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Via Email to Aluminum232@bis.doc.gov

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Bureau of Industry and Security
U.S. Department of Commerce
Room 1093, 1401 Constitution Avenue, NW
Washington, DC 20230

RE: Comments on Section 232 Investigation of Aluminum Imports June 23, 2017

Dear Director Botwin,

I am a Senior Economist and Director of Trade and Manufacturing Policy Research with the Economic Policy Institute. EPI is the premier economics think tank bringing the concerns of working families to economic policy debate. Thank you for the opportunity to share my views on the impacts of aluminum imports on U.S. national and economic security.

ANALYSIS

Imports threaten the entire domestic aluminum industry, which is today hanging by a thread. The threat is largely driven by the growth of excess capacity and overproduction in China. Chinese primary aluminum production capacity has increased nearly [ ] percent since 2000, and China is responsible for [ ] percent of total increase in global aluminum production capacity between 2000 and 2017, as shown in Figure 1.[1] Chinese primary aluminum production capacity increased by [ ] tons between 2000 and 2017, resulting in a collapse in global prices, the loss of [ ] tons of U.S. production capacity, and a [ ] percent decline in potential output. This growth has been fueled by massive government subsidies and other market distorting practices.[2]

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[1] [ ]

[2] U.S.–China Economic and Security Review Commission (U.S.–China ESRC). 2016. *2016 Annual Report to Congress*. Washington, D.C.: U.S.–China Economic and Security Review Commission. November 16. At 70, 73, 92 and 103.

Chinese overcapacity has suppressed global aluminum prices, transmitting injury directly to domestic aluminum producers through global commodity exchanges. Aluminum is a global commodity, and prices are primarily driven by total global supply and demand, regardless of where it is produced, sold or stored, as reflected in the London Metal Exchange (LME) price.[3] The U.S. aluminum market effectively imports the adverse price and volume effects of China's capacity and production via changes in LME prices.

Collapsing prices have decimated U.S. primary aluminum production, capacity and employment. The LME cash (spot) market price of aluminum fell from [ ] per ton in 2007 to [ ] per ton in 2016 (average annual prices), a decline of [ ] percent, as shown in Figure 2. In an industry with high fixed costs, most domestic producers have not survived this prolonged, steady price collapse. Since 2000, [ ] domestic smelters have shut down, as shown in Figure 3, and more than [ ] good domestic production jobs have disappeared, as shown in Figure 4. Despite a slight recovery in prices in early 2017, U.S. primary aluminum producers are barely surviving.

Aluminum prices are also influenced by global inventories of primary aluminum. There is an inverse relationship between world aluminum inventories and aluminum prices;[4] as "stockpiles increase ... the price for aluminum decreases".[5] Worldwide aluminum inventories nearly tripled between 2007 and 2012 driven largely by excess Chinese supply entering the warehouses. As a result, the average annual LME price fell [ ] percent, falling from [ ] in 2007 to [ ] in 2012, as shown in Figure 2, above. Inventories remained elevated through 2016, and primary aluminum prices continued to fall, reaching [ ] in 2016, a further decline of [ ]. The rapid growth of global overcapacity and over-production, centered in China, was responsible for the rapid buildup of primary aluminum inventories and falling prices.

Total global primary aluminum production (on an annual basis) increased by [ ] tons per year between 2000 and 2016 (not shown).[6] The growth in primary aluminum production in China in this period was [ ] tons per

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[3] The U.S. International Trade Commission has noted that "the LME has become a reliable reference for the market price of aluminum..." U.S. International Trade Commission, Office of Industries. 2010. "Unwrought Aluminum: Industry & Trade Summary." Publication ITS-06 . March. Box 2 at 22.

[4] *Ibid.* Figure 4 at 20.

[5] *Ibid.* at 19.

[6] [ ]

year, or [ ] of net global growth in primary aluminum output. U.S. primary aluminum production declined by [ ] tons in this period, which offset growth in other countries lead by [ ] tons) and the [ ] tons).[7] Thus, the rapid build-up of global inventories of primary aluminum shown in Figure 2, which resulted in the steady decline in primary prices between 2007 and 2016 was driven by the massive growth of over-capacity and over-production which was centered in China in this period.

U.S. producers have suffered despite declining domestic energy prices and increases in downstream demand for aluminum. From 2011 to 2016, overall demand for primary aluminum increased by [ ] percent.[8] At the same time, energy prices in the U.S. have declined [ ] percent due to the energy boom.[9] This should have provided an advantage to the domestic industry. Notably, the U.S. aluminum industry is suffering at a time when energy and electricity prices are near all-time lows. Energy accounts for a significant – roughly 30 to 40 percent – share of the cost of producing aluminum.[10] During a period of falling energy prices and increasing demand, domestic producers should be seeing increasing profits, production and employment; instead, the opposite is happening. Smelters are shutting down, industry employment has collapsed and primary aluminum production in the United States has all but disappeared.

The threat to U.S. National Security posed by aluminum imports is significant. The domestic industry is losing ability to develop and supply critical products for both U.S. defense and critical infrastructure applications. Instead, the downstream U.S. producers are becoming increasingly dependent on unreliable sources of imports from the Middle East, Russia and elsewhere. If current trends persist, in time of war or other national emergency, the U.S. would find itself dependent on unstable import sources.

For these reasons, it is critical that Section 232 relief is broad. Specifically, relief should be structured in a manner that allows as much primary aluminum production as possible to restart in order to maintain critical aluminum capabilities

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[7] *Ibid.*

[8] [ ].

[9] [ ].

[10] The Aluminum Association. 2017. "The Primary Production of Aluminum: The role of electricity in primary production." Accessed June 20, 2017.

and prevent reliance on unstable supply. Moreover, relief must account for the fact that because so much U.S. production has been shut-down due to China's market distorting practices, some imports are needed in the U.S. market. As such, as a contiguous source of stable supply, Canada should be excluded from relief while establishing broad, across the board restrictions on imports of both primary and downstream aluminum products.

According to market reports, the U.S. consumed approximately [ ] tons of primary aluminum in 2016.[11] Nearly [ ] percent of that consumption was serviced by imports, [ ] from Canada, and less than [ ] tons were supplied by U.S. producers.[12] Because aluminum is a global commodity, excluding Canada from relief would likely result in virtually all of Canada's available capacity serving the U.S. market. As prices rise in the United States, Canadian producers will seek higher U.S. prices and shorter shipping distances, and will cease exporting to Europe and Asia, As a result, virtually all of Canada's supply will come to the United States.

Market analysts estimate that Canada possesses approximately [ ] tons of capacity, with is more than enough to service the Canadian market. With less than half a million tons of its own consumption, this capacity will be directed at the U.S. market. In fact, it is likely that much of Canada's domestic demand will be satisfied through imports. The remaining available U.S. capacity is approximately [ ] tons.[13] Consequently, both Canadian and U.S. producers could service virtually the entire North American market. Therefore, if U.S. production is to restart, excluding any other import sources from the relief would undermine Section 232 relief to the point where the U.S. industry would see virtually no benefits. Based on metal flows of the commodity, if other sources are excluded from relief, the product will absorb the remaining volume at the distorted LME price without allowing U.S. production to restart. Thus, the administration should apply tariffs to all non-Canadian sources of primary aluminum imports under HTS 7601.10 and 7601.20 (excluding HTS 7601.20.9060 and 7601.20.9075). If the administration is contemplating a tariff rate quota or a straight quota, given the dynamics discussed above, the quota portion on other imports sources should be extremely small and can be phased down to very small or *de minimis* levels over six to nine months as U.S. production restarts and the need for non-Canadian imports is eliminated.

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[11] [ ]
[12] *Ibid,* Table V.
[13] *Ibid.* Table S.11

Notwithstanding testimony at the hearing by representatives of the aluminum can industry indicating otherwise, and contrary to recent statements made by representatives of the beer industry,[14] the price of aluminum has very little impact on the price of beer, soda, or the many other finished products that use aluminum. Between 2011 and 2016, the LME cash price declined by [ ] percent. The price of a 6-pack of beer over that time, however, did not decline at all. In fact, it increased by nearly 7 percent. Specifically, the average unit value for beer in aluminum 6 and 12 packs under HTSUS subheading 2203.00.00.60 (imports of beer in non-glass containers under 4 liters (*i.e.*, 6 packs and 12 packs in cases)) increased by 6.45 percent during this same time period.[15] If aluminum was such a significant component in the price of a 6-pack, we would have expected the price of beer in cans to have declined along with the price of aluminum. This did not happen. Apparently, when the price of aluminum declines, the beer producers do not pass on these cost savings to their customers..

Simply stated, there is little correlation between aluminum input costs and finished products that contain aluminum. This is true whether one is examining the price of a 6-pack of beer, the F-35 fighter jet, or the Ford-150. With respect to the latter, the price of aluminum in the F-150 is significantly higher than steel. However, this did not deter Ford from switching from steel to aluminum. Even with this change, Ford still continued to sell large volumes of the Ford-150 at similar prices. If the President was to impose a 20 percent tariff on non-Canadian imports of primary aluminum, for example, it would increase the price in the United States from today's average LME cash price by approximately [ ] percent to [ ] per ton.[16] The price is below the 2011 annual average LME cash.[17] Cars were still being sold and beer was still being drunk back then. As such, because aluminum is a relatively small amount of the total cost to produce and sell these finished products, it is clear that a 20 percent tariff would not have a significant impact on the price of beer, soda, cars, planes, or a number of other aluminum-containing goods, despite testimony to the contrary.

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[14] At an industry conference in June, Tim Weiner, senior commodity risk manager at Molson Coors Brewing Co. and its MillerCoors LLC stated, "If there are duties on aluminum coming to this country, it will obviously get passed on to us and the customer. Our prices will go up." Joe Deaux, Trump's Aluminum Tax Could Make Your Beer More Expensive, Bloomberg (June 7, 2017).

[15] USITC Dataweb HTS 2203.00.00.60.

[16] [ ].

[17] [ ].

Moreover, relief must also be predicated on adjusting for China's attempt to capture control of the entire value chain from primary aluminum production through downstream products. Chinese industrial policy promotes downstream production and exports, through the use of primary production subsidies and an export tax on primary aluminum designed to channel cheap inputs into manufacturing of downstream aluminum products (e.g. sheet, plate, foil and extrusions). Chinese exports of downstream products have soared, taking market share from processors elsewhere, reducing demand for primary aluminum outside of China. For example, total imports of all aluminum products (HTS 76) reached $2.9 billion in 2016, 16.9 percent of total U.S. imports of aluminum products.[18] China was the second largest source of imports of aluminum products in the U.S., behind only Canada.

Thus, it is critical that Section 232 relief for aluminum producers must be broad, and must encompass relief for downstream producers of aluminum products. Downstream producers also manufacture products for U.S. military and critical infrastructure applications, and are suffering from an onslaught of unfairly traded imports. Indeed, the subsidies that China provides to its primary aluminum producers flow down to its downstream producers. However, it is import to keep in mind that these subsidies are also directly responsible for the [ ] decline in the LME price for primary aluminum products that has taken place since 2007, shown in Figure 2, above.

In conclusion, for these reasons I recommend that the Commerce Department find that Aluminum imports are threatening to impair national security and critical national infrastructure, and recommend that the President authorize trade relief in the form of tariffs covering non-Canadian primary aluminum imports under HTSUS 7601.10 and 7601.20 (except HTS 7601.20.9060 and 7601.20.9075) and on downstream aluminum imports in Chapters 7604, 7605, 7606, 7607, 7608, 7609, 7610, 7611, 7614 and 7616 from China and any other import sources identified by domestic downstream producers.

[18] Customs value data. Source: U.S. International Trade Commission, Trade DataWeb (data downloaded June 12, 2017).

REQUEST FOR CONFIDENTIAL TREATMENT

EPI[19] respectfully requests that the information contained in single brackets ("[ ]") throughout this letter be treated as business confidential information and withheld from public disclosure pursuant to 15 C.F.R. § 705.6(a). The information contained in brackets constitutes company proprietary information, including trade secrets and commercial and financial information, the release of which to the public would cause substantial harm to the competitive position of the submitters. This company proprietary information is exempted from public disclosure by the Freedom of Information Act. 5 U.S.C. § 552(b)(4). This information is exempted from public disclosure in trade remedy cases, pursuant to 19 U.S.C. § 1677f(b). A non-confidential version of this letter with business confidential information redacted is being submitted concurrently with this business confidential version.

Sincerely,

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[19] This research was made possible by support from Wiley Rein LLP.

Figure 1

Not Capable of Public Summary

Figure 2

Not Capable of Public Summary

Figure 3

Not Capable of Public Summary

Figure 4

Not Capable of Public Summary