WRITTEN STATEMENT OF LYNN BROWN

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BEFORE THE

COMMITTEE ON BANKING, HOUSING,
AND URBAN DEVELOPMENT

OF THE

UNITED STATES SENATE

September 16, 2010

Mr. Chairman, Mr. Shelby, and Members of the Committee:

My name is Lynn Brown and I am the Senior Vice President of Sales and Marketing of Hydro Aluminum North America ("Hydro"). I have 14 years of experience in the aluminum extrusion industry. I appreciate the opportunity to appear on this panel to discuss the Treasury Department's Report on International Economic and Exchange Rate Policies and its failure to name China as a currency manipulator. The U.S. aluminum extrusion industry has been adversely impacted by China's exports of aluminum extrusions, and in particular, by the large and distortive subsidy that Chinese aluminum extrusion producers benefit from as a result of China's undervalued currency.

Hydro is a wholly owned subsidiary of Norsk Hydro, a leading global integrated aluminum company. We are one of the largest U.S. manufacturers of soft alloy aluminum extrusions. Hydro operates six extrusion facilities across the United States, including in Kalamazoo, Michigan; North Liberty, Indiana; Monett, Missouri; Belton, South Carolina; St. Augustine, Florida; and Phoenix, Arizona. We also have a stand-alone fabrication, or component manufacturing, facility in Sidney, Ohio. With our geographic scope, we have close to national market coverage.

Approximately fifty percent of our facilities are unionized, with workers represented by the United Steelworkers, the Teamsters, and the United Autoworkers. Currently we employ about 1,800 workers, which is a significant reduction from the 2,300 workers that were on the payroll three years ago. In 2006, we shipped approximately 250 million pounds of aluminum extrusions. In 2010, we expect to ship approximately 35% less.

Imports of Chinese extrusions have created havoc in our industry, growing from a negligible factor a few years ago to a market share of almost 25%. During a time when U.S. consumption of aluminum extrusions has fallen substantially due to the recession, Chinese imports have more than doubled. Earlier I mentioned our six extrusion facilities -- it used to be seven. We have already closed one of our plants in Ellenville, New York, with 150 jobs lost. In addition, we idled press lines at three of our plants in 2009. This, along with reductions in employees, work shifts, and work weeks, have made it very difficult for my company and our workers. There are similar stories throughout our industry.

The flood of low-priced Chinese imports caused Hydro, along with other members of the domestic industry and the United Steelworkers, to file antidumping and countervailing duty petitions covering aluminum extrusions from China. We filed these petitions on March 31, 2010. In the countervailing duty petition covering Chinese subsidies, we listed a host of subsidy programs that benefit Chinese aluminum extrusion producers, including an allegation covering China's undervalued currency.

Our currency allegation provided information demonstrating that all three legal requirements for finding the existence of a countervailable subsidy were met: 1) that the Chinese government had provided a financial contribution, which 2) resulted in a benefit, and 3) which was specific to a particular industry or group of industries in China. With respect to the financial contribution, we explained that by requiring foreign exchange that is earned from export activities to be converted into Chinese yuan at a rate that is set by the Government, a rate which is universally recognized to be about 40 percent below its true value, Chinese exporters reap an enormous windfall. Specifically, Chinese exporters get 40 percent more yuan for every dollar that they exchange than they otherwise would absent Chinese government intervention in the foreign currency markets. This provides an enormous, continuing benefit to those exporters, and allows them to significantly under-price U.S. producers. We also alleged and documented that this subsidy was specific to exporters in China, because it is directly linked with exports and creates a powerful incentive for Chinese producers to export their products to the United States, rather than sell them at home.

The Chinese currency is clearly undervalued. A January 2010 policy brief by the Peterson Institute estimated that China's currency is undervalued by 41 percent on a bilateral basis against the dollar. Other estimates are within this range.

Petitioners in twelve different investigations have alleged that China's manipulation of its currency results in a countervailable subsidy. However, in each instance the Commerce Department has refused to initiate an investigation into these allegations. Commerce has claimed that domestic industries have failed to sufficiently allege that the receipt of the excess yuan is contingent on export or export performance -- in other words that the subsidy was specific. But I am aware that the paper industry submitted a revised allegation in January of this year, this time providing an expert report from an independent economist which demonstrates that based on the Chinese government's own data, 70 percent of China's foreign exchange earnings from Current

Account transactions and from long-term Capital and Financial account transactions were derived from the export of goods. The study concluded that no other category of foreign exchange inflows comes close to matching the $1.4 trillion foreign exchange earnings of Chinese exporters. Because Chinese exporters garner the overwhelming share of benefits from the undervaluation of the yuan, the subsidy benefit is *de facto* specific to exporters as a group.

Our allegation was based on this revised methodology. And yet much to our disappointment, the Commerce Department did not initiate an investigation into our allegation, claiming that we did not sufficiently allege that China's currency undervaluation does benefits a specific group, enterprise, or industry in China. One of the more troubling aspects of the Commerce Department's determination was that it did not even give us the opportunity to remedy the deficiencies in our currency allegation, which would be normal procedure in most cases. It is our hope that Commerce will investigate and offset this unfair trade practice in the future, but we are unsure what more can be done to demonstrate that currency undervaluation, at a minimum, merits a comprehensive investigation.

The Treasury Department's July 2010 report also was disappointing. The Treasury Report acknowledges that the Chinese Government purchases foreign exchange to limit the yuan's appreciation against the dollar and the yuan remains undervalued. And, despite a major Chinese Government announcement of allowing the yuan to float between a narrow band, the yuan has appreciated by less than one percent since July. As a businessperson whose company is trying to survive against import competition that benefits from a host of government subsidies -- of which currency undervaluation may be the most significant -- the Chinese government's assurances do not offer much solace.

I think many people not involved in the extrusion industry would ask us, "Why don't you just become more efficient and lower your prices so you can compete?" It is not that simple, and that is why the extremely low Chinese prices are all the more unfair.

The starting point for all pricing is the cost of aluminum, which, as you may know, is a globally traded commodity. In the markets that I work with the most, North and South America and Europe, aluminum is priced according to the London Metal Exchange (the "LME") in U.S. dollars and is publicly reported and known throughout the industry. In additional to the LME price, we have to pay delivery and handling, which, in the U.S. is referred to as the Midwest premium. But, anywhere you go, you have to pay delivery and handling.

Once we get the aluminum, there are additional processes that must be done to cast the ingot into aluminum billet or aluminum log to create the feed stock for our extrusion process. Depending on the specific alloy, the price for this conversion varies. These commodity metal purchases and additional processes can account for over 70 percent of our total cost of manufacture. Because these costs are virtually fixed, there is very little opportunity to negotiate or affect any of those metal costs.

China's import prices are so low that we end up with extremely little room to negotiate on price - even though theoretically we should be paying roughly the same global commodity prices for the raw materials. We do have some advantages: We are within a day's drive of most of the continental U.S., which is a significant geographical advantage over imports from China; we participate in a wide variety of market segments, including solar energy, transportation, electrical, consumer goods, industrial, building and construction; and we offer excellent customer service. But we continue to lose sales to Chinese imports in every one of those markets. Why? Despite the absence of any comparative advantage, imports from China are able to undersell us by significant margins.

Chinese extrusion producers have been able to lower prices, increase exports, and gain market share in the United States, in large part because of the undervalued Chinese currency. It is widely recognized that, despite the recent so-called "revaluations" of the yuan, China's currency is still undervalued by approximately 40 percent on a bilateral basis against the dollar. Chinese exporters get as much as 40 percent more yuan for every dollar they exchange than they otherwise would absent the Chinese government's intervention in the foreign currency markets. Along with other significant subsidies, the currency advantage provides an enormous, continuing benefit to those exporters, and allows them to significantly undersell U.S. producers.

This has cost good, manufacturing jobs in the United States, and the profit necessary to justify the reinvestment in and upgrading of our facilities. Without the establishment of a level playing field, the US extrusion industry faces major long-term problems. Not only does this injure our business at home, the severe undervaluation of China's currency effectively imposes a 40 percent tax on any potential exports from our U.S. facilities. This affects not only exports to China but also exports to other third markets where we compete with the Chinese.

The best outcome would be for China to allow its currency to float freely and reflect market forces. Past efforts, however, to negotiate with China on its currency revaluation both bilaterally and multilaterally have not met with success. Therefore, we believe that the best approach is, at a minimum, for the Commerce Department to investigate China's undervalued currency as a countervailable subsidy, which it has thus far refused to do. We are hopeful that this issue can be resolved soon, and we would welcome any assistance the Congress can provide.

On behalf of Hydro and the other companies in the U.S. aluminum extrusion industry, we appreciate the Committee’s attention to this important issue.