginning in the 1950s through the Statement of Principles for Economic Cooperation (1950), the Defence Production Sharing Agreement (DPSA 1956), and ultimately the Defence Economic Cooperation with Canada's Department of National Defence (DOD 1960) directive, Canada's industrial capacity was progressively and formally integrated into the U.S. Defence Production Program.

On the basis of this longstanding security cooperation, any Section 232 investigation must conclude that imports from Canada are not detrimental to U.S. national security, but, in fact, support it.

Prior investigations have reached the same conclusion, dating back as far as 1953 when a National Security Council internal memo concluded that "considerations of national security do not warrant elimination of the Kitimat (British Columbia) aluminum supply from calculation of the full mobilization base available to the United States. On balance, security factors alone indicate no necessity for discrimination against Kitimat production. In fact, reliance on Kitimat as a source of aluminum is in consonance with the long-standing plan of the United States and Canada to share their resources in time of war on a continental rather than on a national basis". (https://history.state.gov/historicaldocuments/frus1952-54v01p2/d54)

The Kitimat production facility referenced above is still in operation, with a major modernization project to replace the original smelter having been completed in June 2015.

There followed the U.S. National Technology and Industrial Base (NTIB) in 1993, with Canada's inclusion making it the only country to be part of the U.S. industrial base until the UK and Australia were brought in a year ago in 2016.

From producing metal for the war effort, by supplying U.S. downstream users for military purposes, to post-war civil applications in the automotive and aerospace industries, the Canadian primary metal industry has been and remains to this day the U.S.'s most stable and reliable source of high quality metal. From WW2 Lancasters to 21st century Teslas, Canada's reliability has always met the test.

"…In fact, reliance on Kitimat as a source of aluminum is in consonance with the long-standing plan of the United States and Canada to share their resources in time of war on a continental rather than on a national basis".

From WW2 Lancasters to 21st century Teslas, Canada's **reliabilty** has always met the test.

GROWING TOGETHER IN PEACE TIME

As it stands today, the health of Canada's aluminium industry in peacetime must be considered as a vital sign of the United States' capability with regards to its national security and mobilization capacity in times of war.

Through its closely integrated relationship with the U.S. automotive sector, the Canadian aluminium industry has been at the forefront of leading-edge developments conducive to the modern North American automotive manufacturing sector.

As key suppliers to the U.S. automotive industry, we are part of the success enjoyed by Tesla, Ford (F-150), Honda, and GM. We have also developed very specialized alloys for many U.S. Original Equipment Manufacturers (OEMs). In addition, we have also been part of the successful development of the material light-weighting imperative of the first generation of electric vehicles in the U.S., as well as supplying quality aluminium for a large share of the wheels that contribute to a more efficient use of the North American road transportation system.

We revolutionized the way we built high rise buildings back in the 70s and 80s with the "concrete forming/flying forms". The products, alloys and system are still widely used today in Canada and the U.S.

As best of kind in terms of low trace elements, our aluminium is preferred by U.S. customers in many key strategic applications.

Our composite and high purity aluminium products have made their mark on the aerospace and nuclear industries, and they have passed the test of outer space application as sources for the Canadarm space missions.

In times of war, our two countries have shown how efficiently we can turn around and re-task our commercial industrial production for defence production, be it for aircrafts, ground vehicles or munitions. This can only be done if we can sustain a healthy peacetime industrial base.

As we will see in the following section, market equilibrium was reached more recently through growing non-NAFTA country imports.

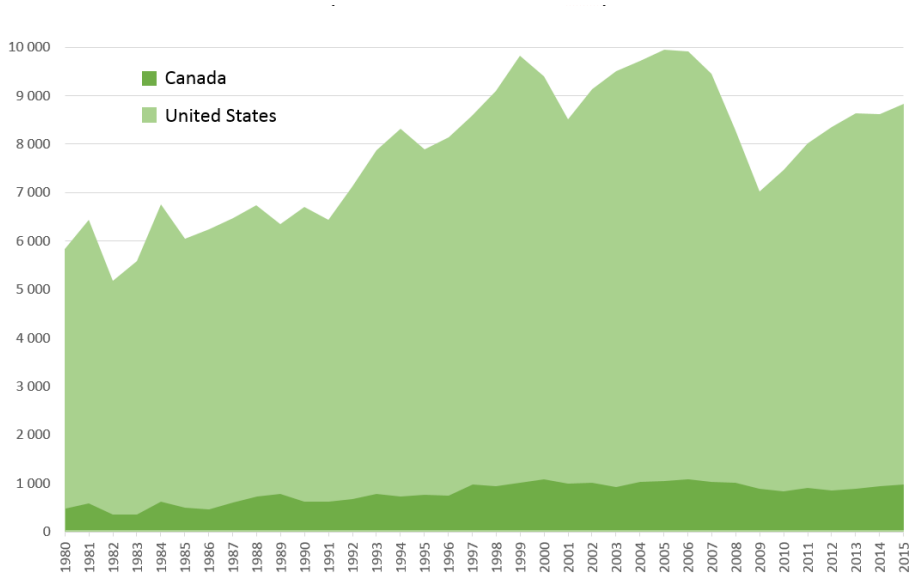
OVERALL NORTH AMERICAN CONSUMPTION EXPANSION

The main characteristics of U.S. and Canada's aluminium industries may be summarized as follows. Starting with the use of aluminium, one should note that the latter may not be measured directly but only assessed indirectly by computing the "apparent aluminium consumption" defined as primary aluminium production + imports of ingot + imports of aluminium mill products + recovery of secondary – exports of ingot – exports of aluminium mill products. Inventory change might also be considered to measure aluminium consumption, but not in the Figure 3 given the difficulty to assess their importance.

The "apparent aluminium consumption":

primary aluminium production
+ imports of ingot
+ imports of aluminium mill products
+ recovery of secondary
– exports of ingot
– exports of aluminium mill products

Figure 3. U.S. and Canada apparent aluminium consumption 1980-2015
(thousands of metric tons, kMt)

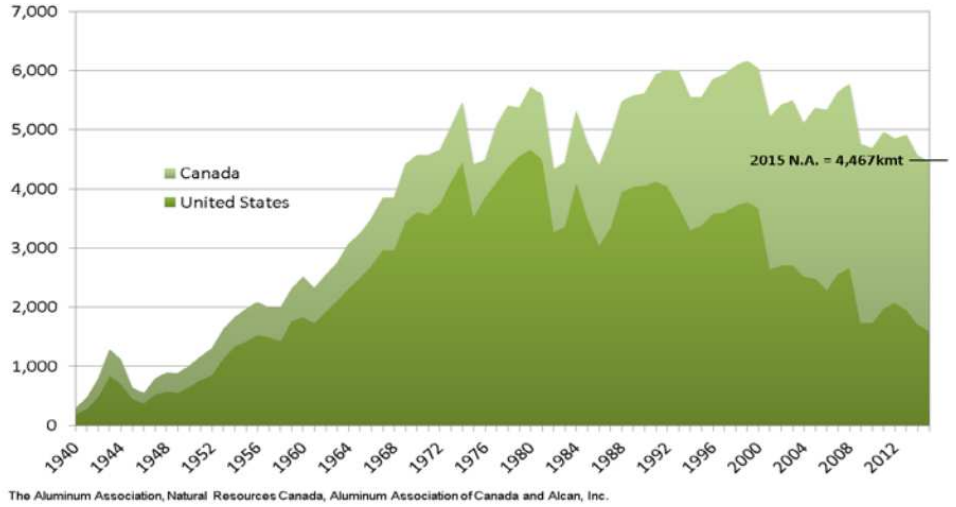


Source: Aluminum Statistical Review 2015, The Aluminum Association

Apparent aluminium consumption increased steadily in both countries between 1980 and 2006. In Canada, it reached about 1,050 kMt in 2006, while U.S. apparent consumption exceeded 9,900 kMt in 2005 and 2006. Canada's apparent use of aluminium experienced a slightly higher annual growth rate during that period (3.4% AGR vs 2.2% AGR for the U.S.) but from a much lower base. Consequently, Canada's share of North America apparent aluminium consumption expanded from 7% in 1980 to 10% in 2006. Both countries were hit by the financial crisis. U.S. apparent aluminium consumption of 2009 was almost 30% lower than the level registered only a few years earlier. In Canada, it dropped by 23% during the same period. Apparent aluminium consumption has recovered since then in both countries. The U.S. annual growth rate has fluctuated around 4%, while hovering around 3.2% in Canada. What about North America's production of primary aluminium? Figure 4 illustrates its evolution over time between WW2 and 2015.

DECLINING NORTH AMERICAN PRIMARY PRODUCTION

Figure 4. North American production of primary aluminium 1940-2015
(thousands of metric tons, kMt)



However, two successive energy crises, the renegotiation by several U.S. smelters of long-term energy prices modified the structure of the U.S. and global aluminium industry.

As may be observed above, U.S. and Canadian primary aluminium production increased at almost the same pace until the beginning of the 1980s. In 1980, North America's primary output exceeded 5.7 million Mt, with Canada's share representing about 19% of the total. During that same year, U.S. primary production reached an historical peak of 4.65 million Mt. However, two successive energy crises, the renegotiation by several U.S. smelters of their long-term energy contracts, and the appreciation of the American dollar modified the structure of the U.S. and global aluminium industry. The situation was different in Canada, where the availability of low-cost hydropower, ready geographical access to the large North American market, and the quality of the nation's economic and social infrastructures encouraged the construction of new smelters. Canada's primary production swelled from 1.07 million Mt in 1980 to a peak of 3.12 million Mt in 2008.

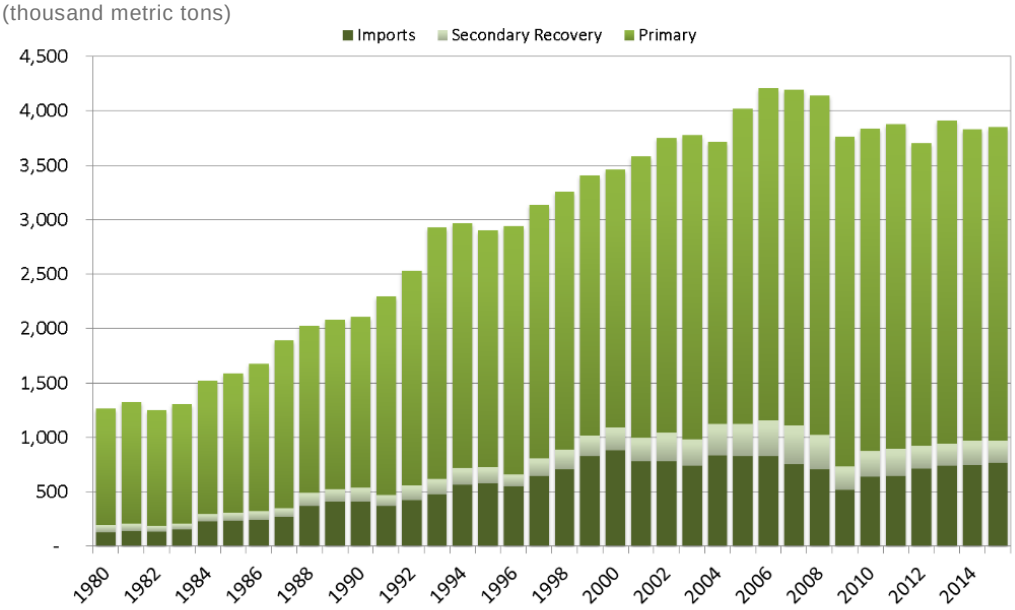
As an additional sign of their integration, the aluminium industries of both countries have suffered from the financial crisis. In Canada, primary output dropped by 7.6% between 2008 and 2015, while U.S. primary production shrank by about 40% during the same period. Consequently, Canada's share in North American primary aluminium production has increased from less than 20% in 1980 to about 54% in 2008 and has increased even more since then given the closure of several U.S. smelters. In 2015, primary aluminum production in the U.S. and Canada totalled 4,467 thousand metric tons, compared with production of 4,568 thousand metric tons in 2014 — a decrease of 2.2%year-over-year. Canadian production increased eight-tenths of one percent to 2,880 thousand metric tons in 2015, while production in the United States fell 7.2% to 1,587 thousand metric tons. Over the last decade (2005-2015), North American production has declined at an annual rate of 1.7%.

STABLE NORTH AMERICAN BASED SUPPLY SHARE

Primary aluminium production represents only a fraction of the total supply of aluminium available to users of this metal. Aluminium supply over time includes not only primary aluminium production, but also recovery from scrap, imports of primary and secondary ingots, plus imports of mill products. Figure 5 illustrates the evolution of the principal components of U.S. aluminium supply between 1980 and 2015.

Over the last decade (2005-2015), North American production has declined at an annual rate of 1.7%

Figure 5. Principal components of U.S. aluminum supply 1980-2015
(thousand metric tons)



The Aluminum Association, Natural Resources Canada, and Aluminium Association of Canada

Figure 5 suggests that even if U.S. primary production has dwindled over time for the reasons mentioned above, U.S. total supply has remained relatively stable since the start of the new millennium. The loss in primary output was compensated by higher imports of primary & secondary ingots and of mill products, as well as by the recovery of scrap.

Focusing on the last decade, U.S. aluminium supply share has registered a slight atrophy from 11,478 thousand Mt in 2005 to 10,392 thousand Mt in 2015. Over this same period, share of U.S. primary aluminium production in U.S. supply has dwindled from 21.6% to 15.3%. Secondary recovery has compensated for part of the drop, representing about 37% of U.S. supply in 2015. The same has been true for imports. However, the share of primary aluminium imports has been stable over that period at about 32% of supply. Thus, the higher imports into the U.S. are mainly due to imports of mill products, the share of the latter having increased from 13.5% in 2005 to 15.4% 10 years later.

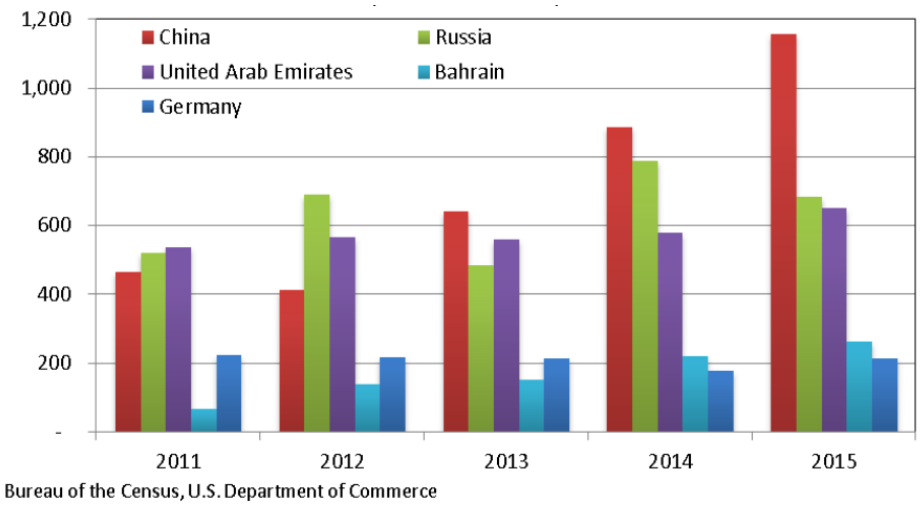
On a longer-term perspective, it must also be underlined that even if U.S. aluminium primary production shrank by 2.5 million Mt between 1990 and 2015, Canadian primary output increased by only 1 million Mt during the same period. One third of the Canadian jump in primary production was to satisfy the increase in Canada's apparent consumption over those years, while the rest was to cover the U.S. supply deficit in primary ingots.

WITH HIGHER IMPORTS FROM NON-NAFTA COUNTRIES… INCREASINGLY FROM CHINA

The net result of a positive growth rate in apparent primary consumption, a slightly declining pace in total aluminium supply (although a major drop in primary output), and a relatively stable supply of secondary recovery must result in higher imports of primary & secondary ingots and of mill products. According to the 2015 U.S. Aluminium Statistical Review, imports of ingot and mill products originating in Canada represented about 60% of U.S. imports of aluminium products between 1995 and 2015. Even more importantly, Canada's share in U.S. imports has remained stable over this period, fluctuating within the 55-65% range. Also of note, Canada's share of U.S. imports of aluminium products (ingot and mill products) has declined over the last 3 years, declining from 61.1% in 2013 to 54.6% in 2015. If, over the last three years, the U.S. aluminium industry has been threatened by a sudden jump in imports, the threat was not coming from Canada (its exports to the U.S. were in fact stable between 2013 and 2015). It was a non-NAFTA threat and Figure 6 provides more details.

If, over the last three years, the U.S. aluminium industry has been threatened by a sudden jump in imports, the threat was not coming from Canada. It was a non-NAFTA threat.

Figure 6. Non-NAFTA U.S. imports by top 5 countries 2011-2015
(millions of pounds)



During the last three years, U.S. imports of aluminium products originating from China have almost doubled, its share of US imports swelling from 5.8% to 9.5%. Russia's exports to the U.S. have also increased in importance, with that country's share of American imports of aluminium products jumping from 4.4% to 5.6% in 2015. The United Arab Emirates have remained an important exporter of aluminium products to the U.S. as well, with their share improving slightly from 5.1% in 2013 to 5.3% two years later. Even if the combined share of these 3 countries has swelled from 15.3% in 2013 to 20.4% in 2015, the main threat to both the American and Canadian aluminium industries seems to be mainly originating from China. Without the anti-dumping measures against that country for extrusions in U.S. and Canada, China's import share would even be much higher.

During the last three years, U.S. imports of aluminium products originating from China have almost doubled

The main threat to both the American and Canadian aluminium industries seems to be mainly originating from China.

A COMMON THREAT

If a newcomer increases its primary aluminium output from 850 thousand Mt in 1990 to 2,794 thousand Mt a decade later, to 20,072 thousand Mt in 2010, and finally to 31,518 thousand Mt in 2015, then, unsurprisingly, the whole structure of the global aluminium industry is shattered. This is exactly what happened to China, whose share of global primary output has skyrocketed from 4.4% in 1990 to 48.3% 20 years later, before stabilizing for the time being at 54.5% in 2015.

China's phenomenal increase in primary aluminium production may be related not only to some natural comparative advantages in some provinces, but also to induced advantages driven by a plethora of market distortions (government interventions in the price mechanism; debt equity swaps; energy subsidies; fiscal support for plant relocation; green development; R&D or technology upgrading; discretionary management of cross-border transactions). These policies plus the expected prices have justified the construction of greenfield smelters and the expansion of existing ones, stimulating world capacity and, thus, global production.

Despite a surge in China's aluminium consumption over the same period, its net exports of primary, semis and intensive manufactured products (including wrongly classified and misrepresented products) have increased significantly, exerting a downward pressure on aluminium prices through the following mechanisms:

- ***by adding unsold items to global inventories*** (direct impact);
- ***through an indirect impact on the demand bloc****:* the higher the Chinese net exports of ingot, semis and aluminium intensive manufactured products to Western markets (such as the European Union, the United States or South-East Asia, including Japan), the lower the aluminium products' demand in those areas, the higher the surplus inventory expressed in days and the lower the price of aluminium; important to note as well is the fact that Chinese net exports of aluminium products to third parties also add negative pressure on prices since some of these customers were previously supplied by western world producers;
- ***through the scrap market****:* for several years, China has been a net importer of scrap from the rest of the world, such a flow regularly exceeding 3 million Mt per year; Chinese imports of aluminium scrap have increased their metal availability, brought down their domestic price of the metal and stimulated their production of semis and aluminium intensive manufactured products; Chinese scrap imports have also reduced the availability of such a substitute to primary metal in the rest of the world, pushed up the price of secondary metal in these regions, stimulating the demand for primary metal and, thus, its price.

China net exports of primary, semis and intensive manufactured products have increased significantly, exerting a downward pressure on aluminium prices.

However, the situation may start to change over the next few years since China's **cumulative** use of aluminium metal has exceeded 300 million Mt over the last two decades. This huge potential supply of secondary metal will increasingly become available within China as the aluminium-intensive manufactured products reach the end of their life-cycle. The increased metal availability within China will keep a lid on metal prices and stimulate its production even more, along with exports of semis and aluminium intensive manufactured products.

As China grows its overwhelming share of the market by adding new capacity upstream and downstream enabled by state subsidies of all forms, it progressively destroys existing privately-owned competition, while inhibiting market-driven expansion outside the country.

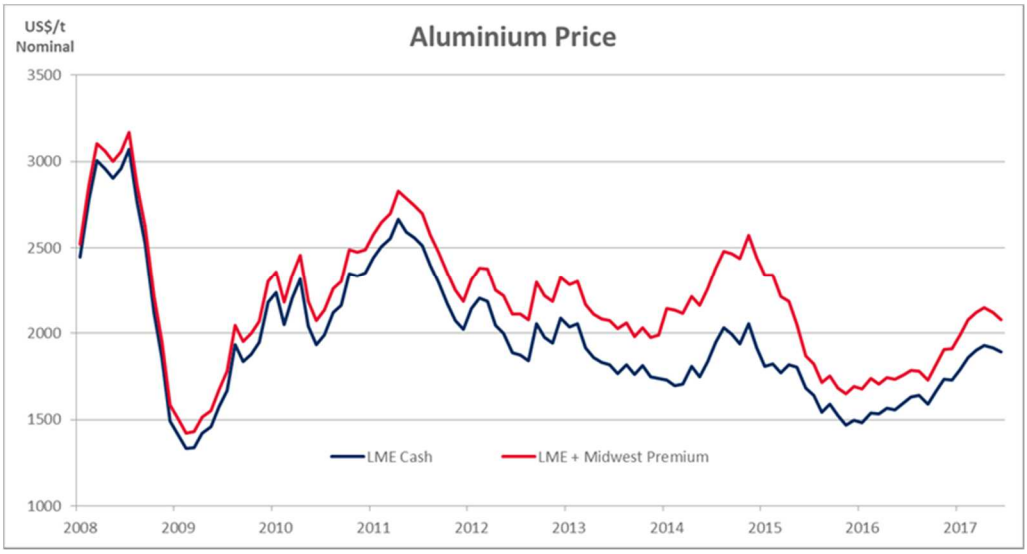
This erosion is already weakening established domestic capacity around the world — most notable in NATO countries, the U.S., Canada and Europe — threatening our shared capacity to step up in times of special needs to supply our national security requirements.

This erosion is already weakening established domestic capacity around the world — most notably in NATO countries, the U.S., Canada and Europe.

What is clearly at issue here from our industry's standpoint is the ongoing erosion of Free and Fair Trade aluminium supplying regions of the world caused by China's built up overcapacity and unruly market behaviour.

The downward pressure exerted through time on the world commodity price is of unprecedented breadth, declining all the way from $3,000/ton at its highest in 2008 to $1,200 in February a year later, with a low $1,600 average since then.

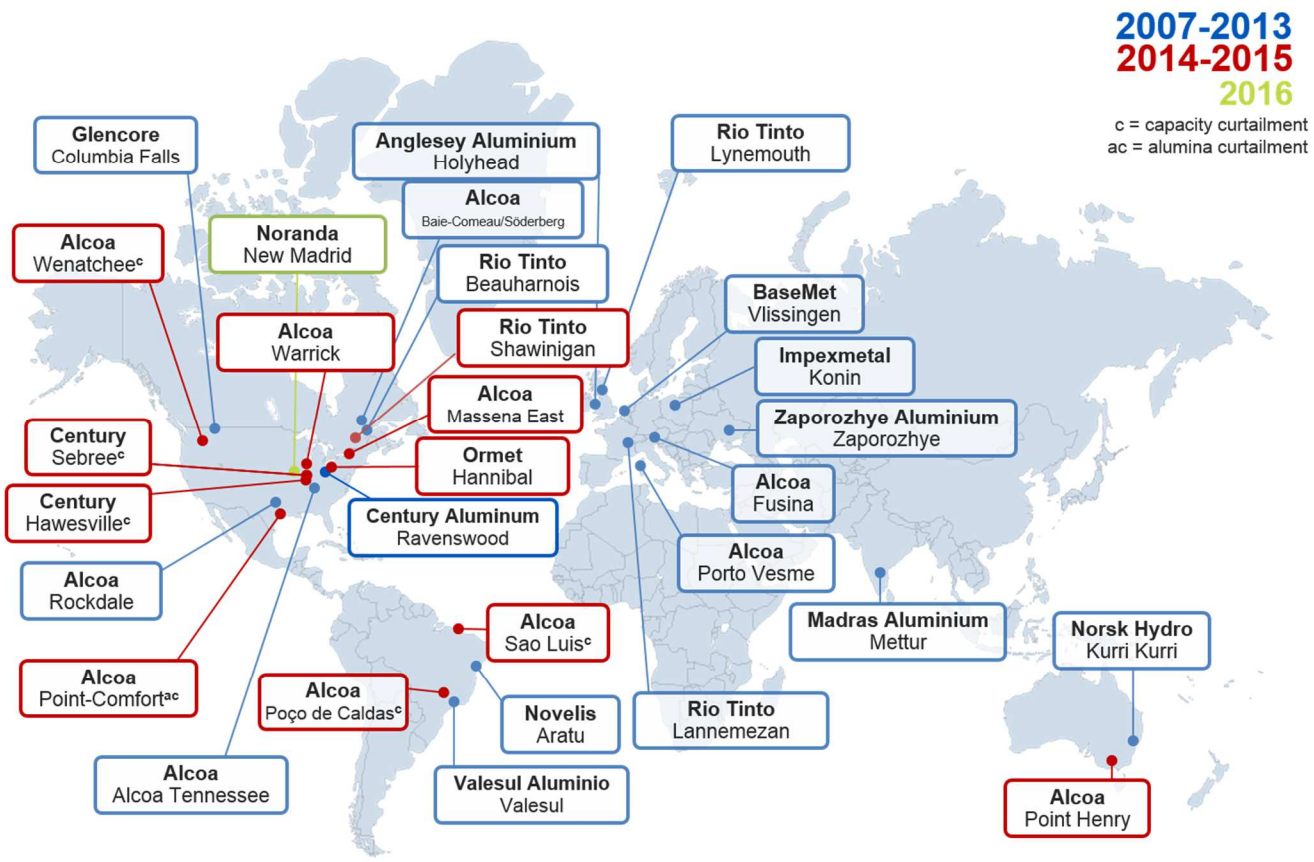
Figure 8: An industry in crisis | Aluminium price 2008-2017



This low price forced a series of curtailments all over the world — outside China mostly — with in excess of 40% of total capacity losing money.

More recently, the wave of curtailments hit here in the U.S. with a series of plant closures, taking U.S. production all the way down to 1% of the world total capacity from 15% in 2000. As seen on the map, Canada also went through permanent shutdowns, namely the Baie-Comeau, Beauharnois and Shawinigan smelters.

Figure 9: Plant closures and curtailments 2007-2016



It is in this perspective that the Aluminium Association of Canada joins with its American and European counterparts in denouncing this situation that has been going on for too long.

Our three regions wish to cooperate and trade more on a global scale. While Free and Fair Trade must be facilitated, we do believe that border adjustments will only serve China by hindering the flow of responsibly produced and fairly traded aluminium from Canada and Europe.

Artificially low prices may be good for downstream and end users in the short term, but they pose a problem in the long term if they are kept artificially low by and for the benefit of an increasingly dominating part of the industry, thus eroding sustainable growth of other players and creating an economic regional powerhouse in a global commodity sector.

The situation will ultimately lead to the disappearance of more North American-based assets, along with jobs, expertise and relative national security self-sufficiency.

CONCLUSION

Canada is impacted by China's behaviour on world markets. Even though we have access to low cost renewable energy and would have the potential for significant brownfield capacity expansion, the required capital investments cannot be justified given the persistent low commodity prices we have seen since 2009.

China is in a transition towards a market econopmy. Moving from the legacy of state-directed accelerated industrialization to grow the economy, to becoming a market-based trading partner is certainly complex — all the more so when taking the numbers involved into account. China exporting 10% of its total annual production (3.3 million tons) on world markets equates to Canada's annual production as the world's 4th producer, while generating 51 million tons of greenhouse gas emissions (GHG).

Although the data coming out of China is neither complete nor clear, it is evident that up-and-coming additional capacity is adding to existing overcapacity, to 300 million tons of progressively available scrap, and to stacked inventories and negative demographics, contributing to the ongoing erosion of existing capacity and downstream value chains in the rest of the world. The situation is even more disconcerting given the country's shift from a supply-driven economy to a service economy.

Canada's privately owned producers have constantly improved their performance as world-class manufacturers and have been providing clean and responsibly produced aluminium under carbon pricing mechanisms at commodity price to the North American market.

- We have been an integral part of the North American industrial value chain, benefiting from and, providing benefits to both sides of the border.
- The growing presence of metal produced by an artificially supported industry in China has a major disrupting effect on a traditional level playing field.
- The sheer numbers involved are unprecedented and deserve immediate and unprecedented action.
- China's planned transition towards a market economy requires time, openness and understanding; but words alone will not suffice, and where commitments are made, actions will be required.
- As an emission-intensive and trade-exposed industry producing a commodity in a decarbonizing world, we subject ourselves — like our industrial value chain partners in the U.S. — to stringent environmental and social standards. North-America's smelters and downstream processors should not be exposed to the pressures on a commodity market of metal production generated for domestic consumption elsewhere in the world in a non-market-based business environment.

In this perspective, and to the extent that Canada, the U.S. and European industries are concerned and impacted by overcapacity and disruptive business behaviour, the AAC respectfully submits the following recommendations.

RECOMMENDATIONS

In considering remedies, the U.S. government must treat Canada as part of its domestic supply base and must ensure to “Do no harm” to its industry.

- Canada, the U.S., and Europe should engage with China within an appropriate international forum to formally assess the situation in full transparency and take action to quickly and progressively resolve the issues affecting the world aluminium market.
- Remedies should provide a sustainable outcome and:
  - » do no harm to fairly produced and traded aluminium from Canada and Europe;
  - » benefit the whole value chain, from upstream to downstream;
  - » avoid disruptive affects at the border on fairly produced and traded aluminium;
  - » be China-focused, including overcapacity and unruly market behaviour;
  - » be implementable, enforceable and verifiable;
  - » deal with data availability and transparency;
  - » enable consequent reporting;
  - » be aimed at accelerating and verifying China’s implementation of its commitments to close illegally-built capacity.