

Testimony of Mr. Mike Hohn

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H.R. 957 "American Soda Ash Competitiveness Act"

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House Natural Resources Committee

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Chairman Lamborn and Ranking Member Holt, I would like to thank you for the opportunity to testify on H.R. 957, the “American Soda Ash Competitiveness Act.” I am the General Manager, Soda Ash Business for OCI Chemical Corporation, and I am here today on behalf of the U.S. Soda Ash industry. I am pleased to report that the soda ash mined and processed on federal lands contributes nearly one billion dollars annually to our balance of trade, twenty million dollars in federal royalties, and some 3,000 direct jobs.

Up until October of 2011 when the BLM raised our royalty from 2% to 6%, our industry was experiencing job growth, and there were plans for expansion, despite the economy still suffering from the worst recession in decades. Enactment of H.R. 957 is important to insuring that we remain a strong American employer and exporter in the years ahead. It means the industry will continue to pay our fair share for the privilege of mining on federal lands, while creating the conditions for positive economic growth that are in all of our best interests.

From the recent experience of the 2006 Soda Ash Royalty Reduction Act, we know that a 2%, as opposed to 6% federal royalty rate, can have positive impacts:

- First, it will lead to robust export growth consistent with the President’s National Export Initiative (NEI).
- Second, it will lead to expanded domestic manufacturing capacity and jobs growth; and
- Third, it will result in an increase, rather than a decrease, in federal royalty revenues by spurring development of the resource.

Mr. Chairman, the 2006 act was enacted by Congress out of a recognition that global economic conditions, specifically the emergence of stiff Chinese competition, was eroding America’s natural soda ash advantage. We need to continue the positive trajectory that Act created for this important domestic manufacturing sector by enacting H.R. 957.

Indeed, our continued competitiveness in world markets is far from certain, in fact over the last year since the royalty increase has been in effect, the industry has seen a steady decline in our total exports. This reality was well recognized by Congress in 2006, when it enacted the Soda Ash Royalty Relief Act, which reestablished a two percent royalty on every ton of soda ash produced. In October 2011, the BLM saw fit to raise the rate to 6%. We believe this rate increase is not only counterproductive to increasing federal revenues from soda ash production, but threatens our industry's exports and jobs growth.

Let me briefly revisit the global conditions that caused Congress to set the rate at 2% in 2006. In the fifteen years between 1982 and 1997, our domestic soda ash industry enjoyed a steady and significant growth in exports. But after 1997, our export growth slowed dramatically. By 2003, our U.S. exports were only 4% above their 1997 levels. This rapid decline in export growth resulted from a sudden and dramatic change in global competition. In the brief span of the decade of the 1990's, China went from importing over one million tons of soda ash per year to becoming a two million ton net exporter. By 2000, China had become the world's largest producer of soda ash, though hardly the most efficient. A growing number of state owned Chinese producers making soda ash from a more energy intensive and more greenhouse gas generating synthetic process flooded international markets with lower priced material aided by an export VAT rebate incentive. Not only were these exports responsible for a greater carbon footprint, they were also hurting our cleaner, more efficient American natural soda ash producers in growing markets, particularly those in Asia and South America.

Faced with this state owned competition, we identified innovative ways to reduce spiraling structural costs, and the increasing prices we paid for energy and transportation. However, as our export growth slowed in the early part of the last decade we also had to reduce employment. To remain globally competitive, we regrettably shed almost 1000 jobs as an industry. Mr. Chairman, this was not a preferred option. It was in this context that we decided to ask the Congress to

consider that the royalty we pay on each ton of soda ash is assessed at two percent as called for originally in the underlying Minerals Leasing Act.

Mr. Chairman, in 2006, just as today, our low cost natural soda ash production process when allowed to compete fairly on a level playing field can beat any other producer in the world. In sum, then as now, if conditions are equal, we know we can compete with any other global producer. We can mine the vast underground trona ore reserves in Wyoming or in lakebeds in California, and bring this raw material to be processed into soda ash. We can then ship it by rail to Long Beach, California, Portland Oregon, or Port Arthur, Texas, and deliver it to any Asian or South American port and effectively compete for our fair share of global business against the Chinese.

Mr. Chairman, as a result of the action Congress took in 2006, our industry came out of its downward spiral and experienced sustained growth driven by our ability to again grow exports. Despite a global recession and a continuing slow recovery, the American Natural Soda Ash industry did not lose jobs during the recent recession, and in fact added almost 100 new jobs in 2010. To put this in perspective, one out of every two jobs in our U.S. soda ash industry is now the direct result of exports. U.S. soda ash exports had risen by more than 1 million tons since enactment of the soda ash royalty legislation. As Mr. Robert Abbey, former Director Bureau of Land Management, stated in his Senate testimony on August 3, 2011, exports increased by some 11.7% in the five-year period during which the 2006 Act was in place. It thus puzzled us as to why the BLM saw fit to immediately reinstate the 6% rate when the 2006 Act expired in October.

Very simply, the 2006 Act allowed us to grow exports in large part because we could reinvest in our business at higher rates. During the five years this Act was in effect, we reinvested in our businesses at rates well above those before its passage. In 2005, the year before the royalty was enacted; the U.S. soda ash industry spent some \$88 million dollars in capital improvements. In 2006, the year after passage,

and with the predictability of a stable two percent royalty, the U.S. soda ash industry nearly doubled its rate of investment in our future, spending over \$158 million dollars to expand capacity and make needed improvements.

However, Mr. Chairman since the BLM reinstated the 6% royalty, the industry is headed towards a bleaker future similar to the circumstances in place in the early 2000s. Across the industry, jobs are going unfilled, planned expansions are being put on hold, and our exports have fallen off significantly. While the BLM had indicated that they would entertain individual lease-by-lease application for waivers of their 6% royalty, nothing in their 100-page guidance document addresses export growth. When we attempted as an industry last year to submit a streamlined application for relief that was based upon maximization of production on federal lands, we were denied. We would be pleased to make our application available to the Committee for its review.

Thus, Mr. Chairman, we again turn to Congress to restore the two percent royalty rate by enacting H.R. 957. In sum, soda ash production represents hardcore U.S. manufacturing at its best. We hear every day how American manufacturing jobs are disappearing and we have a shrinking middle class. The production of soda ash from U.S. natural resources in Wyoming and California is done by skilled workers with an average salary of about \$85,000 per year in very small, rural communities. Growing U.S. soda ash exports will increase the number of those jobs. Moreover, it will help grow revenues at Treasury. When the Congressional Budget Office (CBO) produced cost estimates for legislation implementing the 2006 royalty reduction, it concluded that the government would lose \$15 million in direct spending and \$15 million in payments to states in which the royalties were generated. In actuality, over the five-year period, royalties tallied over \$85 million because of the increased production the royalty reduction helped to generate.

Mr. Chairman, we hear a lot of discussion about how Congress can help U.S. manufacturing to restore jobs and economic growth; i.e., to recapture our economic

swagger. As an industry, we were encouraged by the President's State of the Union address when he referenced climate change and the need to do something. He also indicated he wants to increase job growth through exports. The U.S. Soda Ash industry provides a unique opportunity to accomplish both of these goals. Our industry has proven that it will increase jobs by increasing exports, and by increasing the U.S. industry's market share we will also be reducing greenhouse gases. Because the U.S. soda ash industry uses a natural method of producing soda ash, the U.S. industry uses roughly three times less energy and emits three times less greenhouse gases than our Chinese competitors relying on the synthetic method for production. Make no mistake, throughout history; soda ash has been produced to supply the glass (glass for autos, homes and bottles) as well as detergents and chemicals that are required by emerging markets to grow. The demand for soda ash will be met in some way. This Committee has the opportunity to reduce global greenhouse gases and increase jobs by supporting the U.S. Soda Ash industry. We would suggest the bill before you has already proved successful in doing so for one important sector of our economy. We believe the 2% rate should be reinstated. Thank you for your consideration of our views. I would be pleased to take any questions from the Committee.