

AEC Keeping Up Pressure on Fair Trade Issues

Interview with Jeff Henderson, AEC

The Aluminum Extruders Council (AEC) has been actively working to achieve level competition for North American extruders through tariff protection to offset unfair trade practices. In this interview, Jeff Henderson, who was named president of the AEC in April 2016, discusses the council's ongoing efforts to address fair trade and recent events that affect these efforts, such as the pending decision by the World Trade Organization (WTO) to grant China market economy status (MES).



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In his previous roles within the AEC, Henderson has managed the council's industry promotion efforts and directed its Fair Trade Committee, which is the U.S. aluminum extrusion industry team that successfully petitioned the U.S. government for free and fair trade action against China in 2011. Previously, Henderson worked for Sapa North America, having originally joined Sapa from Alcoa when Sapa acquired Alcoa's soft alloy extrusion facilities in North America and Europe.

What is the current status of the extrusion industry in the U.S.?

We're at a good moment for the aluminum extrusion industry. Our trade orders have been effective. We have circumvention cases pending against folks that we've identified as being in violation of laws. Most extruders have seen their shipments and backlogs increase year over year since the Chinese trade orders took effect back in 2011, and that continues. Now extruders are seeing added support in the market coming from higher demand from automotive and electrical applications and some recovery on the building and construction side.

Some of the ways the AEC has been addressing fair trade issues has been by successfully petitioning for trade orders in the form of tariffs and duties. What is the next step for the AEC?

The next big item on our agenda is the pending sunset review. When you have trade orders in the U.S., every five years those orders go up for review and the International Trade Commission (ITC) decides whether to either extend or terminate them. We'll have hearings after the first of the year on our sunset review and our message to decision makers on this subject will be that the U.S. aluminum extrusion industry has seen a great result from the trade orders against China. If the ITC takes those orders away, the extrusion industry will go right back to where we were before and that will decimate this market.

In September, the AEC hosted Aluminum Week along with the Aluminum Association, which was followed by a hearing held by the U.S. ITC on competitive conditions affecting the U.S. aluminum industry. Can you tell us a little bit about the event and the hearing?

The AEC had a great event during Aluminum Week. We had a great turn out for all of the breakout sessions. We also had our own hill day, in which we went with a

number of AEC members to our elected officials and updated them on the status of the various cases. We got a great reception from those folks and we expect to get some help in explaining the significance of these trade issues and how we need the Department of Commerce and the U.S. Trade Representatives (USTR) office to come through and make the right decision in current and future cases.

The hearing was interesting. We had the opportunity to listen to most of the testimony, and it looked like everyone got their positions out on the table. I congratulate the commission on being able to draw in all of the perspectives. We look forward to seeing what conclusions they come to.

At the end of 2016, the WTO will automatically grant China with MES. Tell us what this would mean for the U.S. aluminum industry.

The significant part has to do with industries that either have trade orders against China or may have a need to do that in the future. When there is a trade dispute with a country that has MES, the government takes that country's production data and sales data and accepts it for what it is; the expectation is that the production numbers and cost of goods sold would be reflective of the market and how one would profitably conduct business. When you look at the Chinese data, in the current conditions, profitability is not always their aim. Most would tell you that the objective of industry in China is to employ people; profit and loss is secondary. In fact, there are companies in China that are operating even though by any market economy standard, they should be bankrupt.

When you're dealing with a country with a non-market-based economy that is heavily subsidized, then the production data and costs are wrong. The real cost is not calculated. In this case, the U.S. government will compare a non-market-based economy to a third country—one which has an economic development similar to China's but is not subsidized and which, in our case, has an aluminum extrusion industry of its own with some extrusion companies that are publicly traded companies (so that the Department of Commerce can retrieve production and sales data). The government will take the data from this third country and compare it to China's in order to determine the magnitude of the subsidies that China has offered its industry. This determination is critical for industries seeking tariffs and duties in the 50%, 60%, or higher range to level the playing field.

If China were a market-based economy in reality, then the production and sales numbers they submit for review would be considered on par with numbers that exist in the U.S. Giving China MES means that any industry in the U.S. that petitions our government for protection cannot expect a high tariff to offset unfair practices. If the Chinese numbers were to be taken as is, then tariffs and duties would be minimal, in the low single digits (2-5%), and would therefore be completely ineffective at leveling the playing field.

How is the AEC working to combat the granting of MES to China later this year?

There are a few actions that are underway right now. One is that Century Aluminum, a primary aluminum producer in the U.S., has a case that they would like to take up

with the WTO, which addresses China's overcapacity issue. We think that case needs to be taken up by the USTR office, because they will be the ones who would actually prosecute it at the WTO. That case needs to come up quickly; it will be an excellent example to the WTO that China does not behave like a market-based economy.

There are also negotiations that are going on between the European Union, the U.S., and China regarding aluminum production. It's fair to say that these negotiations come in the context of the MES decision. We support that dialog and encourage China to act more like a market economy.

The third thing we're doing is going to our elected officials. We want to be sure that the government is putting in place whatever laws or measures needed to declare that—regardless of whatever the WTO says—if China doesn't operate as a market-based economy, then the U.S. will not recognize them as a market-based economy. We've been talking to our senators and the House of Representatives and letting them know our position on this issue. So, far we've had tremendous support from Congress on this. Even if the WTO grants MES status to China, it's unlikely that the U.S. will do the same. I think the U.S. government will make it clear that they will not allow any country MES unless they are clearly operating within the fundamentals of a market-based economy.

The Wall Street Journal recently published an investigative report on Liu Zhongtian, founder of China Zhongwang, regarding the company's alleged use of the Aluminicaste aluminum remelt factory in Mexico to circumvent trade duties. What are your thoughts on this article?

There were two articles that came out as I recall—the Zhongwang article and, about a week later, an article on Aluminum Shapes in New Jersey, NY. I thought it was a good article. Although, it's important for the readers of that article to understand that the investigation and the report was driven by the reporters. I learned as much from that article as everyone else did, because the authors did a lot of digging and fact-checking and took their time with it. I thought they did a really good job and laid it out in a way that readers could understand. The reaction from that article has been unreal—phone calls, emails, lots of opportunities for us to discuss this in other venues. We're really pleased.

Then with the follow up article on Aluminum Shapes, I guess what we feel is a bit vindicated. There have been a lot of denials in the press of whether the pallets even existed and on what property and who owned them and who bought them. But at the end of the day, the assertion that those pallets are on the property of Aluminum Shapes was proven to be true. So, I just ask readers to consider when other allegations have flown around, where are the proof points? Where is the credibility? All that we asked is that the pallets be identified and known, so that the Department of Commerce and Customs Department could make a full investigation.

Although Aleris is in the rolling sector, what are your thoughts regarding the acquisition of Aleris by Zhongwang USA, a sister company of China Zhongwang?

I think it would come as no surprise to anyone who has been following the story of the Zhongwang case, that we see no benefit to the U.S. in allowing Zhongwang to become the next owner of that very important company for clear reasons. And we have gone on the record and submitted our objections to the appropriate officials, as have others including the USW.

In the last few weeks since that announcement was made, people have come up to me to say, "How in the

world could our government let this happen (Zhongwang buying Aleris)?" It's not just extruders, but other folks in the aluminum space that have seen Zhongwang's behavior in the market place, whether they're billet providers or rolling mills.

The AEC has joined with the China Trade Task Force (CTTF), which aims to address excess primary aluminum supply in China. Why has the AEC joined with the CTTF? Why is the issue of primary aluminum capacity a concern for the AEC?

We did join and the reason is connected to the answer about Century Aluminum and the case they have put in front of the USTR. The drive here is for China to behave like a market economy and manage their capacity in a responsible way—if the demand is down, then you turn the supply down. We think that case is very strong and not only deals with the overproduction issue on aluminum in China, but also deals with the systemic issues inside Chinese policies that really lead to this kind of overproduction—not only aluminum, but also steel and other industries. That is part of the reason why we are enthusiastic about it. We wanted to publicly show our support for Century Aluminum and their task force.

The reason why we're concerned about primary production in the U.S. is that our extruder members believe that it is in their best interest, long-term, to have a domestic supply and source of aluminum. We have become importers, but we don't want to become 100% dependent on imports.

Given the trajectory of the market share that China is gaining in the production of primary aluminum, we can very easily imagine a world in which they represent 70%, 80%, or even more of the world's production of aluminum. You can imagine that, with us being a group with trade orders against China, how precarious that could be. How are we going to be able to ensure that we get a supply of metal from the very country that we have trade orders against? So, we have a very particular concern when it comes to that.

Furthermore, if the Chinese grow to represent 70-80% of world primary production and continue to discourage exports of primary aluminum by imposing an export duty, then extruders may not be able to access aluminum billet at all. In the dynamic of how China has set up their export of aluminum, it is not shipped as primary. Instead, it is exported in the form of semis, fabricated products, or even products further downstream. So, we as a downstream industry are very concerned about that.

I'll also add, the AEC believes that the U.S. should not surrender aluminum production to the rest of the world. It's not a smart, strategic position for our country. We're becoming more dependent on aluminum for a number of applications. There's clearly growing demand for aluminum and aluminum products. So, to ever find ourselves in a position where we don't have access to aluminum and have no way to make it ourselves would be a strategic blunder on our country's part.

The U.S. and Chinese governments recently held a G-20 meeting in Hangzhou, China with the aim of working together to address global aluminum excess capacity. What are your thoughts on this meeting?

We are supportive of dialog and diplomacy. My guess is that at the end of the day this will be solved through diplomacy and dialog. The question is, what are the events that are going to motivate both sides to do that? We think that if there is a WTO case against China, then that may be the catalyst that brings about that discussion and allows the world to deal with this important issue once and for all.