Testimony by Tim Reyes, Alcoa Inc.
United States International Trade Commission's
***Aluminum: Competitive Conditions Affecting the U.S. Industry* Hearing**
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Good morning. My name is Tim Reyes, and I am president of Alcoa Cast Products and witness for Alcoa Inc.

On behalf of Alcoa, I would like to thank the commission for this opportunity to discuss the challenges facing the global aluminum industry.

Alcoa pioneered the modern aluminum industry in 1888, and has been a global leader for more than 125 years. Today, we employ 57,000 people in 30 countries, including over 25,000 in the U.S. Alcoa mines best-in-class bauxite, the ore used to make aluminum. We refine bauxite into alumina, which is the main input used to smelt aluminum. From this aluminum, we make value-added products that enhance transportation and improve industrial and consumer electronics products. Aluminum is a critical component of airplanes; automobiles; smart buildings; food and beverage packaging; high-performance defense vehicles; and more efficient power generation.

In short, aluminum is a vital part of our everyday lives and essential to our country's economic future.

Unfortunately, in recent years, adverse market conditions have forced Alcoa to curtail or close aluminum smelting capacity around the world including the U.S., Spain, Italy, Canada, Australia, Suriname and Brazil. Alcoa has closed, curtailed or divested 43% of smelting capacity and 36% of refining capacity since 2007. In the U.S., this has impacted more than 1500 jobs in New York, Washington, Indiana and Texas in the *last year alone*. Many of the companies testifying today will share similar stories.

In China, though, the story is different. Since 2010, China's smelting capacity has increased every single year, reaching a total of 41 million tons of annual production capacity. That's 54% of global capacity – compared to just 11% in the year 2000.

However, domestic Chinese capacity far outpaces the country's ability to absorb its production, especially as China's economic growth slows. This year, China's overcapacity is estimated to reach new heights, with a surplus of more than one million metric tons—equivalent to about 25% of North America's total production.

As a result of this overcapacity, China is exporting more of its surplus aluminum into global markets, and the price of aluminum on the London Metal Exchange is down by roughly 30% since the beginning of 2010. While this activity hurts companies such as Alcoa and negatively impacts the efficient operation of the world's trade in aluminum, there are unfortunately negative impacts in China, as well.

Take the environment, for example. Ninety percent of China's aluminum smelters are powered by coal-fired electric plants. As a result, China's aluminum industry emits 68 percent of the global industry's total emissions of carbon dioxide. China's carbon dioxide per metric ton of aluminum produced is more than double that of the U.S. aluminum industry.

If China's smelters were a stand-alone country, they would be the 16th highest contributor to global climate change.

The Chinese Government is well aware of these challenges and has said it will take action – concerns around environmental issues like this have driven China's commitments under the Paris Climate Accords, ratified by President Xi in the company of President Obama earlier this month. The Chinese Government has also acknowledged aluminum overcapacity and has taken steps to address it, including maintaining a 15 percent duty on primary aluminum exports.
In addition, in October 2013, China's State Council issued a plan with targets to reduce overcapacity in several sectors, including aluminum. The guidelines included forbidding new capacity, removing local incentives, eliminating inefficient and outdated capacity, and developing global markets for Chinese products, among others. We believe implementation and enforcement of the State Council's plan would be a positive first step to reducing China's overcapacity.

However, we believe that unfair subsidies for Chinese smelters persist – possibly in the form of tax breaks, loans, or lack of enforcement of policies on the books. We encourage the ITC in its investigation to thoroughly research these subsidies at both the national and provincial level.

China also provides a 13 percent value-added tax rebate on the export of some semi-finished products to incentivize companies to create higher-value products and jobs. Unfortunately, however, some Chinese producers are taking advantage of this rebate by disguising primary aluminum exports as semi-fabricated products that are then melted back to primary aluminum once outside of China. These "fake semis" skirt the 15 percent duty on primary aluminum exports while, at the same time, benefiting from the 13 percent value-added tax rebate.

Globally, Alcoa seeks to compete on a level playing field—where all producers are held to the same standard: that of creating value by operating in a safe, cost-effective, ethical, and environmentally sound manner. We believe this should be the benchmark not just for the aluminum industry, but for all global businesses involved in cross-border trade.

Adhering to these principles has special relevance for *our* industry because customers can buy from all over the world, making the global aluminum market highly competitive and interdependent. Despite the uneven playing field that exists today, we believe there is a path to a win/win solution for the United States, China—and the global aluminum industry and its employees.

The good news: There is plenty of opportunity. Global demand for aluminum is high, with global consumption increasing 6 percent in 2015 and on target to increase by an additional 5 percent this year.

By collaborating on advanced technology development, the global aluminum industry can meet increasing demand by the automotive and aerospace industries for our lightweight, energy efficient product. Automakers and heavy duty vehicle manufacturers around the world have been working hard to produce lighter, stronger and better performing vehicles; and aluminum is playing a key role. We are seeing similar lightweighting opportunities in the aerospace industry, which seeks to reduce fuel consumption and related emissions. In China, Alcoa has valued relationships with aerospace manufacturer Comac and green energy auto maker BYD that serve as a testament to these opportunities.

All of this demand for aluminum products can bring jobs, tax revenues, and other benefits to communities in the United States. Alcoa has already invested $850 million in its plants in Davenport, Iowa; Alcoa, Tennessee; and Lafayette, Indiana; creating over 400 new jobs to meet these growth opportunities.

Alcoa greatly appreciates the U.S. government's sustained commitment to addressing the challenges facing our industry, including addressing overcapacity at the U.S.-China Strategic and Economic Dialogue, the September G-20 meeting, and the upcoming U.S.-China Joint Commission on Commerce and Trade in November.

Trade remedies, such as those provided for by U.S. law and World Trade Organization commitments, should remain a last resort.

We look forward to the findings of the ITC's 332 investigation to inform both the U.S. government and industry. We remain committed to continued engagement on these critical issues, and stand ready to provide any additional information required.

Thank you very much.