Pre-Hearing Statement of Metals Service Center Institute ("MSCI")
Concerning Aluminum: Competitive Conditions Affecting the U.S. Industry

ITC Investigation No. 332–557

The following comments are submitted on behalf of the Metals Service Center Institute ("MSCI"), a U.S. trade association representing over 300 U.S. and Canadian member companies which operate in over 1,200 business locations across North America and employ more than an estimated 50,000 workers. Member service centers supply the aluminum requirements of more than an estimated 300,000 downstream manufacturers and fabricators, many of whom operate in an increasingly competitive global economy. Collectively, service centers represent an important outlet for domestic aluminum mills, purchasing more than an estimated 2.1 billion pounds of aluminum mill products in 2014. Service centers cut, form, slit, blank, polish, and further process aluminum purchased from mills and then sell these processed aluminum products directly to manufacturers, machine shops, and others in the aluminum supply chain.

Given the position of service centers within the aluminum distribution chain, MSCI believes its interests mirror the "national interest." Service centers, which process and distribute aluminum as the "middlemen" in that chain, are an important barometer of the health of the entire industry. Service centers purchase both domestically and foreign produced aluminum for processing. A healthy service center sector, with increasing shipments, is generally indicative of a healthy aluminum industry. If service center shipments are down over an extended period of time, that is generally an indication, like the proverbial canary in the coal mine, that there are problems in the aluminum production and aluminum consuming industries as well.

Service centers need a strong and viable U.S. production base and will suffer economic harm if the domestic mills collapse. Likewise, service centers will suffer harm if needed imports are cut off or their customers find themselves priced out of their own markets due to high material costs. Like the country as a whole, the service center industry requires thoughtful trade policy initiatives that avoid the binary or sterile choices of the past. The U.S. economy, as well as the service center industry, needs a competitive domestic aluminum sector *and* a competitive domestic manufacturing base in the broadest sense.

The Problem

The global aluminum industry today is confronting significant challenges as a result of two major factors: (1) the growing disjunction between global aluminum-making capacity and global aluminum demand, and (2) the substantial undervaluation of the Chinese currency. The inevitable result of these structural problems is increased unfair trade practices, including foreign dumping and predatory pricing, which have caused unsustainable cost structures and loss of market share and employment in the U.S. domestic aluminum industry.

Excess Capacity

The imbalance between capacity and demand has been fueled in large part by the intentional actions of certain foreign governments, particularly China, whose economies are free market in name only. The U.S.-China Economic and Security Review Commission has succinctly summarized the problem as follows:

> Strong Chinese government support for its domestic aluminum sector has created *vast overproduction*, lowering global prices and squeezing the profitability of U.S. aluminum firms. Aluminum prices have dropped 27 percent over the past year and are at their lowest in the last six years.[] While the U.S. and other global aluminum firms are *restructuring and cutting back production* to minimize financial losses, the Chinese government is *stepping in to expand capacity and encourage exports*, placing the entire U.S. aluminum smelting system at risk.[]

MONTHLY ANALYSIS OF U.S.-CHINA TRADE DATA, U.S.-China Economic and Security Review Commission (Nov. 4, 2015), at 10 (citations omitted) (emphasis added).[1]

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[1] *See http://origin.www.uscc.gov/sites/default/files/trade_bulletins/November%20Trade%20Bulletin%202015.pdf.*

China has used various anti-competitive mechanisms such as massive state-sponsored subsidies to substantially increase its domestic aluminum industry in the last several years. These include, for example, direct grants and loan interest subsidies,[2] preferential tax treatment,[3] provision of electricity, raw materials, and inputs for less than adequate remuneration,[4] and inadequate enforcement of health, safety, environmental, and customs requirements and antitrust/anti-competitive prohibitions. As the U.S.-China Economic and Security Review Commission has noted:

> China's government has been subsidizing the domestic aluminum sector through direct grants, interest free loans, transfers of low cost state-owned land, and preferential regulatory treatment.[] China's aluminum production has grown over seven-fold from 2.8 million metric tons in 2000 to 23.8 million metric tons in the first nine months of 2015.[] As of September 2015, China accounts for 54.9 percent of global primary aluminum production.[]

MONTHLY ANALYSIS OF U.S.-CHINA TRADE DATA, *supra* at 10-11 (citations omitted).

As a result, China's share of the world primary aluminum market rose from 10% in 2000 to a stunning 54.9% in September 2015, representing a compound annual growth rate of almost 20%. *Id*. In contrast, the rest of the world's compound annual growth rate was basically stagnant at only 1%.[5] China's 54% share of the world aluminum market is even greater than its

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[2] LESSONS FROM THE ALUMINUM INDUSTRY: THE HIDDEN COST OF CHINA'S CHEAP SOLAR, Forbes (Mar. 29, 2016), at *http://www.forbes.com/sites/williampentland/2016/03/29/lessons-from-the-aluminum-industry-the-hidden-cost-of-chinas-cheap-solar/#34ce84e55e2a* ("China's government has been subsidizing aluminum smelters through direct grants, interest free loans and other 'incentive' mechanisms."). *See also http://www.gov.cn/zwgk/2012-07/19/content_2186858.htm.*

[3] *See, e.g.*, REPORT ON MARKET RESEARCH INTO THE PEOPLES REPUBLIC OF CHINA STEEL INDUSTRY PART 1 - FINAL REPORT (Jun. 30, 2016), Chapter 6.1, at 97, at *http://www.steel.org/~/media/Files/AISI/Reports/Steel-Industry-Coaliton-Full-Final-Report-06302016* ("starting 1 May 2015 … the tax rate for aluminum materials was reduced to zero, according to Notice of the Customs Tariff Commission of the State Council on the Adjustment of Export Tariffs on Certain Products") (citing *http://www.gov.cn/xinwen/2015-04/23/content_2852170.htm*).

[4] *E.g.*, LESSONS FROM THE ALUMINUM INDUSTRY: THE HIDDEN COST OF CHINA'S CHEAP SOLAR, *supra* ("The Chinese government has bankrolled its aluminum industry by subsidizing energy, which has kept high-cost smelters in business despite falling aluminum prices.").

[5] The rest of the world's production was 26,218 thousand metric tons in 2015, compared to 21,863 in 2000. *See http://www.world-aluminium.org/statistics/primary-aluminium-production/#data*.

share of the global steel market,[6] and gives China unique and unprecedented market power so dominant that China has the ability to behave independently of competitive and free market forces. Not surprisingly, China is *exercising* that dominant market power, fueled by the dramatic (and subsidized) expansion of its domestic production capacity, to capture global market share through unfair trade practices, including foreign dumping on the global market, all to the detriment of plants and workers in free market countries such as the United States:

> [M]onthly production of aluminum in China doubled between January 2011 and July 2015 and continues to grow. Large new facilities are being built with government support, including through energy subsidies. China's aluminum excess capacity is contributing to a severe decline in global aluminum prices, harming U.S. plants and workers.

2015 REPORT TO CONGRESS ON CHINA'S WTO COMPLIANCE, United States Trade Representative ("USTR") (Dec. 2015), at 13.[7]

Even more telling, China's subsidies have resulted in substantial increases in its (primary) aluminum production capacity during a time of stagnant—and negative—growth in aluminum consumption, when free market forces would instead dictate industry restructuring and consolidation.

> [T]he industry's crisis cannot be traced back to an unexpected drop in demand caused by the global economic downturn or to sudden, surprising changes in the upstream or downstream segments of the value chain. Instead, the crisis arose from the supply side, driven by China's strategy to increase its capacity for producing primary aluminum.

Thomas Bradtke, et al., WHAT CAUSED THE ALUMINUM INDUSTRY'S CRISIS, Boston Consulting Group (Jun. 24, 2013).[8]

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6 *See* "Crude steel production 2016-2015," World Steel Association, at *http://www.worldsteel.org/statistics/crude-steel-production0.html* (stating China's crude steel production for 2015 as 803,825 out of total world production of 1,597,473 thousand tonnes, which is approximately 50%).

7 At *https://ustr.gov/sites/default/files/2015-Report-to-Congress-China-WTO-Compliance.pdf*.

8 *See https://www.bcgperspectives.com/content/articles/metals_mining_corporate_strategy_portfolio_management_what_caused_aluminum_industry_crisis/*.

With China's investment in new primary aluminum capacity continuing to grow, world-wide excess capacity in the aluminum sector will, if left unaddressed, continue to increase. Indeed,

> Chinese firms have increased their export of subsidized excess production from a little over half a million metric tons in 2001 to 4.3 million metric tons in 2014 … In the first nine months of 2015, China's global aluminum exports increased 17.7 percent over the same period last year.[]

MONTHLY ANALYSIS OF U.S.-CHINA TRADE DATA, *supra* at 13 (citations omitted). In contrast, U.S. (primary) aluminum output is at its lowest levels since the 1950's. *Id.*, at 12.

China's investment in new capacity is also driving its exports of semi-fabricated aluminum products. As the U.S.-China Economic and Security Review Commission has noted,

> From 2012 to 2014, U.S. imports of semi-fabricated aluminum products from China increased 115 percent, according to data from the Aluminum Association, the U.S. aluminum industry trade group.[] These Chinese imports have quickly gained market share from around 14 percent in 2012 to nearly 28 percent of all imports in 2014.[] In the first six months of 2015, Chinese imports grew 75 percent year-on-year, accounting for 36 percent of market share.[]

Id. at 14 (citations omitted).[9]

The International Trade Administration ("ITA") of the U.S. Department of Commerce and the U.S. International Trade Commission ("ITC") have specifically determined, and reaffirmed on several occasions, that China is increasing its dominant market power by subsidizing expansion of its production capacity, which in turn has led to China dumping aluminum products (including aluminum extrusions) on the global market.

In 2011, the ITA issued an antidumping duty order on certain aluminum extrusions from China, based on its final determination in the less-than-fair-value (LTFV) investigation. *See* Aluminum Extrusions from the People's Republic of China: Antidumping Duty Order, 76 Fed.

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[9] The increase in imports from 2010-2015 was approximately 50-55%.

Reg. 30650 (May 26, 2011). (Aluminum extrusions are shapes and forms, produced by an extrusion process, made from aluminum alloys having metallic elements corresponding to the alloy series designations published by the Aluminum Association commencing with the numbers 1, 3, and 6 (or proprietary equivalents or other certifying body equivalents).) In that order, the Department found dumping margins for aluminum extrusions from China in the range of 33.28% to 33.79% (weighted-average). *Id*. Since the issuance of that order, the Department has completed three administrative reviews. As a result of the most recent administrative review, which covered the period May 1, 2013 through April 30, 2014, the Department found much higher—indeed, huge—dumping margins for aluminum extrusions from China -- 86.01% (weighted-average).[10]

On April 1, 2016, the ITA published the notice of initiation of the first "sunset review" of the antidumping order, pursuant to section 751(c) of the Tariff Act 1930, as amended, to determine whether revocation of the order would be likely to lead to continuation or recurrence of Chinese dumping. The Department determined that there is a likelihood of continuation or recurrence of Chinese dumping if the order is revoked, and that "the magnitude of the dumping margins likely to prevail would be weighted-average dumping margins up to 33.28%."[11]

Also in 2011, the Department issued a countervailing duty order on aluminum extrusions from China. *See* Aluminum Extrusions from the People's Republic of China: Countervailing Duty Order, 76 Fed. Reg. 30653 (May 26, 2011). In that order, the Department determined net countervailable subsidy rates ranging from 4.89% to 374.15%. *Id*., as amended at 79 Fed. Reg. 13039 (Mar. 7, 2014). Since the issuance of that order, the Department completed three administrative reviews. As a result of the most recent administrative review, which covered the

[10] 80 Fed. Reg. 75060, 75063 (Dec. 1, 2015).

[11] ITC Decision Memorandum (Jul. 29, 2016), at 15, *http://enforcement.trade.gov/frn/summary/prc/2016-18649-1.pdf*. *See also* 81 Fed. Reg. 51855, 51856 (Aug. 5, 2016).

period May 1, 2013 through April 30, 2014, the Department determined net countervailable subsidy rates ranging from 28.01% to 187.86%.[12]

On April 1, 2016, the Department published the notice of initiation of the first "sunset review" of the countervailing duty order, to determine whether revocation of the order would be likely to lead to continuation or recurrence of a countervailable subsidy.[13] As a result of that review, the Department determined that there is a likelihood of continuation or recurrence of countervailable subsidies if the order is revoked because dozens of subsidy programs found countervailable during the investigation and subsequent administrative reviews continue to exist. The Department found that revocation of the Order would likely lead to continuation or recurrence of countervailable subsidies ranging from 12.05% to as much as 374.15%, unsustainably high rates by any standard.[14]

Currency Manipulation

China's substantially undervalued currency makes all Chinese exports to the U.S., not just aluminum, cheaper and hurts U.S. producers, manufacturers, service centers, and the broader economy. Currency manipulation, as outside experts have attested, is one of the major reasons for the growing merchandise trade deficit with China, which last year exceeded **$366 billion**.

The Trade Facilitation and Trade Enforcement Act of 2015 (P.L. 114–125) (the "Act"), which became law in February 2016 after two years of debate, was intended by Congress to provide the trade agencies of the U.S. Government additional tools and enhanced authority to enforce U.S. trade laws and agreements. Title VII of the Act provides authority for determining

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[12] 81 Fed. Reg. 15238 (Mar. 22, 2016).

[13] 81 Fed. Reg. 18829 (Apr. 1, 2016).

[14] 81 Fed. Reg. 51858, 51860 (Aug. 5, 2016).

whether a trading partner has engaged in currency manipulation and provides enhanced enforcement authorities where the trading partner fails, after negotiation, to correct its practices.

Title VII requires that the Treasury Department submit to Congress a report on the currency exchange rate and economic policies of our major trading partners, including "enhanced analysis" of the policies of those countries that have (1) a significant trade surplus with the United States, (2) a current account surplus, and (3) have engaged in a "persistent one-sided intervention" in the foreign exchange markets. Upon a finding that a trading partner has met these criteria, the Act requires that the President, through the Secretary of the Treasury, initiate bilateral negotiations to address the causes of the undervaluation, and remedial actions if the country fails to take sufficient action to correct the undervaluation. Such remedial actions could include, for example, prohibiting OPIC from approving any new financing for a project in that country, prohibiting the Federal Government from procuring goods or services from that country, and engaging the International Monetary Fund to counter the macroeconomic and exchange rate policies of that country.

On April 29, 2016, the Department of the Treasury issued its first Report to Congress, as required by the Act, but MSCI respectfully submits that Treasury missed an important opportunity in that report to address the effects on the U.S. and global aluminum industry of currency manipulation by foreign governments. In particular, in analyzing the policies of the Government of China, the Department determined that the first two criteria of currency manipulation applied, *i.e.* China has (1) a significant bilateral trade surplus with the United States, and (2) a material current account surplus. However, Treasury determined that the third criterion did not apply, *i.e.* that China has not engaged in "persistent one-sided intervention in the foreign exchange market." On that basis, the Department determined not to undertake an "enhanced analysis" of Chinese policies or to declare the Chinese government a currency manipulator. MSCI believes that Treasury's decision on the third factor is wrong—and misses an opportunity to address the aluminum industry situation—because it fails to consider China's long-term and well-known record of currency manipulation.

In implementing Title VII of the Act, Treasury has adopted a narrow definition of "persistent one-sided intervention" in the foreign exchange markets. Under the Treasury definition, a country has engaged in such intervention only if it has conducted repeated net purchases of foreign currency that amount to more than 2 percent of its GDP *over the course of a year*. In its report, Treasury found that China does not *currently* meet the definition of "persistent one-sided intervention" in the foreign exchange markets. MSCI submits that Treasury's unduly constrained definition of "persistent one-sided intervention" defies common sense and fails to consider China's aggressive intervention practices over a longer period of time.

Moreover, in its Report, Treasury focused on the People's Bank of China's sales of foreign currency assets from August 2015 through March 2016, which Treasury interpreted as an attempt by China to support its currency, but which ignores China's actions that precipitated those sales. Indeed, many observers have concluded that China's sales were necessitated by the market's over-reaction to China's attempt in August 2015 to *devalue* its currency against the strengthening U.S. dollar. China's attempt in August of 2015 to *devalue* its currency against the U.S. dollar, and its actions taken merely to correct a market over-reaction to its own attempts to *devalue* its currency, should thus be considered together. MSCI respectfully submits that a more holistic and common sense analysis of China's actions in this period, as well as over the last several years, in fact demonstrates a "persistent one-sided intervention" in the foreign exchange markets.

In short, China has engaged in currency manipulation within the meaning of the Act, as well as under a common sense definition of the term. As a result of that manipulation, China's currency is substantially undervalued, which makes all Chinese exports to the U.S., not just aluminum, cheaper and hurts U.S. producers, manufacturers, service centers, and the broader U.S. economy.

Material Injury

There is no question that 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 ("Aluminum Shipments") shows, aluminum shipments from MSCI member companies in 2015 (1,574 thousand tons) were only 80% of peak shipments before the 2008 great recession (1,956 thousand tons in the peak year of 2006).

While shipments have recovered somewhat in recent years, current levels have not reached, or even approached, the levels prior to the 2008 recession. The fact that shipments from metals service centers have not approached pre-recession levels speaks volumes about the impact of excess capacity in China on the U.S. aluminum industry.

MSCI believes that the health of the U.S. domestic aluminum industry is critical to the entire U.S. manufacturing sector, as well as to the broader U.S. economy as a whole, and that the problems posed by foreign government-sponsored capacity expansion and currency manipulation demand a U.S. government response. In fundamental respects, the situation in the aluminum industry is similar to the situation faced by the steel industry—a similar disjunction between global capacity and demand, as described in *Excess Capacity in the Global Steel Industry and the Implications of New Investment Projects,* OECD Science, Technology and Industry Policy

Papers, No. 18, OECD Publishing, at *http://dx.doi.org/10.1787/5js65x46nxhj-en* ("OECD Report")—and a substantially undervalued Chinese currency.

MSCI recognizes that the aluminum industry's health has generally tracked the health of the overall U.S. economy. But, unlike past cycles, the U.S. aluminum industry has not fully recovered from its nadir nearly a decade ago. The inescapable conclusion is that something more than classic, free market forces are at work in the global aluminum markets, in ways that have harmed U.S. aluminum producers and manufacturers, the U.S. aluminum service center industry, and U.S. workers.

That something more is the continuing market distorting policies of certain foreign governments that massively subsidize their state-directed metal industries to create new production capacity and to maintain existing inefficient capacities at a time of, at most, modest growth in demand. The resulting imbalance between global capacity and demand has become a predictable formula for foreign dumping and predatory pricing, which in turn has led to record imports of unfairly subsidized aluminum and increasing lay-offs for U.S. companies that play by the rules—similar to what has happened in the U.S. steel industry.[15] The consequences of the failure to ensure a level playing field is recorded almost daily in the business pages: "[Aluminum] producers face their biggest test since the 2008 financial crisis amid sinking London Metal Exchange prices and physical surcharges and China's mounting output," Reuters (Sept. 28, 2015).[16] What is different this time is that, quite simply, the status quo is not sustainable. U.S. companies and their workers cannot continue to withstand the onslaught of foreign dumping and predatory pricing of unfairly subsidized foreign aluminum.

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[15] *See* OECD Report, *supra*.

[16] Available at *http://www.reuters.com/article/alcoa-split-smelters-idUSL1N11Y1J620150929*.

MSCI's Recommendations

As noted in the OECD Report, governments should

> work towards removing market distorting policies, such as subsidies that promote the emergence of new capacity or delay the closure of failing companies, eliminating trade and investment barriers that slow the restructuring that is needed for the industry allowing market-based investment decisions … and ensuring that new plants are subject to the standards that protect the environment and uphold worker safety.

OECD Report, *supra* at 5. The causes of global excess capacity in the aluminum sector must be addressed, or the consequences to the U.S. aluminum industry and the U.S. economy will be severe. In fashioning a remedy for a growing problem, however, it is critical that the remedy be carefully considered and not cause undue harm or unintended consequences to the U.S. manufacturing base or the rest of the U.S. economy.

U.S. aluminum policy in these circumstances thus requires careful balancing, decisive action, and continued vigilant monitoring. In crafting an appropriate response to the problems of the U.S. aluminum industry, 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, which process and distribute aluminum, 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 furnished products that compete with U.S. manufactured products, the U.S. manufacturing base will be further compromised.

MSCI is a strong proponent of free and fair trade. But foreign government policies that distort markets—such as subsidies that promote new capacity or delay the closure of unneeded existing capacity, and currency manipulation—undermine free and fair trade by circumventing the basic rules of the marketplace. The U.S. government has attempted to ensure free and fair trade through its membership and participation in the World Trade Organization and by entering into various multilateral, bilateral, and regional trade agreements to establish the rules of international commerce. MSCI has generally and strongly supported these agreements. However, the effectiveness of trade agreements in promoting free and fair trade depends on vigorous monitoring of each party's compliance and prompt and vigorous enforcement against violators. To facilitate expanded trade and commerce, the United States government must redouble its commitment and efforts to enforce its trade agreements and laws.

MSCI recommends that, in addressing the problem of foreign government-induced excess capacity in the global aluminum sector, U.S. trade policy should be guided by the following principles and objectives:

Reduce global excess capacity

U.S. trade negotiators should engage with our trading partners directly to reduce global excess capacity through negotiation, both bilaterally and multilaterally. It should be a stated principal objective of U.S. trade policy to target excess capacity in countries that increase capacity through market distorting policies. The objective should be to reduce global excess capacity, as determined by U.S. trade agencies, by a certain percentage over a reasonable time period. Failure to reach negotiated reductions should result in offsetting trade sanctions, such as tariffs or licenses.

U.S. trade negotiators should immediately engage in negotiations—bilaterally and multilaterally—with our trading partners to address excess capacity resulting from foreign government-sponsored market distorting policies. Failure to negotiate reductions by a certain percentage over a specified period should trigger offsetting trade sanctions under the Government's safeguard authority, such as countervailing tariffs and/or import licenses.

The U.S. should expand its enforcement of current antidumping duty and countervailing tariff on imported aluminum-containing 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 enforce antidumping and countervailing duties, which currently cover only aluminum extrusions, and to fight circumvention of such duties by covering additional unfairly traded aluminum-containing products imported from China.

The products to be subject to expanded tariffs should be identified in consultation with domestic aluminum consuming companies; the tariff should be based upon, and proportional to, the additional tariff imposed on the imported aluminum itself. The offsetting duty on the aluminum component part of the foreign imported product should be based upon, and equivalent to, the additional tariff imposed on the imported aluminum itself. Any such tariff program should, if adopted, be temporary and gradually phased out in regular intervals as import values increase until the applicable tariffs reach zero.

While recommending expanded tariffs, MSCI is also aware that such measures are, without vigorous monitoring and enforcement, susceptible to circumvention. As the U.S.-China Economic and Security Review Commission has noted:

> These cases have had limited success. In May 2011, DOC imposed antidumping and countervailing duties on U.S. imports of Chinese aluminum extrusions.[] However, some Chinese companies circumvented these duties by transshipping production through a third country or improper labeling.[] In October 2015, the trade association Aluminum Extruders Council filed a petition with DOC against Zhongwang Holdings Ltd., China's second largest producer of aluminum

> extrusions, for systematically and illegally evading duties on aluminum extrusions.[]
>
> Chinese companies are also avoiding Chinese government regulations to boost exports. While China's Ministry of Finance applies a 15 percent export duty on aluminum exports, it provides a value-added tax refund for semi-fabricated aluminum products. China's Ministry of Finance sought to use the value-added tax refund in order to incentivize higher-value-added production, but instead, some Chinese firms have sought to circumvent the 15 percent export duty on aluminum and earn the 13 percent value-added tax refund by transshipping or mislabeling exports.[] In a letter to the U.S. Trade Representative in September 2015, the Aluminum Association wrote that improper labeling of exports "create[s] an unlevel playing field for aluminum producers in North America and around the world, and lead to distortions in the marketplace that have ripple effects across the entire industry.[]

MONTHLY ANALYSIS OF U.S.-CHINA TRADE DATA, *supra* at 14 (citations omitted).

Currency Manipulation

As explained above, MSCI believes that one of the principal forms of market distortion continues to be currency manipulation by certain countries—principally China. A substantially undervalued Chinese currency makes all Chinese exports to the U.S., not just aluminum, cheaper and hurts U.S. producers. This is one of the major reasons for the growing merchandise trade deficit with China, which last year exceeded **$366 billion**. It is long past time to recognize the facts and declare the Chinese government as a currency manipulator.

Both of the foregoing remedies would require the U.S. Government to initiate a safeguard action under Section 201 of the Trade Act of 1974, would likely take many months to implement—at a time when the U.S. industry is reeling—and may present the quandary of too little relief, too late. MSCI therefore respectfully submits this third recommendation, which could be implemented more expeditiously and provide immediate notice to those countries engaging in unfair trade practices that the United States will take action to protect our companies and our workers from such practices. Specifically, MSCI recommends that the United States take the long-overdue step of declaring—pursuant to Title VII of the Act—that the Chinese government is a currency manipulator and initiate bilateral negotiations to address the causes of the undervaluation, and—if China fails to take sufficient action to correct the undervaluation—initiate remedial actions including, for example, prohibiting OPIC from approving any new financing for a project in that country, prohibiting the Federal Government from procuring goods or services from that country, and engaging the International Monetary Fund to counter the macroeconomic and exchange rate policies of that country.

MSCI recommends that the Secretary of the Treasury should, as contemplated by Congress, and as amply supported by the evidence, initiate 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. Failure to achieve *on an expedited basis* adequate corrective measures and adherence to those measures would justify, at the very least, the above-referenced remedial actions. And, as noted above, any sanctions under the Act should be in addition to, not in lieu of, any other offsetting trade sanctions, such as tariffs or licenses, and corresponding and offsetting tariffs on aluminum-containing products, consistent with MSCI's first two recommendations as outlined above.

WTO

And, finally, the U.S. Government must resist efforts by the Government of China to be declared 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 ("WTO"). In its Protocol of Accession, the WTO generally allowed WTO member countries to use surrogate country prices and costs in prosecuting anti-dumping cases against Chinese products for 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, under the terms of its Protocol of Accession, 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 is, and remains, a government-dominated, non-market economy, and its aluminum industry continues to be state-owned, -controlled, and -subsidized, fails to disclose financial information in accordance with generally-recognized international standards, and conducts business with obvious disregard to the rules of the free market. MSCI therefore urges the U.S. Government to take whatever action is necessary to ensure that China's status as a non-market economy remains in full effect until such time that China can demonstrate 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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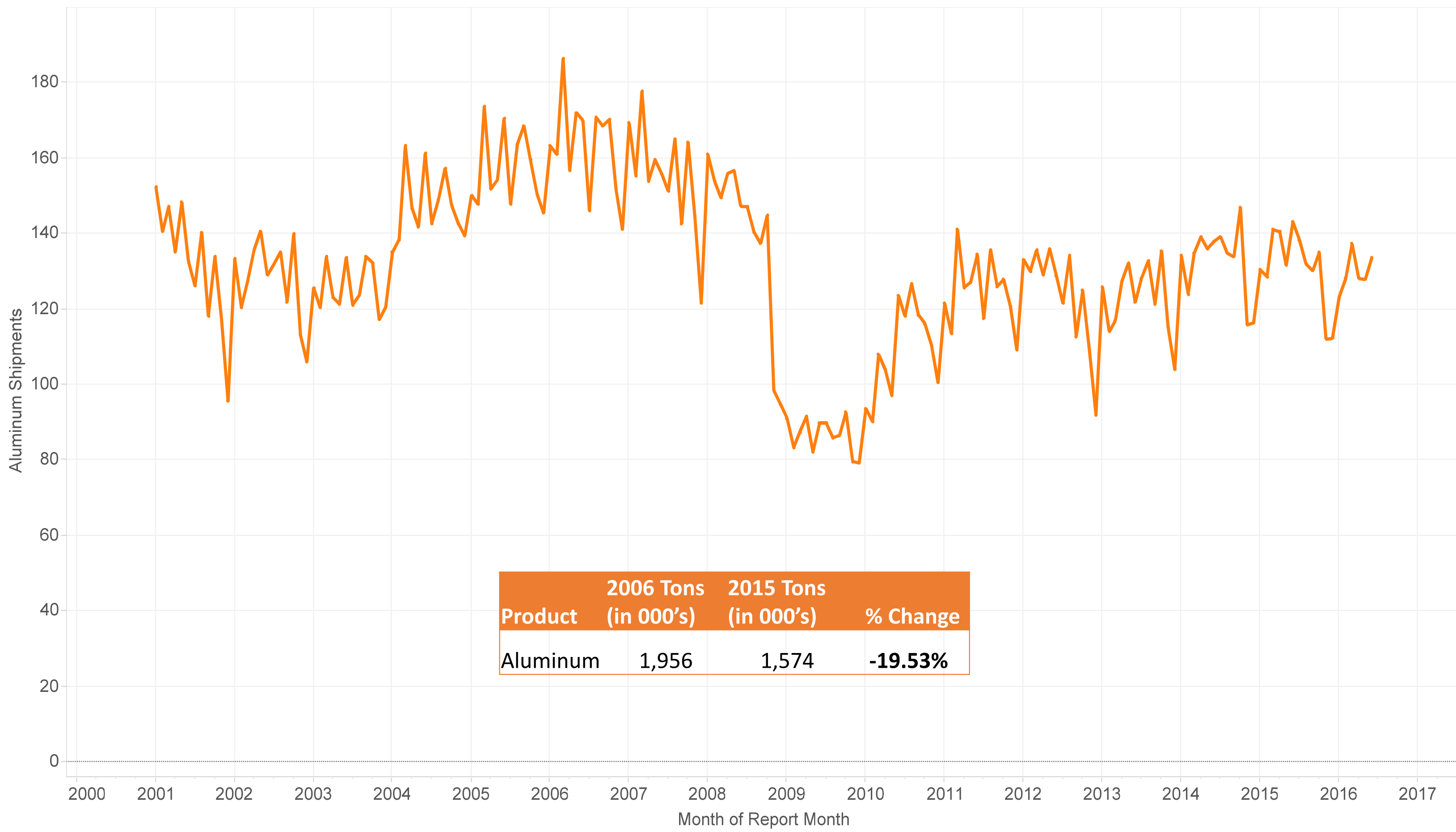
MSCI appreciates the opportunity to provide these comments and to present testimony at the September 29th hearing. MSCI looks forward to working with the U.S. International Trade Commission, other federal agencies, and Congress on these issues of critical importance to the domestic aluminum industry, American workers, and the U.S. economy.

Attachment A

Service Center Aluminum Shipments



Product	2006 Tons (in 000's)	2015 Tons (in 000's)	% Change
Aluminum	1,956	1,574	**-19.53%**