

Testimony of Mr. Christopher B. Douville

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On S. 2031, “The American Soda Ash Competitiveness Act”

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Resources Committee

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Introduction

Chairman Barrasso, Ranking Member Wyden, and Members of the Committee, thank you for the opportunity to testify on S. 2031, the American Soda Ash Competitiveness Act. I am Chris Douville, President of ANSAC, which is the world's largest soda ash exporter.

I join my industry colleagues today in voicing support for this legislation. With U.S. soda ash exports facing the combined headwinds of a shaky global economy and increasingly aggressive foreign competition, a reduction of the royalty rate is needed now more than ever. Without congressional action, U.S. export gains accomplished in recent years will be threatened. The competitiveness of U.S. soda ash is paramount to our export success.

I would like to highlight several issues as you consider this legislation. First, the U.S. soda ash industry – thanks in part to previous royalty reductions – has increasingly expanded exports from 4.5 million metric tons in 2005 to 6.7 million metric tons in 2014, reducing the U.S. trade deficit by more than \$1 billion in recent years. In fact, over the past ten years, soda ash export volumes have increased every year except 2009. Second, U.S. natural soda ash is facing growing competition in developing countries from China's synthetic soda ash. As the Chinese economy has slowed, its domestic consumption of soda ash has reduced, thereby putting pressure on Asian export markets as Chinese government policies promote both excess production capacity and increased exports. Third, the outlook for exports is expected to worsen in the year ahead, as global soda ash demand growth, largely tied to construction, automobile sales, and consumer confidence in emerging markets, is in decline.

Without the passage of this legislation, the challenges facing U.S. natural soda ash exports would only be worsened by a higher royalty rate. From the perspective of ANSAC, enactment of this legislation is absolutely critical to maintain U.S. jobs and export competitiveness.

Soda Ash: A U.S. Export Success Story

ANSAC was established in 1984 as the export arm of the U.S. natural soda ash industry. Our vision is to be the most efficient, sustainable and reliable global soda ash supplier through continuous innovation. ANSAC operations involve the sales, marketing, and logistics in global export territories for three leading producers of natural soda ash in the United States: Tronox, Tata Chemicals and OCI. Soda ash is a basic chemical commodity used in the manufacture of glass and detergents.

Over its history, ANSAC has succeeded in expanding U.S. natural soda ash exports in markets around the world. Since the federal royalty rate for soda ash was lowered in 2006, U.S. natural soda ash exports have reached their highest levels in history. At quantities of 6.7 million metric tons valued at \$1.3 billion in 2014, U.S. natural soda ash exports have directly contributed

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to thousands of high-paying U.S. jobs and served to put a dent in the U.S. trade deficit. In 2014, 58 percent of U.S. natural soda ash production was exported, compared to 42 percent in 2005, the year before the royalty rate was first reduced. Thus, the royalty rate reduction has greatly helped to support additional export growth.

The U.S. is not only the leading soda ash exporter in the world; it is also the most efficient and environmentally friendly. U.S. natural soda ash consumes far less energy and produces fewer greenhouse gas (GHG) emissions than synthetic soda ash produced in China or Europe. When compared to the synthetic process in China, U.S. natural soda ash consumes 50 percent less total energy per ton of soda ash produced and has a lower greenhouse gas-delivered footprint to its global customers despite significant transport miles.

A recent development in Vietnam demonstrates the environmental consequences of applying barriers to U.S. soda ash. In 2014, Vietnam applied a new 2 percent tariff on U.S. soda ash in an effort to help promote the start up a new domestic soda ash plant. When this plant came on-line in June 2015, its production occurred without any environmental controls, causing a mass fish kill and excessive air pollution. According to multiple media reports, it has become such a public health hazard that authorities have suggested relocating local households.

China: The Growing Competitive Threat

Despite the efficiency and environmental advantages of U.S. natural soda ash production, China has overtaken the United States as the world's largest soda ash producer, manufacturing more than 25 million metric tons of soda ash in 2014. China now produces 115 percent more soda ash than the United States. While most of this production has been directed to domestic consumption, the percentage of Chinese soda ash exports is on the rise.

We forecast that Chinese exports could increase 22 percent to 2.2 million metric tons in 2015 versus 2014 levels. At the same time, domestic demand growth has fallen to its lowest level in China since 2009. Looking back to that recession year, declining domestic demand pushed the Chinese producers to secure increased export share in a shrinking global soda ash market. Therefore, in 2009, while the global recession caused U.S. producers to lose almost 1 million metric tons of export business, Chinese exports grew by almost 200,000 metric tons with increased government support including the April 1, 2009 establishment of a 9 percent value-added tax (VAT) rebate for soda ash exports. In 2015, we are experiencing a potential similar export growth scenario in which a declining domestic soda ash demand as well as a decline in demand for all products from China has prioritized export promotion by the Chinese government on all products, including soda ash.

As mentioned previously, since 2009, China has promoted the export of soda ash by offering its producers a 9 percent rebate of the country's 17 percent VAT on their exports. Based

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on an average price of \$200 per metric ton, this rebate provides an estimated \$18 per metric ton benefit for Chinese exports. More recently, the government's 4.4 percent devaluation of China's currency in August 2015 provides Chinese soda ash producers with an additional price advantage over U.S. soda ash. The combination of the VAT rebate and the currency devaluation gives Chinese soda ash exporters a \$27 per metric ton benefit based on the same average export price of \$200 per metric ton. At the projected 2.2 million MT of exports in 2015, these policies equate to approximately \$60 million in benefits for Chinese exporters.

Recent media reports indicate that China is considering a further 15-20 percent devaluation of its currency by the end of 2016, which would provide an even greater advantage to its soda ash exporters as each 1-percent devaluation equates to approximately \$2/MT in benefit to China soda ash exporters.

Recent changes in China's export tax policies on ammonium chloride fertilizer, which is a by-product of synthetic soda ash production, have caused a \$30-40 per metric ton by-product credit profit improvement for Chinese synthetic soda ash producers over the past six months. In addition, lower global energy costs have been especially beneficial for Chinese producers given their dependence on less-efficient fossil fuels. As a result of these and other cost reductions, Chinese producers' profitability has increased dramatically while its export prices are trending down.

China competes directly with U.S. natural soda ash in Asian markets where U.S. exports have grown in recent years. Unfortunately, China enjoys preferential access to markets such as Vietnam, Taiwan, Pakistan, and the Philippines, which are all countries where U.S. natural soda ash faces tariffs but China has none due to regional free trade agreements. China's pending free trade agreements (FTAs) with Australia, South Korea and Japan would give its soda ash producers even greater market access in the region. Therefore, ANSAC has supported passage of the Trans-Pacific Partnership (TPP) trade agreement which would remove import duties of 2 percent and 3.3 percent into Vietnam and Japan, respectively.

As previously mentioned, China's domestic demand situation has also encouraged exports. Demand for soda ash in China fell 10 percent in the second quarter of 2015. With current excess annual production capacity of 5-6 million metric tons, China has reduced export prices by \$30-40 per metric ton in the past six months. Trends in China's economy and its industry's favorable cost position have primed Chinese soda ash exports to take market share from the U.S. throughout Asia and beyond. This trend will be accelerated if the costs to U.S. soda ash producers go up, thereby further supporting the need for the enactment of this legislation.

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Uncertainty: Foreign Demand Challenges Ahead

Adding to industry concerns is the fact that demand for soda ash is weakening in key markets in Asia and Latin America. As economic growth stalls in many emerging economies, glass production – especially for use in the construction and automotive markets – is expected to decline. The consequences of a slowing global economy are likely to be felt by U.S. soda ash exporters. As indicated earlier, the last time there was a decline in U.S. soda ash exports was in 2009, a result of the global recession. At that time, the two percent royalty rate on soda ash was key to our competitiveness and helped to ensure that U.S. exports could rebound quickly, as experienced in 2010, when approximately 1 million metric tons of U.S. soda ash exports were added.

As we enter into a period of heightened economic uncertainty – if not recession – in many foreign markets, this is not the time to be increasing costs for U.S. soda ash producers.

Conclusion

ANSAC has been raising concerns about trade-distorting incentives provided to U.S. competitors and international trade barriers to U.S. natural soda ash exports for many years. The problem of China's VAT rebate is not new. Nor is the tariff disadvantage U.S. exporters face in many foreign markets due to the proliferation of international free trade agreements. Rather, the current convergence of increasingly aggressive, government-supported competition from China combined with a weak outlook for foreign demand poses a high risk for U.S. soda ash exports. If we are not careful, a bright spot in the U.S. economy – the \$1.3 billion soda ash trade surplus – is in jeopardy.

Mr. Chairman, now, more than ever, a royalty policy that factors in the competitiveness of U.S. soda ash exports is needed. For these reasons, ANSAC strongly urges your support for S. 2031, the American Soda Ash Competitiveness Act. Thank you, Mr. Chairman, for the opportunity to provide our views.