Statement of
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before the

House Committee on Resources
Subcommittee on Energy and Mineral Resources,

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PRESIDENT AND CEO, ANSAC

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SUBCOMMITTEE ON ENERGY AND MINERAL RESOURCES

Good morning, Madam Chairwoman. My name is John Andrews, and I am President and CEO of ANSAC, a Webb-Pomerene Association composed of four of the largest U.S. producers of soda ash. I am pleased to have the opportunity to underscore some of the challenges facing the U.S. soda ash industry and the beneficial impact in the global competitiveness of U.S. exports that will result from a reduction in federal soda ash royalties.

AN INDUSTRY CHALLENGED

Since 1997, the U.S. soda ash industry has faced the dual challenge of a rising cost structure and foreign trade barriers that threaten its viability. Four years earlier in 1993, the Bureau of Land Management raised the federal soda ash royalty to the current 6%, justifying this increase on industry profitability and current and future growth prospects at the time. A decade later, it is clear that the conditions of seemingly perpetual expansion and profitability no longer exist. Rather, the U.S. industry finds itself facing stagnant growth prospects, zero profitability, and mounting job losses. In short, this is an industry that is fighting for its very survival.

The far-ranging impact of soda ash manufacturing on the American economy cannot be overstated. Soda ash exports contributed $500 million dollars to the overall U.S. trade deficit in 2003. Furthermore, the viability of the U.S. soda ash industry impacts not only the 2,300 workers directly employed in well-paying jobs in the state of Wyoming alone, which incidentally are down 30% over 1997 employment levels, but also the tens of thousands of workers employed in (1) other soda-ash producing states, (2) value-added industries such as glass manufacturing; (3) ancillary industries such as transportation, and (4) jobs dependent on the health of the regional economy.

A NATURALLY COMPETITIVE INDUSTRY BESET BY RISING COSTS

Domestic soda ash consumption has remained essentially flat since the early 1980s, a factor that until recently has been largely mitigated by dramatic increases in U.S. exports during this same period. Thus, up until 1997, the industry was able to maintain capacity and employment and even expand due to growth in overseas markets and to reasonably acceptable profitability levels. In recent years, however, rising costs of production have significantly eroded industry profitability. Other industry colleagues will testify on this matter with greater authority, but let me point out three specific areas: (1) rising energy costs, whereas the price of natural gas, a major production cost, has skyrocketed up by 150% over the last four years; (2) exorbitant domestic rail and ocean freight costs, whereas it costs more to ship product to its final destination than to make it; and (3) an increasingly burdensome share of taxes, fees, and royalties paid, whereas such taxes now account for 14% of the cost of doing business.

Rising costs have also had a debilitating effect on export competitiveness. As you know, without the natural advantage of trona, the rest of the world mostly produces soda ash through a synthetic process that is more expensive than American methods. While U.S. soda ash literally has a natural edge over its foreign competition, it is disadvantaged by rising transportation costs and a substantially higher wage structure. While U.S. exports can still compete effectively in global markets under these conditions, it must also face a myriad of tariff and non-tariff barriers erected by foreign governments to protect local suppliers. Such state intervention props up inefficient producers and raises costs for customers in the glass and detergent industries. Considering that soda ash comprises about 60% of the raw material cost of glass and 30% for detergents, this protection prices local value-added production out of export markets; subjects local value-added manufacturing to import competition, and passes higher prices on to the general population. Adding insult to injury, the countries that have erected the highest barriers to U.S. soda ash are also among the largest, most-promising, and fastest growing markets in the world, e.g., China, India, and Brazil. Increasingly, as in the case of China, the levels of direct and indirect government support are rising to a point where imports are now edging out U.S. exports in key third markets such as Japan, Korea, and Southeast Asia where U.S. soda ash once dominated.

A reduction in royalty payments will have a significant positive impact on U.S. exports given that U.S. soda ash enjoys natural competitive advantages and that even a 2% price premium can determine a sale. Furthermore, the consequent increase in U.S. exports would help mitigate any revenue impact while maintaining and even boosting employment in states like Wyoming.

EXPORT GROWTH STALLED BY HIGH COSTS AND PROTECTIONISM

Given that U.S. soda ash consumption of about 7 million MT has been essentially flat for more than 20 years, it is vital that we grow exports in order to stabilize U.S. production and employment. You will find no greater supporters of global free trade than ANSAC and the U.S. soda ash industry. Since ANSAC's founding, U.S. soda ash exports have increased from a base of 1.3 million MT valued at $138 million in 1984 to 4.5 million MT valued at $514 million in 2003. About 40% of U.S. production is exported, and soda ash contributed a surplus of more than half a billion dollars to the overall trade deficit of $536 billion last year. Remarkable as these numbers are, it should be noted that most of this growth took place prior to 1997. Exports have actually grown by only 4% since 1997, compared to a 100% increase from 1992 to 1997.

U.S. export growth coincided with dramatic advances in global trade liberalization. In many cases, however, tariffs remain substantial, especially in countries with the most promising soda ash markets. Furthermore, as tariffs fell, usually as mandated by negotiated trade agreements, governments have had to resort to ever-creative methods to protect inefficient domestic producers. While the global scene has many players, I will concentrate here on the illustrative examples of China, Brazil, and India. These countries are not only the most promising growth markets bur prominent examples of extraordinary government protection. By outlining these examples, you will get a sense of the of the stiff challenges we face in growing exports and the imperative of reducing federal royalties to level the playing field..

China – China's policies aimed at expanding domestic production and exports have resulted in the loss of over 1 million MT in annual U.S. exports. This, in turn, has led to hundreds of lost jobs in Wyoming alone and millions of dollars in lost tax revenues to that state. The U.S. soda ash industry has been at the losing end of an ambitious and targeted 15-year campaign, conducted at all levels of the Chinese government, to develop a massive domestic soda ash industry. The program has been an overwhelming success, transforming a fledgling industry into what is now the world's largest soda ash producing nation. Since 1989, Chinese soda ash production has expanded more than three-fold from 3 million to 11 million MT in 2003 and is expected to expand by another 6.3% percent this year. In the last five years alone, Chinese soda ash production has expanded by more than 50%, or 3.7 million MT.

China's impressive gains in soda ash production owe little to free market principles of innovation, efficiency, and profitability. Rather, since over 95% of China's soda ash is produced by state-owned enterprises, its rise as a soda-ash producing powerhouse is more a testament to the efficacy of government intervention. In addition to a 5.5% import duty, Chinese soda ash is aided by China's fixed exchange rate, which artificially undervalues the Chinese yuan relative to the U.S. dollar by between 15 to 40 percent, according to economists. This undervaluation of China's currency amounts to a de facto subsidy that negatively impacts not only soda ash but a wide range of U.S. manufacturing sectors. This is hurting U.S. export competitiveness and contributing to the highest bilateral trade deficits in history. Furthermore, like other state-owned firms, local soda ash producers benefit from subsidized financing from state-run banks, direct support from local and provincial governments that are driven by the need to maintain local employment, and a vertical supply-chain network of state-run firms. As has been widely documented, China's largely state-run banking system is notorious for issuing loans that do not have to be repaid, resulting in massive non-performing loan portfolios that are unsustainable and portend a potentially massive banking crisis with global repercussions. Chinese producers also benefit from a dramatically cheaper wage structure and much less rigorous environmental standards.

Reducing the federal soda ash royalty would help restore a more level playing field in China. Were it not for extraordinary levels of government protection and state support for domestic producers, China would be one of the largest and most promising foreign markets for U.S. soda ash. Already the world's largest soda ash market, Chinese soda ash consumption expanded by 18% in 2002 and by another 8% last year. Conversely, the U.S. share of the Chinese market has declined dramatically. In 1989, U.S. soda ash captured a 30% share of the Chinese market; 15 years later, our share stands at barely more than 1%. Though Chinese consumption has expanded from 4.0 million MT in 1989 to 10.1 million MT last year, a staggering 143% increase, the actual quantity of U.S. soda ash exports has declined, from 317,000 MT in 1989 to 280,000 MT last year. U.S. soda ash exports are expected to fall by another 30 to 40 percent this year, even though Chinese demand is expected to expand by another 2.2 million MT over the next four years, making China one of the few world markets expected to show solid growth in demand.

While consumption growth is impressive, the Chinese industry plans to increase capacity at rates far outpacing projected demand. According to industry estimates, China is set to boost annual capacity by an additional 1.1 million MT this year and by 3.3 million MT (both over 2003 levels) by 2007. (3.3 million MT equates to 55% of total U.S. soda ash consumption last year.) Given that demand is only expected to increase by 2 million MT, this excess soda ash will end up being exported at cut-rate prices to third-country markets in Northeast and Southeast Asia.

East Asia – While penetrating the domestic Chinese market is difficult enough, U.S. exports are increasingly facing stiff competition from Chinese exports in key third-country markets. Chinese exports have grown dramatically, doubling in the last five years with rapid increases in production capacity. As of last year, about 11% of Chinese production was exported, yet this figure promises to grow with planned capacity additions over the next several years. Over 90% of Chinese exports are to key Asian markets such as Japan, Korea, and Southeast Asia (e.g., Indonesia, Thailand and the Philippines). The fall-off has been dramatic in what were once the largest markets for U.S. soda ash. In 1996, the top four global markets for U.S. soda ash were Indonesia, Korea, Japan, and Thailand, respectively. Combined, they accounted for $190M in exports, or 37% of total U.S. exports. By 2003, this share had fallen to $106M, a drop of 44% over 1996 levels, and down to 21% of U.S. exports. Excluding Japan, which has stronger demand for higher-quality soda ash, the drop in exports to Indonesia (7th largest market in 2003), Korea (8th largest), and Thailand (13th largest) has been a staggering 54% over 1996 levels. Reducing the federal soda ash royalties will allow U.S. exports to regain market share and better compete with subsidized Chinese exports in these vital markets.

Brazil – Brazil was the 4th largest market for U.S. soda ash in 2003, accounting for 312,000 MT of exports valued at $44 million. However, a series of obstacles threatens current and future U.S. market share. Already burdened by high production costs, U.S. soda ash faces a 10% import duty when exporting to Brazil and other Southern Cone Common Market (Mercosur) countries like Argentina. China is also emerging as a competitive threat, now comprising 7% of Brazilian imports. However, the most significant obstacle is a discriminatory sales tax (ICMS) on imported soda ash designed to protect Brazil's sole producer. Since 2001, the State of Rio de Janeiro has assessed a preferential ICMS rate of 2% on the formerly state-run firm Alcalis, compared to a 19% rate on all other (i.e., imported) soda ash, providing Alcalis a de facto subsidy of about $16-18 per metric ton. This discriminatory treatment flatly violates Brazil's national treatment obligations under the WTO, and in fact, the matter strongly resembles a WTO case recently filed by the U.S. government alleging discriminatory tax treatment of semiconductors by China. The U.S. industry estimates lost exports of up to $15 million due to this discrimination. With the support of the Wyoming Congressional Delegation, the industry has actively engaged the U.S. government for assistance since November 2001, yet concrete progress remains elusive.

Reducing soda ash royalties would clearly help U.S. exports retain Brazilian market share in the face of state support of the local industry and gaining Chinese competition. Such a reduction may also be necessary to fend off increased competition from duty-free European Union exports resulting from a pending EU-Mercosur Free Trade Agreement.

India – India is one of the world's fastest growing soda ash markets due to strong domestic demand for glass and detergents. However, there have been no U.S. soda ash exports to India since 1996. Like China and Brazil, India's domestic soda ash producers have enjoyed strong government support, which they have used to make India the world's fourth largest producing country – behind China, the United States, and Russia. As recently as 2002, an Indian court case brought by Indian soda ash producers threatened to shut U.S. exports completely out of the market. With the hard work of the U.S. government and strong support from the Wyoming Congressional Delegation, this outcome was averted. Nevertheless, India still maintains a 20% import duty which, when combined with other import taxes results in a net effective import duty of 39.2%. Still, were it not for exorbitant shipping costs ANSAC could re-enter the Indian market, and a reduction in soda ash royalties would accelerate this process.

CONCLUSION

We pride ourselves on being a naturally competitive industry in every aspect. Unlike our foreign counterparts, we neither seek nor desire government protection or assistance to compete in the domestic and world marketplace. I said before and want to re-emphasize that you will find no greater supporters of global free trade than ANSAC and the U.S. soda ash industry. However, the challenges of rising production and transportation costs combined with pervasive foreign government support for local producers have reached a point where the viability of the U.S. soda ash industry is being severely strained. Given flat domestic demand, export growth is critical to maintaining U.S. production capacity and employment and restarting idle facilities in Wyoming's Green River. Combined with other industry restructuring initiatives, a reduction in federal soda ash royalties will help see the U.S. industry through a difficult period and position it for sustained and long-term export growth. I look forward to witnessing the continued positive role of soda ash on the economy of the nation, as well as its critical role in the state of Wyoming. And once again, I thank you for this opportunity to present my views.