

Matt Aboud comments for the ITC

Dear Commissioners, thank you for the opportunity to speak to you today. My name is Matt Aboud and I am the president of Hydro Aluminum Metals USA, a Maryland based company that operates two scrap recycling facilities in the United States – one in the state of Kentucky and one in the state of Texas. We also import various forms of primary aluminum from our overseas fully owned smelters and on behalf of our joint venture partners. My company is part of the Norsk Hydro group, an Oslo, Norway based, publicly traded company.

You have already heard several companies discuss many of the factors affecting health of the domestic market for aluminum and I will give perspective on those; but I want to first talk about the role of technology and innovation.

It has been established by academics and proven in practice that physical proximity of actors in the value chain boosts the occurrence of innovation. The shorter geographical distance between actors, the less the cost of exchanging knowledge and information, and the faster communication.

In case of the aluminium industry, smelters, re-smelters, downstream aluminium players and end-customers work jointly on the development of new alloys suitable for new or improved products. This requires a close cooperation of all industry participants from laboratory to trial production and full production phases.

Ladies and gentlemen, we are on the verge of something great here in the US. There is a revolution underway across many different industries where aluminum is becoming the metal of the future. This is most visible in the automobile industry, where the ultimate end goal of reducing CO2 emissions is forcing the automakers to innovate engine and body designs and aluminum is playing a vital role.

Whether in the auto industry or several others such as the commercial building, HVAC, or solar industry, the presence of upstream production like aluminium smelters has the advantage of facilitating the cooperation with customers to innovate and further our advanced manufacturing industry here at home.

It also goes without saying that aluminum products are used by several strategic end markets, such as the defense industry and aerospace. Lack of domestic production leaves [US] defense companies relying on supply from countries that might not necessarily share the same values or has strategies in line with US interests.

I would also like to take this opportunity to mention the situation the current Chinese over capacity has with regards to climate impact. It is well known that Chinese power production is coal fired. In the last G20 meeting in China both the Chinese president as well as the US president signed the Paris climate agreement. To achieve these targets Chinese must reduce its own coal fired power production especially those used to uphold non-economical overcapacity such as electro-intensive aluminum plants. Chinese aluminum production is creating severe carbon leakage – for aluminum production the Chinese carbon footprint is close to three times higher than carbon footprint for US produced aluminum. US producers and those elsewhere in the world are hard at work to make our product less carbon intensive and the

sustainability of our product will be key going forward. China does not seem to share in these views at least in their actions as more and more smelters are opening in the Northwest part of the country using coal as the energy source. In many ways it is precisely this attempt at monetizing a stranded natural resource that has led to the erection of new unneeded smelters that are by their nature a very energy intensive facility.

I would now like to say a few words on the overcapacity situation in China and let me be clear; it is the overcapacity situation China combined with not being a market economy which leads to keeping plants operational from social reasons which should have been closed down for business reasons, that is most contributing to the current competitive conditions in the US. Though other countries receive more Chinese metals than the US, due to the commodity nature of aluminum products, a large scale supply distortion anywhere in the world will have an eventual effect everywhere and especially where markets are open to free trade. Like an earthquake far off in the ocean, we may not feel its effect right away, but eventually a huge tidal wave will hit our shores with damaging effects.

We are seeing this right now; interventions by Chinese government in the business process as well as misdirected regulatory activity have led to a massive domestic overcapacity. The production capacities created have reached dimensions that are (way) beyond the needs of China's domestic as well as the global markets.

In functioning market economies, the creation of overcapacities of such a magnitude would automatically start a process of market consolidation in the run of which some firms would leave the market and the least productive facilities would be eliminated. Due to the specific constellation of the Chinese politico-economic regime, however, where:

- (i) firms receive protection by local and central governments,
- (ii) the existing bankruptcy law is neither comprehensively specified nor fully enforced and
- (iii) profitability considerations do not constitute the primary goal of many (state-owned) business leaders,

As a result, this unneeded production capacity continues to stay in the market.

Additionally, in functioning market systems the emergence of overcapacities might trigger a period of intense competition between firms, where products are not sold at full costs, but rather at prices that cover the variable costs of production plus a fraction of the – sunk – fixed costs. As with such a competitive strategy companies incur a continuous stream of losses, such episodes are short and lead quickly to a consolidation of markets and a return to full cost price quotations.

In the Chinese environment, however, such irregular pricing phenomena are not short-term occurrences, but rather persist for prolonged periods of time, as companies are permitted to remain in the market despite of extended periods of negative business results. Be it by means of subsidization, government directed business, preferential access to capital and raw materials, energy, etc., governmental waiver of dividend payments, or other mechanisms, these companies are in a position to sell their products for protracted periods of time at prices that do not correspond to the costs accrued in their production.

So how is this playing out today? China has found a way to export its unneeded primary aluminum. The scheme goes like this...a company in China will export a semi-fabricated product that is unalloyed and has no use other than to be remelted, to a sympathetic country such as Vietnam, Malaysia, Indonesia or even Mexico. There the semi is remelted, often times by a Chinese owned facility and re-cast into a primary product. This new illegitimate primary product is now offered for sale in the market at low prices that displaces legitimate products from other non-Chinese companies. Like in any free market, these non-Chinese companies now go off in search of new homes for their legitimate products, but as each market becomes too crowded, they go off in search of farther and farther markets and eventually, these companies must try to sell their products in the US and other Western Hemisphere countries.

As such, the world is awash in unneeded primary aluminum. This has distorted both the global aluminum price as measured by the London Metal Exchange as well as regional premiums for specific aluminum products. The entire world industry is suffering, but it is the fact that the US industry is suffering the most; which is all the more disappointing due to the very exciting prospects mentioned above. So to close, I will repeat what I said earlier...aluminum is the metal of the future; but unless some action is taken, aluminum will have a very weak future in the United States.

Thank you very much.