

COMPETING AGAINST GOVERNMENTS

How China Has Devastated the U.S. Aluminum Industry

M A Y 2 0 1 7

The American aluminum industry is in crisis. Like so many American industries, it has been devastated by almost two decades of illegal and subsidized Chinese production that is yielding enormous excess capacity and a flood of certain unfairly traded products into the U.S., costing jobs and devastating communities across the country.

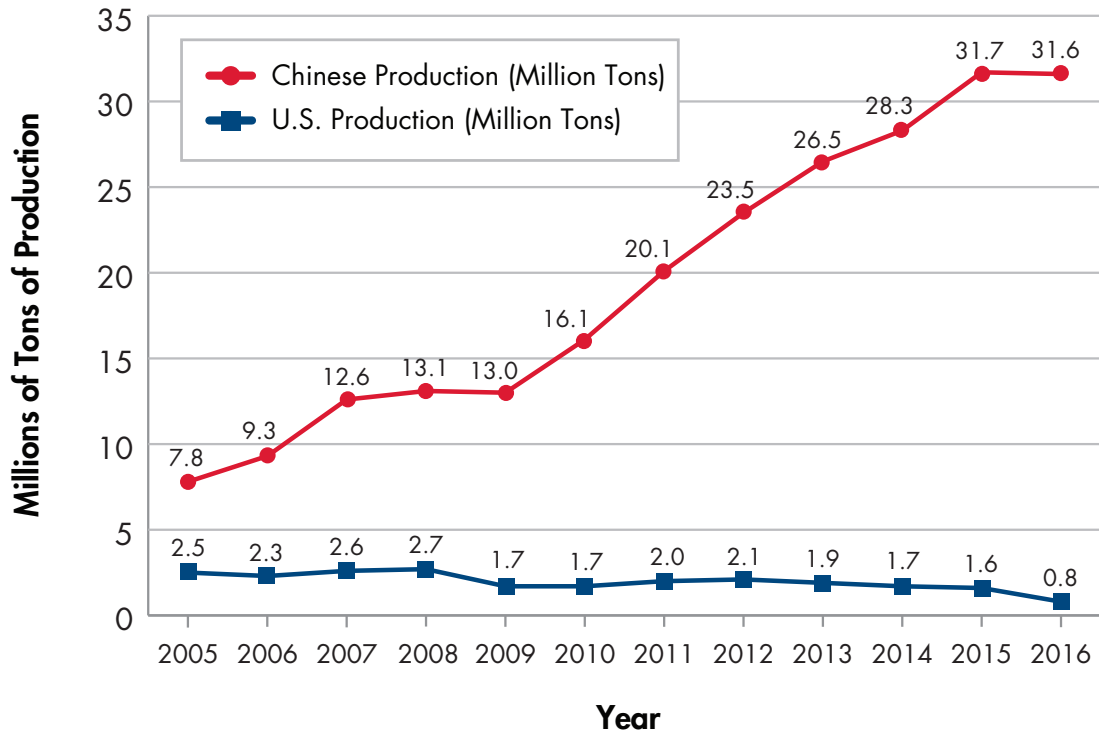
Today, an industry that once employed over 70,000 Americans and is a critical component of our nation's defense industrial base has been forced to lay off thousands of workers and shut down operational facilities. In January of this year, U.S. primary aluminum production fell by over 30 percent from the year before, while imports grew by 27 percent.¹ The U.S. government has recently taken some steps to level the playing field for American producers and their employees, but more action is needed.

Since 2000, the actions of the Chinese government, whose aim is the domination of global aluminum production, have dramatically undercut the U.S. industry. In 2000, China contributed roughly 11 percent to the total amount of aluminum produced globally. Today, its output has grown to over half of the world's production. China's aluminum industry has

benefitted from the Chinese Communist Party's willingness to provide massive illegal subsidies and artificially cheap capital to drive overcapacity, employment and artificial economic growth. Today, China's aluminum industry continues to benefit from state-subsidized coal, electricity, inputs and "artificially cheap" loans, and the impacts of these Chinese policies are being felt in communities across the United States.²

In just the last eight years, China's aluminum production capacity has increased 130 percent, as its leaders have pushed an additional 22 million tons of capacity online and increased annual production by over 18 million tons.³ Due to that increased capacity and production, the price of aluminum has been cut by over a third in that time, with the pace of these reductions increasing each year.⁴ As this illegally subsidized Chinese production exploded, the American aluminum

Figure 1. U.S. and Chinese Aluminum Production, 2005–2016



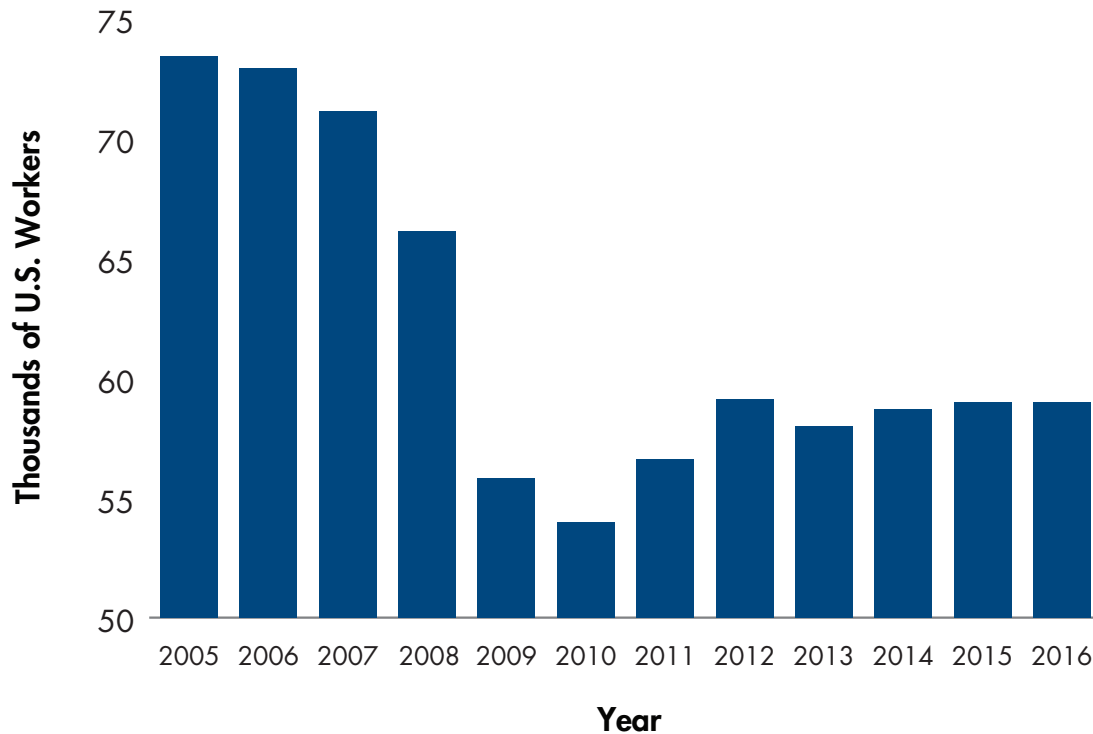
industry was ransacked, dropping from 14 operational aluminum smelters in the United States to just five, and shedding thousands of American jobs.

This is not an issue of market competitiveness. Chinese companies, despite having “no natural competitive advantage in the production of aluminum,”⁵ produced over 31 million tons last year.⁶ In contrast, U.S. aluminum production in 2016 fell to levels not seen since the 1950s. Tom Conway, International Vice President for the United Steelworkers explained the core cause of this discrepancy:

“We have the most productive, efficient workers in the world. We can compete against anyone that plays by the rules, but we can’t compete against governments. Chinese companies act primarily on behalf of and with the support of the state.”⁷

China’s aluminum producers continue to benefit from expansive state-support, dumping underpriced product into the global supply chain and illegally undercutting industry competitors.

Figure 2. Aluminum Production Employment, 2005–2016



Examples of China's State-Support for Aluminum Industry

- Between January 2011, and July 2015, Chinese producers doubled their output of aluminum despite a drop in global prices.⁸ This output was driven in part by the building of large new aluminum facilities with government support, including energy subsidies.⁹
- In 2015 Chalco, a state-backed aluminum producer, counted over \$250 million (USD) of government grants as income for the financial year.¹⁰

- Another state-backed Chinese aluminum company, China Hongqiao, has received loans from 13 state-backed banks while being given artificially cheap coal and aluminum inputs.¹¹

Despite repeated calls from the U.S. and others in the international community, China remains unwilling to adopt needed reforms. During the 2016 Strategic and Economic Dialogue (S&ED), U.S. negotiators raised the issue of China's excess aluminum capacity and pressed for a solution. By the conclusion of those talks, the Chinese delegation failed to find "common understanding" of its aluminum overcapacity issues and announced no concrete steps towards addressing the problem.

At the beginning of 2017, the U.S. Trade Representative (USTR) filed a case with the World Trade Organization (WTO) to challenge China's ongoing state support that is driving excess aluminum production capacity. Then-USTR Michael Froman announced that "artificially cheap loans from banks and low-priced inputs for Chinese aluminum are contributing to excess capacity and undercutting American workers and businesses."¹² This action was followed by the U.S. Department of Commerce (DOC) announcing the initiation of antidumping (AD) and countervailing duty (CVD) investigations into Chinese exports of aluminum foil.¹³ Most recently, the DOC's

foil investigation was upheld by the U.S. International Trade Commission, which determined that "there is a reasonable indication that a U.S. industry is materially injured by reason of imports of aluminum foil from China that are allegedly subsidized and sold in the U.S. at less than fair value."¹⁴ These actions have been welcomed by U.S. industry and workers who remain prepared to compete against China on a level playing field. But more action is needed. As these investigations move forward, the jobs of U.S. workers with years of experience and specialized training remain under attack.

CHINESE INDUSTRY SNAPSHOT

- Today, two of the world's six largest aluminum producers are owned by the Chinese government.¹⁵
- Between 2010 and 2015, China touted closing 3 million tons of annual aluminum production capacity, but added an additional 17 million tons elsewhere in its industry.¹⁶
- China's aluminum industry relies heavily on coal and is the most carbon-intensive aluminum production process in the world.¹⁷

U.S. INDUSTRY SNAPSHOT

- Last year, U.S. annual primary aluminum production fell below 1 million tons for the first time since 1952.¹⁸
- In 2016, roughly 60 percent of American aluminum capacity was taken offline as global aluminum prices remain below 2008 levels.
- According to figures from the U.S. Bureau of Labor Statistics, since 2005, the number of Americans workers producing finished aluminum has been reduced by over 14,000, or 20 percent of the industry's workforce.
- The U.S. aluminum industry provides a broad array of products utilized by our military (armor plating, lightweight munitions and other applications) and in our critical infrastructure. Without a healthy domestic aluminum industry, the U.S. military would be forced to look overseas to supply its men and women in uniform and its defenses.

Endnotes

- 1 The Aluminum Association – Industry Statistics Report for January 2017.
- 2 Office of the United States Trade Representative. *Obama Administration Files WTO Complaint on China's Subsidies to Aluminum Producers (January, 2017)*. Available at: <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/january/Obama-Administration-Files-WTO-Complaint-China-Aluminum>
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- 5 Stewart, Terence, Managing Partner, Law Office of Stewart and Stewart. Statement to the U.S.-China Economic and Security Review Commission. *China's Shifting Economic Realities (February 24, 2016)*. Available here: https://www.uscc.gov/sites/default/files/Panel%203_Stewart%20statement_022416.pdf
- 6 U.S. Geologic Survey, *Aluminum Statistics and Information, Mineral Commodity Summaries (January, 2017)*. Available here: <https://minerals.usgs.gov/minerals/pubs/commodity/aluminum/mcs-2017-alumi.pdf>
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- 8 The Office of the U.S. Trade Representative. *2016 Report to Congress on China's WTO Compliance (January 2017)*. Available here: <https://ustr.gov/sites/default/files/2016-China-Report-to-Congress.pdf>
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- 10 Home, Andy, Reuters. *U.S. complaint against China's aluminum sector risks back-firing (January 16, 2017)*. Available here: <http://www.reuters.com/article/us-aluminium-trade-ahome-idUSKBN1501Y8>
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- 14 U.S. International Trade Commission. *USITC Votes to Continue Investigations on Aluminum Foil from China (April 21, 2017)*. Available here: https://www.usitc.gov/press_room/news_release/2017/er042117755.htm
- 15 U.S.-China Economic and Security Review Commission (USCC), *2016 Report to Congress, November 2016 – 114th Congress, Second Session*. Available at: https://www.uscc.gov/Annual_Reports/2016-annual-report-congress
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- 17 <http://www.aluminum.org/china-trade>
- 18 USGS – Historical statistics – Aluminum <https://minerals.usgs.gov/minerals/pubs/historical-statistics/ds140-alumi.xlsx>