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The Aluminum Association

June 23, 2017

The Honorable Wilbur L. Ross, Jr.
Secretary of Commerce
U.S. Department of Commerce
1401 Constitution Ave., N.W.
Washington, DC 20230

PUBLIC DOCUMENT
ELECTRONIC DELIVERY

RE: Section 232 National Security Investigation of Imports of Aluminum – Post-Hearing Written Submission of the Aluminum Association

Dear Secretary Ross,

On behalf of its members that account for the vast majority of aluminum production in the United States and 161,000 aluminum jobs at facilities in 35 states, the Aluminum Association submits the following written comments in connection with the Department of Commerce's Section 232 national security investigation on imports of aluminum. As you and other Department officials evaluate the information obtained by the agency during this investigation (including information presented during the June 22nd hearing) and consider recommendations to the President, several points merit particular attention.

First, the statements delivered at yesterday's hearing were striking in their unanimity in identifying the fundamental issue negatively affecting the U.S. industry today and threatening its future – massive excess capacity to produce aluminum and aluminum products in China. Consistent with this clear message delivered by the many senior executives of domestic producers supporting action by the Administration to ensure that the U.S. aluminum industry continues to be able to support U.S. national and economic security, we urge that the Department focus its recommendations to the President on actions to reduce China's massive overcapacity – particularly through measures designed to achieve a negotiated government-to-government agreement to eliminate excess capacity – and avoid actions that have negative effects on trading partners (such as Canada and the European Union) that are highly integrated with North American supply chains and are treated as market economies by the Department of Commerce.

The impact of China's targeted support for its aluminum industry has fundamentally altered global aluminum supply and demand fundamentals in just two decades. In particular, according to information published by the International Aluminum Institute ("IAI"), Chinese aluminum production has grown from 10 percent of the world total in the early 2000s to over 55 percent today. Moreover, according to the CM Group, 48 percent of China's aluminum production capacity is owned and controlled by state-owned enterprises (SOEs), which frees those entities from market disciplines. Indeed, based on information gathered by IAI and CM

Group, China's aluminum industry is operating at a capacity utilization rate of only 72 percent – well below the rate at which facilities in the capital-intensive aluminum industry must operate to be profitable. Nevertheless, because aluminum production advances China's industrial policy objectives, the aluminum industry in China has been promoted by all levels of the Chinese government. In fact, the Chinese government implemented national policies targeted specifically toward the aluminum industry in both 2006 and 2012, in addition to broader non-ferrous metals industrial development plans issued in 2009 and 2016 that also encompassed the aluminum industry. These plans encouraged the development of high value-added aluminum products using advanced manufacturing equipment and promised a wide range of policies and measures to achieve these goals, including: financing, export incentives, tax preferences, and special government funds. The direct support of aluminum producers in China pursuant to the government's industrial policy initiatives tilt the playing field heavily in favor of China's industry and make it impossible for U.S. producers to compete fairly.

Second, many of the statements delivered at the hearing addressed the devastating impact that Chinese overcapacity, in both the upstream and downstream sectors, has had on the domestic aluminum industry. The negative effects of this overcapacity can be seen in the accelerated decline in production of primary aluminum in the United States, as well as in surges in U.S. imports of certain semi-fabricated aluminum mill products. Despite these significant challenges, domestic producers have committed or already invested $2.3 billion since 2013 in facilities to produce aluminum products – including aluminum sheet for automotive applications – where Chinese overcapacity has not yet resulted in significant negative effects. The Department and the Administration should not interpret these recent focused investments as evidence of domestic producers abandoning certain product lines to overseas competitors. To the contrary, the U.S. aluminum industry is fully committed to competing across the full value chain of aluminum products. Indeed, because direct aluminum shipments for defense applications account for less than five percent of the total U.S. aluminum market, it is vital that broad, robust, and healthy commercial markets flourish in the United States, so that domestic producers can operate mills that are used in manufacturing aluminum products for both defense and commercial applications at a reasonable rate of return.

Third, the Association previously expressed support for the exclusion of specific engineered products classified in Chapter 7603 of the Harmonized Tariff Schedule of the United States – in particular, products used in the manufacture of pigments and powders – from any action that might be taken by the President in connection with this investigation. As also previously stated, any action taken by the President should apply broadly to Chinese aluminum exports to the United States in order to create positive effects for the domestic aluminum value chain, including both primary and downstream producers and their employees. We wish to clarify, however, that unlike primary aluminum or semi-fabricated aluminum products that are produced by our members for use in the manufacture of downstream products, aluminum scrap is either a by-product of the aluminum and aluminum semi-fabricated production process or material from aluminum products that have reached the end of their useful life and are ultimately recycled into new aluminum products. In other words, aluminum scrap is an input that is consumed in producing aluminum and aluminum products. As such, a statement made by one of the presenters at yesterday's hearing suggesting that the United States has a net trade surplus with China on aluminum products (inclusive of aluminum scrap) is inaccurate and misleading. To the contrary, China runs a large trade surplus with the United States with respect to primary and semi-fabricated aluminum – the products that are manufactured by U.S. aluminum producers and on which they must earn a reasonable rate of return in order to support U.S. national security and the defense industrial base. In fact, the U.S. trade deficit with China on aluminum products reached more than 1 billion pounds in 2016 with a value of $1.1 million, an increase of 260 percent from 2012 (on a volume basis).

On behalf of the Association and its members, we greatly appreciate your efforts and those of your colleagues at the Department of Commerce to advance this investigation rapidly, in order to address China's growing overcapacity and its adverse effects on global markets and prices that are having significant negative effects on the U.S. aluminum industry and threaten its ability to continue to support U.S. national and economic security. We stand ready to provide any data or respond to any requests for further information that the Department might need in preparing its determination and possible remedy recommendations for the President.

Sincerely,

Heidi Brock
President and CEO