Statement of ANSAC
(American Natural Soda Ash Corporation)

On

China's Trade and Industrial Policies

Before

The Committee on Ways and Means
United States House of Representatives

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CHINA'S VAT REBATE – AN INDUSTRIAL POLICY TOOL THAT SUPPORTS CHINESE SODA ASH EXPORTS

I. Introduction – The U.S. Soda Ash Industry

Soda ash is an inorganic chemical that is used in many industrial applications, most notably in the production of glass and detergents. ANSAC is the international marketing arm for four U.S. soda ash manufacturers: FMC Corporation, General Chemical, Solvay Chemicals and OCI Chemicals Corporation.

ANSAC and the U.S. soda ash industry are strong supporters of global free trade. By any measure, ANSAC's story is an extraordinary one of exporting success. Since ANSAC's founding in 1984, U.S. soda ash exports have increased from $138 million to nearly $1 billion annually.

Thanks to a unique deposit of the natural resource trona in Green River, Wyoming, U.S. soda ash manufacturers are globally competitive. The Wyoming deposit is large enough that it could supply world demand for over 1,000 years. Whereas U.S. production relies on this natural deposit, the vast majority of all other soda ash around the world is produced through synthetic processes. The U.S. industry produces roughly one-third of total global output. Over 50% of U.S. production is now exported, and soda ash contributed a surplus of $840 million to the U.S. trade balance last year.

The remarkable rise in U.S. exports has coincided with an equally remarkable surge in global trade liberalization and sharp reductions in once-impenetrable tariff barriers. Almost without exception, the successful efforts to eliminate or reduce government barriers to U.S. soda ash exports have been accomplished with the negotiation and implementation of free trade agreements and through the vigorous efforts of U.S. trade negotiators. Given that U.S. soda ash consumption has essentially been flat for years, it is vital that the industry increase exports in order to stabilize U.S. production and U.S. jobs.

II. China's Soda Ash Industry and the VAT Rebate

Although China does not have natural trona deposits to rival the United States, China became the largest soda ash producer in the world in 2003. China's soda ash industry, which is characterized by inefficient, energy-intensive and environmentally-unfriendly manufacturing, receives billions of dollars in support from central, provincial and local governments.

Among the industrial policy tools China uses to support its domestic industry is a rebate of China's value-added tax (VAT) on soda ash exports. After having abandoned the VAT rebate in 2007, the central government reinstated a 9% rebate on its 17% VAT in April 2009. The VAT rebate serves to encourage Chinese exports of soda ash to markets where it competes directly

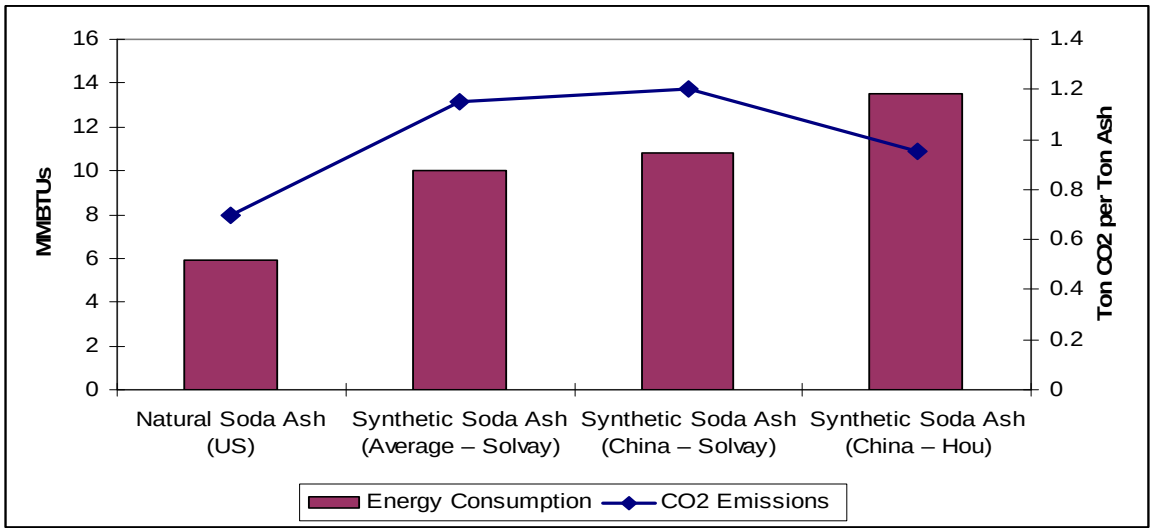
with U.S. exports. Despite plummeting demand for this globally-traded chemical commodity during the economic recession – including a 14% drop in Chinese demand in 2009 and capacity utilization rates among domestic producers averaging 75% - China's soda ash exports actually increased and China continued to expand its capacity in soda ash production.

II. China's Promotion of Inefficient Production Through Industrial Policy

The expansion of Chinese soda ash production capacity goes against current market trends, but fits into China's pattern of industrial policy. The centerpiece of this policy is the preservation of employment, not unlike that witnessed in other commodity sectors, such as the steel industry. The VAT rebate for soda ash exports supports added production capacity, resulting in an unprecedented increase in low-priced exports throughout the world, with serious energy and environmental consequences within China itself.

China had removed its 13% VAT rebate on soda ash exports in July 2007 in line with an overall attempt to reduce incentives for energy-intensive and environmentally-unfriendly industries. China's synthetic soda ash production is environmentally "dirty" when compared to natural soda ash production in the United States, which has significant comparative advantages in terms of energy costs and emissions output. U.S. soda ash production is the lowest cost, lowest carbon dioxide (CO2)-emitting, and lowest energy-consuming in the world (see Chart 1).

Chart 1:
Natural vs. Synthetic Production Soda Ash Production
Energy and CO2 Emissions



Soda Ash Production Process	*Energy Consumption*	*CO2 Emissions*
Natural Soda Ash (U.S.)	5.95 mmbtu/ton	0.7 ton CO2/ton ash
Synthetic (Average – Solvay)	8.4-11.7mmbtu/ton	0.9-1.4 ton CO2/ ton ash
Synthetic (China – Solvay)	10.8 mmbtu/ton	1.2 ton CO2/ton ash
Synthetic (China – Hou)	13.5 mmbtu /ton	0.9-1.0 ton CO2/ ton ash

In China's submission to the World Trade Organization (WTO) as part of its 2008 Trade Policy Review, it explained: "In order to reduce the production, consumption and export of high energy-intensive, high emission and products of exhaustible resource, the Chinese Government adjusted the export VAT rebate policy on July 1, 2007, covering 2,831 commodities, which accounted for 37% of the total number of export commodities."[1] Yet, China's recent actions with respect to soda ash – and numerous other industrial products – fly in the face of these environmental goals.

III. The Environmental Consequences of China's Synthetic Soda Ash Production

Roughly 95% of China's soda ash production is synthetic and, of that, half uses the Solvay process and half uses another process called the Hou process.

The Solvay process involves a series of chemical reactions involving salt, ammonia and carbon dioxide from the calcination of limestone, though which a sodium bicarbonate solution is produced. This solution is heated to produce soda ash, water and carbon dioxide. A major by-product of the Solvay process is calcium chloride, which is produced in even greater quantity than the soda ash itself. For every ton of soda ash produced through the Solvay process, approximately 1.1 tons of calcium chloride is also produced. Calcium chloride has limited commercial application (such as in drilling fluids and road salts), and the quantity produced far exceeds the demand for this by-product. The result is that vast quantities of calcium chloride must be disposed of cheaply. The most common disposal method is the release of the effluent stream into nearby waterways.

The Hou process, also known as the "dual process", produces ammonium chloride as its major by-product instead of calcium chloride. While there is greater commercial demand for ammonium chloride, which is used as a low-grade fertilizer, the Hou process is more energy intensive compared to the Solvay process. Both synthetic processes use coal as their dominant energy source.

As compared to natural soda ash, the production of synthetic soda ash is much more chemically complex and energy intensive. With best available technology the Solvay process requires 8.4-11.7 million BTUs (mmbtu) per ton versus 5.3-6.6 mmbtu/ton for typical natural soda ash. As a result of the high energy usage, a ton of synthetic soda ash produced through the Solvay process generates between 0.9 and 1.4 tons of carbon dioxide. This compares to the combined process and energy emissions from natural soda ash of 0.7 tons of carbon dioxide. U.S.-based natural soda ash production has a clear advantage over foreign-produced material from an energy and carbon intensity standpoint.

IV. China's Soda Ash Exports Challenge U.S. Exports to Third-Country Markets

U.S. exports are increasingly facing stiff competition from Chinese exports in key third-country markets. Approximately 11% of Chinese soda ash production was exported in 2008, primarily to ASEAN countries and other Asia-Pacific markets. By providing this 9% export rebate, the Chinese government is helping its producers remain competitive and gain market share outside

[1] *Trade Policy Review – China*, Report by China, WT/TPR/G/199 (8 May 2008) at pg. 15.

of China. In 2009, while China's soda ash exports increased by 9.1% in terms of quantity from the previous year, U.S. exports fell 17.8%.

Between 2000 and 2008, China's soda ash production more than doubled. As over 75% of China's soda ash is produced by state-owned enterprises, China's rise as a soda-ash producing powerhouse is an example of the power and efficacy of the Chinese government to intervene in the economy. In fact, China's soda ash production has outpaced its domestic demand, resulting in a concerted effort to gain export market share.

In 1996, the top four global markets for U.S. soda ash were Indonesia, Korea, Japan and Thailand. Combined, they accounted for $190 million in exports, or 37% of total U.S. exports. By 2008, exports to these four markets had fallen to $152.9 million, amounting to only 16.3% of total U.S. exports. At the same time, China's exports to the Asia-Pacific outpaced U.S. exports by at least 110,000 metric tons (MT).

U.S. soda ash competitiveness in Asia depends on a level playing field. The elimination of the China's 9% VAT rebate would help U.S. exports to compete in Asia. Although China maintains a significant shipping-cost advantage to Asian markets, U.S. soda ash producers can compete effectively due to production cost advantages and economies of scale.

Were it not for extraordinary levels of government support for domestic producers, China would be one of the largest and most promising foreign markets for U.S. soda ash. At the very least, the elimination of the 9% VAT rebate will provide U.S. producers opportunities for export growth over the long-term in third-country markets.

V. Conclusion – China's VAT Rebate on Soda Ash Exports Should be Eliminated

China's VAT rebate for soda ash exports has stimulated excessive soda ash capacity expansions in China, has given China an artificial incentive to export, and has driven Chinese soda ash prices down at the expense of U.S. exports. All of this is happening in the midst of a major decline in global demand for soda ash. The VAT rebate is an irresponsible industrial policy during this troublesome economic period.

The VAT rebate policy should be high on the agenda of the U.S. trade and economic discussions with the Chinese Government, including bilateral (JCCT, S&ED) and multilateral (WTO, OECD) fora. The removal of China's VAT rebate on soda ash exports would not only help the U.S. soda ash industry and U.S. manufacturing, but would serve to help recalibrate China's industrial policies away from energy-intensive, environmentally-damaging, export-driven growth.

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