Testimony of Holman Head
On Behalf of Metals Service Center Institute

At Public Hearing Concerning
Aluminum: Competitive Conditions Affecting the U.S. Industry

ITC Investigation No. 332–557

I am Holman Head, President and COO of O'Neal Industries. O'Neal Industries, which is based in Birmingham, Alabama, is not only the nation's largest family-owned metals service center; it is also the parent organization of a group of closely-affiliated companies that operate in more than 80 locations in North America, Europe, and Asia. We serve a spectrum of customers in industries ranging from heavy equipment to aerospace. We also purchase both domestic and foreign aluminum for processing.

I am also Vice-Chair of the Metals Service Center Institute ("MSCI"), on whose behalf I am testifying today. MSCI is a U.S. trade association of over 300 U.S. and Canadian companies—including O'Neal Industries—which operate mills and "metals service centers" in over 1,200 locations across North America, and employ more than an estimated half-million workers. As a critical piece of the aluminum distribution chain, metals service centers are an important outlet for domestic aluminum mills, purchasing more than an estimated 2.1 billion pounds of aluminum mill products in 2014. Service centers then process that aluminum, and sell the processed aluminum products to an estimated 300,000 downstream manufacturers, fabricators, machine shops, and others in the supply chain.

Companies like ours play an invaluable role in our nation's economy. For example, in Alabama, MSCI studies show the industrial metals industry directly or indirectly contributes $13 billion to the state's economy, about six percent of its GDP. Metals service center companies in Alabama pay an average of about $58,000 in wages and benefits, and account for 60,000 jobs directly and indirectly.

As the "middlemen" in the aluminum distribution chain, companies like ours are also an important barometer of the health of the entire aluminum industry, which is why we are understandably concerned that aluminum shipments from MSCI member companies in 2015 were 20 percent below their pre-recession peak (2006). This decline is one reason why Alabama's growth rate has been hovering around just about one percent over the last five quarters, and the growth rate for the nation as a whole is sluggish.

What are the factors that have contributed to those shipments numbers? Because we know aluminum industry health has generally tracked the health of the overall U.S. economy—but has not during this recovery—something more than classic, free market forces are at work.

That something is the continuing market distorting policies of certain foreign governments, especially China. While U.S. and other global aluminum firms are *restructuring and cutting back production* to minimize financial losses, the Chinese government, for its own internal reasons, is *stepping in to expand capacity and encourage exports,* placing the entire U.S. aluminum industry at risk. In particular, China has increased its production capacity through massive state-sponsored and non-WTO-compliant subsidies. As a result, China's share of the world primary aluminum market has skyrocketed from approximately 10% in 2000 to a stunning 55% in September 2015, representing a compound annual growth rate of almost 20%, while global growth has essentially remained stagnant. China's massive investment in new capacity is also driving its rapidly increasing export of semi-fabricated aluminum products. From 2012 to 2014, U.S. imports of semi-fabricated aluminum products from China more than doubled. This disjunction between global capacity and global demand is inevitably a prescription for dumping and predatory pricing by Chinese producers, which in turn has led to loss of U.S. market share and increasing layoffs for U.S. companies that play by the rules.

In addition, currency manipulation by the Chinese government makes subsidized Chinese exports to the United States even cheaper, further exacerbating the injury to U.S. producers, manufacturers, service centers, and the broader economy. Indeed, currency manipulation is one of the major reasons behind the broader **$366 billion** merchandise trade deficit with China.

As a result of China's dumping and currency manipulation, the U.S. aluminum industry has suffered material injury from these developments, as measured by demand for aluminum, which is reflected in service center shipments. As the chart in Attachment A to our pre-hearing statement shows, aluminum shipments from MSCI member companies in 2015 were only 80% of peak shipments before the 2008 great recession (in the peak year of 2006). The aluminum industry's health has generally tracked the health of the overall U.S. economy. While shipments have recovered somewhat in recent years, current levels have not reached, or even approached, the levels prior to the 2008 recession. U.S. companies and their workers cannot continue to withstand the onslaught of foreign dumping unfairly subsidized foreign aluminum, which has led to record imports of unfairly subsidized aluminum and the increasing lay-offs for U.S. companies that play by the rules.

In crafting an appropriate response, it is critical that U.S. policy makers consider the impact of U.S. trade policy on downstream U.S. markets and U.S. manufacturers, as well as domestic aluminum producers. As previously noted, service centers purchase both domestic and foreign aluminum for further processing and sale to manufacturers and other downstream markets. Simply increasing the price of imported aluminum, through special tariffs or otherwise, will inevitably increase the input costs of U.S. manufactured aluminum products, potentially making important segments of the U.S. manufacturing base less competitive in the global economy. To the extent that foreign aluminum, otherwise subject to higher duties, is used in the foreign manufacture of finished products that compete with U.S. manufactured products, the U.S. manufacturing base—without more—risks being further compromised.

Accordingly, MSCI recommends that U.S. trade policy in the aluminum sector be guided by the following principles and objectives:

Reduce global excess capacity—U.S. trade negotiators should engage with our trading partners—particularly countries that increase capacity through market distorting policies—to reduce global excess capacity through negotiation. Failure to reach negotiated reductions should result in offsetting trade sanctions, such as tariffs or licenses.

Expand enforcement of antidumping duties and countervailing tariffs on aluminum products—If the United States imposes additional tariffs on imported aluminum, then—to avoid unintended damage to the U.S. manufacturers that utilize aluminum in their finished products—the United States should expand its efforts to fight circumvention of such duties by covering additional unfairly traded aluminum-containing products imported from China.

Currency Manipulation—The U.S. should recognize the facts and declare the Chinese government as a currency manipulator pursuant to Title VII of the Trade Facilitation and Trade Enforcement Act of 2015 and initiate bilateral negotiations with China *on an expedited basis* to ensure that China regularly and promptly adjusts the rate of exchange between its currency and the U.S. Dollar, to permit effective balance of payments adjustments and to eliminate the unfair advantages of China's practice of currency manipulation.

WTO—Finally, the U.S. Government must resist efforts by the Government of China to secure designation as a "market economy" for purposes of enforcing the anti-dumping laws of the United States and other countries. The issue of China's market economy status will come to a head at the end of this year—15 years after China's accession to the World Trade Organization.

As you know, under its Protocol of Accession, WTO member countries generally may use surrogate country prices and costs in prosecuting anti-dumping cases against Chinese products during the first 15 years after China's accession because of the opacity of Chinese prices and costs in a heavily government-directed economy. China has claimed that at the end of this year all countries *must* accord China market economy status, and that WTO members will no longer be able to use surrogate country costs and prices in anti-dumping cases. China's economy, however, remains a government-dominated, non-market economy, and many of its basic industries continue to be state-owned, -controlled, and -subsidized, fail to disclose financial information in accordance with generally-recognized international standards, and conduct business with obvious disregard to the rules of the free market. MSCI therefore urges the U.S. Government to ensure that China's non-market economy status remains in effect until such time that China demonstrates that its economy is no longer government-subsidized and that market economy conditions prevail in its aluminum and other export-oriented industries.

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These steps aren't simple, but they are balanced and, if executed, will improve growth in the aluminum sector and the national economy. It's time for our leaders to take them.

MSCI appreciates the opportunity to present this testimony. MSCI looks forward to working with the ITC, other federal agencies, and Congress on these issues of critical importance to the domestic aluminum industry, American workers, and the U.S. economy.