

Testimony by Gerd Götz, European Aluminium

International Trade Commission – Aluminum hearing

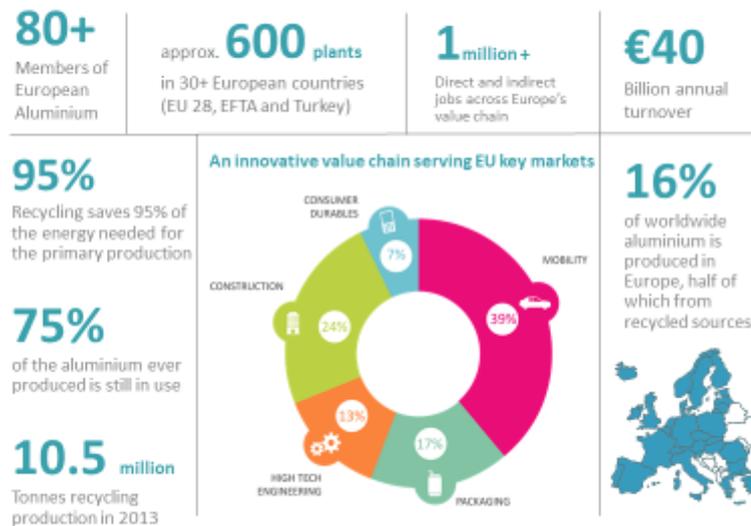
29 September 2016, Washington D.C.

Dear Chairman Williamson, Vice Chairman Johanson, Commissioners,

I am grateful to have this opportunity to present the European perspective on aluminium overcapacity in China.

As the Director General of European Aluminium, I speak on behalf of the entire aluminium value chain – that’s 80 plus members operating in more than 600 plants in 30 European countries. My organisation represents 80% of all production in wider Europe from smelting to rolling and extrusion to recycling. For the last 35 years, we have actively engaged with decision makers to promote aluminium and its contribution to a sustainable Europe. Our industry accounts for an annual turnover of 43 billion dollars and 1 million direct and indirect jobs.

European Aluminium: Facts & Figures



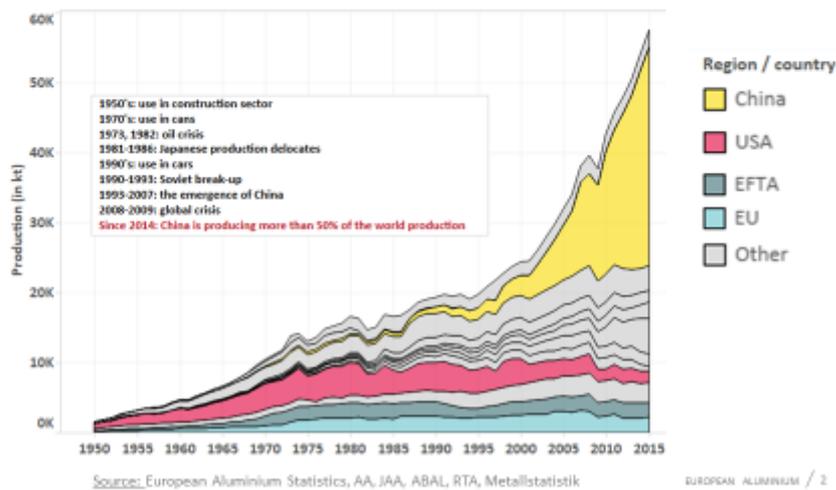
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But now moving to the reason we are all here today, which can be summarised in just one word: overcapacity.

Overcapacity that is kept alive for social reasons, not for business reasons and therefore opposite to the functioning of a market economy.

History of primary aluminium production: rising of China...

Since 2014, China produces more than 50% of the world production....



As you know, China has huge overcapacities in its aluminium industry. To put this in context, I would like to remind you of a few important figures.

Aluminium is in high demand. There is no doubt that aluminium is perceived as a strategic material for key sectors such as mobility, infrastructure and electronics. It is a must for a low carbon economy. This is one reason why European demand for primary aluminium grew 5% every year for the last 5 years. Demand for rolled products in Europe peaked in the last 5 years, particularly owing to automotive applications where we are seeing double digit growth. All of this is to say that the problem is not with the demand, it's with the supply.

China now produces more than half of the world's primary aluminium, with an overcapacity five times the size of EU production. Production of semi-fabricated aluminium in China grew by a factor of five in less than a decade. At five million tonnes, Chinese overcapacity in rolled aluminium is as large as the total demand for rolled products in the EU, and is expected to rapidly increase.

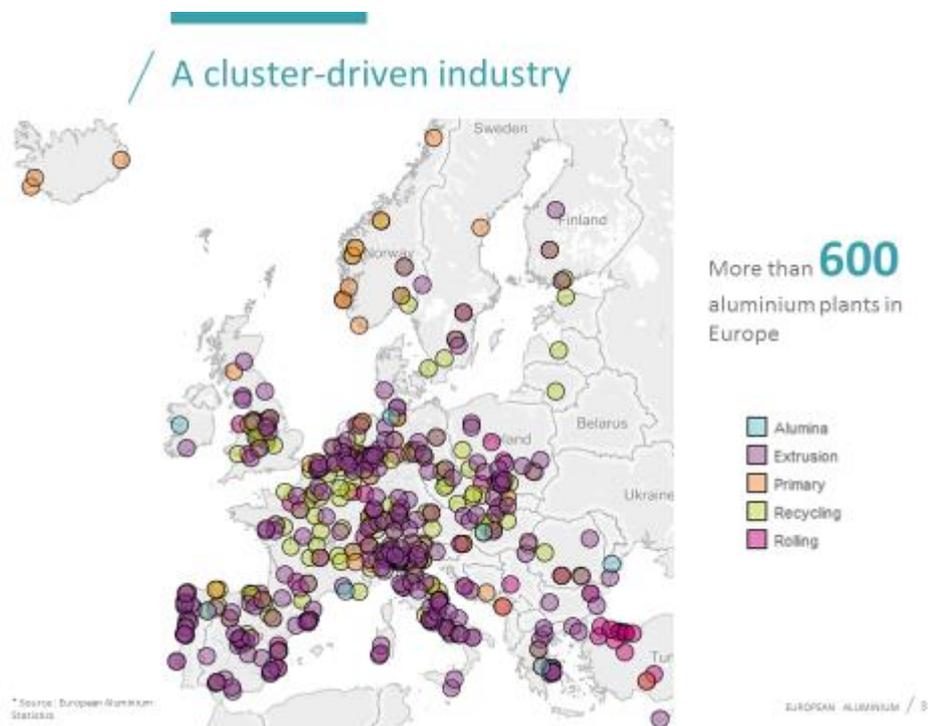
The good news is that the Chinese government has acknowledged this overcapacity. The bad news is that recognition alone is not enough: China should urgently fix their excessive supply issue, and time is not on our side.

There are three critical reasons why China needs to address its aluminium overcapacities.

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1. Firstly, they endanger the integrity of the entire aluminium value chain in Europe.

Overcapacities distort the market. The demand for aluminium is high and will only increase in the future, yet China's overproduction puts downward pressure on the prices. This puts the future of the European aluminium industry at risk. If Europe loses even one segment of the value chain, we are destroying valuable know-how, local jobs and investment.



And it doesn't even matter if we are talking about overcapacity in primary, semi-fabrication or aluminium foil – every part of the value chain is essential. Don't forget that we are a cluster-driven industry in Europe! Our industry is deeply intertwined with local communities via research centres and training programmes, feeding into innovation flows. By removing one of the links, the rest of the chain falls apart.

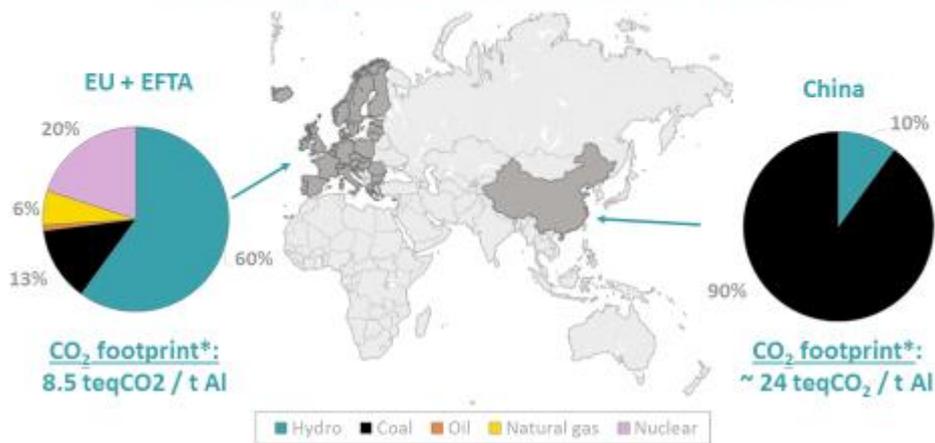
2. Secondly, China's production has a detrimental effect on the environment.

Nobody can deny that we are in the climate era. Now the challenge is for us to walk a path together towards more sustainable industrial production.

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Primary aluminium electricity mix and related CO₂ footprint

About 60% hydropower for Europe versus 90% coal for China...



Source: International Aluminium Institute (IAI) for China and European Aluminium (data based on 2012 Environmental Profile Report for EU+EFTA)

* CO₂ emissions from mining to primary aluminium ingot production (scope 1, 2 and 3)

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But some countries have further to go than others. Over 80% of China's primary aluminium production is dependent on coal-fired power plants, compared to around 10% in Europe. I can go on: if Europe decides to stop its entire primary aluminium production, China's aluminium smelters could cover that demand emitting on a yearly basis as much CO₂ as the states of California and Florida combined!

Just this past month at the G20 meeting in China, both the Chinese president and your own president ratified the Paris climate agreement. This is a historic deal that will benefit generations to come. However, in order to reach these targets it is imperative to reduce overcapacities.

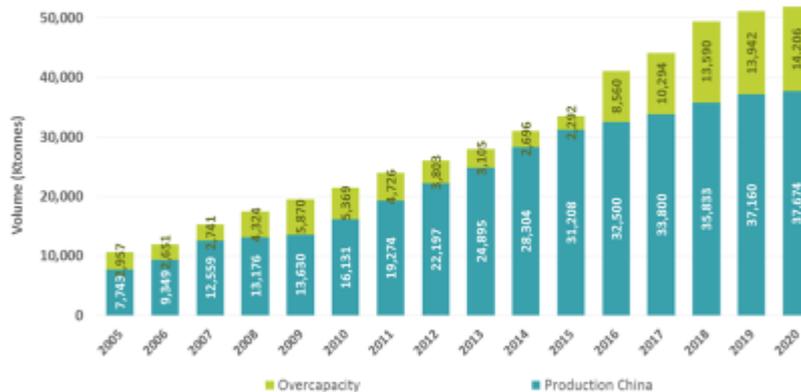
3. Thirdly, China's overcapacity issue puts the future of global free and fair trade at stake.

Free trade can only work if it is fair, meaning that all participants follow the same set of rules. We cannot overlook the fact that China has a state-planned economy.

Indeed, a 2014 study by Professor Taube, an expert on China from the University of Duisburg Essen, found that in the China's economy, markets play a secondary role to state intervention. The government massively subsidises electricity, a major cost in aluminium production, to such a degree that over half of all Chinese electricity subsidies – exactly 57% – went to two aluminium companies.

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Primary overcapacity in China (2005-2020)



* Source: European Aluminium Statistics

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Currently Chinese state-owned companies are planning to increase primary aluminium production by 50% over the next five years, without any economic justification whatsoever. And although most aluminium plants in China are not making any profit, the companies cannot go bankrupt – this would be unthinkable in the US or in Europe!

But what we cannot forget is that overcapacity is not just a primary problem. If you take China's total overcapacity in rolled products today, this equals the total production in Europe.

In short, the Chinese government is in a position to address these systemic overcapacities and to adjust its production to the market forces. But leaders from the rest of the world need to enforce the rules that they themselves follow. China, who everyone knows is not a market economy, cannot be granted market economy status until it actually becomes one. This means that anti-dumping rules in place should safeguard the legitimate interests of our industrial base in Europe.

And on this note I will close: we won't be able to solve the issue on our own. We – the EU, the US and other concerned regions – have to join forces and take collective action.

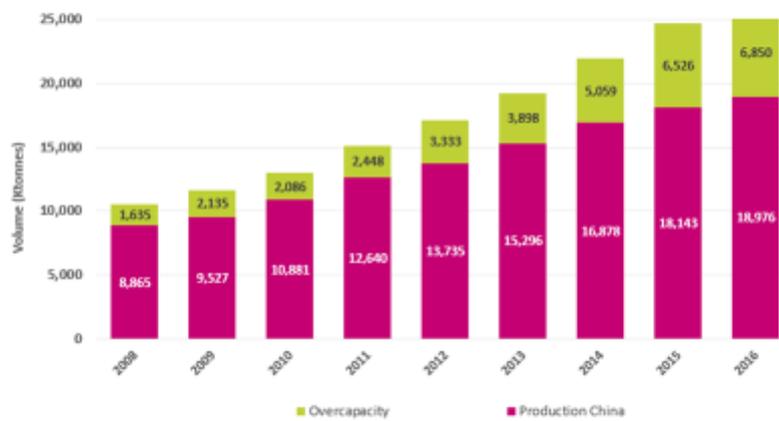
The recent G20 saw the creation of a global forum to address excess capacity in steel. We believe this is the right path to enhance cooperation and find solutions between partners. In fact, this is a good model that global leaders can follow to build a fair global trade system. I hope that today's hearing will result in some concrete actions to ensure a level playing field for all participants.

- END -

ANNEX:

- European Aluminium: [data](#)
- Taube study: [full study](#) / [executive summary](#)
- AEGIS Europe – alliance of European manufacturing industries: [website](#)

Rolled and Extruded overcapacity in China (2005 – 2016)



* Source: European Aluminium Statistics

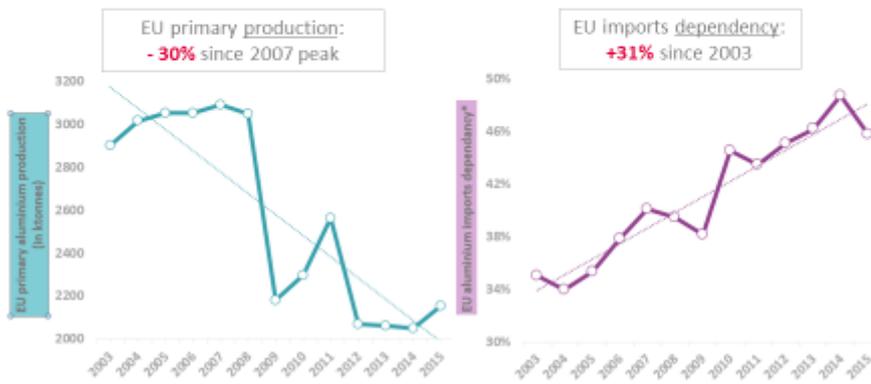
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EU aluminium paradoxes

Drop of EU primary production and increase of EU imports....



Source: European Aluminium Statistics
 *EU imports dependency= net EU imports of metal / EU consumption

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Our members*



*Status May 2016

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