



TESTIMONY

Submitted at the United States International Trade Commission Hearing

Investigation Nos.: 332-557

Aluminium: Competitive Conditions
Affecting the U.S. industry

By:
Jean Simard
President and CEO

September 29, 2016



Good afternoon, and thank you for this opportunity to contribute to the fact finding work of the United States International Trade Commission.

My name is Jean Simard, and I am the President and CEO of the Aluminium Association of Canada, representing the 3 world-class primary metal smelting companies in Canada, namely: Alcoa, Alouette and RioTinto.

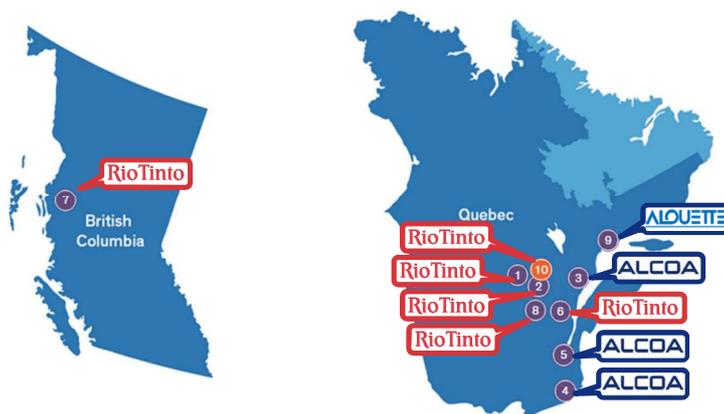
CANADA'S ALUMINIUM INDUSTRY

Canada's primary aluminium industry is a 100 years in the making. It stretches all the way from British Columbia on the Pacific Coast with Rio Tinto's recently modernized Kitimat operation, to Quebec in the Eastern Atlantic region where 90% of Canada's total yearly output of 3.2 million tons is produced, with 9 smelting operations including Alouette's on the North shore, Alcoa's 3 plants, and Rio Tinto's self-powered Saguenay plants.



RioTinto

Figure 1: Ten aluminium smelters in Canada





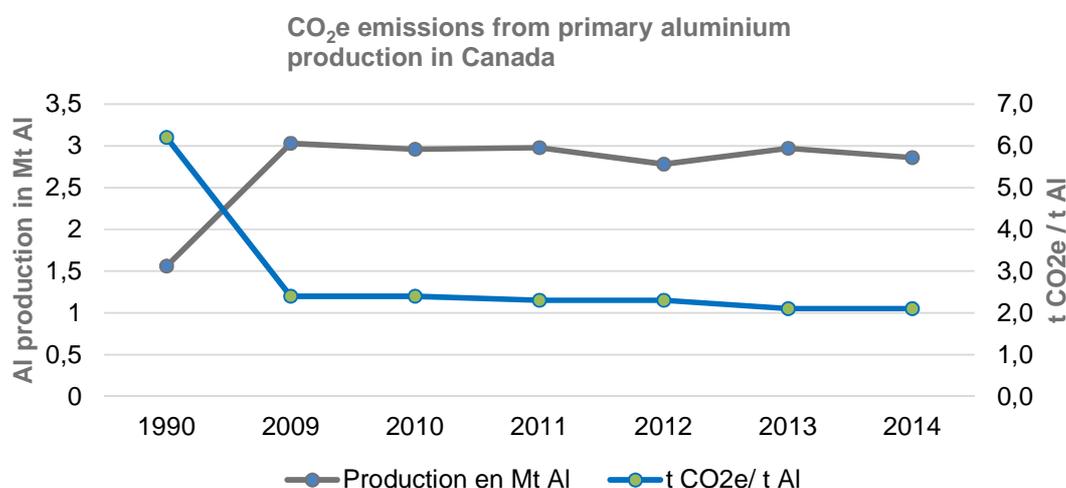
Canada's primary industry has since its original development been an integral part of the North American aluminium industrial value chain with a large part of its annual output exported to the USA, year after year.

Ever since the beginning of smelting operations in Canada by Alcoa in Shawinigan in the early 1900s, our two countries have worked in a seamless way to sustain the North American value chain.

From smelters powered entirely from hydroelectricity, and billions of dollars invested in plant modernization, today's 10,000 Canadian workers provide a low-carbon, responsibly produced aluminium to the 150,000 American workers employed in the value added downstream processing industry.

On top of our clean energy, massive investments in ongoing plant modernization and operational efficiency have lowered our greenhouse gas (GHG) emissions to the lowest in the world. Compared to the reference year 1990, by 2009, the Canadian aluminium industry had nearly doubled its output while reducing its total emissions by 26%, and in 2014 by 37% (in CO₂-equivalent tons) while its emissions intensity were reduced by 66%.

Figure 2: CO₂e emissions from primary aluminium production in Canada



Source: AAC 2015

A carbon footprint is the sum of GHG emissions accumulated during a product's lifecycle.

If we include only the stages taking place in Quebec (foundry, electrolysis, and anode production), Quebec's aluminium smelters account for three times fewer GHG emissions than the global average per ton of aluminium produced, and seven to eight times fewer than China's mostly coal-based production.



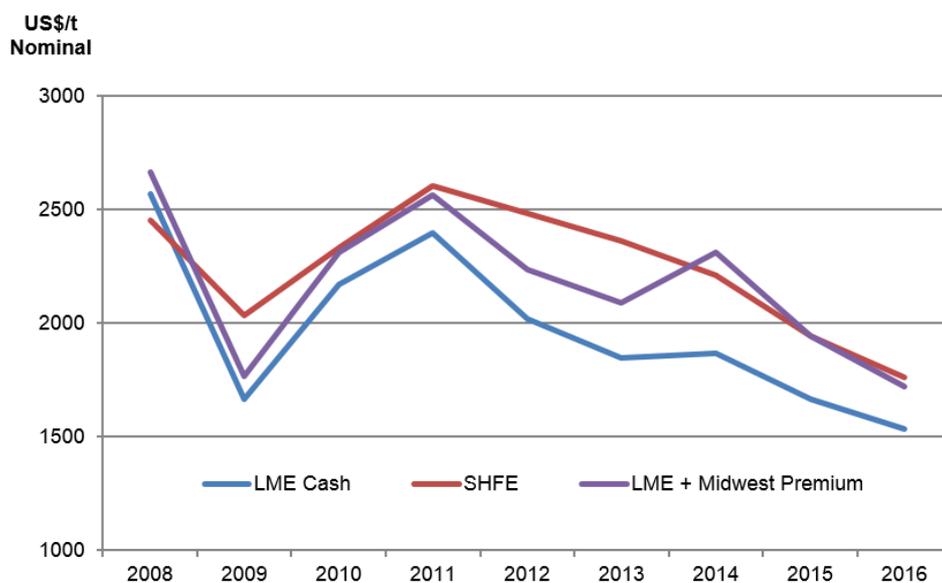
Another way to look at this is the following: Should we transfer Canada's overall capacity of three million tons annually to China with its heavy carbon footprint it would add a net additional contribution to global emissions of 51 million tons of GHG emissions—more than a third of Canada's total reduction target for 2020...

Our social impact is also of great importance by North-American standards, providing the well-paid jobs in Canada's manufacturing sector, which contribute to the overall economic vitality of communities in which we operate.

OUR PERSPECTIVE

In 2008, the LME price for aluminium went from \$3,000 a ton to \$1,200, launching an unprecedented crisis in the industry, lasting up until today, with no foreseeable pickup in price for the near future.

Figure 3: An industry in crisis



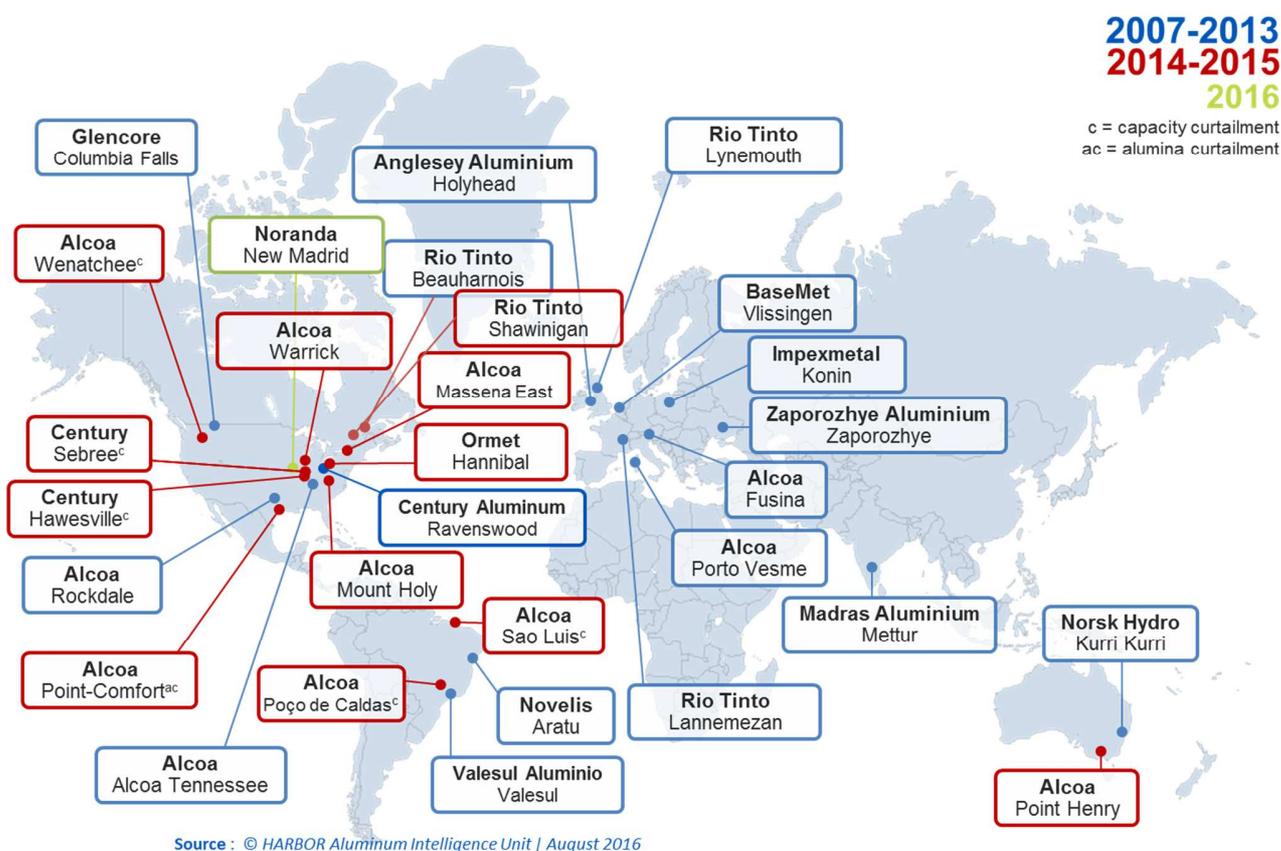
Source: AAC 2016

This low price forced a series of curtailments all over the world, outside China mostly, with in excess of 40% of total capacity losing money.



More recently, the wave of curtailments hit here in the USA with a series of plant closures, taking US production all the way down to being 1% of the world total capacity from 15% in 2000. As seen on the map, Canada also went through permanent shutdowns namely the Beauharnois and Shawinigan smelters.

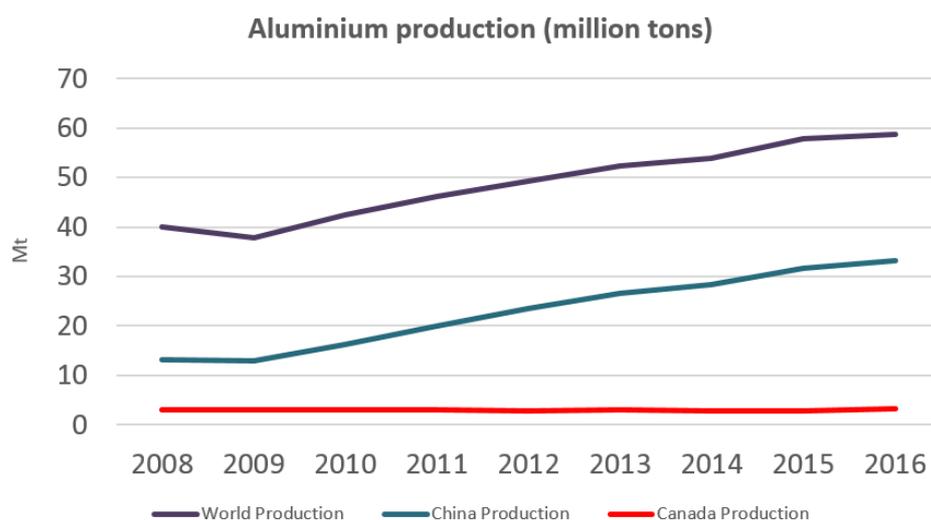
Figure 4: Plant closures worldwide





Over the same period, China's output has grown from 15% to 55%, shouldering GDP and urbanization growth through rapid industrialization.

Figure 5: Production remained stable in Canada, with growth in rest of the world and China



Source: AAC 2016

By all accounts, prices should remain low for the next 3 to 5 years, exposing remaining privately-owned capacity to risks of closures here in North America and elsewhere.

While artificially low prices may be good for downstream and end users in the short term, they pose a problem in the long term if they are kept artificially low by, and for the benefit of a growingly dominating part of the industry, thus eroding sustainable growth of other players and creating an economic regional powerhouse in a global commodity sector.

It will ultimately lead to the disappearance of more North-American based assets, with the jobs that go with them in return of growing imports of heavy carbon footprint metal, a “Jobs for GHG” trade-off.

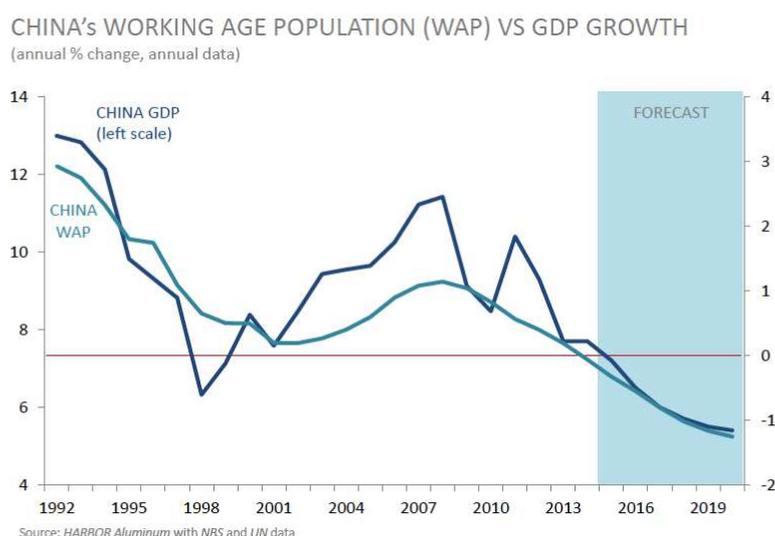


FROM NON-MARKET TO MARKET ECONOMY, A NOT-SO-EASY TRANSITION...

Since 2014 China has entered a downward economic cycle, while trying to transition towards a market economy. Moving the legacy of state directed accelerated industrialization to grow the economy, to becoming a market-based trading partner is certainly complex, more so when taking into account the numbers involved. If China exports 10% of its total yearly production on world markets, 3.3 million tons, it equates to Canada's yearly production, as the world's 4th producer....as well as generating 51 million tons of GHG for export purposes...

This transition is predicated on key economic indicators that are all robustly negative:

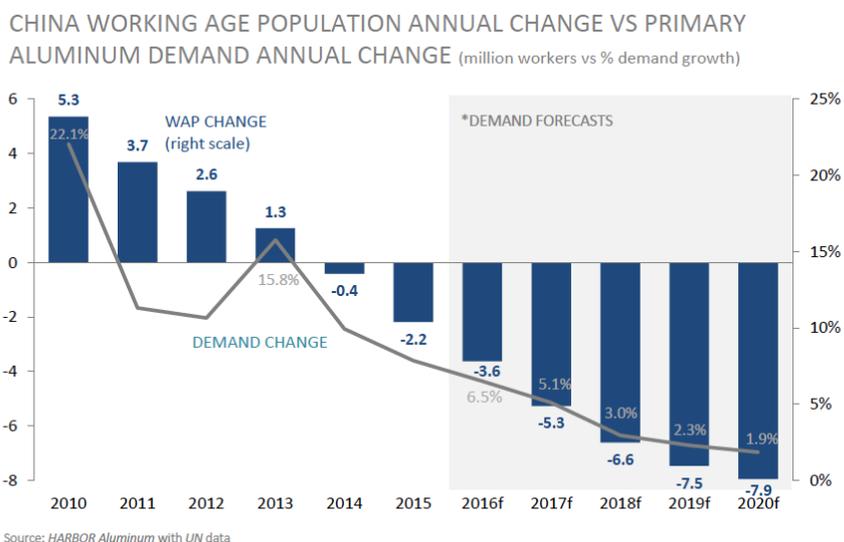
Figure 6



Domestic demographics: WAP: Single child family takes over the workplace...for the next 30 years

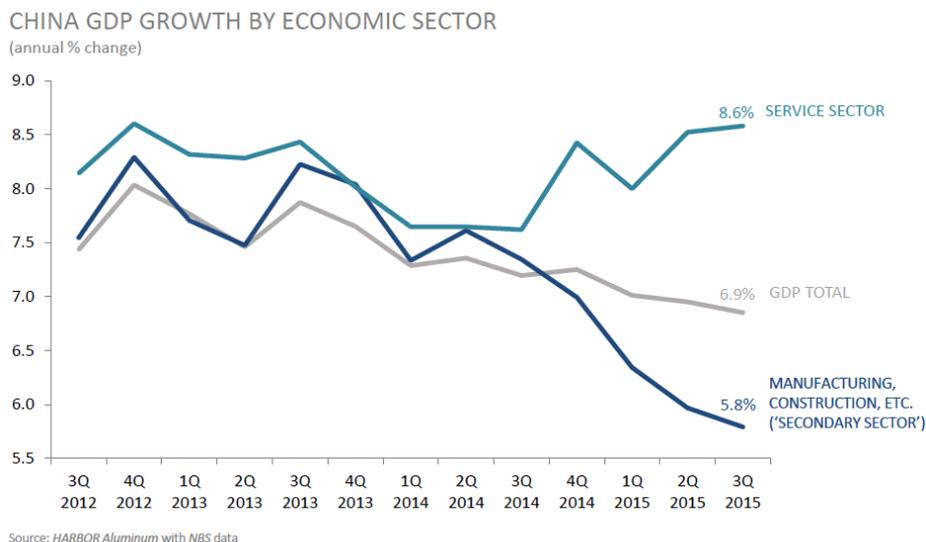


Figure 7



Aluminium demand growth: as WAP goes down so does demand growth for aluminium

Figure 8



Aluminium Intensity: Shifting from a manufacturing to a service economy significantly lowers Aluminium Intensity



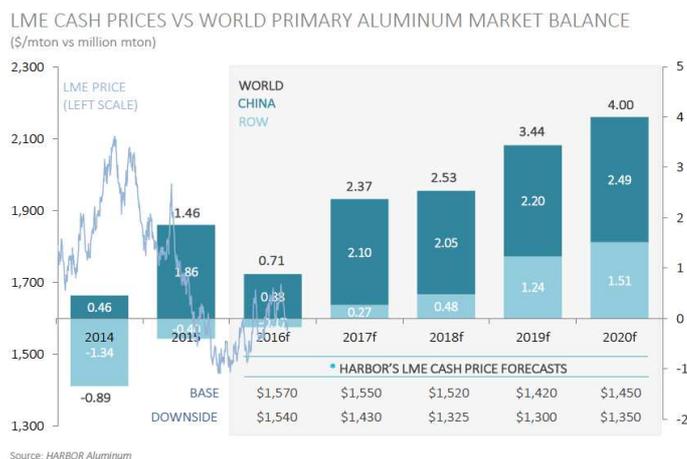
WORLD DEMAND

Figure 9



All the while, the world's demand growth rate is also projected contracting to 3%, its lowest since the beginning of the decade.

Figure 10

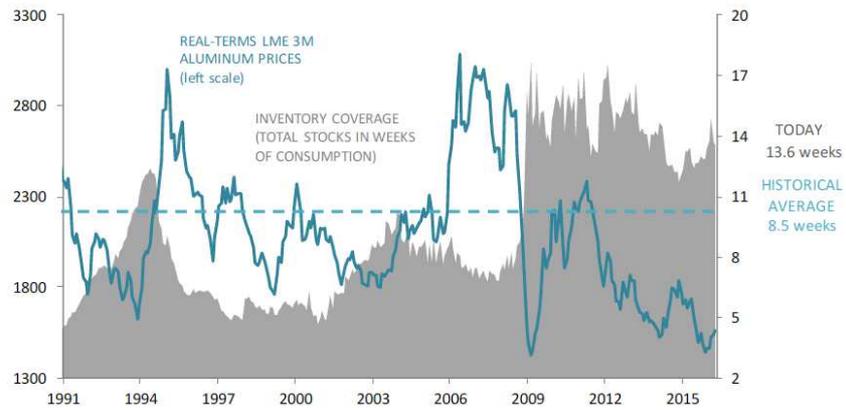


World Market Price: LME prices are also forecasted to be depressed for the next 5 years.



Figure 11

WORLD PRIMARY ALUMINUM INVENTORY-DEMAND COVERAGE VS LME 3M ALUMINUM PRICES IN REAL TERMS (\$/mton in Dec 2015 terms vs weeks of consumption)



Source: HARBOR Aluminum

There is an **oversupply of metal**: we should have approximately 8 million tons or 6 to 8 weeks of world production capacity, whereas we have 16 million tons, 50% more than needed.



OVERCAPACITY

While data coming out of China is neither complete, nor clear, it is evident, looking at these indicators that up-and-coming additional capacity is adding to existing overcapacity, stacked inventories and negative demographics, contributing to the ongoing erosion of existing capacity and downstream value chains in the rest of the world.

Figure 12

CHINA'S IDENTIFIED UPCOMING & POTENTIAL PRIMARY ALUMINUM EXPANSION PROJECTS 2015-2020

COMPANY	LOCATION	CASH COST* (\$/mton)	CAPACITY ('000 mtpy)	FIRST METAL
Xinjiang Qiya	Xinjiang	\$1,140	400	2015
Yunnan Aluminum	Yunnan	\$1,298	300	2015
Gansu Dongxing	Gansu	\$1,259	450	2015
Qinghai Xinheng	Qinghai	\$1,506	120	2015
Shandong Innovation Group	Inner Mongolia	\$1,153	800	H2 2015
Baise Baikuang Phase I	Guangxi	\$1,198	300	End 2015
Shaanxi Meixin	Shaanxi	\$1,295	300	2015-?
Chongqing Jinghangyuan Phase II	Chongqing	\$1,229	150	2016
Xinjiang Jiarun	Xinjiang	\$1,133	150	2016-?
Xinjiang Qiya II	Xinjiang	\$1,140	800	2016-?
Xinjiang Tianshan	Xinjiang	\$1,135	200	2016-?
Chinalco Baotou	Inner Mongolia	\$1,192	500	2017
Ningxia Qinyi Industry	Ningxia	\$1,364	105	2017-?
Yunnan Metallurgical Group	Yunnan	\$1,298	700	2017-2020
Guangyuan Aluminum	Sichuan	\$1,413	380	2018-?
Chalco Pingguo Aluminum	Guangxi	\$1,167	400	NA
Jinjiang Group Phase I	Ghizou	\$1,422	500	NA
Jinjiang Group Phase II-?	Ghizou	\$1,422	1,500	NA
Others	Others	\$1,300	1,930	2016-2017

*On cash cost basis before casting (molten metal). Does not include depreciation, interest payments, sustained capital expenses or working capital; excludes applicable VAT of 17% that Chinese aluminum smelters pay on raw materials, energy and services.
Source: HARBOR Aluminum

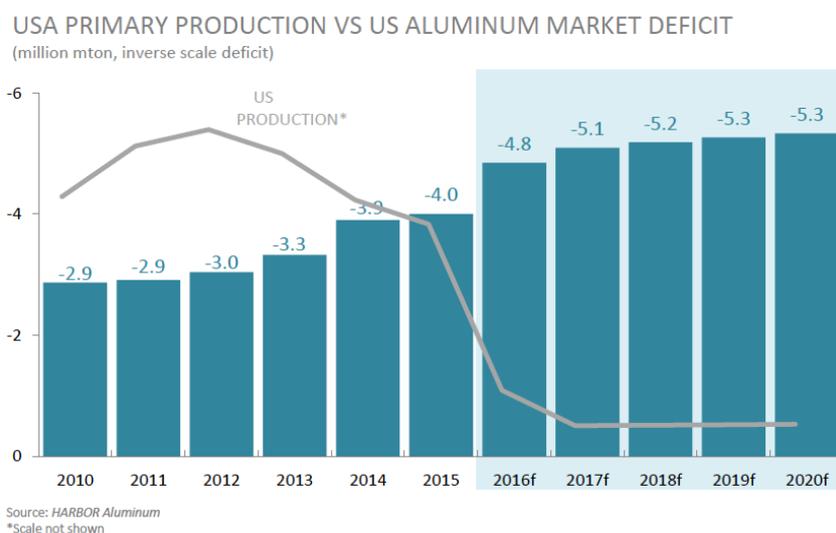
In June of 2016 alone, China's monthly production reached 2.7 million tons, the equivalent of Quebec's 9 smelters yearly production, and official announcements point to additional expansions totalling over 2 million tons (Good Morning America World News, August 2016).



The facts speak for themselves: such non-business type behaviour can only be tolerated, and sustained, in a non-market economy.

It also becomes evident that the only way for some of this metal to find a market is to exit from China in any shape or form... The estimated overcapacity, and the trickling out of metal from China into world markets, have a disruptive impact on market balance even here in North America.

Figure 13



Even though there is a North-American deficit of aluminium, equivalent to Canada's total existing capacity, plants are closing in the U.S. The demand price signal is distorted by oversupply from China. North American producers are in a stalemate.

Plans for expanding existing Canadian plants, in order to ship additional, responsibly produced, metal within our value chain in the U.S., are jeopardized by China's overcapacity sustaining low market prices.

This being said, Canada's industry is global, has never been and will never be against the flow of metal, whatever its origin, as long as it is fairly traded.



IN CONCLUSION

- Canada's privately owned producers have constantly improved their performance as world class producers, and have been providing clean and responsibly produced aluminium, under carbon pricing mechanisms, to the North American market.
- We have been an integral part of the North-American industrial value chain, benefiting from, and, providing benefits to, both sides of the border.
- The growing presence of metal produced by an artificially supported industry in China has a major disrupting effect on a traditionally level playing field.
- The sheer numbers involved are unprecedented, and deserve immediate and unprecedented action.
- China's planned transition towards a market economy requires time, openness and understanding. But words alone will not suffice, and where commitments are made, actions will be required.
- As an emission intensive and trade-exposed industry, producing a commodity in a decarbonizing world, we subject ourselves, like our industrial value chain partners in the U.S., to stringent environmental and social standards. Like them, we should not be exposed to the pressures of metal production generated for domestic consumption elsewhere in the world in a non-market based business environment economy.
- Canada and the USA, should engage with China within an appropriate international forum to formally assess the situation in full transparency, in order to take action and resolve the issues affecting the world aluminium market.



RECOMMENDATIONS

1. In accordance with its COP21 commitments, China must curtail its most emitting assets and implement strict rules regarding additional capacity in terms of air and GHG emissions.
2. With regards to its exporting of aluminium on the world market, the 15% tax on exports of primary metal must remain until the full transition to market economy mechanisms has been reached in the Chinese aluminium industry.
3. Since it incentivizes uncalled for business behaviours in the industry, such as export of misclassified or semi-disguised products the 13% rebate on exports of semi-finished products should be cancelled.
4. Finally, the China aluminum overcapacity situation should be dealt with through an appropriate international institution, adhered to by all parties concerned including China, such as the WTO.